OWNERSHIP & CONTROL

1990

MAY — JUNE — JULY
Black illusions about SA's wealth

By KENNEDY MAXWELL, President of the Chamber of Mines

The South African mining industry welcomes Mr. Ramaphosa's proclamation of 1989 as the Year for Justice, Democracy and Peace in Mines.

It agrees with the general secretary of the National Union of Mineworkers who, when he mentions the social and economic damage done by apartheid, especially to black people.

And, yet it agrees that a new era of hope has emerged; that resolution of conflicts through peaceful means is the "new international norm of our time."

Assumptions

Regrettably, that course is not served by the emotional rhetoric and sweeping assumptions that colour some of Mr. Ramaphosa's recent expressions views on the mining industry.

The first and most dangerous assumption is that the achievement of the new society will be achieved by the end of 1994.

All of its wealth would be divided equally among black and white South African workers.

The assumption is that black workers, who for generations in the past, have been divided into two classes, are ready to work side by side without interest and with equal rights.

The assumption that the wealth of South Africa would be divided equally among all South Africans.

The assumption that the mining industry would be a conduit for the fair distribution of wealth among all South Africans.

Revenue

During 1989

- 33 percent of the revenue earned from gold sales was paid in wages.
- 20 percent was paid to suppliers of stores, materials and services required to produce the gold.
- 15 percent was spent on capital expenditure items to keep the mines going.
- 8 percent went to tax and license payments.
- 8 percent of the profits earned by the shareholders.
- 7 percent of the profits earned by the shareholders.

How would Mr. Ramaphosa propose to rearrange these figures? How would he compensate the shareholders of the industry that has nationalised it? How would he retain the confidence of local and international investors who have invested so much in the mining industry.

It is patently absurd to write off the economic contribution of the mining industry with the comment that it has earned only a tiny minority.

A total of 371,989 employees were paid out to 713,989 employees in the gold and coal mining companies during 1989 and 99 percent of all foreign currency earned by exports came from the mining industry.

It has given birth to whole towns, to educational and medical institutions, dams, roads and railways. It is the backbone of the economy.

At the same time, the mines have not been good for South African gold mining. During this decade inflation has seen our mines move from being the lowest cost producer of gold in the world to the highest.

Since 1980 real annual profits have fallen every year, and the fall in the price of the metal means that by July half the mines will be operating at a loss.

Efficiency

What is needed now is further improvement in productivity and efficiency, not political rhetoric which is provocatively seeks to place the Chamber of Mines and the "apartheid state" in the same camp.

The mining industry fully supports all moves toward the creation of a non-racial, democratic post-apartheid society. Its opposition to apartheid has been expressed frequently and effectively through its support for the Wages Act, the abolition of the "white person" definition from the Constitution, the state's employment of the Group Areas Act.

Restrictions

The industry has also initiated legal action against government and conservative unions over the training of coloured workers in mines, the segregation of change houses, restrictions on the number of people employed with blasting licenses (which could restrict the entry of blacks and those requiring this certificate) and on the admission of Afrikaner, white, black, Asian and coloured workers to the Mines Employees Pension Fund.

When Mr. Ramaphosa unfurled his campaign to obtain the election of workers to their own representatives, then he musters the peace he proclaims.

Aspirations

The government has conceded that apartheid is doomed, what is now at stake is what to take its place, and how.

Only if we work together constructively will we be able to match our common aspirations of building a prosperous nation in which democracy and an equitable distribution of wealth is fully realised.
NP warned a future govt could reverse its privatisation measures

HARARE — A future ANC government would review and, where necessary, reverse all economic measures implemented by the NP that it felt constrained its ability to reconstruct SA's economy.

For this reason, according to a joint statement issued yesterday by Cosatu and the ANC after a workshop on post-apartheid economic options, government would be advised not to go ahead with various privatisation and deregulation measures now in the pipeline.

Apart from plans to privatise state corporations, the ANC-Cosatu alliance was also concerned about, for example, the Minerals Bill, deregulation of the financial markets, technical changes to export incentives, changing tax policies, and the privatisation of social services.

The major objective of the Harare gathering was "to begin the process of supplying the liberation movement with economic options".

Tito Mboweni and Vella Pillay of the ANC's economics and development department and Cosatu spokesmen Alec Erwen and Khesho Leloko said the workshop had begun formulating a policy aimed at "economic growth through redistribution".

It had explored the building of a mixed economy through which reconstruction could be financed.

The workshop believed government's privatisation and deregulation programme threatened the ability of a future government to tackle these issues. Hence, said Mboweni, the ANC and Cosatu would begin immediately, through mass mobilisation and attempts to persuade business and government, to seek to have the programme halted.

Pillay said also, given the probability of major political change, "if our organisations take a public position that privatisation will be reversed, it will make it difficult for government to carry it out as no one will want to buy it".

On the question of nationalising existing privately owned assets, Erwen said it would be necessary to examine each area to see if nationalisation would assist reconstruction of the economy.

The statement said the workshop had examined macroeconomic policy, including sound monetary and fiscal policy, planning and nationalisation, international economic relations, labour legislation, the provision of social welfare, industrial restructuring and local government financing. Its recommendations would not be made public yet as they still had to be debated within the two organisations.

The workshop was attended by about 60 people, including local and foreign academic economists associated with Cosatu and the ANC.
Savage, Michael

Treggenna-Piggott


Wheelwright, E L
1957 *Ownership and Control of Australian Companies*. Sydney: Law Book Company.

Zeitlin, Maurice
1974 'Corporate ownership and control: The large corporation and the capitalist class.' *American Journal of Sociology* 79(March):1073-1119.
This paper sets out to examine three important issues: the extent of the concentration of economic power in South Africa; whether there has been a separation of ownership and control in large firms; and, the extent of dispersion of share ownership. It does this by first outlining five measures of economic concentration in South Africa and raising certain problems with aspects of these measures, before moving on to test the managerial thesis of a divorce between ownership and control and finally presenting some very limited data on share ownership patterns. In doing this the key issue of institutional power, its nature and forms, is being addressed. The issue of power, and particularly economic power, is under-researched by South African social scientists and far more empirical and theoretical analysis is needed than exists at present if we are to understand why there is such a high degree of both economic concentration and concentration of ownership of economic resources in South Africa.

Economic Concentration in the South African Economy

Evidence documenting the existence of massive concentration of economic power in South Africa is mounting, although how this evidence should be interpreted is a matter of continuing dispute. Several strands of evidence about economic concentration now exist, which interrelate to produce a coherent picture of a few giant firms dominating the South African economy. The empirical demonstration of this has been notably advanced by five recent studies.

First, Treggenna-Piggott (1975, 1976) in a study over the period 1955-1974 of public companies with shares quoted on the Johannesburg Stock Exchange, measured concentration among them using the index of capital employed. The study demonstrated that economic concentration in South Africa increased over the period 1955-1974, with much of this increase taking place during the 1955-1964 period. The increase in concentration over the whole period of study was marked when manufacturing companies alone were
considered. Treggenna-Piggott's calculations showed that the Top 50 companies controlled 60% of capital employed in 1955 and 65.2% of capital employed in 1974; for manufacturing companies the Top 50 companies controlled 79.4% of capital employed in 1955 and 85.7% of capital employed in 1974.

**TABLE 1: Concentration of Capital in Public Companies by Capital Employed 1955-1974**

<table>
<thead>
<tr>
<th></th>
<th>Top 3</th>
<th>Top 10</th>
<th>Top 20</th>
<th>Top 50</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Manufacturing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% share 1955</td>
<td>22.91</td>
<td>41.28</td>
<td>57.67</td>
<td>79.4</td>
</tr>
<tr>
<td>% share 1974</td>
<td>28.97</td>
<td>51.27</td>
<td>65.23</td>
<td>85.74</td>
</tr>
<tr>
<td><strong>All Industries</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% share 1955</td>
<td>18.78</td>
<td>33.32</td>
<td>44.43</td>
<td>60.04</td>
</tr>
<tr>
<td>% share 1974</td>
<td>17.67</td>
<td>34.65</td>
<td>46.77</td>
<td>65.16</td>
</tr>
</tbody>
</table>

**Source:** Treggenna-Piggott (1976:6). All companies on JSE excluding Gold, Insurance and Investment Trust companies.

Second, the (Norton) Commission of Inquiry into the Regulation of Monopolistic Conditions Act of 1955, which reported in 1977, provided a systematic series of measures of economic concentration based on figures from the industrial census. The Commission first however noted that

a comprehensive empirical study of the structure of the South African economy has never been undertaken before, with the result that data on firm sizes and the measures of concentration in industry are on the whole fragmentary and incomplete (para 87).

The chief summary measures of concentration provided by the Commission concerned the percentage size of turnover controlled by the largest firms in selected industries. The measures were not confined to companies quoted on the Johannesburg Stock Exchange. Using this index the Commission stated that there was an "exceptionally high degree of concentration of economic power" in all four sectors of the South African economy it examined (para 87). It immediately added that it was reasonable to infer that "those sectors of the economy not include in the survey would show more or less similar results" if examined (para 87). In the four major sectors of the economy it examined the investigations of the commission indicated that 5% of firms controlled over 63% of turnover in 1972 and that 15% of firms in each of these sectors controlled more than 80% of all turnover.
TABLE 2: Distribution of Turnover in Four Major Divisions in the South African Economy, 1972

<table>
<thead>
<tr>
<th>% of Firms</th>
<th>Manufacturing % Turnover</th>
<th>Wholesale &amp; Retail % Turnover</th>
<th>Construction % Turnover</th>
<th>Transport % Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>63.1</td>
<td>66.5</td>
<td>63.2</td>
<td>72.6</td>
</tr>
<tr>
<td>10</td>
<td>75.7</td>
<td>77.0</td>
<td>74.6</td>
<td>81.5</td>
</tr>
<tr>
<td>15</td>
<td>62.7</td>
<td>61.6</td>
<td>80.8</td>
<td>85.9</td>
</tr>
<tr>
<td>20</td>
<td>87.1</td>
<td>85.2</td>
<td>84.9</td>
<td>88.9</td>
</tr>
<tr>
<td>25</td>
<td>90.3</td>
<td>87.8</td>
<td>87.9</td>
<td>91.0</td>
</tr>
</tbody>
</table>

Source: Adapted from Mouton Commission, 1977:40.

Third, du Plessis (1978), in a doctoral study, using similar measures of economic concentration, commented:

It is to be doubted that students of the South African industrial conditions anticipated quite the degree of concentration which has been revealed by this study.... For 12,105 manufacturing firms the skewness in turnover distribution is remarkable. More than 75% of the firms control less than 12% of total turnover.... At the other extreme only 332 firms, 2.66% of the total, control 50% of manufacturing turnover (1976:14).

Du Plessis then focused on 181 manufacturing industries and grouped these according to the number of firms accounting for at least 80% of turnover in each industry to those accounting for 41% of turnover (see Table 3 below). From this study, it is clear that the majority of industries are highly oligopolistic, with three to ten firms controlling at least 80% of turnover in any one industry and with a mere 9% of the 181 industries studied being classifiable as competitive industries.

TABLE 3: Classification of 181 Manufacturing Industries According to the Number of Firms Controlling At Least 80 Percent of Turnover in Each Industry, 1972

<table>
<thead>
<tr>
<th>Market form</th>
<th>Number of firms accounting for at 80 percent of turnover</th>
<th>Number of Industries Number of Industries Percentage of total industries in each cumulative class</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Monopolistic</td>
<td>One</td>
<td>12</td>
</tr>
<tr>
<td>2 Duopolistic</td>
<td>Two</td>
<td>16</td>
</tr>
<tr>
<td>3 High-oligopolistic</td>
<td>Three to ten</td>
<td>87</td>
</tr>
<tr>
<td>4 Moderate-oligopolistic</td>
<td>11 to 15</td>
<td>20</td>
</tr>
<tr>
<td>5 Low-oligopolistic</td>
<td>16 to 20</td>
<td>6</td>
</tr>
<tr>
<td>6 Unconcentrated</td>
<td>21 to 40</td>
<td>23</td>
</tr>
<tr>
<td>7 Competitive</td>
<td>41+</td>
<td>17</td>
</tr>
</tbody>
</table>

The fourth and most recent systematic examination of economic concentration is that by Lombard et al. (1984) in a Mercabank report. The report decisively demonstrated that control over the bulk of the private business sector of the South African economy is in few hands. Using gross assets as a measure of economic concentration the report indicated that five groups of companies (Anglo-American, Sanlam, Barlow Rand, SA Mutual, Volkskas), which themselves have inter-connections, controlled 54% of total assets of companies on the stock exchange in 1982. In addition the report indicated that 12 groups of companies (the companies cited above together with Barclays Bank, Stanbic, Rembrandt, United Building Society, Liberty Life, SA Breweries and Anglo-Vaal) controlled 80% of the total assets of listed South African companies (see Figures 1 and 2).

The Lombard report also demonstrated a growing concentration of assets among listed companies over the decade 1973-1982. At the start of the decade five companies - Anglo-American, Barlow Rand, Federale Mynbou, Anglo-American Industrial and SA Breweries - held 22% of total assets of listed industrial companies; by the end of the decade these same companies held 35% of the assets of listed industrials. In addition, the Lombard report provides figures showing a marked degree of output concentration among domestic producers. Using the usual Lorenz curve calculation, a ratio measure of skewness is employed as a simple index of concentration to demonstrate that concentration in output in Agriculture was low (32.8 in 1979) but was very marked in Mining (90.2), Manufacturing (86.3 in 1979), Construction (80.0 in 1976), Wholesale and Retail Trades (80.0 in 1976) and Transport (87.0 in 1975). Finally, the report provided a summary indicator of economic concentration by stating that 20% of all firms in the manufacturing sector produced 92% of gross output, employed 81% of the labour force in the sector and had 'access to' 95% of fixed assets in manufacturing.

The Lombard report makes one qualification to its own findings regarding the high degree of economic concentration in South Africa.

In the final analysis economic progress and power are largely embodied in the control of real wealth. To the extent that this wealth consists of fixed assets, the big private conglomerates controlled about 16 per cent of the national wealth of South Africa. Listed companies outside the
Figure 2 — Total assets of listed South African companies, 1982
"empires" controlled four to five per cent, while the private sector as a whole controlled about 53 per cent. A large part of the 47 per cent controlled by the public sector consisted of public parks, nature reserves, and other forms of public land ownership which are not directly related to the operation of the economy (1984:3).

However, it is scarcely remarkable that any pattern of concentration of assets in a capitalist society will be diluted if included in these assets are state owned resources such as National Parks. What is more remarkable is the manner in which some commentators have seized upon this portion of the Lombard report, in place of examining the patterns of concentration of economic resources in detail.

A fifth measure of concentration, involving the ownership of resources, has been set out by McGregor on the basis of research into ownership of shares on the Stock Exchange for his important annual publication Who Owns Whom (1980 onward). McGregor stated that in 1983 three groups of companies - Anglo-American, Sanlam and Barlow Rand - controlled 73% of assets of publicly listed companies (Star 10.8.83). In setting out this claim McGregor indicated that one company, Anglo-American, had control over 52.5% of shares on the stock exchange and that 13 groups of companies controlled between them 84.4% of all listed shares (Table 4).

<table>
<thead>
<tr>
<th>Controlling Body</th>
<th>No of companies controlled</th>
<th>Market value of shares</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anglo American group of companies</td>
<td>70</td>
<td>R46 906 000 000</td>
<td>52.5</td>
</tr>
<tr>
<td>Sanlam</td>
<td>38</td>
<td>R 8 368 000 000</td>
<td>9.4</td>
</tr>
<tr>
<td>Barlow Rand Ltd</td>
<td>25</td>
<td>R 6 646 000 000</td>
<td>7.4</td>
</tr>
<tr>
<td>Foreign Control</td>
<td>58</td>
<td>R 4 776 000 000</td>
<td>5.4</td>
</tr>
<tr>
<td>Directors controlling majority shares</td>
<td>153</td>
<td>R 3 665 000 000</td>
<td>4.1</td>
</tr>
<tr>
<td>Anglovaal Holdings Ltd</td>
<td>21</td>
<td>R 2 546 000 000</td>
<td>2.9</td>
</tr>
<tr>
<td>South African Breweries</td>
<td>6</td>
<td>R 2 546 000 000</td>
<td>2.9</td>
</tr>
<tr>
<td>Industrial Development Corporation</td>
<td>4</td>
<td>R 2 120 000 000</td>
<td>2.4</td>
</tr>
<tr>
<td>Rembrandt Group of Companies</td>
<td>65</td>
<td>R 1 893 000 000</td>
<td>2.1</td>
</tr>
<tr>
<td>Liberty Holdings</td>
<td>5</td>
<td>R 979 000 000</td>
<td>1.1</td>
</tr>
<tr>
<td>Neobank</td>
<td>3</td>
<td>R 966 000 000</td>
<td>1.1</td>
</tr>
<tr>
<td>Iscor</td>
<td>4</td>
<td>R 753 000 000</td>
<td>.8</td>
</tr>
<tr>
<td>SA Mutual - Old Mutual</td>
<td>7</td>
<td>R 526 000 000</td>
<td>.6</td>
</tr>
<tr>
<td>Premier Group</td>
<td>7</td>
<td>R 492 000 000</td>
<td>.6</td>
</tr>
<tr>
<td>Volkskas Group</td>
<td>3</td>
<td>R 294 000 000</td>
<td>.3</td>
</tr>
<tr>
<td>Unaccounted</td>
<td></td>
<td>R83 613 000 000</td>
<td>93.9</td>
</tr>
<tr>
<td></td>
<td></td>
<td>R 5 489 000 000</td>
<td>6.1</td>
</tr>
</tbody>
</table>

One difficulty with McGregor's classification of control of companies is that a company that owned 30% or more of the shares of another company was classified as having effective control over that company and its share capital. The concept of control however cannot be reduced to such a mechanical indicator, for effective control over any company may be exercised with far less a stake than 30% of shares, or may not exist with far greater stake than 30% of shares. Nevertheless, McGregor follows orthodox economic procedures, such as those used by Berle and Means (1932) and Larner (1966), in defining control in terms of ownership of a set percentage of shares in a company. Whether this indicator, or the percentage level set to it by McGregor, are the correct ones to use are matters of enduring debate. McGregor summarised his studies of ownership patterns and asset concentration among public companies by stating that

The Prime Minister had to hire the Carlton Centre in 1979 for his conference with our leaders of industry. Three months ago he could have conducted it around his dining room table. He could now do it round a card table. And if take-overs continue at their present rate he will soon be able to do it in a love-seat (Star 10 August 1983).

Such a speculation was repeated in a less dramatic form by Mr Donald Gordon, Chairman of a leading insurance company, who claimed that the South African economy could be controlled by six companies "by 1990 or even sooner" (Star 12 August 1983).

These five studies each using different methods and procedures clearly demonstrate that a massive concentration of economic power exists in contemporary South Africa. However measured, whether by asset concentration within companies quoted on the stock exchange, by turnover controlled by all enterprises, by gross assets of economic entities, or by ownership of shares of public companies, the degree of concentration of production and centralisation of capital in the South African economy is very considerable. Unless decisive political or economic changes the existing trend toward increasing occur such economic concentration and centralisation in the South African economy is unlikely to disappear and such concentration will become more marked over time.
The Ownership and Control of Large Companies: Theoretical Perspectives

Large firms have come to dominate the economies of all industrial societies and have become the decisive units of production within them. South Africa is no exception to this trend and the increasing domination of the large firm raises several important issues, not the least being: What accounts for the structure of a business community? Who owns and who controls the large firm in South Africa?

Such questions fall squarely in the realm of the social sciences, for these disciplines are fundamentally concerned with the study of power and how it is exercised, by whom, and with what effect. The analysis of the sources of institutional power is scarcely developed in South Africa and there is an astonishing silence among social scientists both about how business power is exercised in the economy and about the complex issue of what accounts for the prevailing structure of business itself.

Glasberg and Schwartz (1983) in reviewing current approaches to the study of corporations outline how four contending models of business structure have come to dominate recent research in the field. The major model that has attracted considerable social science research is that first put forward by Berle and Means (1932) in their classic work The Modern Corporation and Private Property, which initiated a 30-year era of "almost unquestioned acceptance of the managerial portrait of the American economy as a loosely connected system of autonomous firms unconstrained by outside owners or by each other" (1983:312). In their work Berle and Means argued that increasingly the large company had come to lack any centre ownership large enough to ensure control of these companies by their owners. Instead ownership had become so dispersed among a large range of shareholders that control had passed from owners to a self-perpetuating group of managers. Consequently they put forward the major thesis that

Ownership of wealth without appreciable control and control of wealth without appreciable ownership appear to be the logical outcome of corporate development (1932:66).

Recent examinations of this thesis have stimulated the emergence of other viewpoints that will be briefly outlined, and which raise
important and empirically researchable issues. First, resource dependency theory focuses on the external restraints on company activities and argues that such activity must be understood as taking place within an environment in which all corporations are attempting to ensure a steady flow of needed resources (materials, finance and so forth). In attempting to do this companies forge complex structural relationships - such as interlocking directorships, joint ventures, mergers - in an effort to control the environments in which they operate and to gain positional advantage in access to resources.

Next, class cohesion theory argues that business structures and activities can be better understood as an outcome of the activities of a powerful group of owners and leaders of companies who attempt to maximise profits and counter both price competition and other competitive practices. It is argued that corporations engage in cooperation within competition, co-respective behaviour in regard to price increases and division of market shares and engage in other activities that serve to maximise profit and dampen competition. Such behaviour helps unify large owners and controllers of business and a variety of organisations - schools, clubs, voluntary associations, interlocking directorships - help weld a controlling class together and reinforce and impose a common value structure upon them.

A third school of theorists assigns a key role to banks and insurance companies in determining the structure of the business community. It is argued that in the search for profit, non-financial companies become dependent upon outside funding to enable them to engage in new developments and maintain their position in the market. With banking and insurance companies becoming decisive in attracting and administering capital and themselves becoming more centralised and interconnected, industrial companies have become dependent upon them. In turn banks and insurance companies become represented on company boards and use the potential threat to withhold funds or to dump shares on the market and depress their price in order to obtain long-term domination over the discretionary decision making of non-financial firms. The logic of the argument leads 'financial control' theorists to hypothesise that each important financial institution tends towards having a group of firms surrounding it and attempts
to coordinate the activities of this 'interest group' by imposing common policies on them all, even when such policies may not be in the best interest of a particular firm.

Finally, bank hegemony theory attempts to tread what Glasberg and Schwartz see as "an analytic tightrope" between class cohesion theory and banking/financial control theory. Bank hegemony theory presses the argument further that banks and insurance companies are able to exert dominant power over non-financial companies. It does this by asserting that financial institutions make independent decisions about how to shape, organise and coordinate the activities of industrial companies and then impose these decisions upon them. Bank hegemony theory does not assert that the formation of interest groups of non-financial companies are the decisive vehicle through which financial companies exert their power instead it believes that financial companies exert direct power on industrial companies, mediated only by their need to maintain a degree of unity within the financial world.

These approaches to the study of business structure and power are set out so as to locate some of the major frameworks within which explanations and research into business structure can be situated. The concentration of the South African economy possibly may be explained against the background of any of these paradigms, or indeed in terms of an ad hoc series of explanations. Such explanations could build upon diverse factors such as the existence of exchange controls 'bottling in' investment capital, or refer to the historical and structural dominance of mining financial companies and foreign investments in the South African economy. In turn ad hoc explanations may - or may not - be linked into the theories briefly outlined above or be used to help generate new theories.

There is a poverty of theory in South Africa for generating analyses, and explanations of existing patterns of economic concentration. In place of rigorous theoretical analyses there have emerged a series of general attacks, defences and comments about the organisation and economic concentration of business, which scarcely drive forward an understanding of the structure of business power itself. What is currently needed is a rigorous application of theory and hard nosed empirical analyses if social
science is to contribute to an understanding of economic power in South Africa.

Among the many issues requiring empirical exploration are precisely those identified in the work of many theorists and commented upon by Glasberg and Schwartz: To what extent has private share ownership been dispersed and what is the effect of any such dispersal on the control of the large company? Has share dispersal — if it has occurred — been accompanied by a centralisation of the ownership of shares in the hands of financial institutions? Do companies seek to maximise profits or has their dominant concern become more one of encouraging stability and social responsibility within the organisation of business? Are large firms dependent upon external finance? What is the meaning of corporate interlocking at an ownership and directorship level? Do 'interest groups' centred around financial institutions exist, and if so how are they coordinated? Do financial firms dominate the decision making of industrial firms?

Such questions indicate an agenda of researchable issues that, if addressed, would further an understanding of business power and organisation in South Africa. Few, if any of these important questions, can be answered with available evidence. This paper does not provide many answers to these difficult issues; it instead questions an almost unarticulated answer to the critical assumption that ownership and control of the large industrial enterprise in South Africa has become separated. In questioning 'managerial theory' it consciously attempts to enter the theoretical debate by addressing a dominant perspective concerning managerialism and suggesting that this perspective, if found empirically inadequate, should lead South African social scientists into examining other theories in the search for a better understanding of institutional power in economics.

The Large South African Company

The managerial claim, put forward by Berle and Means, that the ownership and control of large companies in industrial societies have become separated has enjoyed wide support. A battery of
social scientists have propounded this belief as an 'incontrovertible fact' (Dahl, 1970) and as Mason states:

Almost everyone now agrees that in the large corporation the owner is, in general, a passive recipient; that, typically, control is in the hands of management; that management normally selects its own replacements (1967:4).

In South Africa writers have commented on the "widespread distribution of individual share ownership" leading to a "democratisation of ownership" and "the separation of ownership of control" (Roome, 1974: 148). Other South African writers have commented that there is "a strong case that management, not ownership, is the key to power" (Carter, 1984).

The Berle and Means study provided the roots for these claims in empirically arguing that 44% of the 200 largest non-financial corporations in the United States had become management controlled in 1929, and that a further 21% of these corporations were controlled by a legal device involving only a small proportion of ownership (1967: 109). Recently, Larner (1966) replicated their study for the 200 largest non-financial corporations in 1963 and indicated that the number of management controlled companies in this group had nearly doubled over the period 1929 to 1963, so that by 1963 85% of large companies were management controlled. Other studies in Britain (Florence, 1961), Australia (Wheelwright, 1957), Chile (Zeitlin, Ewen and Radcliff, 1974) have also presented data indicating the apparent emergence of management control in the large company.

Despite trenchant criticisms of these findings, particularly by Zeitlin (1974) and de Vroey (1975), they continue to be widely accepted and used to forward claims that there has been a radical modification to the capitalist system, its forms of control and its class structure. In short, as Daniel Bell argues, there has been a "silent revolution" that has undermined "the former relations between power and class position in modern society" (1956b:246) and brought into being a "post industrial society" (Dahrendorf, 1959) in which 'the wealthy stratum no longer has power'. What does current South African evidence indicate about the basis of such claims?

An earlier study of the 100 largest South African industrial companies quoted on the Johannesburg Stock Exchange found that far
from there being a widespread separation of ownership and control only some 14% of companies were management controlled in 1977 (Savage, 1978). As the South African economy has developed are managerially controlled companies increasing in number so that they are becoming more dominant today than in 1977?

To ensure as direct a comparison as possible between the studies of ownership of large companies in 1977 and 1984 this study will follow very closely the definitions, procedures and classifications used in the original Berle and Means study and in the 1977 study. The study will at this point accept the Berle and Means definition of control as the "...actual power to select the board of directors (or its majority)" (1932:69). Ultimate control of a company, in their view, thus rests with those who have legal voting power to determine what persons will become, or may remain, directors of a company.

Berle and Means distinguish between "immediate" and "ultimate" control. This distinction occurs in those cases where one company controls another through a dominant minority share interest. In such an instance the controlled corporation is classified as immediately controlled by a minority or joint minority interest. If the controlling corporation is itself management controlled then the controlled corporation is classified as ultimately management-controlled. If the controlling corporation is not management controlled then the controlled corporation is classified as minority controlled in the 'immediate situation but ultimately controlled through pyramiding'. This study follows Berle and Means in using this distinction.

The Berle and Means study classified firms according to five types of control: (i) privately-owned, (ii) majority-controlled, (iii) minority-controlled, (iv) management-controlled, and (v) controlled by means of a legal device without majority ownership. The same categories and criteria will be used in this study.

Private ownership is defined by Berle and Means as occurring when an individual, family or group of business associates owns eighty per cent or more of the voting shares of a particular firm. For majority control the individual, family or group of business associates must have legal ownership of between fifty and eighty
per cent of the voting shares. Minority control occurs when an individual, family or group of business associates owns between twenty and fifty per cent of shares. Berle and Means recognise situations where two or more minority interests cooperate to maintain control between them and designate such situations as being ones where 'joint minority control' takes place. Management control occurs when ownership is so widely distributed that no individual or small group has even a minority interest large enough to dominate the affairs of the company (1967: 38). While Berle and Means recognise that the dividing line between minority and management control is not clear in many corporations, they assume that such a line does exist and argue that if there were no single or joint holdings of twenty per cent then management could be assumed to have control of a company. The final type of control distinguished was control by a 'legal device', of which they recognised four distinct forms: pyramiding, non-voting common stock, stock with disproportionate voting power and voting trusts. Of these four legal devices pyramiding is the most important and prevalent and occurs when a company owns a majority of shares of another company which in turn holds a majority of stock of another, thus permitting a series of companies to be interconnected so that those at the top of the pyramid are able to control those at the bottom through a combination of both minority and majority interests in companies at each level of the pyramid.

This study will follow the Berle and Means study, and the 1977 study, in using these same five categories of control.

Summary and Comparison of 1977 and 1984 Studies

The list of the 100 largest industrial and commercial companies in South Africa in both studies is taken from the Financial Mail annual rankings of 'Top Companies' for 1977 and 1984. The 100 largest companies of 1984 are listed in Table 5 (overleaf), together with their asset size, ranking, largest holdings or dominant ownership interest and their control, both immediate and ultimate. The 1984 study made use of a new annual publication Who Owns Whom, which lists all shareholdings above 1% in every public company, and it thus had more extensive information available to
<table>
<thead>
<tr>
<th>Rank</th>
<th>Company Name</th>
<th>Asset Size (RM's)</th>
<th>Largest Holdings or Dominant Interest</th>
<th>Size of Holding (%)</th>
<th>Type of Control by B + M Method</th>
<th>Actual or Potential Controlling Interest (Name)</th>
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<tbody>
<tr>
<td>2</td>
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<td>Anglo American Group JCI Liberty Life</td>
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<td>Jr. Mgr. Pyr.</td>
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<tr>
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<td>Rupert Family via TIB and Rem. Bel.</td>
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<td>30.1  S.S.</td>
<td>S. S.</td>
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<tr>
<td>8</td>
<td>ACEI</td>
<td>1,325.1</td>
<td>Anglo-American Ind Co Apex Holdings ICI (SA)</td>
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<td>Jr. Mgr. Pyr./For.</td>
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<td>Jr. Mgr. Pyr.</td>
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<td>Sanlam via GNB (c)</td>
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<td>Maj. Maj.</td>
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</tr>
<tr>
<td>Rank</td>
<td>Company Name</td>
<td>Asset Size (Bn's)</td>
<td>Largest Holdings/or Dominant Interest</td>
<td>Size of Holding (%)</td>
<td>Type of Control by B + M Method</td>
<td>Actual or Potential Controlling Interest (McGregor + Other)</td>
</tr>
<tr>
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<td>Kirsh Family</td>
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<tr>
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<td>Wool Tus</td>
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<td>Pegaro Epy</td>
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<td>Aaron Searl Inv and Holdus</td>
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<td>Min.</td>
<td>Directors 40.4%</td>
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<td>Maj.</td>
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<td>Jt. Min.</td>
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<td>Volkeke Group</td>
<td>61.63</td>
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<td>Volkeke Group</td>
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<tr>
<td>83</td>
<td>NEL AF</td>
<td>140.4</td>
<td>Northern Eng, UK</td>
<td>62.50</td>
<td>Foreign</td>
<td>Northern Eng, UK</td>
</tr>
<tr>
<td>84</td>
<td>Dullinen</td>
<td>140.1</td>
<td>Anglo-American Group</td>
<td>33.41</td>
<td>Maj.</td>
<td>Anglo-American and S A Mutual</td>
</tr>
<tr>
<td>85</td>
<td>I + J</td>
<td>138.6</td>
<td>South Atlantic</td>
<td>63.03</td>
<td>Subsidiary of 14</td>
<td>Herkov and Menell Interests</td>
</tr>
<tr>
<td>86</td>
<td>Pacbel</td>
<td>137.8</td>
<td>Pickard Family Holdings</td>
<td>45.92</td>
<td>Maj.</td>
<td>Pacard Family</td>
</tr>
<tr>
<td>Rank</td>
<td>Company Name</td>
<td>Assot Size (BMW's)</td>
<td>Largest Holdings/ Dominant Interest</td>
<td>Size of Holding (%)</td>
<td>Type of Control by B + N Method</td>
<td>Actual or Potential Controlling Interest (McGregor &amp; Other)</td>
</tr>
<tr>
<td>------</td>
<td>--------------</td>
<td>-------------------</td>
<td>--------------------------------------</td>
<td>---------------------</td>
<td>---------------------------------</td>
<td>----------------------------------------------------------</td>
</tr>
<tr>
<td>87</td>
<td>Area</td>
<td>135.1</td>
<td>Anglo-American Nominees</td>
<td>49.75</td>
<td>Min.</td>
<td>Venter Family and Anglo-American</td>
</tr>
<tr>
<td>88</td>
<td>Malbank</td>
<td>132.0</td>
<td>S A Mutual</td>
<td>25.5</td>
<td>Jt. Hn.</td>
<td>Sanlam and S A Mutual</td>
</tr>
<tr>
<td>89</td>
<td>Group S</td>
<td>129.7</td>
<td>Darling and Hodgdon Holdings</td>
<td>51.82</td>
<td>Subsidiary of 20</td>
<td>Sanlam</td>
</tr>
<tr>
<td>90</td>
<td>Pefkin</td>
<td>125.7</td>
<td>Sagic</td>
<td>73.91</td>
<td>Subsidiary of 86</td>
<td>Pickard Family</td>
</tr>
<tr>
<td>91</td>
<td>Foschini</td>
<td>123.4</td>
<td>Foschini Inv</td>
<td>49.36</td>
<td>Min.</td>
<td>Directors</td>
</tr>
<tr>
<td>92</td>
<td>BTR</td>
<td>122.9</td>
<td>BTR, UK</td>
<td>53.29</td>
<td>Foreign</td>
<td>BTR, UK</td>
</tr>
<tr>
<td>93</td>
<td>Landchem</td>
<td>122.6</td>
<td>Fred Myburg Nominees</td>
<td>16.09</td>
<td>Jt. Hn.</td>
<td>Directors of Sanlam</td>
</tr>
<tr>
<td>94</td>
<td>Triok</td>
<td>122.6</td>
<td>Luyt Family</td>
<td>50.82</td>
<td>Maj.</td>
<td>Luyt Family</td>
</tr>
<tr>
<td>95</td>
<td>Plavona</td>
<td>121.0</td>
<td>Barlow Rand</td>
<td>64.69</td>
<td>Subsidiary of 1</td>
<td>S A Mutual and Anglo-American</td>
</tr>
<tr>
<td>96</td>
<td>Anchusa</td>
<td>117.7</td>
<td>Murray Family Trusts and Nominees</td>
<td>74.81</td>
<td>Maj.</td>
<td>Murray Family</td>
</tr>
<tr>
<td>97</td>
<td>OIL</td>
<td>114.1</td>
<td>Premier</td>
<td>51-79</td>
<td>Subsidiary of 16</td>
<td>Anglo-American Group/JCI/Lib (j)</td>
</tr>
<tr>
<td>98</td>
<td>Afr Pers</td>
<td>110.0</td>
<td>Dagbreek Trust</td>
<td>14.00</td>
<td>S S</td>
<td>Voting Trust</td>
</tr>
<tr>
<td>99</td>
<td>N Canvas</td>
<td>100.2</td>
<td>Natal Consolidated Ind</td>
<td>39.41</td>
<td>Subsidiary of 38</td>
<td>Frame Family</td>
</tr>
<tr>
<td>100</td>
<td>Adcock</td>
<td>98.3</td>
<td>Adcock Ingram Inv</td>
<td>68.55</td>
<td>Subsidiary of 1</td>
<td>S A Mutual and Anglo-American</td>
</tr>
</tbody>
</table>


Notes: (a) Darle and Mehta methodology makes theoretical allowance for a majority owned company to be classified as ultimately pyramidal if controlled, although such a change between immediate and ultimate control was not employed in any of the studies cited for other countries.

(b) C G Smith Group of companies are classified as majority owned by Barlow Rand, after examination of annual reports. Barlow Rand is classified as ultimately being ½ management controlled (SA Mutual) and ½ pyramidal controlled (Anglo-American Group).

(c) Associated British Foods sold its 52% stake in Premier in 1983 to a consortium of JCI, Liberty Life and Anglo-American for $37.5m. The consortium sold its existing shareholding of 30% of SA Breweries to Premier.

(d) The Helderbank Finance Ltd holding, which has slightly declined since 1977, appears to be sufficiently dominant to classify this company as foreign controlled.

(e) Rembrandt owns 50.3% of Mokwane which controls African Gate. These two companies own 60% of IPSA (Metalor 47.3% and African Gate 12.7%), IPSA owns 50.63% of Dorbyl. Anglo-American Group own 40% of IPSA.

(f) Directors of Placer own 29.4% of Placer, which owns 50% of Plate Glass. "Institutional investors" own 47.6% of Placer, the dominant "institutional investors" are SA Mutual (21.4%) and Liberty Life (17.1%). 'Street' information indicates that the Lubner and Brodie families have minority control of Placor.

(g) The dominant Directors holding is believed to be in the Weisleder-Bradley family.

(h) Nabor Industrial Holdings was formed in 1983 when Nampak and Metal Box merged, and the industrial interests of Metal Box SA were joined together with a similar group of Barlow Rand companies. Metal Box UK sold its majority interest in its SA company and has a 25% holding in MBSA and RH.

(i) The Foschini directors lack a formal stake of 0.05% to majority control the company but it is probable that in any voting situation they could exert such control.

(j) Newspaper financial reports indicate that on 19 June 1984 Premier (see note c above) obtained a controlling interest in Overseas Consolidated Investments which in turn controls OIL.

(k) Sanlam is reported to have obtained 49.0% of Komet, the controlling company of Kiraz, but it is as yet unclear whether effective control of Komet has passed to Sanlam and the financial press reports that this issue may have to be determined in court (Sunday Times 24 June, 1988). As detailed figures of the new Sanlam holdings have not emerged ownership figures prior to the increased Sanlam stake are used.
The classification of companies by types of control in 1984 is summarised in Table 6 and Table 7 contrasts the type of control of companies in 1977 and 1984.

TABLE 6: Largest Industrial Companies in 1984 Classified by Types of Control Using Berle and Means Procedures

<table>
<thead>
<tr>
<th>Type of Control</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Majority</td>
<td>29</td>
<td>45.3</td>
</tr>
<tr>
<td>Joint Minority</td>
<td>15</td>
<td>23.4</td>
</tr>
<tr>
<td>Minority</td>
<td>17</td>
<td>26.6</td>
</tr>
<tr>
<td>Management</td>
<td>1</td>
<td>1.6</td>
</tr>
<tr>
<td>Special Situations</td>
<td>2</td>
<td>3.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>64</td>
<td>100.0</td>
</tr>
</tbody>
</table>

(b) Ultimate Control

<table>
<thead>
<tr>
<th>Type of Control</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Majority</td>
<td>13</td>
<td>20.3</td>
</tr>
<tr>
<td>Pyramiding</td>
<td>19</td>
<td>29.7</td>
</tr>
<tr>
<td>Minority</td>
<td>12</td>
<td>18.6</td>
</tr>
<tr>
<td>Management</td>
<td>14</td>
<td>28.1</td>
</tr>
<tr>
<td>Special Situations</td>
<td>2</td>
<td>3.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>64</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Note: 1 Following Berle and Means procedures, subsidiaries of companies themselves in the list of Top 100 companies are excluded. Foreign held companies are also excluded.

TABLE 7: Largest Industrial Companies in 1984 and 1977 Classified by Ultimate Control Using Berle and Means Procedures

<table>
<thead>
<tr>
<th>Type of Control</th>
<th>1977</th>
<th>1984</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Private</td>
<td>1.3</td>
<td>0</td>
</tr>
<tr>
<td>Majority</td>
<td>9.1</td>
<td>20.3</td>
</tr>
<tr>
<td>Pyramiding</td>
<td>26.0</td>
<td>29.7</td>
</tr>
<tr>
<td>Minority</td>
<td>35.1</td>
<td>18.6</td>
</tr>
<tr>
<td>Management</td>
<td>14.3</td>
<td>28.1</td>
</tr>
<tr>
<td>Special Situations</td>
<td>14.3</td>
<td>3.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

A significant finding of this study is that management control, as defined by Berle and Means methods, has increased substantially in relative terms among large non-financial companies since 1977. In 1977 some 14.3% of the largest industrial companies were under management control; by 1984 of these largest companies 28.1% were under management control.

Equally significant findings from the two studies should be noted. First there has been a decisive trend for more of the leading industrial companies to become subsidiaries of other leading
companies. In 1977 of the 'Top 100' industrials 6 were subsidiaries of other companies in the list of the hundred largest companies; by 1984 this figure had significantly increased so that 27 companies were subsidiaries of other companies in the 'Top 100' list. In other words, by 1984 over a quarter of the leading South African industrial companies were controlled by other leading industrial companies, with the top 2 companies alone controlling 10% of the leading industrials in South Africa.

Second, allied with this trend has been a move toward growing control by majority ownership of companies by other companies not represented on the rankings of the 'Top 100' industrials. In 1977 there were 7 industrial companies of the Top 100 controlled by a majority ownership of companies, themselves either not on the stock exchange or not classified as industrials; by 1984 this figure had doubled.

Both of these movements underpin the growing concentration of economic assets and power that has emerged in the South African economy over the period 1977-1984.

Finally, a comparison of the 1977 and 1984 studies shows that public companies with a substantial State ownership in them and foreign firms have declined in importance. These changes similarly reflect changes in the wider economy with the State selling its holdings in some public companies (such as Safmarine) and decreasing its holdings in other companies (such as Dorrbyl). Additionally foreign holdings in leading industrial companies have substantially declined as majority shareholdings in firms has passed into South African hands (for instance in Premier and Metal Box). In 1977 13 of the 'Top 100' industrials were foreign controlled; by 1984 this figure had declined to 8.

In summary it would appear that, using Berle and Means procedures to examine the control of large South African companies, there is emerging a movement among them toward increasing management control, although this movement is nowhere near as marked as it is in other countries. The South African figure of 26% of leading companies being controlled by management must be viewed in comparison to the 84% of United States companies, 53% of British
and 44% of Australian companies that are management controlled (Table 8).

### TABLE 8: Largest Non-Financial Corporations in South Africa, the US, Chile, Australia, Great Britain by Types of 'Ultimate' Control Using Berle and Means' Procedures (%)

<table>
<thead>
<tr>
<th>South Africa 1964</th>
<th>USA 1963</th>
<th>Chile 1964</th>
<th>Australia 1955</th>
<th>Gt Britain 1936</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>0</td>
<td>0</td>
<td>11.1</td>
<td>2.7</td>
</tr>
<tr>
<td>Majority</td>
<td>20.3</td>
<td>7.5</td>
<td>2.6</td>
<td>8.1</td>
</tr>
<tr>
<td>Minority</td>
<td>18.8</td>
<td>9.0</td>
<td>6.3</td>
<td>45.2</td>
</tr>
<tr>
<td>Pyramidng</td>
<td>29.7</td>
<td>4.0</td>
<td>30.6</td>
<td>-</td>
</tr>
<tr>
<td>Management</td>
<td>28.1</td>
<td>84.5</td>
<td>41.7</td>
<td>43.6</td>
</tr>
<tr>
<td>Special Situations</td>
<td>3.1</td>
<td>-</td>
<td>5.6</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>% 100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>No.</td>
<td>64</td>
<td>200</td>
<td>36</td>
<td>73</td>
</tr>
</tbody>
</table>

**Source:** For Chile, Australia and Great Britain, Zeitlin, Ewen and Ratcliff (1974:99), for Chile their own analysis, for Great Britain Florence (1961:112-3), for Australia Wheelwright (1957, Ch 3). See the note to their own Table on p 99 for details of their reclassifications of some data in the above table. For the US Larner (1966).

In large measure the trend toward management control of South African companies is a direct consequence of the growing investments by insurance companies on the Johannesburg Stock Exchange. It is estimated by the Life Officers Association that the insurance industry attracted premiums of R17 million each working day in 1963, giving them a premium income of R4,3 billion during the year, which is in addition to their own annual investment income. Much of this money is invested in public companies and increasingly insurance companies either directly, or ultimately, have dominant holdings in leading South African companies. As these insurance companies themselves appear to be management controlled in those cases where they have a dominant stake in leading industrials it is unsurprising, given the procedures used in this study, that in turn these industrial companies then become management controlled.

The increasing investment by insurance companies in industrials is leading to the emergence of groups of industrial companies being centred around insurance companies and closely interconnected with them through shareholdings and directorships. In addition, the industrials in a particular group themselves have become interconnected through ownership stakes and interlocking directors. Thus, for instance, clearly centred around the 'Old Mutual' are 3 leading South African companies (Safmarine, Sage, Rennies) and in addition the 'Old Mutual' has a dominant 31%
holding in the largest South African industrial company (Barlow Rand) which probably has ultimate control over at least 12 of the 'Top 100' companies. Similarly, the Sanlam insurance company has dominant (although usually indirect) holdings at least 13 of the 'Top 100' companies, which are heavily interconnected with it; while Southern Life and Liberty Life are directly connected via ownership to the Anglo American Group and thereby also to at least a further 13 of the 'Top 100' industrials.

It is unsurprising that the growing economic power of insurance companies has affected the type of control of industrial companies and helped produce a movement, however slight, toward management control.

As notable as this movement is, it should not obscure the fact that the majority of South African industrial companies remain firmly in the control of large owners of capital, be these individuals, groups of business associated or other large businesses themselves. The non-management control of South African industry remains a far more pronounced feature of the economic environment than any tendency toward management control.

The findings of this study can be briefly compared to the reported findings of the one other known South African study on ownership and control carried out by Halse (1982). The Halse study examined only the top 30 industrial companies and reported that

57% appeared to be controlled by a majority shareholder, usually a large organisation. 33% appeared to be controlled through a minority shareholding. In one or two of these cases the 'controlling' company owned slightly fewer shares than an institution which however evinced no real interest in directing company policy. Only 10% of the companies could possibly fall into the third category that of control by management in the absence of anyone dominating share-ownership (1982:15).

There are several puzzles with this statement for Halse provides neither empirical evidence about how each company was classified, nor details of her methodology. Importantly, it is not specified at what point a company was seen as lacking a centre of ownership so that it was viewed as being under management control. Additionally the study does not make clear what is meant by one company owning the greatest minority of shares in another company but showing 'no real interest' in dictating that company's policy. In such a case, the issue is not addressed of whether a distinction was drawn between a company evincing little interest
in mundane and short-term policy issues of another company, as opposed to evincing interest in, or being willing to do so, in important policy issues. The lack of reported detail make strict comparisons between her 1982 study and the present 1984 one difficult. The Halse study, although flawed, nevertheless does provide interesting contrasts to the present one.

First, to approximate to Halse's probable methodology the Top 30 companies in 1984 were examined purely on the basis of the size of their largest ownership holdings. This resulted in 20 of the top 30 industrials being classified as majority controlled, that is 67% of these companies as contrasted to 57% of them in the 1982 Halse study (see Footnote 1). Second, examining the 1984 companies under minority control - and not making any judgement as to whether joint minorities would unite to exercise control - some 33% of companies in this study using Halse's probable procedures could be classified as being under minority control. This is an identical figure to that given by Halse. Finally, under the probable Halse procedures no companies among the Top 30 industrials in this study were classified as being under management control as there were no ground for taking a decision that a company 'lacked a dominant share-ownership'.

The contrast between the two studies demonstrates how critically important procedures of classification are, particularly when determining whether managerial control exists - or does not exist. The contrast also demonstrates the importance of examining pyramidal control and seeing that a company under investigation may be controlled by another company, which in turn is ultimately controlled by its management. In this case both companies should be seen as being management controlled. This is not unimportant in South Africa, for given the power of insurance companies, which themselves may well be management controlled, it is unlikely that the Halse procedures reflect the extent of possible

---

1 The classification of the Top 30 industrials using the apparent Halse procedures was as follows (companies identified by their 1984 asset ranking as given in Table 7):

Majority = 2, 4, 5, 6, 7, 8(?), 10, 11, 13, 14, 16, 19, 21, 22, 24, 25, 26

Minority = 1, 3, 9, 12, 17, 23, 26, 27, 29, 30.
managerial control in the South African economy. Nevertheless, her study supports this one in providing a further demonstration that control of the largest companies in South Africa has become concentrated in few hands. Indeed, allied with this study, it indicates that the concentration of economic power is rapidly increasing.

The Managerialist Claim and the Concept of Control

It is clear that the majority of South African industrial companies are not under managerial control and that any claim that there is a widespread divorce of ownership from control has little foundation in fact. Using Berle and Means procedures, which now will be questioned as to their adequacy, at the most South Africa is witnessing the emergence of some leading South African companies that could be classified as being under managerial control.

A key concept should now be raised: What is meant by 'control'? The simplicity of this question should not overshadow its complexities. In the Berle and Means study - and the several others following theirs - the concept of control is easily dealt with, as control is defined in terms of ownership of a specified percentage of share capital of a company. However there are major objections to such a definition.

First, in separating out at what point a company may change from being minority to management controlled there is little rationale for selecting any set percentage of share ownership as demarcating that point. If the point of "20%" is set, does this mean that one large holding of 19.9% of company shares is able to be disregarded by management in terms of its views on any one issue? Or, is the opposite the case?

It would appear that precisely an opposite conclusion to that of Berle and Means can be forwarded. If share ownership is dispersed, this then reinforces the controlling power of any leading shareholder. For
The greater number of shareholders and the smaller size of the average shareholding, that is the greater degree of dispersion and fragmentation of shareownership, the smaller is the proportion of the entire voting stock which is in practice needed to exercise effective control (de Vroey, citing Galbert) [1975:5].

It is extremely dubious that any mechanical approach, based on a percentage dividing line differentiating management from minority or management control could accurately determine where the focus of control of a particular company lies. A paradox may exist that dispersion of shares leads to greater control by minority owners.

A consequence of this is that if a company has no bloc of shares of 20% owned by an individual or group of business associates there is no logical reason to then deduce control of that company has passed into the hands of management. A company with widely dispersed shareholding could well be controlled by the owner of a leading bloc of shares of 5% or less. However, a mechanical approach to the concept of control could not detect this.

Second, it is inadequate to take the single firm and the ownership of blocs of shares within it alone as the units for analysing control. Control must be examined in terms of intercorporate relationships. Berle and Means recognise that by means of pyramiding a small percentage of large stockholders can control a whole grouping of companies (1967:69) - and so ironically contradict their own belief that, say, a two per cent investment stake is inadequate to gain control of any company. Yet they do not take into account the full implications of this in studying the methods by which corporations can be controlled, for as Zeitlin so trenchantly puts it, corporate control should be defined "as the capacity to determine broad corporate policies over time", despite resistance and consequently this means that

A specific minority percentage ownership in itself can tell us little about the potential for control it represents. We can discover this only by a case study of the pattern of ownership within the given corporation. However it also means that confining our attention to the single corporation may, in fact, limit our ability to see the pattern of power relations of which this corporation is merely one element; and it may restrict our understanding of the potential for control represented by a specific bloc of shares in a particular corporation. An individual or a group's capacity for control increases correspondingly, depending upon how many other large corporations (including banks and other financial institutions) in which it has a dominant, if not controlling, position. The very same quantitative proportion of stock may have a qualitatively different significance, depending on the system of intercorporate relationships in which the corporation is implicated (1974:1 091).
In short, Zeitlin suggests that Kelle and Means do not understand the significance of pyramiding in creating intercorporate relationships that are decisive in understanding the particular pattern of control of a single corporation.

This suggests clearly that studies of control should be rooted in the examination of groups of companies and their interrelationships, their relationships to other companies outside of their group and to other groups. On the basis of ownership patterns alone the Top 100 companies in this study can be placed into 12 ownership groups (see final column Table 5) with 30 companies not in these groups being classified as 'independent', 'foreign' or state held companies (see footnote 2).

The groups appear to be the following (using company asset rankings to identify companies in groups):

(a) Anglo American Group, (14½ companies)

<table>
<thead>
<tr>
<th>2</th>
<th>3</th>
<th>42 (½)</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>21</td>
<td>75</td>
</tr>
<tr>
<td>32</td>
<td></td>
<td>97</td>
</tr>
</tbody>
</table>

(b) Barlow Rand Group (13½ companies)

<table>
<thead>
<tr>
<th>1</th>
<th>6</th>
<th>62</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>22</td>
<td>70 (½)</td>
</tr>
<tr>
<td>24</td>
<td>95</td>
<td>100</td>
</tr>
</tbody>
</table>

(c) Sanlam (13½ companies)

<table>
<thead>
<tr>
<th>10</th>
<th>12</th>
<th>45</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>30</td>
<td>56</td>
</tr>
<tr>
<td>31</td>
<td>88</td>
<td>79</td>
</tr>
<tr>
<td>42 (½)</td>
<td>69</td>
<td></td>
</tr>
</tbody>
</table>

(d) Anglo-Vaal Group (5 companies)

<table>
<thead>
<tr>
<th>14</th>
<th>45</th>
<th>77</th>
</tr>
</thead>
<tbody>
<tr>
<td>85</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(e) Rembrandt Group (5 companies)

<table>
<thead>
<tr>
<th>11</th>
<th>23</th>
<th>27</th>
</tr>
</thead>
<tbody>
<tr>
<td>29</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(f) Old Mutual Group (3 companies) + ?Barlow Group

| 18 | 27 | 46    |

(g) Murray and Roberts Group (2 companies)

| 20 | 96 |

(footnote continued overleaf)
Third, the thesis of Berle and Means can be criticized for not taking into account the fact that control of companies ultimately can only be determined by concrete case studies where the "capacity to determine corporate policies over time, despite resistance" can be studied. Such studies are not easy to conduct from outside the doors of the company boardroom but they are nevertheless vital to attempt to conduct. Ownership of shares, intercorporate holdings, interlocking directors and other empirical material about companies at the best are powerful pointers to the nature of the control of a company, but company policy requires study in the specific to understand how a company is controlled. Thus the tensions that emerged in public in recent years between Rembrandt and Sanlam (over control of Union Corporation), within South African Breweries (over the ownership stake within it by Premier) and within Anglo American (over its investment policies as affecting Old Mutual) are far more decisive in determining how these companies are controlled than any study of them relying on formal empirical indicators of control.

The managerialist thesis cannot be sustained using the Berle and Means methodology and its conceptualisation of control. The belief that ownership and control are becoming separated in the economies of industrial capitalist societies fundamentally rests on arguments about the dispersion of shareholdings. Thus, finally, one should turn to some limited evidence about such dispersion in South Africa.

The most recent general survey of share ownership indicates that

(h) Waicor Group (4 companies)
    48
    64
    50
    74

(l) Kirsch Group (2 companies) (recently acquired by Sanlam)
    43
    47

(j) Frame Group (3 companies)
    58
    72
    91

(k) Venter Group (2 companies)
    60
    87

(l) Picard Group (2 companies)
    86
    90
the ownership of shares is distributed among a mere 12% of the white population, with 32 640 shareholders holding 71% of shares held by private individuals (Market Research Africa, 1972). Such a finding does not indicate that there is any great dispersion of shares among private individuals. It is disingenuous to argue that private individuals are represented in the share market by means of investments of insurance companies, for private individuals do not have direct ownership of insurance company shares and little, if any, control over such insurance companies.

A further piece of evidence concerning the distribution of shares awaits collection from the annual reports of those companies which provide information about their types of shareholder. Not all companies provide such information, which otherwise can only be gathered by going through the total share register of a company. However preliminary examination of Top 100 company reports indicates - as do Table 5 and McGregor's Who Owns Whom - that share ownership within South African industrial companies is extremely concentrated and lies in the hands of few owners. Further, generally private individuals appear to hold a minority of shares in the Top 100 companies. Table 9 sets out a preliminary survey of the types of shareholders in 5 of the Top 10 industrial companies and indicates the balance of shares within them between individual and corporate holders.

### TABLE 9: Major Shareholders Size of Holding in 5 Large Non-Financial Companies, 1962/3

<table>
<thead>
<tr>
<th>Co. Rank</th>
<th>Name</th>
<th>Individuals</th>
<th>Insurance Co's</th>
<th>Pension Funds</th>
<th>Trust Co's and Invest. Co's</th>
<th>Banks and Nominees</th>
<th>Other Corporate Bodies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Barlows</td>
<td>16.0</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>3</td>
<td>SA Breweries</td>
<td>8.0</td>
<td>50.0</td>
<td>30.0</td>
<td>12.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>C G Smith</td>
<td>7.5</td>
<td>25.9</td>
<td>1.8</td>
<td>64.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>AR&amp;CI</td>
<td>&quot;Below 10%&quot;</td>
<td>12.0</td>
<td>-</td>
<td>78.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Tongaat</td>
<td>22.5</td>
<td>54.6</td>
<td>22.5</td>
<td>0.2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* "Insurance companies, Pension Funds, Corporate Bodies and Nominees = 33.2% "Institutions holding in excess of 1% = 50.6%.*

**Source:** Annual Reports.

All evidence points to the shareownership not being widely diffused in South Africa and to major shareholding interests having effective control of corporate capital and having the power to determine corporate policy. What seems to have occurred and still be occurring is a concentration of ownership in fewer hands
and a transition toward a more impersonal type of ownership in South Africa. It should be stressed that this is not to assert that individual and familial ownership has become unimportant.

These trends, particularly the movement toward impersonal ownership by financial companies, insurance companies and banks, await detailed examination. This paper has presented only some partial evidence about the nature of control in the South African economy. It clearly identifies the need for a continuing study of large companies if we are to better understand the political economy and class structure of South Africa.
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Fed Volks must tackle 
cyclical earnings factor

INVESTOR uncertainties continue to send many mining and industrial shares to new yearly lows, and industrial holding giant Federale Volksbeleggings (Fed Volks) is included in this group.

Its share price had been in a bullish trend towards the end of last year, when it peaked at 475c in September. But a shift in sentiment has resulted in a sharp decline for the counter, which is now more than 50% below its 12-month high.

The accompanying chart shows that the long-term trend, as indicated by the 36-month moving average, has turned bearish while the share has easily fallen below support at 300c. While buying interest appears at the lower levels, a further fall to below 200c cannot be ruled out.

The decline in the share price appears to have been sparked by a notice to shareholders in March. This notice drew attention to the fact that at interum stage the directors estimated that EPF for the year ended March 31 1990 would approximate the $5.3c earned the previous year.

However, the notice indicated that in the second half of financial 1990, profitability in the group's Tek and Fedmech divisions had shown a considerable decline. This had a significant effect on group profitability, and forced management to revise its financial 1990 earnings forecast downward to 60c. The total dividend for the year is expected to be maintained at 21c.

This announcement was disappointing to loyal shareholders who were expecting the group to weather the upcoming economic slowdown in fine style. But to investors who have been following the group for a few years, it should not come as a surprise that Tek and Fedmech are having difficulties.

After all, rising interest rates have traditionally had a negative influence on Tek, which is dependent on consumer durable spending. The increased finance charges should also translate into reduced spending on agricultural equipment such as that being sold by Fedmech.

The very fact that overall earnings can be significantly hurt by the poor performance of these two subsidiaries alone suggests management should take a closer look at either selling or reorganising these operations to help eliminate the cyclical nature of group earnings.

It should have been quite clear from the last recessionary period, during financial 1986 and 1987, that any future economic slowdown would be felt by the group's motor components and agricultural equipment divisions as well as by its domestic consumer goods interests. The latest notice to shareholders confirms this quite clearly.

Consequently, even though the directors are confident dividends can be maintained for financial 1990, if interest rates remain around current levels, group earnings could continue to slide. It would be very difficult to continue paying out an annual dividend of 21c.

Before Fed Volks can expect to be re-rated significantly from current levels, earnings must reverse their recent slide and management should take the necessary steps to eliminate the cyclical nature of the group's various operations.

Cloud over Barlow Rand's earnings

FOLLOWING the assault of interim disclosures last week by the first wave of Barlow Rand subsidiaries, market analysts are doubting the diversified industrial holding giant's ability to maintain earnings this year.

As a prelude to Barlow's half-year results (to be announced in three weeks), analysts are already pegging the group's year-end between 10c.
De Beers details structure of offshore creation

Own Correspondent

JOHANNESBURG — De Beers has disclosed the structure of the balance sheet, profits and dividends of the group and its offshore creation, De Beers Centenary AG, after the re-arrangement of the SA and foreign businesses.

Of De Beers' 1989 balance sheet, 49%, equal to R6.6bn, would have been in Centenary, had Centenary been in place for the financial year.

A detailed circular released today — ahead of a closed circuit press conference to be addressed by De Beers chairman Julian Ogilvie Thompson from London at midday SA time — shows that almost 80% of dividends would have been paid by Centenary, which would have been listed in Switzerland and first traded on Monday June 11.

The circular follows the March 8 announcement that De Beers would be re-arranging its foreign business, with the SA business continuing to be held through De Beers. It is proposed that equity shareholders will hold indistinguishable ‘stapled’ units in both entities.

Pro forma accounts in the circular show that had Centenary been in place last year, it would have paid R333m, or 76%, of De Beers' 1989 dividend, with De Beers paying the balance. The circular includes details that may stoke market rumours of an unpalatable deal.

Says Ogilvie Thompson: “The diamond industry operates on a global basis, and it is desirable that the two groups should co-operate in the interests of shareholders and of the diamond industry as a whole.

'To this end, it is proposed that as far as possible the two groups will be administered by identical boards of directors, and their securities will be linked so that they will be tradable only as linked units.'

The most striking difference in the pro forma accounts for De Beers is for diamonds. On the balance sheet, diamond stocks fall to R138m (R6.3bn). The balance appears on the pro forma Centenary balance sheet at $2.4bn (the given exchange rate is R1=80.39).

On the pro forma De Beers income statement, income from the diamond account falls from R297m (R2.9bn) again, with the rest appearing in Centenary's accounts.

Tax falls to R257m (R807m), Centenary paying the balance. With income from investments and interest largely unchanged, equity accounted earnings fall to R1.8bn (R4.1bn) in 1990.

The pro forma accounts in the circular have been prepared by auditors PwC Goldby in Kimberley and Zurich as if Centenary had been in place for De Beers' financial years ending December 31 1987, 1988 and 1989.

The circular notes that the overall capacity of the De Beers and Centenary groups to pay dividends will be unaffected by the re-arrangement.

“It is not intended that the re-arrangement should result in any reduction in the combined dividend distribution per De Beers/Centenary linked unit by the De Beers and Centenary groups from the distribution by De Beers per equity share before the re-arrangement.

“The only difference will be that unitholders will now receive dividends directly on their Centenary depositary receipts as well as their De Beers equity shares, instead of only from one source.

“It is expected that no less than 80% of the dividends distributed by the Centenary group will be paid by the Luxembourg subsidiary, Centenary Holdings, the balance being paid by Centenary itself.

“It is also intended that dividends will be declared in such a way that unitholders can expect to continue receiving payment of dividends during or about November and May each year.”

Ogilvie Thompson names reasons for the re-arrangement, to:

- Enable equity shareholders to identify the earnings, dividends and assets attributable to the foreign group and the SA group.
- Provide equity shareholders with linked securities representing interests in, and entitling them to receive dividends from, both the foreign group and the SA group.
- Enable the foreign group and the SA group better to develop their respective businesses overall, with appropriately focused strategies and objectives, and generally to facilitate the conduct of business internationally.
- Facilitate access to the international markets.
The Board of Executors (BOE) had a highly successful six months to March with attributable income up by 102 percent to R3,67 million (R1,82 million). Earnings per share were up by 25 percent to 40,6c (32,4c), while the interim dividend was raised by 25 percent to 10c.

During the period the group fended off an Investec takeover and acquired control of Mercury Trust.

The group said R3,66 million was transferred to the general reserve. This was the result of the capital profit of R12,67 million on the sale of 20 percent of BOE to Liberty Life less R8,8 million utilised to write-off the premium for the Mercury Trust acquisition. — Sapa
In a £100m deal...

PGSI sells UK operation

Own Correspondent
JOHANNESBURG — Plate Glass and Shatterproof Industries (PGSI) has withdrawn from the UK building glass market, selling its UK operation and its Solaglas name to the world's second largest glass manufacturer, French group Saint-Gobain, for £100m.

This gives Saint-Gobain a captive glass market in Britain with sales worth more than £170m, while PGSI becomes the dominant player in the European automotive glass fixing business by purchasing Saint-Gobain's automotive glass fixing networks in Germany and France for £16m.

Yesterday trading in the shares of PGSI and its holding company Placer were suspended on the JSE.

The acquisition will result in the addition of 95 outlets in Germany and 50 in France to PGSI's Autoglass International Holdings, making it the largest chain in France, Germany, Belgium, Holland and Italy with a market share of about 15%.

It will continue with this business in the UK where it has 150 fitting shops and claims about 50% of the market.

Autoglass will be well prepared for European integration in 1992, says PGSI chairman and CE of the group's glass interests, Ronnie Lubner.

The recapitalisation of the offshore operations will provide Solaglas with the means for considerable expansion in the automotive glass replacement business in Europe and the US.

As a result of the deal, Solaglas International's heavily over geared glass operation (63%) will be relieved of its debt and interest burden, leaving it in a net cash position which will make possible a strong flow of dividends to SA. PGSI owns 74.5% of Solaglas International, the name of which will be changed.

About R40m of the remaining cash from the deal will flow back into SA.

Considering this liquidity and the heightened confidence about the group's future, Lubner says PGSI's dividends for the year to end-March will be maintained at 222c in spite of the expected 30% decline in earnings from last year's 482.7c.

The effect of the deal on earnings for the year to end-September 1989 would have been a 14% (67c) increase in earnings to 551c (484c) and a 35% (82c) increase in tangible net asset value.

Lubner said it was the strategic implications of the deal for Saint-Gobain, which has a market capitalisation of R17.5bn, rather than the profit history of Solaglas' building glass business, which enabled PGSI to demand a price with a price earnings of about 25 times.

He said capital would be required to turn around and rationalise the acquisitions which have been making losses for Saint-Gobain, which was reported yesterday to have made a successful $2bn bid for US abrasives group, Norton.

Losses in the international timber trading division of the wood group since November meant the group had to revise earnings forecasts downwards.

A downturn in the SA market, substantial management restructuring in a falling European market, a severe downturn in demand and development problems in Australia and economic restructuring in Brazil had contributed to the losses.

"Corrective actions to reverse these losses continue and the overall viability of certain operations is under review," Lubner said.

The SA Reserve Bank has approved the deal but approval is still awaited from regulatory authorities in Europe.
Market buoyed by govt, ANC indaba

Mervyn Harris

BUOYED by positive political sentiment in the wake of talks between government and the ANC, share prices staged a strong rally on Diagonal Street yesterday.

De Beers, up 1.7% (165c) to a new high of R9.6, and mining financials were on the forefront of the uptrend in further response to last week's news of more details on the diamond group's rearrangement of its SA and foreign business interests.

Dealers noted demand for shares across a broad spectrum and the JSE overall index gained 66 points or 2.1% to 3177, as the all gold index closed 2.4% up at 1775 and the industrial index rose 1.1% to 2696.

Maurice Fisher of stockbrokers Frankel, Kruger, Vinderine said: "The market was oversold and due for a correction. The positive feedback from the talks... helped to fuel demand for quality shares."

"Stabilisation of global stock markets with an overnight rise on Tokyo and renewed strength on Wall Street also sustained sentiment," he said.

The more optimistic outlook was reflected in a firm funrand which rose to R4.0750 from R4.1450. But the rise of the investment unit had no impact on share prices as UK financial markets were closed for a holiday and no stock was coming out of London.

The gold board was encouraged by gold holding above the $371 level on bullion markets with shares of marginal gold mines rebounding from recent lows.

ERPM jumped 40% or 50c to R17.50 to bring its gains to 59% in less than a week. The shares started rising ahead of news of a proposed rescue package.
UK parent selling NEG in liquidation process

NATIONAL Employers’ General Insurance (NEG) is to be sold off by its UK parent to pay for huge Workmen’s Compensation claims lodged with a wholly owned Australian subsidiary.

However, SA short-term insurer NEG is in a sound condition, having reported an underwriting surplus of R5.5m, investment income of R15.5m and after-tax profit of R21m in the year to end-December — quite an achievement in the embattled short-term market. It has assets of R188m.

About 64% of its business is in motor insurance.

NEG MD Peter D’Arcy-Jones said yesterday NEG’s parent, National Employers’ Mutual General Assurance (Nemgea) was required to liquidate all its assets worldwide to cover the losses of the Australian claims.

The Supreme Court in New South Wales issued the provisional liquidation order.

Most of the claims apparently related to asbestos, though D’Arcy-Jones could not confirm this yesterday.

Nemgea owns 73% of NEG, 25% being held by African Finance Corporation and 2% by staff and public.

D’Arcy-Jones said NEG’s business and solvency was completely unaffected by the liquidation of Nemgea as it was an independently incorporated company which financed itself and arranged all its reinsurance through normal and traditional markets.

“The financial difficulties of Nemgea will have absolutely no affect on the finances of NEG nor on its ability either to underwrite new business or to meet claims arising from existing policies,” D’Arcy-Jones said.

“NEG is of course subject to the provisions of the SA Insurance Act and complies fully with all the solvency requirements of that Act.”

There has apparently been a lot of interest in purchasing NEG, including by AGF of France. Preliminary negotiations with interested parties are apparently under way.
Govt’s Lifo ‘take’ higher than expected

By Derek Tommey

Early indications are that the Government will get a much bigger tax take than it has forecast from the changes in the Lifo reserves announced in the March Budget.

In his Budget speech the Minister of Finance, Mr Barend du Plessis, said that the Lifo reserves of companies had to be reduced by 10 percentage points a year during the next 10 years.

The cash which is being generated by the reduction in the reserves is subject to tax.

This tax is estimated to amount to R50 million this year and to R500 million over the next 10 years.

However, a survey of just four companies showed that they had between them Lifo tax liabilities approaching R100 million.

One of them is OK Bazaars which has, as a matter of prudence, transferred R45.9 million from shareholders’ funds to deferred liabilities to meet the Lifo tax, the managing director, Mr Gordon Hood, reported yesterday.

Another is Checkers, also a major retailer, which will have a Lifo reserve tax liability of some R30 million, Mr Donald Masson, head of Tradego, said yesterday.

Two sizeable manufacturing companies also admitted that their Lifo tax liability could be about R10 million.

Edgars has transferred R20 million from reserves to deferred tax to cater for the changes.

It is clear from these examples that the tax liabilities of the dozens of large public and private companies must handsonly exceed the R500 million estimated by the Treasury.

Companies likely to be hit the hardest by the new provision include the oil companies which, however, do not publish their accounts and also the major manufacturing groups.

Some accountants believe that the Treasury probably had no idea of just how large the Lifo reserves in South Africa were when it decided to introduce the new measure.

However, although the tax should help the Minister of Finance meet his Budget targets this year, it seems that most firms are not greatly worried about it.

One reason is that the heaviest burden will fall on the largest companies — and these are best placed to meet the tax. Another is that as the years pass by the actual amount to be paid in real terms will shrink in line with the increase in inflation. In 10 years’ time the payments will probably be insignificant.
The listing of Projec Investment Holdings has been terminated.

Nedcor results for the six months to end-March showed that UAL has already taken a R9 million net after-tax loss resulting from the failure of an overseas client to provide funds to cover its liabilities on a forward financial rand transaction undertaken by UAL.

The finrans had been used to buy Projec shares

With the JSE having reached the limit of its fairly restricted authority it is now up to the Reserve Bank — with some help from UAL — to try and establish the specific nature of the transactions and try to recoup some of the losses suffered to the country’s forex reserves.

According to Reserve Bank sources investigations both locally and overseas have been underway for some weeks and are proceeding.

The termination of Projec’s listing, which was effective yesterday, comes six weeks after the share was suspended at the request of JSE president Mr Tony Norton.

The suspension was called for because of the very heavy trading in the share and the fear that there might have been some pushing of the share price to the detriment of minority shareholders.

Share trading

From mid-July 1989 to end-February 1990, 4.5 million Projec shares changed hands in the market at a price of R11 a share. These are dramatic figures considering that there are only 1.6 million shares in issue and that an R11 share price reflected a price/earnings rating of a massive 236 times — on a fairly vague and unsubstantiated estimate of earnings.

Indications are that there is little in the way of assets in the company.

Mr Norton stated that the listing was terminated because the JSE was unable to establish a place of business, get a copy of the company’s accounts or establish any contact with the company’s directors — many of whom are apparently overseas.

According to Mr Norton, the JSE Committee had hoped that the suspension would precipitate some communication from the company: “We were hoping for some reaction, for some dialogue between the JSE and Projec but there was a remarkable silence.”

Even minority shareholders failed to respond.

It now seems that by the time the suspension was effected in March, the parties involved had already been silent for a number of weeks.

It was the February collapse of the finrand that led to the renegoting of the UAL finrand contract that was financing the heavy trading in Projec shares.

Original investigations by the JSE indicated that the Projec shares being bought in the market at R11 (since September) were then being sold to another party outside of the market.

This second party then sold them via the market back to the first party (or an associate) and so on.

It now appears that the trading sequence may have been even more complicated and involved a third party.

What is known is that Projec stock, that was bought in the market by an overseas party (using the UAL finrans), was having its finrand endorsement cleaned off and then being sold off-market later again back into the stock exchange.

Cleaning finrand endorsements is highly irregular and requires the co-operation of officials.

(Apparently the ties between World of Music and World of Leisure with Projec have been severed.)

600 000 unit trust holders in S Africa

THERE'S a well-known maxim: "She said she was entering her declining years so Bill told her that a woman of her age could not afford to decline anything."

One investment that both men and women should seriously consider, no matter what their age, is a unit trust.

Chairman of the Association of Unit trusts, Roy McAlphine says: "Because unit trusts are such a flexible investment and have performed so consistently well over time, every South African should, provided financial circumstances permit, invest in at least one general equity unit trust.

Growth potential

Unit trusts are definitely not only for the wealthy. As McAlphine points out, investments can be made with a lump sum as small as R100 or with regular investments from as low as R20 a month.

"The fact that general equity trusts have provided unit holders an average annual compound return of 24 percent per annum over the past decade, illustrates clearly the merits of unit trusts as a long term investment.

"Ideally, to avoid investing at a time when share prices are at or near a peak, unit holders should invest a regular amount every month This is called rand cost averaging and its advantage is that you accumulate more units when prices are low and end up with a lower cost per unit than if a regular number of units were purchased at set intervals.

"Investing in unit trusts is an excellent means of saving and, as unit trusts invest primarily in sound, blue chip equities, with solid growth potential, those savings should provide a real return to investors over and above the rate of inflation."

Great virtue

In South Africa today there are over 600 000 unit trust account holders whose total unit trust investments had a value of R7,6 billion at March 31, 1990. That is a 43 percent over the value a year ago.

McAlphine adds: "To an increasing extent, South Africans are appreciating the value of investing in unit trusts. The flexibility of the investment medium is a great virtue - you can add to your original investment at anytime and, for those looking at building up an additional retirement fund, unit trusts are ideal.

"When you have some spare cash this can be added to your investment to accumulate value over time.

"And should you need to liquidate a portion or all of your investment for whatever reason, you can instruct the management company to repurchase your unit trusts and you will receive the proceeds within 10 days."

Great virtue
Give them a financial start in life

CALLING all indulgent parents and surrogate parents. An investment in unit trusts will not only ease your Christmas/birthday present headache, it will also ensure that your favourite small person has an excellent financial start in life.

With the flexibility of unit trusts, this investment medium makes an ideal present for a child.

Unit trusts have their investments spread across the boards of the Johannesburg Stock Exchange and are therefore essentially medium to long-term investments.

Even if the share market were to fall as it did in October 1987, children have time on their side. They can afford to ride out any short term market declines and enjoy the benefits of the steadily rising trend of unit prices over time.

Once a unit trust account is opened in the child's name, additional amounts can be invested any time during the year, bolstering the invested sum which will accumulate over time.

It is advisable to opt for unit trust distributions to be reinvested in the account as the child then enjoys the benefit of compounding.

As the distributions themselves grow, they buy more units and increase the overall value of the investment.

Recent changes in legislation allow parents to donate to their children, free of donation tax, a maximum of R20 000 in total and what better way to protect such a capital amount from the ravages of inflation than to invest it in unit trust?
IN an inflationary climate as we have in South Africa today it is important that you protect your hard earned savings. If you don't you will find that the R1 000 you saved will be worth less than R500 in five years' time.

One sure way of protecting your capital against inflation is to invest in unit trusts.

A unit trust enables a large number of investors to pool their individual capital sums for investment on the stock exchange.

By doing this, these investors obtain a spread of investment which they could not achieve individually.

The unit holder's money, which can be as little as R20 a month, is invested by the unit trust managers, professionals whose job it is to watch the markets day in and day out.

Any person who wants to build up a balanced savings programme aimed at accumulating capital for educating children, for building up or supplementing a pension or as a savings mechanism.

Every financial plan for people who are determined to build real wealth should include a unit trust investment.

Effectively, for a small cost, you obtain a spread of investment and risk, professional management of your money, the provision of a full administration service and the ability to acquire and realise your investment at ruling prices without having to compete against other buyers and sellers and so force up (or down) share prices.

Depending on the fund in which you invest, income is distributed either quarterly or half-yearly and is made up of both dividends and interest.

The money that you receive at these times is the income which is generated by the trust after deducting the service fee.

If you do not require immediate income, you can select an investment plan that allows for the income that is generated to be re-invested.

This buys more units, and so speeds up your savings plan and is highly recommended.

As an investor you must recognise that a unit trust is a long-term investment (an investment which you can afford to leave for three to five years) which, over many years, has enabled unit holders to obtain a "real" return, that is a return which is over and above the rate of inflation.

Under no circumstances must an investment in a unit trust be regarded as a short-term investment.

There are now 33 unit trusts in South Africa - 14 general equity trusts investing in a balanced and diverse portfolio of companies, 10 specialist equity trusts which invest in a selected or focused area of the stock market and nine high income trusts which seek an above average level of current income for their unit holders.

Investors can obtain application forms from most financial institutions, financial advisors and stockbrokers.
Mervest ready to be taken over

By Tom Hood

Marine West (Mervest), a sea diamond company controlled by Cape Town businessman Jack Walsh, is likely to be taken over by West Coast marine diamond exploration company, Benguela Concessions.

Both companies are involved in negotiations and a cautionary announcement to shareholders was issued yesterday that if the talks succeed the deal may have an effect on the share prices of both companies.

Mervest's share price jumped by 19 percent to 26c a share after news of the negotiations.

Benguela Concessions (Benco), listed on the JSE last year, is headed by Dr John Gurney, professor of geochemistry at the University of Cape Town and a world expert on the recovery of sea diamonds.

Mr Walsh, a former trawler skipper, said the deal "will probably be done through a reverse takeover with Mervest's assets injected into Benco if everyone is happy."

"An agreement would seem to make a happy marriage because Benco has a very strong geological technical expertise and we have a very strong operational expertise."

Marine West would also gain access to two extra diamond concessions.

"We don't have enough boats at the moment to work them but in the long term there will be benefits."

Mr Walsh added that diamond production so far this year exceeded the total for 1989 through a combination of better weather and greater efficiency.

The West Coast sea diamond business was long regarded as highly speculative, but Benco recently raised R15 million from its shareholders and has backing from Old Mutual.
Sparkling results produced by ABI

The largest bottling company in South Africa, Amalgamated Beverage Industries (ABI) made the day for more than 5 000 first-time shareholders when it produced sparkling results for the year ending March 1990.

The predominantly black shareholders have seen their investment increase seven-fold in three years.

When they acquired the shares in 1987 they sold for R1. At the listing of ABI in June last year, the shares traded at R3.50. By the end of the year they had reached the R6 mark.

They currently trade around R7.

The company, the largest bottler of Coca Cola and other well-known soft drinks - lifted attributable earnings in its first full year as a listed company, by 43 percent to R45.3-m. With 6 million additional shares in issue following the acquisition of the Sparletta Bottling company during the year, earnings per share improved 35 percent to 42.8 cents.
Protect your savings from inflation

Unit trusts build your capital

All stories on Pages 17, 18 and 19 were written by The Association of Unit Trusts, the organisations promoting the unit trust industry.

The value of your investment

By spending your money in a unit trust you are investing in a fund managed by professional investment managers who are responsible for your money. They purchase stocks and shares on the stock exchange and allocate your money to the most suitable investments to achieve the best possible return for you.

The unit trust fund

A unit trust fund is a pool of money invested in the stocks and shares of various companies. The fund manager makes decisions on how the money is invested and the money is divided among the unit holders in proportion to the amount of money they have invested.

The unit holder

You are the owner of a unit in the unit trust fund and you are entitled to a share of the profits made by the fund. You can sell your units at any time and receive the current market price.

The unit trust

A unit trust is a type of investment vehicle that allows you to invest your money in a diversified portfolio of stocks and shares. The unit trust is managed by a fund manager who makes decisions on how the money is invested and the money is divided among the unit holders in proportion to the amount of money they have invested.

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The unit trust unit

A unit trust unit is a unit in the unit trust fund that represents a portion of the fund's assets. The value of a unit trust unit is determined by the value of the fund's assets divided by the number of units outstanding.

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The birth of a new market has not been without controversy

It's a daring achievement for a small, untested commodity. That's part of the reason why our new futures market began with financial futures — at other parts of the world, the idea found its feet as an attempt to give farmers and metal producers the opportunity to hedge their commodities. The path to formalisation of the market (launched by the State and Jacobson commissions) has not been smooth. However, trading day April 30 was duly celebrated by the market's architects last month. Now, the SAFutures Exchange (SFX) hopes to be licensed as the official exchange by August. Only financial futures are affected mainly because of the control board system, so futures in local agricultural commodities such as cocoa and sugar are traded yet, though the Monte Board, a latecomer, is working on a local futures contract.

Futures in metals and commodities have been available to Reserve Bank-approved clients since the ear-
ly Seventies. Although futures — and later options — did the deals and were also licensed to deal on international exchanges. They do not fall under SFX's control. It was Rand Merchant Bank which started the informal financial futures market at least as early as the seventies. Now a new market is making opportunity for the market — and ended up clearing and guarantee the more mature market under the handover.

SA FUTURES EXCHANGE

Pump up the volume!

The takeover of the clearing function by SFX and its clearing house came nearly eight months after the latest planned start-up date, and the delay has fuelled costs, according to players. One insider comments: "SFX's basically broke. It had to come on the market in that form if it was to ever pay off its money and receive operating costs."

CEO Stuart Rees says SFX did not have a great deal of money to fund development. "We didn't intend to operate for profit, and at no stage did we need large reserves unless for funding future capital development." Ex- penses from inception to end-March this year will total R3.3m. Rees reports: "The market has been dragged by circumstances all the way to take care of vested interests," says one operator — echoing a widely held view that bodies like the JSE want to protect stockbrok- ers' interests. This is what led to the most hotly argued issue — which dealing system to use. open outcry or screen. In the end it was decided to use both, "which has undoubt- edly added to costs."

Some are baffled as to precisely why an official poll showed a clear majority wanted screen trading only, two voted for deal trading and the JSE for open outcry. The reasons cited were that it was considering the interests of the JSE's traditional floor trading system. Rules also had to be revised when the clearing house objected to the proposed joint guarantee system whereby they could be held liable for any clearing member who defaulted. This has since been resolved and there are now 12 clear- ing members.

Most regard these and the other issues as water under the bridge — and the concern now is to increase and sustain volumes.

SFX has limited potential, critics charge. They question whether volumes will justify the sophisticated systems being put in place for a mar- ket of limited size based on a First World/Third World economy.

And how many large inve- stors use derivative instruments anyway? According to commodity magazine (March 1980), only 3% of British investment institutions

Some equity options and just 15% use stock index futures.

On the local scene, SFX's derivative mar- kets are unlikely to rival international pa- tient for the foreseeable future. Even overseas interest in gold is sporadic and politically sensitive. SFX, however, since the late Eighties, securities markets worldwide have been shrinking. Some in any case consider SA overbought.

Rees denies the systems are oversophisti- cated — nor are they very expensive. We must be confident that the volumes will be there and we feel obliged to install the mini- mum necessary facilities.

Circa 300 market participants trade on SFX, the constitution of which is seen by many as fundamental to the liquid- ity of the futures market. This degree of inflexibility has a direct impact on volumes.

To hedge large portfolio investment fund managers need to deal in large size. Traded are around 20 contracts per deal, which on the All Share Index would currently give cover of only about R3100, hardly attractive to an institution holding billions of rand in equity portfolios. Also, because of the relatively low liquid- ity of the JSE (3.5% last year) it is difficult to arbitrage between stock index futures and the physical market says one portfolio manager.

Old Mutual assistant GM I different futures contracts. We would like to see futures increase to give us more flexibility to manage investments.

The market is seen as a boost for secondary futures. SA's attitude towards futures futures must play for the market to expand, April 1987, and will probably be the only front page profile for the present. Says portfolio man- ager Neil van der Walt, "We are more comfortable with the market as we are not the ideals of futures and options to please fund clients at some stage, but clients probably do not fully understand these markets yet. A lot of education is need-
ed before we start even considering using pension fund money. So that must be some way down the line."

Old Mutual, perceived to be the most ac- tive of the institutions, does not intend to become more active in the futures market per se. Says Mounts: "We want to maximise our reports given certain levels of risk. The futures market presents a number of oppor- tunities and if making more use of this mar- ket will help us achieve our primary objec- tives, we will do so."

By early August the floor should be open for trading. Space in the JSE Annexe has been leased jointly by SFX and the Rand Merchant Bank for the near-term and futures infrastructure is being installed.

Queries answered:
Funds that all future members would have to pay for the floor are dispelled by Rees: "There will be no non-subscription be- tween floor and screen. About 46 traders including 21 from the JSE have taken space on the floor. The 71 SFX members hold 120 seats between them."

Another grip is the extent of protection (entitlement to the Financial Markets Control Act) to shield the private investor which some say has lifted costs unnecessarily. Though there might be sound arguments for the markets to be regulated, observers reckon private investors will make up less of the market to justify it.

These prepared to deal with private clients are more optimistic. But the larger stockbrok- ers think more client education is needed so they too will be able to target the wholesale market more actively than private clients who now says Max Pollack, the Rand Shapiro: "We are demoralised so we want to see the market is not much natural retail business, most is self- generated.

Funds by brokers on the JSE floor (which started a few months ago) have been Action at the annexe: waiting for the big boys.

SA FUTURES EXCHANGE
Investors are wary of new share-swap offer

Wim Schulte, once closely linked to Swiftsure boss-on-the-run Javor Gourkov, has joined the controversial venture capital company, Equity Participation Investments (EPI), to help brokers urge shareholders to enter a share-swap deal.

The Swiftsure connection is the newest information to emerge in the complex "EPI development of old gold and diamond mines to generate huge profits" saga. This was highlighted by Star Line recently.

In 1993, Swiftsure promised investors that R11 million would turn South Africa into "the world's yacht-building Mecca." But within months it sunk.

Police opened a dossier on Mr. Gourkov, the Bulgarian boiler-maker turned "venture capital multimillionaire," fled.

Last month liquidators told Swiftsure investors that their millions were untraceable. Now EPI group investors — who hold a R14 million stake — fear they are heading for the rocks in a scheme promoted by promoters Steven Wolff and ex-lawyer Roy Sellers as "venture capital's Rolls Royce."

Wolff is in California, and recently Mr. Sellers sold his majority EPI shareholding to Norman Tilley of Livingstone Mining and Exploration, claiming his move to East London was prompted by threats from boxer-wrestler-debt collector Jimmy Abbott, who had demanded he repay an investor R250,000.

Capital Growth Investment (CGI), EPI's broking arm, is run by Colin Hartley who, with Mr. Schulte, sold Swiftsure shares too.

To date all promises that EPI, Multi Gold Holdings, Mazuma Gold Holdings, Sunset Diamonds and Montrose Mines would be listed are unkept, and many investors are suspicious of the Livingstone share-swap offer as they are, once again, promised a stock exchange listing.

Mr. Hartley said Mr. Schulte, who appeared at a Swiftsure inquiry last month, had advised CGI brokers on the mechanics and legalities of offering options.

"Wim stayed to face the music. We're hopeful we'll pull the Livingstone deal off. If we don't, within 21 days everything will collapse."

Mr. Schulte told Star Line: "The biggest mistake of my life was to get involved with Javan Gourkov. But my experience with Swiftsure taught me how to safeguard investors' interests. I'm doing my best to make sure they don't lose."
Eskom sell-off is not on the cards.

The Government did not consider Eskom a suitable candidate for privatisation in the near future, the Minister of Privatisation and Public Enterprises, Dr Dawie de Villiers, said in Parliament yesterday.

Because of its importance to industry and mining, a hasty decision on privatisation could have negative effects on the economy, he said.

It had already been announced that Eskom’s tax liability was being investigated.

While the Government accepted in principle that an enterprise such as Eskom should pay tax, further investigations were under way on specific financial aspects.

Eskom was an example of how the Government would ascertain the impact of privatisation in the national interest before making a final decision. — Sapa.
**Premier blooms after Tony goes**

By Julie Walker

PREMIER Group began to bear good fruit under new management after the Flower of the Nation Tony Bloom departed two years ago.

In the year to March this year, Premier placed its stakeholding in SA Breweries in Beers and raised R201 million in a rights issue. Since then, its results are not strictly comparable with the previous year.

Trading margins were increased from 6.5% to 7.7% and turnover and profits were up 29% to R444 630 000 in the latest year, attributable earnings were up 32% to R122 380 000.

Earnings per share increased from 18.6c to 21.9c, a 25% increase from the previous year.

Interest-bearing debt was reduced by 10% to R74 700 000, giving a debt-equity ratio of 23% compared with the previous year's 25%.

Management expects continued growth in 1990, barring unforeseen disaster.

Premier company CMA Gallo was first to go public with good results, its turnover rising by 28% to 142c a share and a 24% rise in turnover. The dividend was raised by 22% to 50c.

**Absolute**

There were mixed fortunes from Premier's other listed interests. Twins, Gershon and Stoffel are being restructured.

Of the 31 companies reporting preliminary results this week, only Punch Line and Pietermaritzburg suffered absolute losses. Poorer performances than in the previous year were recorded by nine.

**By Amorel**

High street retailers mirrored economic conditions. Edgars featured with turnover up 10.6% and earnings growth of 26% to 28c a share for the year to March, although management reports a steady slowdown in consumer spending.

Edgars says that real growth in clothing, footwear, houseware textiles and accessories (CPTA) was only 2% nationally, but Edgars achieved 9% as it expects a contraction in real terms of the national CPTA market this year, but still expects to achieve real growth in earnings and increased market share because of its strong account base.

Self-imposed growth restraints by Amorel, which operates 17 high-price furniture and clothing chains, limited sales to a 12% rise to R173 000 million in the year to March. In spite of the difficult conditions, earnings of 24c a share were up 12% last year's record performance. Amorel expects 1990 to be a tough year, with little chance of improved earnings.

**Uncertain**

Toys brought no joy to Reggies shareholders. Everything from warehouses to management contributed to a dive in earnings from R3.1c to R0.6c. Its shares hit a low of 10c on Thursday.

Lower margins and higher interest costs knocked OK Bzaars' bottom line in the year to March. A light year is expected by management, which will concentrate on efforts to improve stock turns and combating the share price's "Phenomenon of Wastage." Wanda's interim to March showed a big drop in income to R3 500 000 from 23c a share, from 23c previously.

Lower dollar prices and a stronger rand reduced export receipts.

Market conditions remain uncertain in spite of an increase in the price of vanadium, which periods demand for chrome ore is not expected to grow much.
Beware get-rich-quick schemes

FANTASTIC rates of interest lured hundreds of investors to put their life savings into a Johannesburg company, Equipment and Business Consultants (EBC) – and their money disappeared along with EBC director Patrick Rudman.

Rudman’s target investors were black people with a few thousand rands to invest. EBC advertised in Johannesburg daily newspapers, offering investors a dividend of at least 50 percent a year, paid monthly.

For factory worker Gabriel Mofokeng an investment of R18 000 meant a monthly dividend of R750.

But Mofokeng received only six monthly cheques, then the money stopped coming. When he visited EBC’s offices in Jeppe Street, they were empty.

Rudman had disappeared from his offices without a word to landlords Standard Bank Properties. He also disappeared from the Marston Hotel room he had rented for several years.

Attempts by the police and irate investors to trace Rudman have failed.

His victims believe he is now in Australia.

All of them have little chance of getting their money back.

Be warned – don’t fall for investment schemes that sound too good to be true. You may end up losing everything.

READERS’ HOTLINE

Helping you with your problems

PO Box 548 Kengray 2100

Watch for bogus agents

HOUSING fraud seems to be on the increase in the Johannesburg area again.

In the past few weeks, more than a dozen readers have complained to City Press that bogus estate agents have disappeared with deposits they have paid for houses in Soweto and other townships.

Taxi driver Elias Mbethe paid his life savings to bogus agent Emmanuel Lidimo. Lidimo told Mbethe he had a house for sale – and that he needed R20 000 in cash to give to the sellers.

Mbethe paid the R20 000 and then found out the house had been sold to someone else. The new owners had already taken occupation.

Johanna Mchunu also paid money to Lidimo’s bogus estate agency, Lidimo Estates. Lidimo promised her a new house in Soweto and asked for a deposit in advance. She paid R5 700… then Lidimo disappeared from the offices he rented in Johannesburg.

City Press has established that Lidimo is being held in custody on unrelated charges of cheque fraud.
Waltons lifts
share earnings

JOHANNESBURG. — Waltons has reported that a reduction in gearing helped it achieve a 15.6% gain in earnings per share for the year to February.

Earnings were 63.6c a share and the annual dividend is up by 16.7% to 21c a share.

Borrowings which reached 134% of equity at the February 1989 year-end but the directors expressed determination at that stage to reduce debt and, by the half year stage, had cut it to 119% of equity.

The February 1990 year-end sees it down to 79% in spite of a R7.2m write-down of assets, R5m of which came off one subsidiary — Lithosaver.

Indifferent performances by two of the subsidiaries — Redgwoods and Ozalid — and associate company Lithosaver, affected an otherwise good performance in which Waltons itself again improved profitability.

Group turnover rose by 18.3% to R648.1m on which a 27.4% higher operating profit of R109m was achieved.

The reduction in borrowings — mostly in long term debt — was largely effected in the second half, having little benefit on interest for the year which rose by 56% but was still comfortably covered 3.9 times.

The acquisition of CTP’s stationery trading arm in the year through a 3m share issue by Waltons, boosted the weighted average number of shares in issue and reduced the growth in earnings per share to 15.6%.

Looking to the year ahead, the directors are confident that the action taken to restore profitability at Redgwoods and Ozalid will be effective.

The write-down of R5m on the Lithosaver investment to approximately net asset value flows from the unsatisfactory return and the perception that it may take time for Waltons’ 30% stake to perform.

The improvement in debt-equity is expected to continue in the current year with management concentrating on controlling assets.

Waltons’ pyramid, Waltons Consolidated Investment Holdings (Walhold) which holds 50.1% of Waltons, has performed in line with its investment by increasing earnings by 15.5% to 61c a share and raising its dividend by 16.7% to 21c. — Sapa
JSE re-rated down after mini-boom

BLOOMBERG/LIZ ROE

THE SA stock market has been re-rated downwards in a correction after the short-lived boom in early February - the PE ratio of the overall market has declined to 10.5 from the nearly 12 that prevailed at that time.

Average earnings yield on the JSE is now 9.5% against 8.5% in early February and dividend yield is 3.8% compared with 3.2%.

On a p/e basis, the JSE is now on a par with the London Stock Exchange where average p/e is 10.4, but London's average dividend yield is higher at 4.3% Average p/e of the New York Stock Exchange is currently 14.7 with average dividend yield at 3.13%.

De Beers, which has recently set the tone for the market, is trading on a p/e of about 9 (7.2 in early February), earnings yield of 10.7% and dividend yield of 2.8%, compared with a dividend yield of 3.5% in early February.

However, industrial holding Richmont is the highest rated share on the JSE board, with a p/e of 16.8, an earnings yield of 3.7% and the smallest dividend yield of 0.6%.

With Libhhold and Libvest, the insurance leader has kept the insurance sector's p/e static at 15.3, its average earnings yield at 7.5% and dividend yield at 3.5%. Industrial leader Barlow's p/e has narrowed to 7 from 10 with earnings yield at 13.2% (16%) and dividend yield at 4.1% (3.1%), reflecting the correction after the early February high. It was pushed up partly by foreign investors.

Expensive

With the decline in other industrial holdings, including second-liners such as Malbok, now on an attractive p/e of 5.1, earnings yield of 19.6% and dividend yield of 4.5% the industrial holding sector p/e is down slightly to 6.8 from 9 and average dividend yield has improved slightly to 4.4% (4.1%).

SA Brews is still relatively expensive with a p/e of 17.3 and dividend yield of 2.5%. However, Sasol is looking more attractive with a p/e of 10.4 (13.2) and dividend yield of 4.4% (3.5%).

The clothing, footwear and textile sector's p/e of 4.1, average earnings yield of 24.8% and dividend yield of 7.5% will present attractive buying opportunities when the personal consumer sector improves.

Also badly hit has been the furniture and household sector where the average p/e is 4.3, earnings yield 23% and dividend return 8%. Furniture retail leaders Amref's and Ellefhe's p/e are below 4, which will give potential investors a chance for good capital gains when the sector recovers.
Three groups hold controlling interests

OWNERSHIP of the Health And Racquet Club Holdings rests with three groups: Masterbond Trust (25%), JSE-listed Faircape Holdings (37.4%) and the Health and Racquet Club directors (37.6%).

The major shareholders in Faircape Holdings are Sanlam and Retco.

Health and Racquet Club Holdings (HRC) operations director Rod Mitchell says the property expertise of these companies is a major benefit in investing in the HRC's property participation scheme.

"The HRC Group is part of a well-connected stable of companies which are dominant players in the property market," he says.

Towards the end of last year, Masterbond acquired a 25% stake in HRC Holdings. It provides management input as well as ongoing operational assistance and marketing services for the entire group.

Masterbond Trust sees its shareholding in the HRC Group as a strategic shareholding.

Masterbond Trust Management MD Laurence Perrin says the leisure industry will not be affected by a downturn in the economy.

"In fact, we expect there will be tremendous growth as there is a lot of catching up to do," he says.

"We are the leaders in the management of health and leisure centres, but not in property ownership. The sale of the properties will free both the funds and the management time needed for our national expansion strategy," he says.

Masterbond acts as trustee for investors in HRC's property participation scheme.

The three HRC shareholding directors are Mitchell, Peter Gardener and Mike Christie.
Business Day

SURVEY

The target market in the '90s for the health and fitness industry has been identified in the US as the over-40s and family groups. SA seems to be following this trend closely. MANDY

JEAN WOODS reports on the growth of the Health and Racquet Clubs, which have also singled out the corporate market as a future growth area.

Selling of shares keeps things running

THE Health and Racquet Club Group is financing the construction of its new clubs by selling shares in its existing clubs.

The scheme, known as the property participation scheme, in which shares and debentures are offered to the public, is expected to raise R11,9m by the end of May this year, says trustee Masterbond Trust Management MD Laurence Perrin.

The properties being "sold off" are the HRCs in Cape Town, Tygervalley and Sandton. The market value of all three properties tops R18m.

Masterbond Group MD Johan Brits says the offer is being made by way of 11,000 units, each consisting of a R1 share linked to a R1,000 debenture investment in the plan is for a minimum of five years (R10,010). The offer closes on May 31.

So far, about R9m has been raised and the offer will "definitely be sold out", says Perrin.

Return

Brits says the company is projecting a return of 18% by the end of this period, while the average rate of return per unit over the five years is forecast at 38.81% a year.

The HRC property participation is the 15th project of its kind handled by Masterbond Trust since the group pioneered the concept in 1986.

Property participated in includes the Club Mykonos leisure resort.

Property participation is an excellent investment for those seeking the "high but secure returns associated with the major properties usually only within reach of the institutional investors", says Brits.

The scheme works as follows:

The Health and Racquet Club Property Participation company (HRCPP) owns the three buildings housing the clubs involved in the scheme.

HRCPP, which was set up and is administered by Masterbond Trust, leases the buildings to tenants, in this case a single tenant comprising the Health and Racquet Club group (HRC).

HRC is then responsible for the upkeep of the buildings and the management of the clubs.
Unit trust potential untapped

THE vast potential of the unit trust industry remains untapped, and an intense education campaign is necessary to broaden and deepen its penetration of the investment market, say industry sources.

They say it is a "man-in-the-street" investment vehicle, and there should be greater public involvement.

At the end of the March quarter, total investments by the industry in terms of market capitalisation totalled R7,6bn, which represented a numerator 1.7% of the JSE's total capitalisation at end-March of R468bn.

There were about 500,000 unit-holders by the end of March, but AA Life assistant GM investments Stephen Japp says assuming 10% of investors invest in unit trusts, there should be 3.5-million unit-holders.

"There is an underpenetration and the industry is aware there is an education problem. Even people in the A income group don't know about unit trusts," Japp says.

Intensive marketing and advertising campaigns have been launched by a number of unit trusts.

Sage funds MD Bernard Nackett agrees on the pressing need to educate people about unit trusts, but also points to the growing sophistication of unit trust investors.

There has not been a rush to repurchase units as the markets turn downwards, he says.
Industrial unit trusts

OLD Mutual is to launch a new unit-trust, based on industrials next week.

The institution says the fund will be fully 'primed to take advantage of the expected upturn in the market late next year and into 1992'.

The fund, which will be launched on May 21, will initially concentrate on about 30 counters which it believes have medium to long-term growth potential.

Mutual said that the industrial sector was one of the few that consistently outpaced inflation and thus one of the reasons for launching the new fund.

The manager of the new fund, Mr Adrian Allerdyce, is optimistic about the long-term outlook for industrials.

"The market is not overpriced from a long-term perspective and we view weakness in the market as an ideal buying opportunity."

He said in Johannesburg on Tuesday that while corporate earnings were expected to decline during the coming year, interest rates should show a declining trend towards the end of the year with a gradual decreasing during 1991.

One of the principles of the fund will be to keep liquidity at the lowest level possible and to be invested on the JSE to maximum extent at all times.

Charge

The opening price is expected to be at 200 cents.

The initial charge will be a maximum of five percent plus compulsory charges of 2.5 percent. The minimum monthly investment is R100 and R1000 for a lump sum.

Sapa.
Amaprop increases earnings

CHARLOTTE MATHEWS

ANGLUS AMERICAN Properties (Amaprop) increased earnings by 25% to 87,41c (34,44c) a share for the year to end-March as a result of growth in net rental income, profits from land trading and higher operating profits from the Carlton Hotel.

A dividend of 42c (36c) a share has been announced together with loan stock interest of 84c a unit. The company is changing its previous policy of paying only a final dividend and will now pay an interim dividend as well.

The group made attributable profits of R30,3m before an extraordinary item of R10,4m.

Chairman Gerald Lessner said the larger proportion of the extraordinary item was derived from profits on the sale of properties and the rest from the sale of debentures in the Carlton Centre.

Sales

The bottom-line benefited from a slightly lower tax rate of 18% compared to 24% payable in 1989 because of concessions allowed for the upgrading of buildings held in the portfolio.

Lessner said rent levels for both shops and offices were stabilising after two years of strong growth.

"Amaprop's portfolio is 96.4% let and all leases have escalation clauses," he added.

In the last year Amaprop sold six properties to the Aimpro-administered Apex Property Trust for R65m and sold Gardens Shopping Centre. The cash from these sales was used to repay short-term debt and finance current developments.

The group also purchased First National Bank Pension Fund's 10% interest in the Carlton Centre which raised Amapros' holding to 61% from 51%.

Current developments are an additional office block at Bruma Lake Office Park, the extension to the Carlton Centre Shopping complex and renovation of 320 West Street in Durban and Cape Town's Southern Life Centre.
R7m spent on JSE market

ROBERT GENTLE

ABOUT R7m had been spent to date in developing the JSE's Traded Options Market (TOM), which is about a year behind schedule.

JSE president Tony Norton disclosed this after his annual presidential address to members of the SA financial community.

He said the R7m would not be written off immediately but was a long-term investment that would be recovered over time.

This theme was picked up in the JSE annual report — released after the address — in which Norton said TOM would have a lifespan of at least 20 years before any extensive redesign should be necessary.

The project had taken longer than expected but the JSE refused to compromise on quality.

Beforehand, Norton told his audience agencies for wealth creation and efficient transfer were going to be more, not less, important in the future SA: "The JSE will act as a facilitator and not a negator of legitimate worker involvement in the performance of listed companies, provided the basic principle of shareholder sovereignty is upheld."

This could, Norton said, involve the issue of free or subsidised shares.
Our contest shares are moving

OVER the past week, three of the five shares chosen for our competition have reported results - SAB, Tiger Oats and OK. The first two were fine but OK's were not OK.

All companies publish reports of trading to tell shareholders how their company is doing. After six months, the interim report is published, followed by a prelude which gives the full year's figures, and then the annual report which, depending on the company, can be a full-colour glossy publication which is mailed to every shareholder.

This report gives details of the company's activities, its directors, its results and prospects. It is a valuable tool for the prospective investor, even if you don't fully understand the significance of all the figures published.

SAB published its interim results for the year to March 31, and at the same time announced plans to expand the breweries to the tune of R2bn, of which R1.26bn will be spent in the coming year.

Along with this positive news, SAB announced a 25 percent increase in sales to R13.25bn, and an even higher - 34 percent - rise in trading profit to R1.3bn.

Also, part of the SAB group, OK Bazaars reported annual results for the year to March 31. These were disappointing, with sales up only 13.2 percent to R4.2bn, to generate operating income only marginally higher at R68.4m.

However, earnings per share were down from 195c to 163c, and bad news for shareholders - the dividend was cut from 103c to 86c.

Tiger Oats produced satisfactory results for the six months period to March 31.

There was a 17 percent rise in sales to R3.2bn, but tight trading conditions in the food and lower results from fishing group, resulted in a lower - 8 percent - rise in operating profit to R236.3m.

However, earnings per share were 13 percent at 86.9c for a higher payout of 22c (19.4c).

Looking at Finance Week (May 17-23), highlights how the five shares have moved in the past week.

SAB, listed in Beverages and Hotels, has risen to 3600c, Tiger in foods strengthened 100c to 2750c.

After bottoming a month ago at 3175c, paper producer Sappi moved, ahead impressive ly from 3545c to 3765c.

OK eased from 1875 to 1825c, while Pick 'n Pay rose from 1475c to 1530c.

Our prize of 100 General shares is how worth R750 compared to R690 two weeks ago.

The above will help you decide which of our

five companies performed best, and which worst.

The form will be published on June 1.

By Gillian Counihan

SOWETAN BUSINESS
JSE ‘fat cats’ outweigh the little guys

The small man has fled the Johannesburg Stock Exchange ... Or has he?
REG RUMNEY reports

FEW individuals in South Africa own shares listed on the Johannesburg Stock Exchange. Their number has decreased, admits JSE president Tony Norton.

But it hasn’t dwindled to the insignificant percentage that some have been led to believe by incorrect analysis of figures produced by JSE-watcher Rob McGregor.

“Evasion of the market by the small man has been an international phenomenon,” Norton notes. The significance of this in the light of the threatening noises about nationalisation coming from the African National Congress camp is obvious.

If the market exchange is seen as a club of ‘fat cats’, it is unlikely to have friends in a new South Africa.

Calculating exactly how many individuals’ own shares in listed companies isn’t a simple matter. “The problem is that we don’t know what lies behind nominal names. For instance, Standard Bank nominees might be buying shares for 1,000 individuals,”

However, in so far as the JSE is dominated by the big institutions like Sanlam. Once a year the JSE does an analysis of one week’s trading. For a week in July 1989 the percentage in value of trades done by institutions (mutual funds, pension funds, insurance companies, and mining finance houses) was 54 per cent, by JSE members 31 per cent and by private individuals around 15 per cent. In the comparable period in 1987 the figure for individuals was 22 per cent, the figure for institutions 48 per cent.

Norton stresses holding shares directly has not been historically encouraged in South Africa.

“The whole structure of the economy, the lack of savings incentives and the tax system, have favoured contractual investments.”

Individuals have tended to take out policies with the big insurers like Sanlam and Old Mutual. These policies promise a high eventual return, whereas money put in the bank has been eaten away by inflation and tax.

The result has been a low rate of saving by individuals, and even dissaving — spending or buying on credit. Individual have in general not had the money to invest directly in the stock exchange.

The dominance of company investors in the JSE isn’t good for the stock market, Norton believes.

“We want the small investor, because he creates another constituency. Some have blamed instability on the JSE to the effect of the dominance of one constituency”.

The institutions all produce the same kind of research, have the same technology and are all interested in the same kind of shares.

But favouring winds for small investors have sprung up. Norton welcomes the recent budget as introducing changes to a set-up that for decades has militated against investment in the stock exchange.

Norton promises the strongest legal defence against insider trading with the passing of new laws recently. Further legislation is awaited to give effect to the law, and Norton promises a “public hanging”. Insider trading has been defined as a fraud and statutory powers to investigate have been given to a panel which consists of people drawn from the business and professional community.

The budget dropped marketable securities tax — the tax paid by investors when buying shares — to 1.5 per cent and the government is committed to phasing the tax out altogether over three years, the tax on dividends, effectively a double tax since the company paying the dividend has already paid tax, was dropped, and what is a capital profit and what isn’t has been better defined.

A good start. The market, however, is waiting to see what happens next before it moves up. Norton stress that individuals haven’t turned to the market with a spring in their step, a far cry from the situation in 1988.

The share market is a barometer of the health of the economy and the government is taking steps to keep the stock exchange healthy. The stock exchange is one way the government is encouraging investment.

The JSE president says: "If you don’t have a good market, the cost of capital will be higher, investments will fall, and the rate of growth will be lower. The government wants to encourage investment.

What is to be done about such economic concentration? A study of legislation in other world markets suggests:

- A company owns between 30 per cent to 50 per cent inclusive of the voting rights of another company, it would be forced to make an offer for the balance of the company at a price not less than one and a half times the highest price paid for its 12 months and must include a cash alternative.

This would prevent groups controlling companies from an absolute position limiting their investment but still maintaining control.

Secondly, McGregor reckons major groups would voluntarily sell off subsidiaries to management or other owner-managers as companies could get on with activities which are particular areas of expertise. The impetus to do this would be a rationalisation of the diseconomies of scale inherent in having down-the-line subsidiaries with remote, centralised control.
Hopes not pinned on deregulation

GOVERNMENT’s investigation into possible deregulation of the coal export programme was not likely to have a significant impact on export volumes.

This was the view of RAU Institute of Energy Studies director David Kotze.

Government has held administrative control over the volumes and quality of coal being exported since 1973 through export allocations and permits.

National Energy Council (NEC) spokesmen said yesterday the investigation would take place in conjunction with the Coal Advisory Board, but the first meeting between the two bodies could take months due to other commitments.

Surge

Coal Advisory Board chairman and Amcoal MD David Rankin said it was possible the subject would be discussed by the board, but other forums might also be approached for their input.

Kotze said possible deregulation of the coal industry was unlikely to result in a surge in exports, though the move would be welcomed by the industry.

While the previous round of export allocations had been oversubscribed, the Richards Bay Coal Terminal was running at full capacity, but by 1992 volumes through the terminal would be increased by 9-million tons annually.

Exports volumes would also increase significantly only by the mid-90s when large coal projects to increase volumes at Gencor, Amcoal, JCI and Sasol were completed, he said.

Further constraints to new entrants and present producers were the capital cost of a new coal mine, projected weak oil prices and greenfields expansions in other parts of the world, he said.

Analysts said small producers using space at the Richards Bay Coal Terminal, which is owned by the large coal producers, would inevitably cut larger producers’ throughput at the terminal.

The NEC said government’s involvement with the export of coal arose out of the oil and energy crisis of the early 70s.

Government controls coal exports through allocations and permits which are issued according to aspects such as mine safety standards, mining environmental aspects, export volumes and infrastructure.

In 1982 government increased the coal export ceiling to 80-million tons a year SA exported about 48-million tons last year, so there was plenty of export volume available, an NEC spokesman said.
Revamped Punch Line still faces uphill task

Investors seem to be responding positively to the restructuring of Bill Venter's computer empire, although analysts say there are other factors which could affect its recovery.

Punch Line, which was built up over eight years by Barry Schechter, became the second computer company to be listed on the JSE in 1986.

At that stage Mr Schechter sold a 20 percent stake to Fin-tech.

Two years later, Fin-tech's computer interests were injected into Punch Line to create the second-largest computer group in SA, with projected sales of R400 million.

Then, in 1989 Punch Line was hit by staff resignations, its share price falling sharply and the group reporting a R1.5 million loss in the year to February 1989.

A major restructuring of operations was announced, with Fin-tech selling its other operations to Punch Line.

Punch Line's retail and systems division was sold and its distribution division rationalised.

Fin-tech management took direct control of Punch Line and huge write-offs were made.

For the year to end-February Punch Line reported a R53.4 million loss and this weighed heavily on Fin-tech, which showed a R46 million loss.

This, in turn, impacted badly on Fin-tech's controller, Altron, which reported a 22 percent drop in earnings.

The group recently announced that Fin-tech would be merged with Punch Line to form Fin-tech Informatics through the inclusion of Fin-tech's 45 percent holding in National Data Systems (formerly NCR).

Fin-tech might become a cash shell. Directors said recently that the fate of that shell had not yet been decided.

But over the last few weeks Punch Line's share price has shown a remarkable recovery, appreciating 148 percent to 70c since the beginning of the month.

This helped boost Fin-tech, which went up 60.87 percent to 53c, while Altron has appreciated by 16.6 percent to R35 over the same period.

Dave Borkum analyst Pierre Greyvenstein says the market believes Punch Line shares had been oversold and that the company has now turned the corner.

He forecasts a good recovery in earnings in the current financial year, with earnings of 100c per share not impossible to attain.

Mike Haworth of Frankel, Kruger & Vinderine says Punch Line now has a new and stronger management team.

The restructuring means that all Fin-tech's assets have been moved into Punch Line where use can be made of its huge assessed loss. He says the group is now very diversified and has a much more solid base.

Although analysts agree that the restructuring may be complete and that its operations are now sounder, they point to some other factors which could impact negatively on performance.

Mr Haworth warns that the hefty debt level, particularly with high interest rates, could have a negative impact.

Another factor is the finance costs to be serviced in the form of preference shares this, analysts say, could weigh heavily on Punch Line's performance.

One analyst says the company is already in arrears with its preference share dividends, a factor which will operate harshly against ordinary shareholders.

Another uncertainty is the extent to which Punch Line will be able to cope with the major changes taking place in the computer industry.
Anglo American's decision two years ago to offer shares at no cost to every employee with more than two years service has helped create worthwhile nest eggs for more than 140,000 of its employees.

The 62 percent of Anglo group's workers who accepted the five shares offered in 1988, and the 142,000 or 73 percent who took up their five shares last year are now holding shares worth more than R1300.

And with the 1990 allocation of five shares now taking place, these employees will be holding up to 15 shares worth around R2000 at the year end — should Anglo American shares not appreciate further.

Mr Gavin Relly, immediate past chairman, says one of the aims of the scheme was to enable employees to acquire a tangible stake in the business.

According to research it has also helped promote a greater sense of belonging and hence participation and identification with the company's operations.

The shares are held in trust for four years, after which possession passes to the owner. This will happen for the first time in 1992, says Mr Clive Fletcher, managing of the Employee Shareholder Scheme Trust.

Employees will then be able to sell their shares — or attend the annual meeting. One suspects that, Anglo American will not lose this opportunity of using it annual meeting to further demonstrate what having a "tangible stake" in the business means.
Mail-order deal

By Dirk Tiemann

MAIL-ORDER group Mas Holdings (Mashold) will take over loss-incurring Springtex for R6.5-million.

Springtex, a soft goods mail-order house, reported an interim loss of R3.5-million in June last year and traded in the shares was suspended at 15c in December. The Springtex group will be relisted as a Mashold subsidiary.

Mashold will control 92% of Springtex after the reorganisation, and will issue 2.2-million new shares at R2.50 a share. They will be placed with certain institutions in part payment of the cash purchase. Mashold is trading at 286c on the JSE.

Existing Springtex share and debenture holders own 8%. Debenture holders will receive two cash payments totalling 11c for each deb.

Debenture holders will be upset by this offer. They paid 65c in the June 1990 rights offer when 15.6-million debentures were issued.

Mashold chief executive Marco van Embden says earnings a share and net asset value for the year to February 1991 will not be affected by the takeover. He projects R3.5-million profits for the revitalised group in the current year.

Ian Riley of financial adviser Quaestor IV says Springtex has a large debtors' book.

Springtex operates mainly in soft goods where debt collection and repossession are difficult. The emphasis will now be on a cash business. Springtex will own Kansas City Mail Order, and Mashold will gain Tablekraft in the restructure.

The rand's world value

<table>
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<tr>
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</tr>
<tr>
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Trade weighted value of rand, % change against 1974 base: 39.10.

Domestic interest rates

MONEY MARKET

| SARB accommodation rediscount rate TBs | 18.00 | 18.00 | 18.00 |
| Treasury bill tender rate | 18.00 | 18.00 | 18.00 |
| Basic call of discount houses | 18.50 | 18.50 | 18.50 |
| Three-month banker acceptances | 18.40 | 18.40 | 18.40 |
| Three-month NCDs | 19.80 | 19.75 | 19.75 |
| Three-year RSA stock | 15.67 | 15.60 | 15.60 |
| Prime overdraft rate | 21.00 | 21.00 | 21.00 |
| All-in yield of fixed acceptance credits | 19.50 | 19.49 | 19.49 |

CAPITAL MARKET

SECONDARY MARKET RATES ON MOST TRADED STOCKS

| Long-term RSA stocks | 15.70 | 16.14 |
| Long-term Escom stocks | 15.14 | 16.83 |

Best sections this week

| Mining Exploration | 5.8% | 5.8% | 8.0% |
| Insurance | 4.3% | 4.7% | 12.2% |
| Electronics etc | 2.7% | 6.7% | 20.1% |
| Pharma & Medical | 2.7% | 5.3% | 14.0% |
| Investment Trusts | 2.5% | 3.8% | 9.1% |

Overall market this week
Zimbabwe gags Anglo economist

By Don Jacobs

ZIMBABWE business is dismayed by the silencing of a private-sector economist through covert pressure from the nation's Reserve Bank.

John Robertson, chief economist for Anglo American subsidiary RAL Merchant Bank, was forced to cancel a speech on long-overdue trade liberalisation after Reserve Bank Governor Kombo Moyana threatened to withdraw vital daily cooperation from RAL managing director Rey Feltoe.

Reserve Bank foreign-exchange investigators visited RAL's premises in an apparent intimidatory gesture.

Outspoken Mr Robertson, a nephew of crusading Rhodesian editor Malcolm Smith who defied Ian Smith's censorship in the 1960s, angered the authorities with his calls for overhaul of exchange-rate mechanisms.

Unsubtle

RAL placed advertisements in Zimbabwean newspapers dissociating itself from Mr Robertson's remarks.

The business community was disappointed that a subsidiary of Anglo American had capitulated in establishment attempts to stifle dissent even before the promulgation of a one-party state.

"This offers little hope in the future for the small man if Anglo refuses to fight such tactics," says one businessman.

Rather than silencing dissidents (through direct censorship), President Mugabe's Zanu (PF) will, it is feared, suppress them by unsuitable pressure through its bureaucracy, or its parastatal business empire.

Former Chief Justice Enoch Dumbutshena has called President Mugabe's planned planned one-party state a violation of the human right of free association.

The joy of life is that you can differ from your brother, sister or neighbour and still remain friends. I have never understood why it is desirable to have one political view," says the 70-year-old lawyer, who was refused permission to continue in office by President Mugabe.

Chief Justice Dumbutshena was at the centre of a constitutional crisis when he found that Zanu (PF) parliamentarians had tried to manipulate rules on contempt of the House to muzzle former Rhodesian Prime Minister Ian Smith.

Bully for brokers

By Julie Walker

THE value of shares traded on the JSE rose to almost R24-billion in the year to February 1990 — bringing lolly for stockbrokers.

This value is 5.5% of the JSE's market capitalisation. Last year it was only 3.7% of a much lower market capitalisation. The average in recent years has been close to 4.5%.

More than R24-million was paid out in dividends and interest from all listed securities, says the JSE annual report. About half was interest payments on Government stock and debentures.

Five years ago the total was R11-million, dividends accounting for the lion's share of returns to shareholders. In 1986 the amount of dividends paid by gold shares topped that from industrials, but the trend has changed. Industrial dividends outpaced gold by about a third.

Only four sector indices showed declines — investment trusts, electronics, fishing and steel. Electronics shed almost 17%. Star performer was beverages, hotels and leisure, up 70%. Food, tobacco and match also featured.

Nearly R1.3-billion was raised in new equity-related issues, rising to R3.0-billion including loan stock.

The highlights include the first privatisation listing, the first venture capital listings, and the lifting of the ban on advertising by stockbrokers.
INVESTEC Bank has put the record straight about its offer to minority shareholders of Zozo.

Investec bought control of Zozo in March last year, and extended an offer to minorities of 78.6c a share in June 1989.

Investec sold its stake in Zozo for 82.1c a share cash to the Thompson Ford and Claw trusts last August. They were represented by International Bank of Johannesburg, Robert McConnachie and Bill Archbold.

Part of the agreement included a clause whereby the trusts would extend the same offer to the Zozo minority within four months, but none have since passed. Minorities lost out on interest. Cheques are due to be posted tomorrow.

A second part of the agreement was that the trusts would provide a written undertaking from a bank that it would lodge suitable guarantees with the JSE for payment to minorities. Investec chief executive Stephen Koseff says the trusts are in breach of the agreement. Investec has approached the trustees, and discussed a compensatory increase in the level of the minority offer.

It looks as though minorities could get a better deal. JSE rules on a change of control are vague, requiring that a similar offer be made within a reasonable time. Four months is the usual yardstick, but how long is a piece of string?

Section 314 of the Companies Act says the offer to all shareholders must be the same. A nine-month interval in receiving cash is not the same. The JSE’s relationship with companies is contractual, whereas the Companies Act is law.

Issy Goldberg, of the Shareholders’ Association, which raised the issue, congratulates Investec for the speed with which it dealt with the discrepancy. He says the Securities & Regulations Panel — dubbed the takeover panel — will introduce clarity and discipline to the rules.
Scheme afoot to un staple De Beers units

Own Correspondent

JOHANNESBURG. — Syfrets said yesterday it was working with Finansbank and stockbroking firm George Huysamer on a financial scheme that would enable the un stapling of De Beers's local element from its off-shore Centenary element.

De Beers has been trading as a stapled unit since last month when the diamond giant announced it was hiving off its foreign interests into a Swiss-based off-shore arm, Centenary.

Syfrets director John Cragg, commenting from Cape Town on a weekend press report, said the scheme had been under study for about three weeks.

"We should know by the middle of this week whether or not it will fly," he said.

A representative from one of the other companies involved in the deal said that its success depended on approval from the JSE and De Beers shareholders.

"We do not need De Beers' approval as such, though we would like to do it with their blessing," he said.

The deal, according to available information, involves De Beers shareholders pooling their shares in a trust operated by Syfrets, which will then issue separate shares reflecting De Beers on- and off-shore interests.

De Beers press spokesman Neville Huxham said: "At the time of the Centenary announcement and on all subsequent occasions, Julian Ogilvie Thompson has made it quite clear De Beers has no intention of delinking its shares."
Audacious plan afoot to delink De Beers shares

By Magnus Heystek, SFC
Finance Editor

South African financial institutions will this week decide whether to accept the audacious plan put forward by Syfrets Asset Management, Finansbank and stockbroker George Huysamer to create an informal market for delinked De Beers shares.

On Saturday it was disclosed that the consortium last week made confidential presentations to most of SA's large insurance companies and pensions funds.

For the deal to work the consortium needs a commitment of at least 7.5 percent of the weighted average number of De Beers' shares in issue, namely about 28 million shares.

Spokesmen at two of SA's largest insurance companies have confirmed that the plan was presented to them, saying that they are busy evaluating the scheme which, if it got off the ground, is bound to have a major impact on the share price of De Beers.

As far as can be ascertained, the consortium is trying to convince the large shareholders of the desirability of following scheme (if the large shareholders commit themselves publicly, the smaller ones will follow suit):

- The De Beers shares are lodged in a trust company, Syfrets, one of SA's largest and most respected trust companies.
- In exchange for their De Beers holdings participants receive an equal number of shares in a new company (Newco), which has two types of shares: Newco A and Newco B.

Newco A represents the Centenary part of De Beers, which is set for a Swiss listing on June 11, while Newco B represents the local operations of De Beers after the split.

Five-for-one basis

In addition to this split between the overseas and local operations, the Newco A and B shares will also be split on a five-for-one basis. The rationale behind this is to make the shares cheaper and more tradeable.

The plan is for Newco to be listed on the Johannes burg Stock Exchange as well as on an international bourse at a later stage.

This move will effectively delink De Beers, which the company is unwilling to do at this stage.

When the company in March this year announced its decision to list its overseas operations, it said that it had no intention of destapling De Beers and De Beers Centenary AG.

But chairman Julian Ogilvie Thompson is quoted as saying that they are powerless to stop any outside party from doing so.

According to my information, De Beers has been informed of the latest development, but the company is not prepared to comment.

This bold move by the consortium, if it succeeds, will give investors the choice of investing in the part of De Beers they prefer. De Beers has already indicated that about 30 percent of its annual earnings emanates from its international interests, with the rest coming from South Africa.

In theory, the aggregate share prices of Newco A and B will be equivalent to the share price of De Beers.

Should the De Beers share price lag, it will prove to be an incentive for investors and speculators to buy De Beers and exchange them for Newco A and B shares.

George Huysamer last week was not prepared to comment any further on the details of the proposal, saying he was only acting on the instructions of his principals, Finansbank and Syfrets Asset Management.

But he did indicate that any move that effectively unbundled the international interests of De Beers from its local interests would prove to be highly beneficial to the share price.

Nobody at Finansbank and Syfrets was prepared to comment on the deal, saying it was highly confidential and sensitive.
Trek makes way for Engen on JSE

Own Correspondent

JOHANNESBURG — Gencor's energy arm, Engen Limited, replaces Trek Beleggings today on the JSE "chemicals and oils" board, boosting the counter's market capitalisation from R589m to a notional R3.2bn.

The Trek share price has risen 46.5% since the February announcement of Gencor's decision to list its energy interests by way of Engen. The price-to-earnings ratio has improved from 11 to its current 13.8 times.

Engen CEO Rob Angel says "The share price movement is a clear indication the market has accepted Engen as an exciting investment opportunity.

"The market is aware the Engen group historically has achieved consistent growth in earnings and profits. In addition, new activities and the expansion of existing product lines and markets indicate exciting possibilities for future growth."

According to the transmuted listing statement published today, deregulation and greater urbanisation within SA will ensure market growth for liquid fuels exceeds the average growth rate of the economy, which will have a positive impact on Engen's future prospects.

"In addition, Engen expects significant synergistic benefits to flow out of the rationalisation of technology, production facilities and financial resources, and the integration of refining and distribution activities." says Angel.

Engen comes to the market as SA's first wholly owned integrated energy group, with exploration in oil and gas via participation agreements with Soekor, production via the Genref refinery and a 30% investment in Mossgas and, three independent and competing marketing companies in Mobal, Trek Petroleum and Sonap.

A stockbroker argued Engen provided "super" profit potential.

"It has healthy expansion potential, its refining margins are good and appear set to rise, and material rationalisation benefits seem assured."

Of the 110-milion Engen shares which will be listed today, Gencor holds 84.4% and Genbel, Gencor's investment arm, 9.6%. The remaining 6% is held by minority shareholders.

Gencor finance director Tom de Beer is on record as saying Gencor, which raised R1.5bn last year, does not at this time need the cash a public offer for Engen would have generated.

"Our ultimate aim, however, is to reduce Gencor's investment in Engen over time and to widen the public's participation," he says.

Engen has made earnings estimates of R125c a share for the year to August 31 1990. Turnover is estimated on a pro forma basis at R55bn, and profits after tax at R200m.

At a general meeting of Trek Beleggings on Friday, shareholders unanimously approved resolutions to create Engen. As a result, the company's name will change from Trek Beleggings Beperk to Engen Limited from today.
Mashold takes over troubled Springtex in R6.5m deal

JOHANNESBURG — Mas Holdings (Mashold) the mail order group, is to take over the troubled Springtex via a scheme of arrangement with shareholders, debenture holders and creditors of Springtex.

In terms of the deal Mashold will effectively pay R6.5m cash and after a reorganisation will end up with 92% of Springtex. Mashold is to issue 2.2m new shares at R2.50 per share which are to be placed with certain institutions in part payment of the cash purchase consideration.

The remaining 8% of Springtex will be shared among existing shareholders and debenture holders in Springtex. In addition, current Springtex debenture holders will receive two cash payments totalling 11c for each debenture.

The Springtex Group which was suspended on the Johannesburg Stock Exchange last year, is to be re-listed as a Mashold subsidiary, once the scheme is approved.

Springtex will be totally re-organised and changed into a viable trading entity. Its credit sales divisions have all been changed into cash operations.

After tax profits for the revitalised group for the financial year from 1 January 1990 to 28 February 1991 are expected to be no less than R3m.

Marco van Embden, CE Mashold, says the deal will have a considerable effect on the Mashold's earnings in the present year. But it will have no real financial effect on net asset value or earnings per share for the year ended 28 February 1990.

Springtime Linen, one of the divisions of the Springtex group which specialised in credit sales has been turned around and changed into a direct selling and mail order cash business. The division is to be renamed Family Selections. This together with Charles Veikes and Kansas City will be the three trading divisions of Springtex.

Van Embden says Mashold will not go into selling on credit — Sapa
Barlow Rand lists
dividend of 51c

MULTINATIONAL Barlow Rand, SA’s
leading industrial counter, exceeded mar-
ket expectations by maintaining its interim
dividend at 51c after a 9% fall in earnings
per share to 216c (241c) for the six months
to end-March.
CE Warren Clewlow said trading condi-
tions in the second half of the financial year
“will remain difficult and the ferro-alloys
and stainless steel division will produce
substantially lower profits”.
As a result, earnings per share for the
full year would be below those achieved
last year, he said.
The Barlow’s share price has been
marked down sharply recently, but gained
60c yesterday in active trading to close at
R38.75, capitalising the multinational at
R7bn. The share price is on a historical seven
times price:earnings ratio, and off its 12-
month low of R33.
Other key figures for the six months
were turnover up 11.4% to R13.8bn, long-
term liabilities marginally up at R1.9bn,
and capital expenditure at R608m.
Barlow’s segmental analysis for interim
on interim shows: mining and mineral
beneficiation down 15% to R221m; industry
down 6% to R154m; packaging and textiles
down 5% to R116m, food and pharmaceuti-
cals up 2% to R211m; and international up
16% to R67m.
Property, finance and administration re-
corded a deficit of R22m (R20m). This gave
an overall 5% increase in profit after tax-
ation, including associate companies, of
R736m. Interest paid was sharply up, but in
line with expectations, said Clewlow.
De Beers approaches JSE over 'unlinking'

By Sven Lunsche

De Beers said this morning that it had approached the Johannesburg Stock Exchange to register its disapproval of a proposed scheme to un-link the shares of De Beers SA and its newly created overseas company, De Beers Centenary.

The scheme, to create an informal market for de-linked De Beers shares, was announced over the weekend by a consortium of Syfrets Managed Assets, merchant bank Finanzbank and stockbrokers Georgs Huyssen.

De Beers spokesman Neville Huxham said: "The scheme is clearly contrary to our stated intention that the shares of De Beers SA and De Beers Centenary would not be un-linked."

In terms of the De Beers announcement in March, De Beers SA would be listed on the JSE and the Centenary shares on Swiss stock markets, but that the shares would be traded as one unit.

The combined market capitalisation of De Beers, at the current share price of about R106, would amount to about R40 billion.

The consortium has already approached most large insurers and pension funds to receive backing for the scheme — it needs a commitment of at least 7.5 percent of De Beers shares, or 28 million shares, for the deal to work.

The committed shares would be lodged in a trust at Syfrets and split into equal portions of De Beers and Centenary units.

It is also proposed that the fund would be listed on the JSE and each share split on a five-for-one basis.

It is understood that De Beers was approached before it went ahead with the announcement.
Unlinking of units: De Beers appeals to JSE

By BARRY SERGEANT

JOHANNESBURG — De Beers has approached the JSE to register its disapproval of proposed schemes to "unlink" the De Beers-Centenary AG units, De Beers spokesman Neville Huxham said last night.

Huxham said: "De Beers approached the JSE because unlinking the units would be directly contrary to the company's stated intention."

Syfrets Managed Assets (SMA), merchant bank Finansbank and stockbroker George Huysamer are promoting the scheme to "unlink" the stapled De Beers-Centenary AG shares, which are due to be listed on the JSE on June 11.

SMA executive Ian Hamilton said last night he was studying the move and would let other institutions approached with the idea, "and the market in general", evaluate the De Beers action.

De Beers said in March it would be listing Centenary AG in Switzerland and a stapled De Beers/Centenary AG unit would be listed on the JSE.

It will be SA's biggest listing, with the market value of De Beers/Centenary AG worth R40bn based on yesterday's De Beers closing share price of R106,75.

Hamilton dismissed accusations that the SMA scheme was a gimmick. "Nobody stands to lose from the idea, least of all De Beers."

Finansbank's Willie Ross said yesterday the idea of the unlinking scheme was to make De Beers/Centenary AG stock more marketable. "We have proposed that the scheme would need commitments from SA institutions of about R3bn of De Beers equity. It is then proposed that there be a 10:1 split, five shares for every one Centenary AG share, and five shares for every De Beers SA share."

He said a trust or holding company (working name Newco) would list two companies on the JSE, one representing the split Centenary AG shares and the other the split De Beers SA shares.

These would then trade alongside De Beers/Centenary AG.

The stapled units would continue to be held by Newco.

Ross said it was possible an American depository receipt (ADR) would be formed overseas for De Beers SA, Centenary AG and De Beers/Centenary AG.

A leading De Beers analyst said yesterday the SMA/Finansbank/Huysamer scheme could in effect be "dangerous to some investors."

He said Centenary had no net cash and could not yet operate the international diamond business as a separate entity.

"It needs the full power of the De Beers SA balance sheet behind it for several years in order to enable it to build up cash offshore."
SATS has R9.55bn debt report

The newly commercialised South African Transport Services (SATS) incurred debt of R9.55bn during its 1988/89 financial year, more than half of which was in foreign loans, according to the auditor-general’s report.

The report, which was tabled in Parliament yesterday, showed that of the total loan debt, 54.22% was foreign, while the remainder was raised on the domestic market and through the issue of treasury loans.

The report indicated that SATS had protected itself against foreign exchange losses on repayment of the foreign loans by covering almost all the loans with forward exchange contracts. Only American dollar/British pound loans worth £32.6 million (about R137m) had been left uncovered, it stated.

SATS’s total operating income amounted to R147.39m after the appropriation of R1m for the reserve fund at the end of March 1989. This brought the cumulative deficit to R3.47bn.

Total expenditure against the capital budget for the 1988/89 financial year amounted to R905m. While expenditure in two operating divisions exceeded the amounts voted by R7.93m, savings from other divisions were used to meet the excesses with the result that total savings were reduced to R35.91m, or 3.82% of the total capital budget of R941m.

Debtors increased by R161m to R2.1bn during the course of the year, with provision of R13m for bad debts, while creditors increased by R207m to R1.84bn. The increase in creditors was attributed to growth in pension funds and outside contributions to capital projects.

The Reserve Bank had granted overdraft facilities for R50m for which SATS pledged R157.5m of their investments in 9½% 2005 RSA stocks.

According to the report, SATS’s books reflected an overdrawn balance of R160.26m.
Fedvolk to go lean after poor results

INDUSTRIAL holdings giant Federele Volkheiligings' earnings have plunged 35% in the year to March through poor performances from some subsidiaries, coupled with the economic downturn and high finance charges.

Earnings of 56,6c (85,6c) a share, on a 13% rise in the weighted average shares in issue, follow directors' revised forecast in March of about 60c a share.

However, newly appointed MD Peet van der Walt says Fedvolk has reassessed its portfolio and introduced remedial plans to return the Sankorp-held group to profit growth.

While he will not disclose full details, he says Fedvolk will have to reduce its sensitivity to economic cycles and narrow its focus.

Short-term and medium-term actions will result in certain rationalisations, disinvestments and other operating strategies.

Fedvolk has declared an unchanged dividend of 21c a share, covered 2,7 (4,1) times, as the group views the earnings drop as a temporary setback.

Attributable profits fell 26% to R29,3m (R129,6m) after substantial losses were made by tractor producer Fedimech and white goods manufacturer Tek.

The service division, which includes Price Forbes, Avis, Fedics and Interpark,

ZILLA EFFRAT

improved its earnings by 14% to R29,9m (R26,3m).

van der Walt says while Avis experienced sales growth, its margins came under pressure.

The food division, comprising Fedfoods, showed a slow 4% growth in earnings to R35,4m (R34m), but the pharmaceutical division, consisting of SA Druggists, saw its

Fedvolk

earnings fall 1% to R51,7m (R52m).

The domestic and consumer division made a R2m loss after profits of R12,6m in the previous year. Telzip showed almost static growth, while crockery manufacturer Continental China set back by production problems and industrial action, turned in poor results.

Tek was affected by high stock levels, large borrowings and restrictions on consumer spending in a weak durable market.

The motor components and agricultural equipment division, which includes Gabriell, Raylite and Chompolo, saw its earnings plummet 28% to R14,6m (R20,2m) solely because of losses made by Fedimech.

An extraordinary item of R50,7m comprised extraordinary losses incurred during the year and a provision for the cost of further portfolio rationalisation.

Turnover rose 13% to R8,3bn (R3,4bn), but the drop in consumer spending, particularly in the second half, is seen in the 9% fall in operating profits to R29,1m (R32,1m) on operating margins of 7,4% (9,2%).

Increased interest rates and overstocking in some divisions saw the interest bill soar 32% to R13,7m (R10,2m) and interest cover fall to 2,3 (4,6) times.

On a higher tax rate at 35% (37,8%), and after outside shareholders took a lower stake at R15,6m (R14,6m), attributable earnings were down 26%.

With the economic climate for the current year set to be exceptionally difficult, earnings in the first half will be lower than the previous year. Nevertheless, a growth in earnings for the full year is expected.
Former directors of Arontex called to give evidence

By Des Parker
DURBAN — Former directors of liquidated Durban-based Arontex Holdings and its subsidiaries — including chairman Trevor Aron — have been summoned to give evidence at an inquiry in Pietermaritzburg next week into reasons for the clothing group’s failure.

The holding company and its five subsidiaries were provisionally liquidated in the Supreme Court, Pietermaritzburg, in March, with the final order being made this month.

Liabilities of the main operating firm, Lara’s Manufacturing Company, have been put at about R18.6 million with realisable assets of about R4 million.

Attorney Payl Wiener of Werksmans, who is representing the liquidators of the four subsidiary companies, said the three-day inquiry was being held in an attempt to discover reasons for the companies’ liquidation, why liabilities were so high and to investigate the securities held by the various major creditors.

It also would attempt to reconcile the financial affairs of the various companies, as well as try to ascertain the movements of some of the stock.

In addition to Mr Aron, subpoenaed witnesses included former financial director Alan Gisham and company drivers who were being called to try to resolve the stock question.

Lloyd Spendifff of Ernst and Young Trust, joint liquidator of Lara’s, said a number of offers had been received for the business.

However, it was to be put up for auction with remaining moveable assets in Durban on June 11 to try to obtain better prices.
Disappointing week for contest shares

By GILLIAN COUNIHAN

While not usually as important as PE ratios and dividend yields, net asset value does play a role in evaluating the potential of a company.

In a takeover situation, net asset value is of great concern to both parties.

Thus a share trading at a large discount to net asset value is worth watching for its recovery potential, and improvement in return on assets achieved by either new methods or management.

The price of Genbel has slipped back to R720 from its high of R750 a few weeks ago, paper producer Sappi saw some profit-making and the price eased back from R865 to R850.

Despite its poor trading results reported earlier this month, OK, Bazaraa and Sappi share prices remained static, at 1825c.

This may look surprising in view of the small increase in sales, lower profits reported, and the reduction in total dividend paid from 10.5c to 8.6c.

Some markets watchers predict the share will fall back to around the 1300c level where it stood last November. But the net asset value (NAV) of OK stands at 2770c which indicates that the share is at a large discount to its NAV or net worth.

Net asset value is the underlying worth of the company. It is calculated simply by taking the total assets less total liabilities and dividing by the number of shares in issue.

Most shares are trading at a large premium to their net worth (see table) for investors to value a share on its profit or growth potential.

Fair played vital role

MATCHMAKER 90, the business-to-business fair, has helped to provide opportunities for interaction and made black economic empowerment a reality to contribute to fundamental change in South Africa.

The 117 participants at the fair were told by many prominent speakers from different business sectors to create more lasting relationships and to realise that they have to interact if they are to be successful in their ventures.

Most of the participants at this fifth Matchmaker fair came away impressed by the high standard and quality of products which were exhibited at the three-day show.

Urgent

One of the highlights of the fair was when the Self-Help Association of Paraplegics won a trophy for the best stand and contribution they made towards black advancement.

The hope for the creation of a democracy in South Africa had never been greater than now, US Ambassador William Swing told exhibitors when he officially opened the fair.

<table>
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<th>Share</th>
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<td>OK</td>
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<tr>
<td>Pick 'n Pay</td>
<td>1940</td>
<td>1950</td>
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</table>
Multi Gold under new attack

The crisis-ridden venture capital scheme Multi Gold Holdings, which took millions from investors and failed to meet promises of large profits and a stock exchange listing, has now been attacked by the former general manager of its Nigel gold reclamation plant.

Laurence Matthews has slated Multi Gold, which was controlled by Equity Participation Investments (EPI), for failing to channel enough investors’ cash into the gold recovery project to make it profitable. He is also furious that R150,000 owed in salaries to 62 Nigel plant workers since February has not been paid.

Mr Matthews, who resigned from the company last month, told Star Line “Multi Gold owes me R25,000 for outstanding pay and bonuses and the balance is payable to the other workers”.

He criticised EPI directors for not giving him a chance to put the scheme in the black during the 18 months he managed the recovery operation, adding “I tried to work the area without the necessary equipment but it was impossible to work to full capacity although the gold was there.”

Over the last three weeks Star Line has put the spotlight on the controversial venture capital scheme in which some investors hold stakes of R250,000.

Other investors who fear they are about to lose their money have expressed outrage at Mr Matthews’ disclosures and have demanded the directors give a full explanation.

However, the two men who launched the scheme, former lawyer Roy Sellers now living in East London, and Steven Wolff, have severed their links with EPI.

When Star Line contacted Mr Wolff in California recently he said he was not accountable for problems experienced by EPI or its subsidiaries.

Norman Tilley of Livingston Mining and Exploration stepped into Mr Sellers’ shoes two months ago to untangle the scheme’s affairs and attempt a rescue.

Colin Hartley, who runs Multi Gold’s marketing arm, Capital Growth Investments from Rodland House in Craighall Park, said the next few weeks would be critical to the survival of the operation as they would know if additional funding would be forthcoming.

“We have a cash flow problem and we can only survive for as long as creditors allow us. Our offer to existing Multi Gold investors to reinvest 50 percent of their original outlay and to take up options in Livingston Mining is on hold while we draw up documentation.”

He said Mr Tilley should explain why Nigel staff had not been paid.
Choosing the right time to invest is crucial

SMALLER investors have notoriously bad timing when it comes to making investment decisions. This view is shared by many institutional fund managers, who, due to their greater experience in investment markets and not trying to make a "fast buck" on every turn.

Even when it comes to unit trusts, people pour money into the market every time the market soars and withdraws when the market weakens. Ideally, they should be following the opposite strategy. Large and experienced speculators, who take longer term views, buy in periods of weakness and sell into strength.

According to Otto Jaekel, general manager of Sanlam Unit Trusts, now is the ideal time to invest lump sum in shares, particularly in unit trusts with a well-balanced and distributed portfolio."

"Caution on the Stock Exchange is the order of the day at present. Sound indicators are scarce. The economy is cooling."

"We nevertheless believe that there are good buying opportunities on the market. However, the big question in an investor's mind still is - when is the right time to invest?"

Oversold market

According to Mr Jaekel, investors traditionally invest in unit trusts at the wrong time. Statistics show that investors tend to invest lump sums when the Stock Exchange is oversold because they are carried away by the positive sentiment in the market place.

On the other hand, investors tend to adopt a wait-and-see attitude during ideal times for investing. They make a decision to buy only once the market is well into an upswing.

During the past two years, particularly after the recession of the Stock Market in October 1987, there have been good opportunities for making profits by investing in unit trusts. However, investors did not seize them.

The ideal time to invest was in February 1988 but it was difficult to convince investors at the time. Negative sentiment and fears that the market could recede again did not encourage confidence among investors.

"To an investor, timing is vital on the stock market. To make a profit, he must be able to act at the right time."

Sanlam Unit trusts now have a method by which investors are helped to reduce this risk if investing in shares and by which investor confidence is increased, says Mr Jaekel.

"TransTrustplan offers investors a trouble-free opportunity to distribute the risk of investing in shares and to invest under any stock exchange conditions. Also the chance to earn high interest on a bank account which functions like a savings account."

To enable investors to have the best of both investment worlds the TransTrustplan functions as follows: An investor invests a lump sum in a demand account at TrustBank. From this account his investment is phased into a unit trust of his choice in monthly instalments.

In the short term the investor's account will enjoy a high interest rate. In the long term the unit trust investment will earn tax-free dividends and an interest income.

The investor can spread the period within which he wants to phase in his money in a unit trust from 3 to 48 months.

For example, in the event of a buying opportunity such as a drop in share prices, the investor can give instructions to have the phase-in discontinued and have the balance of his money transferred to a unit trust in a lump sum.

Investors therefore no longer have to hover in the wings waiting for the right moment to invest. This new product of Sanlam, in my view, is quite sensible. Many small investors make the mistake of investing a large lump sum into the market. Now one can guard against market collapses by "dribbling" in small amounts over a period of time.
DE BEERS yesterday officially voiced its disapproval over the proposed scheme to delink the De Beers/Centenary shares.

At its general meeting held in Kimberley yesterday, chairman Julian Ogilvie Thompson said it is the firm opinion of the Board that it is in the best interests of all shareholders and of the diamond industry as a whole that De Beers and De Beers Centenary should co-operate and that there should be no potential conflict between them.

"The two companies should therefore have the same shareholders and the same board of directors. Accordingly, the company will not welcome, facilitate, support or recognise schemes that purport to separate the rights attaching to the securities compromising the De Beers/Centenary linked units."

The statement will most probably put a stop to the adventurous plans by the consortium consisting of Syfrets/Finansbank/George Huysamer which to effectively delinked De Beers from Centenary, its offshore operation.

While most local institutions were reportedly in favour of the scheme, almost all were reluctant to commit themselves without at least De Beers' tacit approval.

Yesterday a spokesman for the consortium was still fairly optimistic that the deal had a chance of success, with the initial deadline for commitment of De Beers shares to the trust extended to Wednesday.
Focus on splits

By DON ROBERTSON

The long-awaited split of Liberty Life shares dominated interest on the JSE at the beginning of the week, but the topsy-turvy gold price influenced sentiment later.

Liberty ended the previous week at R22,5 but after the 10-for-1 split, it opened at R30 on Monday enthusiastically for the more marketable share waned and it lost ground to close well below its equivalent value at R26.

Also split in the same ratio was W&A which closed on the previous Friday at R38 and opened in proportion to this on Monday. It was quickly bid up to R10.50, only to end the session at R10.20.

The gold price recovered more than 5% on Monday and Tuesday, but lost 10% the next day. Golds rose on Tuesday, but plunged on Wednesday.

Trading in golds was dull on Friday and institutions were merely tidying up ahead of tomorrow's holiday in London.

The Free State mines fared reasonably well after the quelling of unrest in Thabong township.

De Beers lost ground to RH9.75 from RH10.85 after the acceptance date for the scheme to unstack the Centenary shares was extended to Tuesday.

The pattern in golds was largely reflected in industrials. SA Breweries was well bought and added 125c to RH30 on its results.

But Barlows shed 50c to 60c, even though results were not as bad as expected.

Putco Properties was the largest percentage gainer, rising more than 40% to 60c in the hope that a similar Putco special dividend will be declared.

The Rand's world value

<table>
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<tr>
<th>R1 equals</th>
<th>One foreign unit equals (R)</th>
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<tr>
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<td>25/05/90</td>
</tr>
<tr>
<td>US $</td>
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<tr>
<td>UK £</td>
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Trade weighted value of rand, % change against 1974 base 38.22

Domestic interest rates

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<td>25/06/90</td>
<td>11/06/90</td>
<td></td>
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<tr>
<td>%</td>
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<tr>
<td>SARB re-discount rate</td>
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<td>3-month discount bills</td>
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<td>3-month NCDs</td>
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<tr>
<td>3-year RSA stock</td>
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<td>Prime overdraft rate</td>
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<td>All-in yield of fixed acceptance credits</td>
<td>19.49</td>
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<th>Rates on most traded stocks</th>
<th>Average</th>
<th>As at</th>
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Best sections this week

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</tbody>
</table>

Overall market this week

| (Ordinary Shares Only) | | | |
|------------------------|----------------|---|
| | Non-Min | Total |
| Mining | 715,511 | 71,776,044 |

London gold
Liquidations surge and firms stall on payments

SA INDUSTRIES, feeling the effects of the economic slowdown across the board, are not paying their bills.

While liquidations are on the rise, overdue accounts have been increasing significantly.

For example, overdue accounts in KreditInform’s KISS system, which contains the ledgers of more than 100 companies representing a broad spectrum of SA industry, are at 34%.

KreditInform MD Ivor Jones says the overdue situation has been consistently deteriorating on a monthly basis since November, and appears to be worse than that seen in 1983/84.

First National Bank GM group credit Neil Garden says the risks on many accounts, including home loans, are increasing as the inability to meet repayment rates.

With cash being very tight, companies are using tactics to delay payments, such as querying accounts and insisting on reconciliation, says ITC chairman Paul Edwards.

He says as companies try to improve their cash flows by delaying payment they impact on other companies, especially the cash-strapped small companies.

The good news is that SA business has become more sophisticated in managing its credit.

Edwards says businesses have learned many lessons from previous downturns. They are now better managed and leaner, which will prevent a “blood on the wall” situation.

While it is an old game to stall payment, there are mechanisms to ensure prompt payment today.

The emergence of credit bureaus with advanced credit data systems means few companies are likely to risk their credit ratings. Companies are also taking more sophisticated steps to protect themselves.

Garden says the balance sheets of the larger listed companies, compared with previous downturns, are in better shape. Good credit management in the larger and medium-sized companies makes them better equipped to withstand the downturn.

Jones says those companies which keep their gearing low and react quickly will be able to weather the current storm. Those who do not will push the liquidation figures higher.

He says all industries are illiquid and sales have been falling across the board. But the hardest hit industries are those in consumables, with the rest of industry following.

Garden says the signal from all industries in the past few months is their future financial results will not be good, as they feel the effects of the softening in consumer demand, coupled with work stoppages and unrest throughout SA.
Monopolies ‘must be run commercially’

GOVERNMENT had not put privatisation on hold, but what was of ultimate importance was to get SA’s “natural” monopolies operating on a commercial basis.

This was the view of Administration and Economic Co-ordination Minister Wim de Villiers in an interview with Leadership magazine.

Following the success of Margaret Thatcher’s economic programme, privatisation had become something of a buzzword in SA, he said.

The fundamental difference between public corporations and private enterprises was that public corporations did not look at a return on capital but strove to fulfill a mission regardless of the capital investment required.

Infrastructure

He said: “In Britain we are looking at industries that used to compete but were subsequently nationalised. In this country we are looking at monopolies.”

SA had “natural” monopolies in electricity generation, the railways, the harbours and oil pipelines. The question was one of administering natural monopolies which were fundamentally part of SA’s infrastructure.

“Firstly, you must make sure capital is properly utilised. Capital must be raised in the capital market rather than by way of government handouts. “And it must be utilised in accordance with the discipline of profit and loss account and balance sheet,” said De Villiers.

SA’s infrastructure, which was a natural monopoly, must be run as cheaply as possible, he said.

“We cannot necessarily create competition in the marketplace, but we can create competition for funds. This is precisely what we have done with Eskom.”

“Ultimately, the important point is to get these organisations operating on a commercial basis. The transfer of ownership is something that can be argued about endlessly, but commercialisation is the key,” said de Villiers.

In addition, government aimed to make the civil service smaller and more effective.

“We believe the very nature of the civil service has changed.”

Underpinning the concept of administration was the idea of fulfilling a mission according to certain regulations, said De Villiers.

However, administrators placed little emphasis on managing resources within a basic set of goals and had lagged behind the revolution in management techniques and thinking.

Government aimed to look at the most efficient and cost effective way a job could be done, and the entire administrative process had to be streamlined.

Budgeting had to follow methods used in the private sector, but this process could not be applied across the board in the civil service.
Cosatu for talks on privatisation with Minister

A Cosatu delegation is to hold talks with the Minister of Administration and Privatisation, Dr Dawie de Villiers, in Cape Town.

The purpose of the meeting on Tuesday is to state Cosatu's view on privatisation.

Cosatu said it believed that the State's moves to privatise defied their commitment to genuine negotiations to resolve the political crisis.

The meeting follows a number of protest actions by Cosatu including 11 protest marches against privatisation.

After a march to the Johannesburg Stock Exchange on March 29, Dr De Villiers told the Press that privatisation would be halted.

The delegation would seek confirmation of this statement and further assurances that no public enterprises would be privatised, Cosatu said in a statement.

Pending the minister's response, a series of further actions had been planned by Cosatu's Anti-Privatisation Campaign. These included further marches, consultation with Cosatu's allies such as the SACP, ANC, civic and youth structures and a call to nationalise those sectors already privatised.

Cosatu was also planning to expand its campaign to target prospective buyers - individuals, companies and organisations both locally and internationally, he statement said.

The Cosatu delegation would consist of the general secretaries of the public sector unions - Mr Vusi Khumalo from Potwa, Mr Sisa Njikela from Nehawu, Mr Martin Sebakwane from Sarhwu and Mr John Erentren from Samwu, a member of the Cosatu secretariat, a national office bearer of Num and the national co-ordinator of the Anti-Privatisation Campaign, Mr Floyd Mashele.
**Costly acquisitions of little help to Hudaco**

Hudaco's annual report covers each year says its stated principal objective is "to produce superior returns for our shareholders by building on the base of our existing businesses and by continuously looking for other exciting growth opportunities."

But while three divisions—Deutz Dieselpower, Bearings and Power Transmission—showed strong organic growth, three acquisitions during the year cost the company a minimum of R45 million and barely contributed to the bottom line.

In fact, they had a negative effect after writing off part of their goodwill payments.

Acquisitions have caused borrowings to rise sharply from R19.2 million to R35.3 million while cash resources of R18.3 million a year earlier were only R5.3 million at the end of 1989.

Chairman Mr Bruce McInnes and CE Kevin Clarke were happy with Hudaco ending "the decade on a high note with a growth in earnings being the key to 1989" But why are the directors selling their shares?

At the end of November 1988, they held 5.4 million shares, a year later this fell to 4.3 million and since year end they have sold a further 700,000 shares. In 16 months directors have sold 33 percent of their shares without any explanation—not too reassuring for shareholders.

Yet the Chairman's and CE's report was full of Graduate Business School verbiage about up-stream integration, backward integration, growth by acquisition, organic growth, management control of its businesses, core businesses, strategic objectives and so on.

**The treatment**

But why have 1989's acquisitions performed so poorly and did Hudaco pay too much for them? Consider Mr McInnes' statement that "the returns from Hudaco's core businesses are exceptional and significantly higher than in the businesses we acquired. The effect of acquisitions is therefore to reduce returns—temporarily we hope—while the businesses acquired undergo the Hudaco treatment."

Is this not pure arrogance in light of the following results from 1989's acquisitions which cost a cool R45 million—sales R56.6 million, operating profit R7.2 million, attributable earnings R1 million and the difference between 1988 and 1989's goodwill write off of R1.62 million.

This means the acquisitions produced a loss of R600,000. And what about the interest on the R45 million outlay? Something is wrong. Only the record bottom line from the existing core divisions saved management from embarrassment.


**Below the line goodwill amortized of R3.6 million (1988: R2.2 million) reduced earnings to R19.57 million (1988: R13.62 million). Earnings per share, taking into account the additional two million shares issued in 1989 totalled 107.3 cents (1988: 85.4 cents) while dividends were upped to 48 cents (1988: 38 cents).

The 100 percent purchase of Norton Abrasives for R33 million in December 1988 was merged with Murray and Roberts Abrasives Corp seven months later with each (Hudaco and M&R) holding 50 percent but M&R has management control.

A 66 percent interest was acquired in an ailing major oil seal manufacturer Angus Hawkins for R9.4 million. Mr McInnes hopes both will contribute in 1990.

**Best year**

Deutz Dieselpower, in business for 20 years, had its best trading year in 1990. The Bearings division benefited from the buoyant agricultural, automotive and industrial sectors and the Power Transmission division's four companies reported good growth.

The divisional analysis showed sales, average net operating assets and number of employees, comparing 1988 to 1989, but the income contribution by each was missing. Would this prejudice the group's competitive position? The directors thank so but I doubt it unless, of course, management has something to hide.


Total debt has virtually doubled to R35.3 million (1988: R19.2 million) and includes a R20.7 million unsecured fully covered US dollar loan (presumably Norton's)!

While working capital has improved to R35.6 million (1988: R42.7 million), it includes stock of R11.5 million, almost double 1988's R5.5 million. Goodwill of R162 million (1988: R15 million) is still to be written off.

Tax losses have increased to R15.2 million (1988: R8.7 million) which means some companies are making losses or is this from 1989's acquisitions? Understandably, with Hudaco being a sales/service group, the annual report advertised most of its products.

CE Mr Clarke predicts another growth year in 1990 as the group primarily services the various replacement markets which are more resilient in a recession.

The key ratios were positive. Management is not worried by the high debt which it says will be reduced by operating cash flows in 1990.

The interim results due shortly should hopefully justify the viability of 1989's costly acquisitions but the directors should explain their significant share of the profit.
De Beers linking gets go-ahead

Own Correspondent

JOHANNESBURG — De Beers Consolidated Mines achieved near unanimity during its general meeting in Kimberley on Friday in a vote to create Swiss-based Centenary AG that will house De Beers's offshore interests.

In one of the most significant milestones in SA corporate history, 37 shareholders present at the meeting — in person or by proxy — voted 99.98% in favour of establishing Centenary AG.

Those present, representing R22bn worth of De Beers shares, established De Beers/Centenary AG linked units.

Twelve of De Beers' 20 directors, including deputy chairman Nicky Oppenheimer and Gavin Kelly, jetted in from around the world to attend the historic AGM in the company's head office.

It marked De Beers' 102nd general meeting in Stockdale House, where the likes of Cecil Rhodes and Barney Barnato managed the company that is now worth R35bn on the JSE.

After the meeting, De Beers chairman Julian Ogilvie Thompson said he was surprised at certain SA schemes which had mooted a delinking of the De Beers/Centenary AG units.

"To remove all doubts about the board's view on the issue, it should be noted that De Beers will not welcome, facilitate, support or recognise schemes that purport to separate the rights attaching to the securities comprising the De Beers/Centenary linked units."

He said De Beers had no intention of splitting its shares.

The De Beers/Centenary AG units will be traded worldwide on nine stock exchanges for the first time on June 11.

On the announcement in March of the proposal to create Centenary AG, Ogilvie Thompson said in a London interview the company would be powerless to stop non-SA delinking schemes.

However, this was because instruments which had no counterpart in SA existed offshore.

Analysts said one complication to offshore schemes was that the bulk of De Beers shares were SA-held.
Sappi Novobord has taken over Durban-based Techniboard, specialists in the manufacture of solid timber substitutes for the furniture, kitchen and building industries.

Techniboard processes Novobord's particleboard and medium-density fibreboards into a number of components such as doors, panels and profiles. It also produces inset panels for doors and cupboards; mouldings for cornices, ballustrades, kitchen units and skirting boards; and post-formed tops and soft-formed doors and panels.

While there is a big demand for Techniboard's products, Sappi intends to more than double its output and to export.
Big book-over deals breathe life into JSE

Mervyn Harris

SPECIAL attention was drawn yesterday to a large book-over deals breathed life into a listless Diagonal Street as the closure of major overseas markets kept activity at a low ebb.

Stationery group Waltons was on the recovery trail after the shares sank to a year low of R52c in April. Waltons edged up 5c to R60c amid rumours that there could be a strengthening of the bonds with CNA-Gallo, which has a small stake in the company. CNA-Gallo came off its recent peak on a 10c fall to R14.

In the electronic sector, Air Cable jumped 20c to a new year high of 400c, representing a gain of 28% from the month ago low of 350c amid a shortage of scrap. Market talk was that Escentre could be a contender for control of the company.

Retail group Storeco gained 30c to a new high of 950c, giving rise to suggestions that the company could be a buy for Shoprite. CIRLEI 251 1 70.

Dealers said the boost to market turnover from several large book-over deals showed that despite the tight market, large lines of stock coming on offer were being absorbed.

Heading the list in volume terms was the purchase by a single broker of 11.5 million shares of country store group Acrem worth R4.6m at 30c each, 10c below the ruling price of 40c. Analysts were puzzled by the deal, as the same number of shares was traded in a special bargain deal earlier this month at 66c each, 16c above the ruling price at the time. The 11.5 million shares represented Prudex Consultants 30% stake in Acrem.

JSE

Saambou was involved in a book-over deal of 1.4 million shares worth more than R2m. The price rose 2c to 125c after touching 127c. A special bargain of 100 000 Dorbyl shares was put through at R21 a share, 35c below the ruling price of R21.35.

JSE flagship De Beers recouped early losses, firming 15c to R99.40 as overseas-markets were closed and arbitrageurs could not take advantage of fluctuations in the francand.

The rest of the market was steady as gold firmed $1 to $367.75 in Zurich and President F W de Klerk's successful European helped lift market sentiment.
Workers to protest over privatisation

PUBLIC sector workers are planning nationwide protests today to coincide with talks between Cosatu unions and the Government on privatisation.

Cosatu’s anti-privatisation campaign co-ordinator, Mr Floyd Mashele, said the demonstrations would start at 10:30am and could develop into other forms of action, such as pickets and marches.

The general secretaries of Cosatu’s postal, health and rail affiliates are to meet the Minister in

DAWIE DE VILLIERS
charge of privatisation, Dr Dawie de Villiers, in Cape Town.

Also present will be a representative of the National Union of Mineworkers, which has members at Eskom.

Mashele said the Minister had indicated earlier this year that the privatisation programme would be delayed.

At today’s talks, the unions would press for the entire process to be scrapped.

On Sunday the National Health, Education and Allied Workers’ Union called on its members in the health sector to work normally today.

A spokesman said lunch-time protests would take place at hospitals.

“Health is an essential service and there is a huge backlog of work in hospitals due to the recent strike,” the union said.
Investec gets 20% stake in Berns, Block Associates

INVESTEC has acquired a 20% stake in financial services group Berns Block Financial Services, which trades as Berns, Block Associates.

Investec Group MD Stephen Koseff said yesterday the acquisition would extend the marketing force of the bank. While Investec was strong at the top and bottom ends of the market, Berns Block was better placed to service the middle range of clients.

Also, Koseff said, Berns Block offered a more personalised service which the bank could not offer because of its size.

Berns Block MD Arnold Berns said the link with Investec would enable the group to develop its corporate market by increasing the range of services it was able to offer.

"Furthermore, the two groups will create innovative and exciting banking, investment, and insurance related products. For example, by linking geared investments with finance provided by Investec and guaranteed by specially structured insurance policies, capital growth on investments is increased proportionately to the amount of loan finance introduced to the investment," he said.

Other new products arising out of the link with Investec include instalment sale finance, leasing finance, medium-term loans, professional partnership finance, housing and participation mortgage bonds, international portfolio management, international asset structuring, capital raising, management buy-outs, mergers and acquisitions and company restructurings.

Berns saw managed property syndications as a major area of future expansion as it offered the small investor an opportunity to invest R10 000 or more in prime commercial properties. Returns over five years were normally in the range of 13%-14%, he said.

Berns Block has restructured itself and formed subsidiaries of its main operating divisions namely broker services, securities, employee benefits, tax services and financial resources which includes asset management services.

The company was formed in 1983 by 10 Liberty Life agents, the link with Liberty Life being finally severed in December last year. This severance removed a constraint on the group, and gave it more credibility as an independent operator, Berns said.

Berns believed Berns Block was unique in being able to offer a wide range of financial services in-house.
Note taken' of possible conflict

De Beers de-linking plan dropped

Financial Editor

THE scheme to de-link De Beers units, selling shares in De Beers and in its overseas interests, Centenary, separately, has been abandoned.

Announcing this yesterday, a statement issued by Syfre's Managed Assets (SMA) — which, with Finansbank and George Huysamer & Partners, promoted the scheme — explained “Our proposal was motivated by a sincere desire to give investors and portfolio managers greater flexibility, while at the same time improving the marketability of De Beers by effectively sub-dividing their shares.”

But, the statement continued, the chairman of De Beers, Julian Ogilvie-Thompson, had said at the annual meeting that “De Beers will not welcome, facilitate, support or recognise schemes that purport to ‘separate’ the rights attaching to the securities comprising the De Beers/ Centenary units”.

The SMA statement continued: “We have also taken note of the company’s desire that there should be co-operation between De Beers and Centenary and furthermore that there should not be any conflict between these two companies.

“In the light of this statement and to preclude any uncertainty in this regard, the promoters have decided to withdraw their proposal and the institutions which were originally invited to participate have been advised accordingly”

Last week, presentations given to stockbrokers and representatives of financial institutions were well attended.

But, following a protest from De Beers to the JSE, it was generally felt that the scheme was unlikely to go ahead.

It depended on the institutions putting R3bn worth of De Beers shares into a pool to be split. Their response would have been due today.
Farmag, Sentrachem to merge

will be jointly owned by Sentrachem and Farmag.

The technical feasibility and technology of the project have already been examined, and its commercial viability is currently being looked at. No decisions have yet been made.

An important factor is the outcome of the long-term strategy government is currently formulating to develop the local chemical industry.

The project aims to bring in international partners. Already discussions have been held with parties from Taiwan and an Italian delegation is expected shortly.

The cracker would produce the basic feedstocks required for the SA chemical industry to become far more competitive on the world market.

In addition, Sentrachem, which today announces a 7% rise in attributable earnings for the year to March, is investigating the prospects of building a local R6bn naphtha cracker plant.

Sentrachem CEO Johan van der Walt says strategic objectives of Sanchem include further import replacement through local manufacture of crop protection products, and the expansion of export sales.

In the first phase of the merger, the agricultural chemical production, formulation and wholesale distribution of Sentrachem's Agrihold and of Farmag will be merged into Sanchem, which

Own Correspondent
Johannesburg — Sentrachem and Farmag are to merge their agricultural chemicals businesses into a new company, Sanchem, with annual sales of R300m a year.
Consortium backs off on De Beers

By Magnus Heystek
Finance Editor

The consortium trying to de-link De Beers from its Centenary counterpart has backed off in the face of what is described as De Beers' "hostile public stance".

A spokesman for the consortium consisting of Syfrets/Finanbank/George Huysamer said yesterday that participation in the proposal could prove to be embarrassing for certain members. It had no choice but to withdraw it.

After Friday's strongly worded statement from De Beers, following its annual meeting in Kimberley on Friday, it was evident that the scheme had little chance of success.

This announcement, which was released yesterday, had no detrimental effect on the share price. De Beers closed at R101,50, up R2,10 from the previous day, as investors started buying back into this counter.

While the major financial institutions were reportedly in favour of the scheme, they were not prepared to risk the use of South Africa's business powerhouse. And without the backing of SA's large life and pension offices, the scheme was doomed.

This morning, after it was announced that the proposal has been withdrawn, the consortium spoke openly about its plans.

The consortium stressed that the proposal to de-link De Beers was primarily based on the assumption that overseas investors will set up a similar scheme, which will de-link De Beers after the listing of Centenary AG on June 11.

Out in the cold

If this was to happen, with no counterpart scheme in operation in SA, any De Beers linked units that flowed North would become split, and would therefore be unavailable to the South African investor.

"We feared that this state of affairs would result in the South African tradeability and marketability of De Beers being markedly reduced, to the detriment of all investors in the market," a spokesman for the consortium said this morning.

Another factor which prompted the consortium to construct the scheme, was the restriction on local institutions to invest overseas. "By splitting De Beers into a domestic and overseas company, we felt that we would be giving local fund managers a greater degree of choice in the way that they allocate their investment funds.

"An additional benefit would be to those unit trust managers who have found it impossible to match their market weighting of De Beers in their portfolios because of the regulations that limit them to preventing more than 5 percent of their funds being in any single counter. Our proposal would have given them two further investment vehicles in the De Beers group," he added.

There was also the question of capital gain. So long as De Beers is effectively stapled, the true underlying value of the company cannot be unlocked. The management of Rembrandt and Pretorius have shown that by splitting their companies, shareholder wealth can be increased.

Share split

The consortium proposed not only to de-link the units but also to split them on a five for one basis. This part of the concept was designed to improve the marketability and tradeability of shares amongst smaller investors who simply cannot afford to purchase De Beers at its current share price.

The recent experience of Liberty has shown that a share split, if handled properly, can increase shareholder wealth.

The actual proposal had the following key points:

The new company (working title Ritz) would strive to obtain between 7.5 percent and 20 percent of De Beers' equity, a shareholding large enough to ensure sufficient tradeability. A target of above 20 percent would have been seen as an attempt to gain control.

In return for every De Beers linked unit, Ritz would issue five A and five B shares with A entitled to benefits accruing from Centenary and B from De Beers. Dividends would have been paid out as soon as possible, not more than a period of a week.

The A and B shares would have been listed on the JSE as soon as possible with an overseas listing also included in the scheme.

According to the plan, Ritz would immediately have dissolved if and when De Beers formally unstapled its units - widely predicted in financial circles - unless 75 percent of Ritz shareholders voted against the plan.
Steep rise in rate of liquidations

PRETORIA — The steep rise in company liquidations in the three months to end April compared with the year ago reflects the sharp reaction to government economic constraints, according to economists.

Central Statistical Service figures released here yesterday show February-April liquidations increased by 24.3% compared with the previous three months.

But compared with the same three months a year ago, the increase was a "disturbing" 44.8% (to 470).

CSS figures also show that in the first quarter of this year insolvencies increased by 3.2% to 579 compared with January-March last year.

However, there was a decrease of 12.4% when compared with the last quarter of 1989.

Volkskas chief economist At Engelbrecht said the disturbing statistics showed government strategy was working.

"There's no way we can get the economy under control without causing a great deal of pain," Engelbrecht said. The insolvency figures would inevitably deteriorate as inflation, high taxation and low economic growth took their toll among individuals.

Information Trust Corporation (ITC) chairman Paul Edwards said the trend showed liquidations began to mount in mid-1989.

The trend was accelerated by the poor performance of the economy in the last quarter of last year and January-March this year.

Edwards said it was inevitable that more companies would fail by the wayside.

He emphasised the need for proper cashflow management. This could make the difference between survival and collapse for many companies.

The CSS figures confirmed the trend reported by KreditInform earlier this week. KreditInform found that liquidations surged 46.5% in the first quarter, compared with the same period last year.

It also reported that there was a noticeable trend among companies towards increasing overdue accounts.
Cosatu warns State about privatisation

By DENNIS CRUYWAGEN
Staff Reporter

The Congress of South African Trade Unions (Cosatu) has warned the government that its privatisation programme will prejudice negotiations.

In a statement today, Cosatu said it had asked the government to halt privatisation and other "drastic" restructuring of the public sector until a political settlement had been reached.

This request was made at a meeting in Cape Town on Tuesday between a seven-man Cosatu delegation, Dr Dawie de Villiers, Minister of Mineral and Energy Affairs and Public Affairs, and the Commission of Administration.

The response it got was "unsatisfactory" and it did not gain the impression that "they were interested in hearing the views of our members or our people as a whole", said Cosatu.

The trade union federation said it had been left with no other option but to intensify its programme of action against privatisation.

"We made it clear that workers were not prepared to bear the brunt of a short-sighted restructuring programme designed to rescue the government from an economic crisis caused by apartheid."

SAPA reports from Johannesburg that the secretary of international affairs for the African National Congress, Mr Thabo Mbeki, told TV audiences that his organisation was not tied to the policy of nationalisation.

Speaking during a debate on the SATV 2 and 3 programmes, "Egoli" and "Gauteng", Mr Mbeki said nationalisation had to be one of a package of options to be debated.

He said the ANC had no desire, intention, or maybe even the ability to impose its views and policies on the country as a whole.

However, the ANC would want matters to be debated, as it believed anyone would.

Tremendous deprivation and poverty was rife among many people, he said, and it was necessary to address the question of a fairer distribution of resources and empowerment, as a part of the process towards a political transformation to a democratic South Africa.

The director-general of the Chamber of Business, Mr Raymond Parsons, said many things had to be improved and corrected in a new South Africa and business people had an important role to play.
Privatisation a danger to talks — Cosatu

JOHANNESBURG — The country's largest trade union federation, Cosatu, yesterday warned that negotiations between government and the ANC would be "prejudiced" if government continued with its privatisation programme.

This follows a meeting in Cape Town on Tuesday between a Cosatu delegation and government ministers involved with privatisation and the Commission of Administration at which Cosatu failed to gain an assurance that privatisation would be halted.

The Cosatu delegation resolved to discuss this meeting with its National Campaign Committee tomorrow where further action will be decided upon, a Cosatu statement said.

The Cosatu statement issued yesterday described the Cape Town meeting as "completely unsatisfactory," warning that the attitude of the ministers could result in a "a recipe for confrontation." They claim Minister of Mineral and Energy Affairs and Public Works Mr Dawie de Villiers and Minister of Administration and Privatisation Mr Wim de Villiers were not interested in hearing the views of Cosatu "or the people as a whole," and instead spoke at length on their perspectives.

The Cape Town meeting was designed by Cosatu to state its members' position that "we are totally opposed to all privatisation, and to secure a commitment from them that there would be no further privatisation.

The Cosatu statement further warned that "any attempt (by government) to embark on such a major restructuring programme without consulting those affected will be resisted.

Negotiation process

People were particularly sensitive to the fact that the privatisation process was happening now, as the negotiation process was about to begin. We reiterated (to the ministers) our demand that all privatisation and other drastic restructuring of the public sector should be halted until a political settlement has been reached." The Cosatu delegation claimed the ministers attempted to deny that privatisation was taking place and focused instead on the term "commercialisation," or the restructuring of public sector industries, their fragmentation and selling off of certain sectors.

"In our view this is privatisation in another guise — despite attempts by the ministers to deny it, we gained the clear impression that the government was preparing to go ahead with the privatisation programme.

Mr Dawie de Villiers had refused to confirm his statement, reported several weeks ago, that all privatisation would be halted until the relevant parties had been consulted.

The attitude of the ministers had left Cosatu with no option but to intensify its programme of action against privatisation.

Since the release from prison in February of ANC deputy president Mr Nelson Mandela, the general secretary of Cosatu's largest affiliate union, Mr Cyril Ramaphosa of the National Union of Mineworkers, has featured prominently at the ANC deputy leader's side during major events — Sapa.
Stayaways, marches set for July

countrywide stayaway on July 2, and demonstrations and marches on July 7, he said.

Cosatu leaders who met cabinet ministers Dr Dawie de Villiers and Mr Wim de Villiers in Cape Town this week said the meeting was "completely unsatisfactory" and warned that the attitude of the ministers was "a recipe for confrontation". They said the ministers tried to deny that privatisation was occurring by focusing instead on the term "commercialisation", and Cosatu "gained the clear impression that the government was preparing to go ahead with the privatisation programme".

Mr Mashele said Cosatu was "geared to take any action to stop privatisation", and was considering the series of actions in July to bring attention to the workers' opposition to it if the government's response had not changed by then.

He proposed that each week in July different public sector unions take some sort of action, including sit-ins, pickets and marches during work hours, to highlight their opposition.

"We hope it will be resolved through negotiation before this occurs," Mr Mashele added.
JSE action on Worlies

PIERRE DU PREEZ

THE listing of World of Leisure (Worlies) shares was terminated as from Tuesday evening after a special meeting of the JSE's general committee.

JSE GM equity market and listings Richard Connellan said the JSE had decided it would be in the best interests of the JSE to terminate the listing, adding he thought there was little chance of reviving the company.

Shares in World of Music (WOM) and World of Leisure (Worlies) were suspended in July last year, because of obstacles encountered in the proposed restructuring of the two companies.

Connellan said the delisting of Worlies was possibly the aftermath of a bullish market in 1986.

A market analyst said the company "just haven't come up with the goods".

Another analyst said Worlies was never a share for the serious investor. He felt the company had bought too many assets too soon leaving it with a cash flow problem.
Pegg’s estate sequestrated

THE estate of Mr Stuart Pegg, allegedly one of the men behind the R47 million Trust Bank fraud, was finally sequestrated in the Rand Supreme Court yesterday.

Mr Pegg was arrested and detained in Switzerland in April this year. Yesterday, the Attorney General for the Witwatersrand Local Division, Mr Klaus von Lieres, said he had decided not to continue with extradition proceedings against Mr Pegg.

Time up

Mr von Lieres said time had run out and the Swiss authorities had not granted his application for an extension.

He understood Mr Pegg faced criminal charges in Switzerland as a result of complaints laid by Trust Bank.

Efforts to contact Trust Bank’s attorney, Mr Antony Mostert, yesterday were unsuccessful as he is in Luxembourg for the matter involving Mr Pegg.

Trust Bank’s media manager, Mr Louis de Villiers, said the bank preferred not to comment on what action was being taken by the bank against Mr Pegg overseas — nor on the Attorney General’s decision.

Yesterday Mr Justice HJC Flemming granted the final sequestration of Mr Pegg’s estate. The application was initially launched in December last year after the bank discovered the R47 million fraud.

In papers before the court, Trust Bank’s attorney, Mr Mostert said he had personally spoken to Niko Shefer (who has since stood trial, been convicted of fraud and sentenced to 14 years’ imprisonment) and Mr Shefer had confirmed Mr Pegg’s involvement.

According to evidence led during the trial a former bank clerk, Gotz Guntenhoner, (convicted of fraud and sentenced to 14 years’ imprisonment in an earlier trial) stole clearance vouchers and, after these interbank transfer documents had been completed, the funds were used to buy gold coins, emeralds and an aircraft.

The idea of using funds from this fraud, about R26 million, to buy a Falcon 50 aircraft, was proposed by Pegg, Mr Mostert said in an affidavit.

In an affidavit, a facsimile of which was apparently sent to Cannes, France, Mr Pegg had protested his innocence and said he had earned commission “in the normal course of business” but Mr Mostert rejected this.

Transactions

He said it was significant that Mr Pegg referred to various discussions and transactions with a variety of people and organisations — yet did not submit any evidence from them to support his claims. Among people mentioned by Mr Pegg were members of the Department of Foreign Affairs and local aircraft firms.

Trust Bank has obtained a judgment against Mr Pegg in Luxembourg for more than R47 million.
It's a stout show from SA Brews

BEER is best, or so the market thinks. SA Breweries was a stout performer in a soft market this week. The depressing effect of gold's drop could not be countered by the buoyant bourses over the waters.

SAB's shares put on more than R2 to R40,75 on firm demand even though its subsidiaries had mixed fortunes. The OK was higher, Amrel and Edgars lower.

Bevcon was up 16% at R32,50.

Richmonq topped R35 after reaching a peak in sterling terms midweek on good results from Dunhill. It closed at R34.125c up W&A added 15c to 830c, but was offered at the original level.

Clubb gained 100c to 925c, and Remgro gained 20c to 1440c.

The volatile Venter companies regained some lustre. After hitting lows early in May the shares perked up two weeks ago. This week Altron shed 15c to R35.75, but regained it late on Friday. Powertech lost 5c to R2, but put it back, Altech shed 100c to R63 and Fintech sneaked up 5c to 535c.

Punch Line was 10c up at 75c, the 10% convertible prefs adding a third to 83c.

Puteco came all the way down after going ex-dividend of 310c. It fell from 470c to 390c. Puteprep eased 20c to 700c.

Trimex Trading rallied by 50% to 45c after dropping on expectation of poor results.

Cline Holdings' modest growth was rewarded by a 20c improvement to 190c on a single deal of 160 shares.

De Beers could not keep its price above R100.

Gold dividends from Anglovaal mines reflect the downturn in mine earnings. ERPM was sold down as the mine's fate is decided. The price eased 300c to R11.

Speculators in Barminex got the pitmen on talk of ore reserve discrepancies, but management called a meeting to allay investors' fears. The price hit a low of 410c before recovering to 465c, still 25c off on the week.

Granite

Northam's nil-paid letters shed 30c to 200c, but recovered 20c as the shares gained 55c on Friday afternoon to R24. The take-up price is R22.

Middle Wits nil-paid letters fell. The ordinaries shed 20c to 560c and the letters crashed from 80c on Tuesday to close at 52c. Take-up price is 550c.

Keeley eased after a surge on either side of its published result. The granite stock softened 50c to R10.75.

Mining exploration counters lost their way in sympathy with gold Barminex, Lydex, Randex and Rho-Ex all slipped, only Freedev bucking the trend. It gained 35c to R10.10.
Finansbank takes minority stake in Mercedes dealers

Merchant bank Finansbank has acquired a minority interest in Mercurius Motors, the largest privately-owned Mercedes-Benz dealership in South Africa.

Mercurius, which was formed 20 years ago by managing director John Mills, has grown from a small service station in Boksburg to a substantial dealership with the Mercedes-Benz and lately Honda franchises in the Boksburg and Kempton Park areas.

For the current financial year ended February 1991, Mercurius is projecting a turnover in excess of R150 million. With deregulation of the transport industry and the widening of the Mercedes-Benz commercial vehicle range, the truck market is where Mr Mills sees future growth for the company.

Truck related activities currently comprise roughly one-third of the company's turnover.

"Over time, we have sold into some of the largest truck fleets in the country and as part of our commitment to after-sales service, we have recently opened a R2.5 million technically advanced panel and paint shop exclusively for Mercedes' heavy vehicles, based on the latest Mercedes technology." says Mr Mills.

A strong factor for the company's future growth is Mercedes-Benz AG's ongoing commitment to South Africa, says Mike Dollow, general manager of the division.

"We have made it our policy to find successful businesses, run by true entrepreneurs, with high quality products and good growth potential," says Mr Dollow.

"Mercurius impressed us because it has built its reputation on after-sales service in a demanding corporate market and has been rated as one of the top Mercedes-Benz dealers in the country by its principal, Mercedes-Benz South Africa." says Sapa.
Hijacking syndicate crushed

Staff Reporter

A multimillion-rand syndicate specialising in the hijacking of commercial trucks in the Transvaal and Free State has been crushed, police confirmed yesterday.

A total of 15 suspected hijackers were arrested and goods valued at R14 million were recovered after five months of intensive investigation, Witwatersrand police spokesman Captain Eugene Opperman said yesterday.

Investigations into activities of the syndicate were being kept secret and could be revealed only on Saturday, he said.

Police expected to arrest a number of top-ranking Johannesburg and East Rand businessmen in connection with the syndicate.

He said the hijackers waited near trucks being loaded with goods. They then followed the truck.
Bankorp: No acquisitions in sight

Own Correspondent

JOHANNESBURG — Bankorp will ensure its own house is in order before considering any acquisitions, new executive chairman Piet Liebenberg said in an interview yesterday.

"We won't even contemplate any deals until we are running smoothly and profitably — which is likely to take about two years."

"Until then any rumours that we are interested in acquiring anything will be pure speculation," he said.

Liebenberg, who takes up his new post today, was responding to the possibility of the troubled banking group bedding down with the sector's high flyer, UBS Holdings.

UBS has a very strong capital base and is SA's biggest building society. These attributes make it attractive to Bankorp which is plagued by a dismal capital base and is keen to develop substantial interests in the home loan market.

But Liebenberg emphasised he would focus on fixing Bankorp from within.

"Our priorities are on getting Bankorp straightened out internally. There will be neither the time nor inclination to look further afield for acquisitions."

Initial remedial measures announced this week involved divisionalisation of Bankorp's operations.

"The result will be a clearer focus and the elimination of service duplication," a Bankorp spokesman said.

Another benefit will be an improved ability to manage the group's risk exposure, he said.

This will be vitally important given that by chasing market share and boosting assets Bankorp severely compromised the quality of its lending book.

Staff numbers will be scaled down but most of the 16,000 employees will retain their jobs, he said.

"We will focus on improving staff productivity and efficiency."

Liebenberg only officially starts his Bankorp job today so specific strategies can only be expected once he has studied the group in more detail.

Liebenberg has an open policy in dealing with the public so shareholders are likely to remain informed. Better accounting disclosure can also be expected.

A banking source compared Liebenberg's position to that of a captain changing the course of a fully laden oil tanker.

"The initial turnaround steps have been taken, but the effects will take a long time to be seen," he said.
THE MINISTER OF JUSTICE

Application for Court of Appeal to

(1) [Redacted]

(2) [Redacted]

THE MINISTER OF JUSTICE

Application for Court of Appeal to

(1) [Redacted]

(2) [Redacted]

THE MINISTER OF EDUCATION

Application for Court of Appeal to

(1) [Redacted]

(2) [Redacted]

QUESTION

HOUSE OF ASSEMBLY

MONDAY, 4 JUNE 1990

1997
Multi Gold provisionally wound up

By Jana Bearzi

Multi Gold Holdings Ltd, a venture capital investment scheme which has been under Star Line's spotlight over the last four weeks, was provisionally wound up in the Johannesburg Supreme Court last week.

The order was granted following an application by Kenny's Transport Ltd, a Springs plant hire firm, which claimed R109 430.80 was unpaid for the hire of a front-end loader used for Multi Gold's gold reclamation operation in Nigel.

This is yet another blow to Multi Gold investors who sunk millions of rands into the controversial and trouble-beset gold recovery operation.

In papers before the court, Kenny's Transport director, Kenneth Hart, said over the last year his company had hired out plant to Multi Gold which included a front-end loader for R60 an hour.

On January 4 this year, at a meeting attended by Mr Hart and Multi Gold director Roy Sellers, Mr Sellers accepted the money was owing but said he was unable to make payments to creditors because of a breakdown in the works at the Nigel plant.

However, Mr Sellers said another company, Montrose Mining, would be taking over Multi Gold and would make R1 million available to settle creditors.

Mr Sellers also undertook to make weekly payments of R7 500 to discount part of the debt and proposed that the front-end loader continue to be hired out to Multi Gold.

But, according to the papers, Mr Sellers failed to honour an undertaking to provide Kenny's Transport with the Montrose Mining takeover particulars by January 31 in which payment of the outstanding hiring fee would be dealt with, or to make the R7 500 weekly payments.

Mr Hart submitted to the court that Multi Gold was not able to pay creditors in general and was liable to be wound up.

Multi Gold has until July 10 to show why the order should not be made final.
Cape Recife Nature Reserve: complaints about SADF members

*14 Mr E W TRENT asked the Minister of Defence whether the South African Defence Force or the Eastern Province Command has received any complaints about the behaviour or actions of Defence Force members in the Cape Recife Nature Reserve, if so, (a) from whom, (b) when and (c) what was the (i) purport of and (ii) response to each such complaint?

The MINISTER OF HOME AFFAIRS

(a) and (b)
Should the hon member with the words "has considered" mean "finalised" the reply is no.

The hon member is however referred to my replies of 29 May 1990 to Question 13 and follow-up questions when I have indicated that details are being obtained with regard to an application received from M-Net, whereby the matter will be considered by the full Cabinet and hopefully be finalised within the next few weeks

The MINISTER OF DEFENCE

(b) 21 May 1990
(c) (i) and (a) A Board of Inquiry has been convened to investigate the alleged behaviour or actions of members of the SA Defence Force in the area. The investigation has as yet not been completed

Death sentences

*15 Mr A J LEON asked the Minister of Justice how many persons were sentenced to death from 2 February 1990 up to the latest specified date for which information is available and (b) for what crimes in each case?

The MINISTER OF JUSTICE

Position as at 28 May 1990
(a) 39
(b) Murder 35, rape 4

TV news bulletins

*16 Mr P G SOAL asked the Minister of Home Affairs whether the Government has considered any applications to broadcast news bulletins received from any television broadcasting organisations, if so, (a) from whom were such applications received and (b) what was the result of such consideration in each case?

The MINISTER OF HOME AFFAIRS

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Call for tighter reign on DCM forecasts

THere should be stricter control over forecasts made by prospective DCM companies, a market analyst said yesterday.

His comments came after a recent spate of suspensions of DCM-listed companies, such as Helical, Bakoven, Paytime and wedge Holdings.

The analyst described the pre-listing forecasts of certain DCM companies - especially those listed before the 1997 crash - as being "totally unrealistic".

He said the curse was on legal firms, sponsoring brokers and especially accountants to ensure that realistic forecasts were included in a prospectus before the company was listed on the DCM.

To this end the number of suspensions in the DCM sector remained a matter of concern. Reasons for suspensions were the misreading of market conditions and expansion that had occurred too quickly.

Another analyst felt the DCM had obtained what she termed a "big black mark", because many people had lost a lot of money.

However, DCM shares should, she added, be viewed as a speculative buy in a lot of cases, though they could certainly bear fruit if they were carefully selected.
Upjohn sells SA affiliate

Star Bureau

NEW YORK—The US parent company of Agrow SA, a 100-employee vegetable seed operation, is to sell its SA affiliate to its local management.

The US holding company, Upjohn, added, however, the company would continue operating its 150-employee Upjohn pharmaceutical and animal health products business.

Sale of the seed operation, said a company spokesman, was for "business reasons only."
Pressure mounts for cut in rates

By Magnus Heyduck, Finance Editor

The Reserve Bank is coming under increasing pressure to reduce interest rates, with latest statistics indicating that the economic contraction is far worse than expected.

After negative growth in the first quarter of the year, most economists have revised their economic forecasts sharply downwards with growth of only 0.7 percent forecast for the whole year.

“There is no such thing as a soft landing,” says Ron Rundle, managing director of Nedlin Bank. “Business is going to have a rocky ride for the next six to twelve months.”

“The slowdown in credit expansion will no doubt continue to dampen the inflation rate but will not, in isolation, bring the rate down dramatically unless demands for wage and salary increases are kept in check,” he says.

In its monthly round-up of 28 economic forecasts First National Bank says that the consensus figure for growth this year is now only 0.7 percent compared with one percent in April. At the same time, most economists have adjusted their forecast for inflation up from around 13.1 percent to 13.2 percent.

Both the corporate sector and consumers are under pressure, prompting calls for a cut in interest rates to prevent an economic “over-kill”.

Last week Dr Johann du Pusani, economist at Senbank, launched a thinly veiled attack on the Reserve Bank, criticising its policy of maintaining high interest rates.

But Dr Chris Stals, governor of the Reserve Bank, says that interest rates will remain at present levels until the rate of inflation and the growth in the money supply show definite signs of easing.

The prime interest rate has been at 21 percent since last October, but despite a severe drop in economic growth in the first quarter of the year, inflation and growth in the money supply have recorded limited declines.

Liquidations

Heavily geared companies are now starting to buckle under the strain of high interest rates, with company liquidations soaring in January and February this year.

According to Kreditinform, liquidations increased by 35 percent to 134 in January (compared with January 1989) and by 58 percent to 129 in February.

At the same time, business judgments — normally a precursor to liquidations — shot up to R13.81 million in January, compared with R9.07 million in January 1989. However, February saw a decline to R7.44 million compared, with judgments valued at R8.48 million a year before.

Says Jack Browning, director of Kreditinform: “The actual number of liquidations is misleading as it does not include sequestrations. The percentage increase clearly shows a decline in liquidity in the economy.”

Latest figures from the banking world also reflect a dramatic drop in the demand for money and credit in the first quarter of the year.

According to the most recent BA9 returns of the commercial banks, the growth in hire purchase and lease-credit slowed to a trickle in the three months to end-April, with a further decline predicted for the second quarter.

Although the outstanding debt for all banks rose to R25 billion, the increase of R78 million was the lowest since 1987.

Bankers are predicting that this slowdown in the growth of lending business — and the possibility of a real decrease in the second and third quarters of the year — are posing problems for banks which are already experiencing low margins and artificial restraints on any increase in the prime overdraft rate.
Debtors' statistics - % 90 + days outstanding (All industries)

--- SACOB index
--- Liquidations (index)

%  
14  12  10  8  6  4  2  0
  1  2  3  4  5  6  7  8  9  10  11  12  13  14  15

Source: CREDIT GUARANTEE INSURANCE CORP
Graphic: FIONA KRISCH

The Sacob BCI is a quarterly average whereas the debtors' percentage and liquidations index are moving four-quarterly averages.

Slowdown is well under way

An INCREASE of 40% in liquidations during January to March 1989 compared with the same period in 1988, and a 13% increase over the quarter ending December 1989 indicate the long-awaited economic slowdown is well under way, says Credit Guarantee Insurance Corporation economist Luke Dogg.

"These trends last intersected in January 1987, when business confidence was on the increase, and amounts outstanding over 90 days on the decrease. Allowing for a nine-month lag in the data, this would have coincided with the 'lower turning point of the business cycle in March 1986.'"

Convergence

Dogg says data from the March to June quarter this year reveals a convergence of these curves, supporting an 'upper turning point in the business cycle late in 1989.'

Credit Guarantee senior manager of short-term operations, Cliff Simons says the number of liquidations and business failures is alarming.

"Businesspeople are facing two risks - a political and a commercial one. Civil unrest has impacted heavily in areas such as the Ciskei and Welkom, and political risks have to be reassessed.

"On the commercial front, labour unrest has been one of the causes for the demise of several businesses, such as Edwards, while failing subsidiaries of large listed companies, such as Quality Tyres, GBS Wango and Woltin, have been allowed to go to the wall."

Simons says although the company handled many more claims in the 1985-1987 recession, those being handled now are much larger.

"Credit managers need to act more cautiously than ever before.

"They should not merely rely on insuring a risk, but follow up any overdue payment before it results in a claim," he says."
Units bounce up R115

Anamint shares rocket on split deal

By AUDREY D'ANGELO
Business Editor

THE price of Anglo American Investment Trust (Anamint) shares rocketed by R1.15 each to a closing price of R1.365 yesterday after an announcement that the share would be split, 10 for one, to make it more marketable.

But stockbrokers said there was still little chance of the man in the street being able to buy them.

According to the 1989 edition of McGregor's Who Owns Whom, 80.5% of the shares were owned by institutions in 1986 with Anglo American Corporation holding 32.8% of these.

"The split, in theory, makes the shares more marketable but this is academic since few are likely to be available," said Frank Brewer of Frankel, Kruger, Vine.

Yesteraday 1,100 of the shares were traded, after chairman Julian Ogilvie-Thompson said at the annual meeting that the share split would probably take effect towards the end of July.

He said this could be expected to reduce the share price to around R1.25, in line with the share prices of Anamint's holding company Anglo American Corporation of SA, and its main investment, De Beers Consolidated Mines.

Anamint is an investment holding company. Its major asset at the end of its last financial year was a 25.8% interest in De Beers.

Its share price opened at R1.250 on the JSE yesterday, unchanged from its previous close when it last traded on May 29.

"The high level of the company's share price led the JSE to ask the directors to consider subdividing the company's shares as this would carry administrative advantages for the JSE," Ogilvie-Thompson told shareholders.

"In response to this, the directors have decided on a 10 for one share split."

The company, whose stock has been the highest priced on the JSE, has 10m ordinary 50c shares in issue.

Attributable earnings rose to 3.786c per share in the year ended March 31, from 2.924c the year before. The dividend increased to 3.770c per share from 2.900c.
Minibus ... strangling the bus industry

Institute of Race Relations' Colleen McCaul, to the 110 000 of some transport economists Kneel Matula, communications manager of the SA Black Taxi Association, claims there are more than 100 000 affiliated to his organisation.

It matters little who is right and who is wrong. The black taxi industry is now suffering from the same problems affecting the bus industry — vehicles standing idle between peak periods. A small number of operators pick up loads during the day, but they are seldom profitable. Most can be assured of profitable passenger loads only during peak periods.

Walters recently took Transport Minister George Bartlett on a helicopter flight over black townships in the PWV area. Large car parks were visible, filled with taxis waiting for the evening rush. Most were destined to drive nearly empty, or unprofitably, to their pick-up points in order to get profitable loads back.

Bus operators say government should continue subsidising commuters' fares. Unlike rail, where the State subsidises all suburban line passengers, it only subsidises bus passengers who travel in peak periods. Passengers who use buses between peak periods pay full or "economic" fares.

But it is highly unlikely that government will continue picking up the subsidy tab. This year's R373m subsidy is already 15% (in real terms) below the R540m paid out last year. And, apart from this drop in support, government is intent on shifting the subsidy burden to black government shoulders.

In his 1989 transport budget speech, Bartlett said provision would be made for regional passenger authorities in the new Passenger Transport Bill, to be tabled in parliament next year. These authorities "will be obliged to compile commuter transport plans for their regions, taking into account land use planning and the available funds for the development of infrastructure and subsidy payment, where necessary."

Industry sources anticipate that large metropolitan municipalities — funded by local ratepayers, and regional services councils — funded by business levies, will be nominated as regional transport authorities. But subsidies will be phased out by the end of 1997 and that all routes will be opened up to all. Currently subsidised bus companies, unable to beat off competition, will fall by the wayside. And local transport authorities will then have to decide whether it suits them to continue operating routes that are clearly uneconomic.

If they feel a commuter transport service is necessary, they will be forced to subsidise it — but where the money will come from is a problem that has yet to be solved. Regional services councils already struggle to meet operating expenses.

The answer may be to follow government's example and to allow an unsubsidised black taxi type of service, which would be a sensible option for cash-strapped regional transport authorities. For example, in 1984, government subsidised 71% of all black commuters. Last year, because of the move to black taxis, it subsidised only 51% of them.

But, shifting the transport burden on to the private sector is only part of the solution. Additional funds will have to be found to provide the infrastructure of highways and roads to cope with the growing tide of black traffic. At this stage, it certainly looks as if there are more problems than answers to the urban transport issue.
Voltex gets 52% in UK company

Financial Staff

THE recently restructured electrical and electronics giant Voltex Holdings has propelled itself into the international arena in a deal which will result in the company taking a 52% control in British-based Bennett & Fountain Group PLC (B & F), subject to the approval of B & F’s shareholders.

The B & F group has a network of some 110 wholesale and retail electrical distribution stores throughout Britain, which “will provide Voltex with an offshore base for exporting products to the UK and increasing utilisation of Voltex’s production facilities”.

The group is listed on the London Stock Exchange, with a current market capitalisation of about £17.5m.

The deal is expected to slightly reduce the net asset value and earnings of Voltex, which is jointly controlled by the Elcentre and Berzack groups, but the longer-term implications are considered to be favourable.

Based on Voltex’s recent interims, which reported 50% higher earnings of 24.3c and a net asset value per share of 92c, the deal would reduce these to 22.1c and 85c respectively.

The “infusion of new management, rationalisation of operations and Voltex’s ability to increase substantially the level of its exports” are factors expected to improve B & F’s performance and increase its earnings in the future.

B & F currently has 42.5m shares in issue which will be topped up to 89m by Voltex’s investment of some £20m.

This amounts to about R130m at the current rand exchange rate — funded through Voltex’s borrowing facilities with a rights issue by Voltex, a longer-term consideration.

Voltex director Philip Aginsky will be seconded as CE of B & F and Reuben Mowszowski and Mayron Berzack will also join the board in non-executive capacities.

Voltex shares are currently listed at about 200c, having risen in response to the recent results announcement and rumours of a major offshore deal.

The current yields at this price are 12.2% on earnings and 4.5% on dividend.
Thumbs up for Safegro unit trust

By JULIE WALKER

SAFEGRO unit trust, launched on Tuesday, has received a pleasing response, says fund manager Kevin Cockcroft. Safegro Holdings, of which the trust is a part, was formed recently as the investment arm of Hosken Consolidated Investments — the major shareholder in IGI.

The general equity fund is aimed at the IGI client base, well represented in rural areas.

Mr. Cockcroft says the Registrar of Unit Trusts requires that trusts be for the benefit of the public. Mr. Cockcroft believes the public will be best served if the investment amounts are affordable to the expected client base. The smallest lump sum will be R100, and the minimum monthly debit order R25.

High

There have been plenty of inquiries and cheques are arriving. The number of debit orders will take longer to quantify.

Mr. Cockcroft says the stock market has fallen since February, but because interest rates have probably peaked, share prices should recover when corporate earnings are not reduced by interest bills.

The scrapping of tax on dividends in the hands of individuals is another plus for investing in a unit trust. Unitholders will get a higher income.

Safegro will invest in high-quality shares, although some money will be earmarked for second-line stocks with good earnings records and growth prospects.
De Beers/Centenary AG listing today

De Beers and Centenary AG groups from the distribution by De Beers per equity share before the rearrangement.

The only difference will be that unitholders will now receive dividends directly on their Centenary AG deposits receipts as well as their De Beers equity shares, instead of only from one source.

It is expected that no less than 80% of the dividends distributed by the Centenary AG group will be paid by the Luxembourg subsidiary, Centenary Holdings, the balance being paid by Centenary AG itself.

It is also intended that dividends will be declared in such a way that unitholders can expect to continue receiving payment of dividends during or about November and May each year.

Ogilvie Thompson names as reasons for the re-arrangement, to:

- Enable equity shareholders better to identify the earnings, dividends and assets attributable to the foreign group and the SA group.
- Provide equity shareholders with listed securities representing interests in, and entitling them to receive dividends from, both the foreign group and the SA group.
- Enable the foreign group and the SA group better to develop their respective businesses overall, with appropriately focused strategies and objectives, and generally to facilitate the conduct of business internationally, and
- Facilitate access to the international markets.

Own Correspondent

JOHANNESBURG. — De Beers/Centenary AG joins the list of JSE counters today in the most valuable listing in SA history.

Based on Friday’s closing price, the notional market capitalisation of De Beers/Centenary AG will be about R67bn, more than ten times bigger than Iscor’s notional market capitalisation when it was listed on the JSE.

Friday marked the last day of trading in De Beers Consolidated, usurped today by De Beers/Centenary AG as SA’s most valuable and charismatic share.

Now certificates, representing a linked unit in De Beers SA and a depositary receipt in Swiss-based Centenary AG will first change hands today on the JSE.

According to circulars released by De Beers/Centenary AG, Centenary AG will be centred on diamond marketing and distribution, while De Beers SA will hold the diamond mining business and other domestic interests.

Stock exchange listings for De Beers/Centenary AG have been sought in London, Johannesburg, Zurich, Geneva, Basle, Lausanne, Frankfurt, Paris and Brussels for the De Beers/Centenary AG linked units.

De Beers/Centenary AG chairman Julian Ogilvie Thompson stated in a circular to shareholders:

“The diamond industry operates on a global basis, and it is desirable that the two groups (De Beers and Centenary AG) should co-operate in the interests of shareholders in the diamond industry as a whole.

“To this end, it is proposed that as far as possible the two groups will be administered by identical boards of directors, and their securities will be linked so that they will be tradeable only as linked units.

Ogilvie Thompson stressed that the overall capacity of the De Beers/Centenary AG to pay dividends will not be affected by the rearrangement.

“It is not intended that the rearrangement should result in any reduction in the combined dividend distribution per De Beers/Centenary AG linked unit by the
Delta gets stake in Jasco

Delta Electrical has announced the acquisition of a 20 percent stake in electronics group Jasco.

The deal puts an average price of 73c on Jasco shares, compared with the current market price of 50c.

Delta will be injecting Procom, one of its operating subsidiaries, into Jasco, which has a similar business, in exchange for an 11.5 percent stake share in Jasco.

The purchase consideration is expected to be around R2.5 million.

Delta will buy an additional 8.5 percent from the controlling shareholders of Jasco for a cash consideration of 71c a share — ex dividend.

According to an agreement between Jasco and Delta, the latter will always be entitled to maintain its shareholding in Jasco at 20 percent should further shares be issued by Jasco.

Delta and the controlling shareholders of Jasco will have pre-emptive rights in the event of a sale of their respective shareholdings.

Delta will appoint two directors to the Jasco board.

If the acquisition of Procom had been effective for the 12 months to end-February 1990, Jasco's earnings per share would have been 13.1c, compared with the actual 12.8c reported. Net asset value would have been increased to 37.7c a share from 32.7c.

On the basis of the 50c market price, Jasco is on an historic P/E rating of just under four times. Delta has ascribed a P/E rating (on the basis of the pro-forma revised earnings figure) of 5.5 times.

This stamp of support from Delta and the fact that Delta is highly regarded by institutional investors should help lift Jasco closer to the 73c level at which Delta values it.
SAB plans Suthsun delisting in R120m deal

Own Correspondent

Johannesburg — SAB Breweries (SAB) is to take its subsidary Southern Sun Hotel Holdings (Suthsun) from the JSE in a R120m deal involving the buy-out of minority shareholders.

Today's announcement follows last week's suspension of Suthsun's shares, and speculation since the release of Suthsun's results to March that it would be delisted as a wholly-owned subsidary of SAB.

In the wake of the announcement, market analysts are speculating that another of SAB's "underperforming" subsidiaries, OK Bazaars, could be going the same route "based on a comparison of the two group's results, and the logic behind the Suthsun delisting".

In terms of the Suthsun deal SAB — which holds 83.4% of Suthsun — is offering minorities (other than Kersaf) a premium of 65c on the prevailing 585c value of the share for the 10.6% stake SAB will be paying R48.4m. For its part Kersaf Investments will receive R71.6m for its 21% stake, translating to 485c a share.

Shareholders also have the option of accepting SAB shares offered at a price of 460c a share, or a combination of shares and cash SAB dropped 50c to 4000c yesterday.

Analysts said the cash option looked more attractive "SAB's share price is overvalued, probably pushed up in anticipation of this announcement. The 65c offer puts Suthsun on a high p/e ratio of 17.2. The 485c offer, proposed by UAL Merchant Bank and accepted by Kersaf, was considered "highly satisfactory" by Kersaf, chairman Buddy Hawton said yesterday.

"It was a straight commercial decision," he said, adding that Kersaf had no specific plans yet for the proceeds of the sale.

Suthsun directors said that the group's high gearing and urgent need for cash, in light of the group's expected profitability, necessitated that the current dividend distribution practice of 70% of attributable earnings be "re-assessed."

The gearing — presently at 64% and almost double the 33% level of the previous financial year — was due to past refurbishment requirements of both the Southern Sun and Holiday Inn hotel chains.

OK Bazaars' gearing jumped to 67% (47%) in the past financial year.

Suthsun had also budgeted to spend further "significant" sums on both hotel chains, directors said.

"It would be appropriate for Suthsun to be delisted to avoid any possible conflict between the long-term requirements of the company and the interests of minority shareholders."

The scheme is not expected to have any material effect on either the earnings of NAV per share of SAB.
CAROL SCOTT has been appointed an executive director of Impindlak.

CATHERINE has been appointed an executive director of Impindlak.

Three Allied board members voted out of office

Mr. PHILLIPS has been appointed MD of Impindlak & Vestacor Ltd.

Mr. JACOBSON has been appointed an executive director of Mathisson & Ashley Holdings Ltd and Vestacor Ltd.

Michael McMahon has been appointed MD of Impala Platinum Holdings.

OWN CORRESPONDENTS JOHANNESBURG — The power struggle on the Allied Group board over the Allied/Sage cooperation agreement became acrimonious at a marathon general meeting yesterday when three prominent board members were voted out of office.

Hostilities were renewed when Kevin De Villiers, MD of Allied, and Lou Shill, MD of Sage, went into a long period of silence when their proxy votes had been counted. Mr. Shill had obtained a 25% interest in the company, while Mr. De Villiers had obtained 20%.

The appointments of Blue Circle chairman Trevor Coulsen, Allied Building Society MD Don Munro, and retired commissioner of the Revenue Micky van der Walt, which were made during the year, were not confirmed by the meeting which lasted about four hours.

These three were believed to have adopted a "cautious" approach to the implementation of the agreement. Sage's position on the board was maintained by the re-election of Sage director, Noel van der Walt.

One source said the bone of contention between the Allied and Sage managers revolved around the extent of implementation of the agreement, which Allied claims costs the group R300m-R10m in lost profits annually and boosts the deficit of the group by R10m.

The agreement emerged out of the listing of Allied when Sage underwrote the issue of shares to the tune of R500m and there was a cross exchange of shares
SAA fares to increase by up to 40%?

By DANIEL SIMON

SOUTH AFRICAN AIRWAYS looks set to increase its domestic fares so that private air carriers can compete with it on inter-city routes when domestic air travel is deregulated.

One private airline company managing director indicated yesterday that if his company was to compete on an equal financial level with SAA, the giant carrier would have to increase its fares by as much as 40%.

SAA corporate affairs director Mr Leon Els said yesterday that SAA's present domestic fare structure was too low for competitors to compete against. As a result, an increase in fares was "very high on the agenda".

Mr Els said it would be wrong for people to think fares would decrease when competing airlines entered the market.

"Air fares will not decrease as a result of deregulation — they will increase." He said increases would be announced before full deregulation was expected to come into effect in June next year.

"Indications are that the new Domestic Market Act will be in force in June next year," Mr Els said.

He said a date for implementing the increases had not been finalised. However, when they were implement-ed, the present 40% discount and other discount structures would be retained.

SAA last increased its domestic fares by 15% in December last year, he said.

Civil Aviation chief director Mr Ja- pie Smit said the Domestic Market bill was expected to be tabled in the next few days.

He said that when passed, deregulation would take place with almost immediate effect — but in two phases.

"The first phase will see airline companies being able to fly the same routes under the old act but without the 'economic regulation'. This regulation stipulated that only one carrier could fly a particular route," Mr Smit said.

He said full implementation of the programme would take place over the next year.

The managing director of Comair, Mr Peter van Hoven, said though he was speculating, SAA would have to increase its fares by as much as 40% to make it economically worthwhile for his company to compete.
In a R28m transaction . . .

Investec
acquires
Corbank

By AUDREY D'ANGELO
Business Editor

INVESTEC BANK has bought Corbank from Cape Town-based Corporate Investment Bank Group (CIBG) in a R28m deal. An announcement last night said it would be paid for “through the issue of shares and/or cash”.

Investec executive chairman Bas Kardol — who tried unsuccessfully to buy Corbank 10 months ago — explained that the details of payment still had to be worked out. CIBG will ask the Reserve Bank to allow it to keep Corbank’s foreign exchange dealing licence and will retain Corbank’s Johannesburg dealing room.

“That was what they were after in the first place,” said Kardol.

“And we do not need it because we already have our own.”

He said the terms of the deal were very much in line with those in the original offer Investec made for Corbank last September.

The acquisition would put Investec a year ahead in growth projection. It meant that assets under Investec’s administration would grow to more than R5bn. And if in the future, Investec acquires “a major player in its niche markets”.

Kardol said there was considerable synergy between Investec and Corbank and the benefits would be significant. The acquisition would add about 8% to earnings per share on an annualised basis.

“Our stated policy is to grow organically and by acquisition. The rationalisation of the financial services industry is a major trend.

This deal further strengthens Investec’s already sound position and brings together very compatible forces.”

The deal, which has still to be approved by shareholders, was facilitated by Errol Grolman, a founding director of Investec, who joined Corbank a month ago.

“I was asked by CIBG to reassess Corbank’s asset structure and align this with the strategic objectives of the group. We identified Investec as the best candidate to deal with.

“Synergies were the greatest and the potential to maximise the utilisation of assets the highest.”

Last night’s announcement said that “management takeover is immediate and there will be no suspension of shares”.

Andy Swartz, MD of CIBG, said the deal would give the group surplus cash for substantial asset and organic growth without the need of a rights issue. It would also ensure “that we comfortably comply with the provisions of the proposed Deposit Taking Institutions Act.”

It would also mean a 20% rise in projected earnings for the period from July 20, 1990, to June 1991, from 44c to 53c.

CIBG chairman Jan Pickard junior said: “We believe the rationalisation of Corbank operations resulting from the transaction will greatly enhance our future earnings and our ability to service our client base.”

A separate announcement last night stated that a consortium consisting of Investec, CIBG, Errol Grolman and others would launch an investment banking fund. It would be managed by Grolman.”
CIBG scores in Corbank deal

By Ann Crotty

After a delay of 10 months Investec has acquired Corbank and, according to Investec, for about the same price it was ready to pay last August.

Investec has acquired the Corporate Merchant Banking division of Corbank for about R28 million from Corporate Investment Bank Group (CIBG — formerly Cape Investment Bank).

The corporate merchant bank division of Corbank is its major asset, but because Investec is buying a division and not the listed entity, it does not have to make an offer to Corbank's minorities.

These minority shareholders are currently considering an offer from CIBG comprising 60 new shares in CIBG plus R33 cash for every 100 Corbank shares held.

Yesterday CIBG was trading at 290c and Corbank at 155c, which means the CIBG offer is valued at R173 for 100 Corbank shares valued at R155.

But now Corbank's main asset is the R28 million cash that has come from Investec plus some trading activities (chiefly forex-related). The cash alone is equal to about 200c per Corbank share.

If the bulk of the Corbank minorities accept the CIBG offer, Corbank will be delisted on June 22.

CIBG acquired control of Corbank early this year. It is paying R4,83 million cash and issuing 8,27 million new CIBG shares for Corbank.

This suggests CIBG's fairly brief involvement with Corbank has significantly enhanced CIBG's balance sheet. It has resulted in a stronger equity base and produced a hefty cash injection.
Klipton in R10-m deal

Finance Staff

Klipton has acquired 100 percent of Access & Mobility group for R10.5 million.

The purchase price will be paid in a mix of cash and shares. Two million new Klipton shares (an increase of 27 percent) issued to the vendors have been placed with a number of institutions at 308c a share. Yesterday Klipton was trading at 205c.

The use of shares means that despite the acquisition, gearing will remain below the group's self-imposed limit of 50 percent.
Blue Circle takes stake in Luft Ind

Business Editor

THE Blue Circle Group has acquired a controlling interest in Cape Town-based Luft Industries, for an undisclosed sum.

Announcing this yesterday, the chairman of Luft Industries, Ray Ball, said he was delighted with the move "as it will not only strengthen the company's position in the marketplace, but also its access to technical expertise in addition to its existing overseas links."

Luft Industries is a rapidly growing firm employing about 100 people in its Montague Gardens factory, where it makes fans and heating and air conditioning equipment.

MD Ray Miller, a founder of the firm, said he had a contract to remain for another two and a half years. Both he and Ball, who lives in Britain, will remain on the board.

Miller said one reason for deciding to sell was to ensure continuing security for employees by making Luft part of a large group.

"I am no longer young. And I wanted to be sure the business would be carried on if I were knocked down by a bus, or anything like that."

A spokesman for Blue Circle said it complemented other engineering activities carried on by the group.

Pepkor group on acquisition trail

THE Pepkor Group is investigating a number of possible takeovers which would complement its existing business, chairman Christo Wiese says in the annual report.

This includes export-orientated companies to strengthen Pep International — responsible for the development of group exports which, the report says, are "already contributing significantly to our profitability."

The examination of "various other expansion possibilities involving neighbouring states and other countries is at an advanced stage."

Discussing conditions in SA, Wiese says the group is "more optimistic than ever about the future."

"This does not mean that we underestimate the obstacles en route, but we do believe that success is realistically achievable, given purposeful and inspiring leadership across the entire spectrum of our population."

Pointing out, however, that the past year "has also seen its share of reversals on the road to a better future", Wiese says that "the anticipated acceleration in the rate of decline of the economy, increasing political unrest in large areas of the country and a lack of sustained overseas optimism after February 2 have all contributed to difficult trading conditions."

But "in spite of the likely negative impact on our target market of the currently difficult trading climate, the group is still favourably positioned to perform satisfactorily."

The group's strength is in organic growth.

But since it is "developing reserve capacity in terms of financial and management resources, a number of takeover investigations are under way within the ambit of our mission statement, with the emphasis on complementing our existing businesses."

The group achieved earnings per share of R70,8c (49,6c) and operating profit of R134.6m (R111.6m) on a turnover of R1,6bn (R1,1bn) in the past financial year.
Opening the doors to the Stock Exchange

Is there a difference between saving and investing? Not really. Saving is usually used in connection with many of the products which banks offer. A savings account is an obvious example. If you have spare cash, you put it in the savings account and when you need money, you draw it out again. As an investment suggests that there is more to it than simply putting your money in and drawing it out again. Investment means making your money work for you and it could involve some risk as well.

Buying and selling stock market shares could be referred to as an investing rather than saving.

But there are other differences which are probably more important. Where should I invest my money? What company should I select? And which savings or investment plan will be the best for me?

What would I like to do in this and subsequent years? What are the chances of success? What are the risks involved in this? What are the returns that I can expect?

You will need to assess your personal circumstances in order to make the right decisions and your circumstances.

1. What do you want from your investment plan?
2. Money investment plans. Ideal only for two things for you.

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Russians to save gold?

By JULIE WALKER

THE JSE paused for breath on Friday after one of the goriest weeks in years. Foreigners long in gold began to hope that some of SA's mines would be forced to close by the metal's sharp price fall. Until supply is reduced, few believe gold will sing a happy song.

Others hope that the panic selling, triggered by the Commercial Bank of Jeddah's selling after oil eased, will dry up. The price steadied on Friday at R37.50, but there was no interest.

Yet more optimists hope that the Russian bears will turn to fighting and a power struggle in the Kremlin will save SA's day.

SA institutions were sidelined, licking their wounds after Thursday's earthquake. Private clients were right out. Jobbers took a little stock, but trade was tardy.

There was a bit of window-dressing to push up the industrial indices on the closest day for futures contracts. But of concern is the fact that the economy will struggle more if gold dies. Industrial shares held fairly well, but expectations of earnings growth will change if the economy is hard hit.

Barlochs shed R1.50 to R35.50, while Amco lost R2 to R91. Results from the Rembrandt group were in line with expectations and Remgro shares slipped by only 75c to 1.40c in sympathy with the market.

But SA Breweries weakened by 30c to R37.50. Analysts believed they were over-priced and SAB will probably have to pay cash to take out Southern Sun's minority shareholders, because the share alternative prices SAB at 4.90c.

Null patents were hit because of their gearing to market changes. Trade in Northam's NPL closed at 10c, the range was 40c to 80c. Middle Wits's NPL fell from 90c to 30c, closing at 30c.

Barmines sank to a low of 20c before regaining 20c. Talk persists that the plant has teething problems. Holding company Barplate touched 85c before rising to 87c.

The largest percentage changes in share price were confined to the lower-priced counters, generally the second-liners.
Financier seizes Helical assets

PIERRE DU PREEZ

DCM-listed Helical Holdings was in a critical financial position, Merchant Trade Finance (MTF) MD Robert Taylor said on Friday.

He said the engineering group had a total estimated debt of between R14m and R17m.

MTF, which finances trade and working capital, extended loans totalling R1.0m to Helical for the period November 1989 to April 1990.

The company obtained a Rand Supreme Court order last week enabling it to take possession of Helical's moveable assets valued at about R25m.

Taylor confirmed some of the assets had already been sold for R750 000. Various offers had been submitted for the rest, he said.

"MTF took action in terms of its loan agreement, securing its monies, and liquidation is inevitable," Taylor said.

An announcement on June 1 said Helical shares had been suspended at the request of its directors. It said negotiations were under way which could have resulted in a change of control of the company. Another

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Helical

reason given for the suspension was that year-end results would be substantially lower than expected at interim stage.

In August a 28% increase in after-tax income was reported for the company's maiden year to end-February 1989.

However, Taylor said an investigation on June 11 revealed that Helical had sustained substantial losses and could not meet its daily commitments — including the rent at its Parktown offices — and was considering placing itself under judicial management.

He said he believed Helical had extensive contracts with Armscor.

However, Taylor said most of Helical's debt would be recoverable as sureties on plant and machinery existed.

Repeated attempts to contact Helical management for comment proved unsuccessful.
Helical liquidation move expected today

PIERRE DU PREEZ

AN APPLICATION for the provisional liquidation of DCM-listed Helical Holdings would be on the roll of the Rand Supreme Court today, Merchant Trade Finance (MTF) MD Robert Taylor said yesterday.

Investigations regarding possible "substantial misrepresentations" to the board of directors were under way, a source said.

MTF was involved in the granting of loans to the engineering company until it became apparent the group was in a critical financial state.

Taylor also confirmed that subsidiary, Helical Trading, was placed under provisional liquidation yesterday.

He added that as far as he was concerned, there was no light at the end of the tunnel for shareholders.

Taylor did not know whether charges against anyone closely associated with the company were being looked at.

A person involved with Helical said yesterday he thought the company had been grossly mismanaged.

"You had the basis of a fabulous company here," he said.

Investigation

A non-executive director of the company echoed this sentiment more strongly.

"To say the company has been mismanaged is a gross understatement. We are looking at the possibility of substantial misrepresentations having been made to the board," he said.

GM of listings on the JSE Richard Connellan confirmed yesterday the company was under investigation, but he would not comment further.

On Friday, a market analyst said he thought Helical would not be the only company to experience problems with cash flow in the volatile economic climate.

But he did not feel it reflected badly on the DCM, saying it was rather a sign of the times.

The non-executive director felt the Helical experience reflected badly on the DCM sector, but an investigation would help answer a lot of questions about the past conduct of the company's management.

A number of issues were still being investigated, he said, adding that the outlook for shareholders was not very bright.

Helical was listed on the DCM in 1988. At one stage a move to the main board was even anticipated.

However, shares were suspended at the beginning of this month and the group vacated its premises in Parktown last week as it could no longer afford to pay the rent, Taylor said.
Arwa sold for R42m

Johannesburg — The assets and liabilities of Tollgate Holdings (TGH) subsidiary Arwa have been sold for R42m to Arwa chairman Johan Claasen in his capacity as trustee of a new company which has yet to be formed.

The announcement today has put an end to weeks of speculation about the fate of Arwa, 87.7% held by TGH.

The only asset of Arwa following the sale would be R42m in cash or 181.6c a share, a 29% increase of 37.6c a share over the consolidated net asset value a share of 144c at December 1989.

Arwa is to become a cash shell and its JSE listing will be suspended for six months.

Claasen has resigned all his directorships in Duros and its subsidiary and associated companies. A consortium of Julian Askin, Mervyn Key, Hugo Biermann, Lawrie Mackintosh and Claassen paid R4m for control of Duros, the 60% holding company of TGH in March.

The Duros chair is jointly occupied by Key and Askin, the TGH executive chair by Askin, and Claassen is the TGH CE, SA operations.

Claasen said yesterday a scaling down of operations would occur because of the economic conditions in SA, this would benefit Arwa and workers in the long run.

Gold closes at day’s lows

London. — Gold bullion came under slight pressure towards the close as New York values slipped on light selling interest, dealers said.

Gold closed at the day’s low of $347.50/$348.00 an ounce, after trading in a narrow $1.25 range during the session. On Monday the market finished at $349.25/$349.75.

Dealers said turnover and interest for gold remained minimal, but underlying support at $346 had stood up well.

However, one dealer said gold’s tone remains bearish, with some investors anticipating further selling.

Gold also remained quiet and was fixed at $478.15 an ounce, down $0.10 on its morning fix and little changed from Monday’s $477.87/$478 close.

Silver was last quoted at $4.84/$4.86 an ounce, matching its opening and previous close.

• In Zurich, gold closed $0.40 lower at $348.70/$349.20 an ounce.

• In New York, gold closed at $348.25/$348.75. — Reuters
ERPM involved in balancing act.

If ERPM had to exploit its rich ore reserves now, the mine would only have a life of about 18 months and not be in a position to re-establish reserves below its Far East area.

This was the view of ERPM MD Karl Eich when he was questioned yesterday by Mr Justice D A Melamet at the commission of inquiry into the viability of additional government funding to save the mine.

The judge asked why ERPM was worried about reserves for the future when it was faced with the near-term possibility of having to close down. Mr Eich said it had been necessary for ERPM to present a plan to meet its long-term commitments, including its interest payments.

Earlier at yesterday's hearing Mr Eich said ERPM had reduced the number of underground workers from 7,641 in April to 4,400 and was planning to cut this figure to 3,400.
20 gold mines now facing loss situation

By Michael Chester

New surveys by the Chamber of Mines have revealed that the number of gold mines threatened with operating at a loss because of the collapse of the bullion price has grown to 20 — with a combined labour force of more than 200,000.

The growing threat was disclosed by Kennedy Maxwell in his presidential address at the annual meeting of the Chamber in Johannesburg yesterday.

As the warning was being delivered, the gold price was still struggling below $350 an ounce on world markets, its lowest in four years.

Mr Maxwell warned that unless the gold price recovers and there is a dramatic improvement in the bullion price, total gold production — at a peak of 1,000 tons a year in 1970 and already down to 600 tons last year — looks likely to fall as low as 400 tons or even 300 tons for 1980.

Production at the 20 mines on the sick list had been running at about 210 tons, worth no less than R6.5 billion a year in total foreign exchange earnings.

But Mr Maxwell made it plain that the actual closure of any of the mines would be considered only as a last resort. "Closing a gold mine is a traumatic and difficult business," he said.

"Not only does it give rise to the demise of thousands of jobs but it invariably means that even if the gold price were subsequently to recover the mine could have to be closed permanently."

A lowering of the rand exchange rate would help a number of the mines, but the danger was that inflationary pressures would be encouraged rather than curbed.

However, the situation was more positive in the coal mining industry. According to Chamber estimates nearly 50,000 new jobs could be created by the lifting of sanctions on coal exports and a positive economic growth rate.

Mr Maxwell said the result could be a dramatic climb in total coal production to as high as 320 million tons a year by the end of the 1990s.

He said it would mean the direct recruitment of 20,000 more mineworkers by the collieries themselves, and the creation of an additional 18,000 new jobs elsewhere in the economy.

The coal mines had already achieved new export records, with overseas sales last year jumping to 47 million tons, bringing in R8.6 billion in foreign exchange, or R600 million more than in 1988.
Columbia 'on track for growth'

NEIL YORKE SMITH
COLUMBIA Consultants, restructured and refocused, is on track for controlled earnings growth, CE Gordon Polovin said yesterday.

Columbia has disposed of its diverse portfolio of investment holdings and focuses on its 58%-60% stake in listed rural retailing group Acrem.

Discussing Columbia's earnings for the year to March 31, Polovin said they were not strictly comparable with the previous year's figures because of distortions created by restructuring.

Earnings a share of 20.2c (33.1c) enabled the group to declare a 15c (19c) dividend.

Expansion

"We've been through a difficult time. The problem with such a broad restructuring programme is that the holding company loses out on earnings from the operations it is selling, and does not necessarily gain the immediate benefit of interest on bank balances."

Polovin said all the companies display strong balance sheets. After its rights issue, Acrem's gearing will fall from 124% to 38%.

The stronger financial base will facilitate further expansion, already begun with Acrem's recent £4m acquisition of H Loubner & Sons.

Acrem's performance for the year to March reflected an impressive 35% increase in EPS which reached 15.6c (11.6c). A dividend of 5c a share was declared.
Judge rules on Helical companies

DCM-listed Helical Holdings and a subsidiary, Helical Trading, were placed in provisional liquidation in the Rand Supreme Court yesterday following urgent applications by one of its creditors, Merchant Trade Finance (MTF).

The provisional orders, which were opposed, were granted by Mr Justice MacArthur.

In an affidavit, MTF MD Robert Taylor said his company was owed R1 986 151 by Helical.

He said Helical Trading was liable for the amount in terms of a suretyship executed by the company together with other subsidiaries in the Helical group.

Taylor said he had seen a report in Business Day on June 1 to the effect that Helical's listing had been suspended.

He had telephoned Helical deputy chairman Frederick Branton to ask him the true reason for the suspension of its shares. Branton told him the reason for the suspension was a boardroom dispute and not a financial one.

However, at a subsequent meeting Branton said in contrast to previous statements — that the company had made a profit of R1m for the financial year ending February 1990 — the holding company had in fact made a R1m loss.

One of the contributing causes given was that the Plastiform business carried on by Helical Trading had failed to account for certain accrued interest.

Taylor said Branton also stated Helical would not be able to meet its commitments to MTF.

He said that because of the rumour about Helical's affairs, certain key personnel had threatened to leave.

It was therefore necessary for a liquidator to be appointed to try and retain the services of these employees to ensure the continuation of business in the hope of disposing of them as a going concern, said Taylor.
Arwa chief leads R42m buyout

ACRIMED KARIEM

THE assets and liabilities of Tollgate Holdings' (TGH) subsidiary Arwa have been sold for R42m to Arwa chairman Johan Claassen in his capacity as trustee of a new company which has yet to be formed. 

The announcement today has put an end to weeks of speculation about the fate of Arwa, 57.7% held by TGH. 

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Arwa is to become a cash shell and its JSE listing will be suspended for six months. 

Claassen has resigned all his directorships in Duros and its subsidiary and associated companies. 

A consortium of Julian Askin, Mervyn Key, Hugo Biermann, Lawrie Mackintosh

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Arwa and Claassen paid R6m for control of Duros, the 63% holding company of TGH in March. 

The Duros chair is jointly occupied by Key and Askin, the TGH executive chair by Askin, and Claassen is the TGH CE. SA operations. 

Claassen has sold his remaining 589 000 shares in Duros for 65c a share to a new controlling consortium of Duros and institutional investors.

Claassen said yesterday a scaling down of operations would occur because of the economic conditions in SA, this would benefit Arwa and workers in the long run.

A SA Clothing and Textile Workers' Union (Sactwu) spokesman said the 709 workers were working a three-day week at present.

Arwa is one of the major employers in the Free State town of Parys.
Finance Staff

A powerful new life assurance group, with total assets of R500 million, has been formed by merging the interests of AA Life and Crusader Life under the umbrella of Anglovaal.

This represents another major move into life assurance by diversified finance, industrial and mining group Anglovaal.

To establish the new group, Cruhold (Crusader's holding company) is to acquire AA Life's 95 percent interest in AA Life Assurance Association in exchange for the issue of 123.8 million ordinary Cruhold shares.

Both AA Life and Crusade will continue to operate independently to exploit their own markets.

To reflect Anglovaal's 41.1 percent interest in the AA Life Group, Cruhold is being renamed Anglovaal Insurance Holdings (Avins), while the AA Life Group is being renamed the AVF Group.

The acquisition will result in Avins becoming a subsidiary of the AVF Group and AA Life and Crusader Life becoming subsidiaries of Avins.

The combined assets under the group's control will be about R500 million and put it among the top ten life assurance companies in South Africa.

Clive Menell becomes non-executive chairman of Avins and Brian Benfield, CEO of AA Life, will be group managing director.

R Rowand remains chairman of Crusader Life and becomes non-executive director and deputy chairman of Avins.

Bob Rowand remains managing director of Crusader Life and joins the board of Avins.

Outlining the rationale for the deal, Dr Benfield said last night: "Crusader Life considers that the stage had been reached in its development where additional capital will be required if it is to continue on its projected growth path, which could lead to a change of control."

"The board felt it should reach agreement with a suitable new controlling shareholder now, rather than perhaps creating a situation of vulnerability in the future."

The financial effects of the proposal, still to be ratified by the JSE, will be to decrease AA Life's pro-forma earnings per share (in the year to April 1990) by 4.2 percent to 15.9c. Dividends will increase marginally by 1.8 percent to 11.4c per share, while the net asset value will fall from 82.8c to 81.5c per share.

On Cruhold the effect is to increase EPS by 23.6 percent to 9c, while dividends will fall by 8.6 percent to 6.4c per share.

The net asset value drops by 19.7c to 44.3c per share.
Arontex share dealings investigated by the JSE

By Sven Lusche

The Johannesburg Stock Exchange yesterday called for returns from brokers of all deals in the shares of Arontex Holdings in the two weeks before the company's provisional liquidation in the Pietermaritzburg Supreme Court on March 20.

The company was finally liquidated in April.

Arontex shares were suspended the day after the provisional liquidation but it appears that word of the pending crisis at Arontex became known a week earlier.

On March 15 the share price fell from an already low 15c to 4c and the day before the suspension more than 1.2 million shares were traded, compared with a previous monthly volume of 140,000 shares.

The companies liquidated were garment manufacturer Arontex Holdings and four major subsidiaries: Lara's Manufacturing, Supergear Clothing, Personality Gowns and Roots Clothing, all of which traded in Port Shepstone.

Liabilities of the main operating firm, Lara's Manufacturing, were put by the court at R18.6 million with realisable assets of about R4 million.

After the liquidation former directors of Arontex — including chairman Trevor Aron — were summoned to give evidence into reasons for the group's failure and to try to ascertain the movement of some of the stock.

Other subpoenaed witnesses included former financial director Alan Gristhain and company drivers, who were called in to try to resolve the stock question.

Separate claims against Mr Aron totalling R257,000, arising from the liquidation of Durban-based Taron Properties, of which he was the sole director, were withdrawn last year.

In a report this morning Mr Aron said he had never sold any of his 5.1 million shares in Arontex, but former director Selwyn Kowolak indicated he had sold 100,000 of his 1.2 million shares before the suspension.

The JSE said it had considered the returns and "in accordance with normal procedure" had forwarded the documentation to the Registrar of Companies.
Major pitfalls on the acquisition trail

Using mergers and acquisitions to boost corporate growth has had mixed results. In some cases it has proved disastrous. The element of risk can be substantially reduced if the acquirer first sets out a well considered strategy, reports ANN CROTTY.

There are other criteria such as the sort of synergies/earnings ratios that the buying company is prepared to pay, the method of payment and, the possibility of a consequent short-term earnings dilution. Once a potential candidate has been identified a "due diligence investigation" is necessary. This involves an intensive examination of purchase targets. According to Mr O'Leary "Due diligence reviews take a long, hard look at target companies to see if they are worth buying and to check for skeletons in the closet."

The due diligence investigations focus on three major areas - the business, financial and accounting information and, legal matters. It is important that there is interaction between these three areas.

Areas of difficulty

"Although the attorney may protect the buyer against the assumption of this liability through an express warranty or indemnification in the purchase agreement, the violation of the loan agreement may permit the bank to accelerate the due date of the outstanding debt."

"This is crucial information for the accountant since a possible higher interest rate negotiated under a new loan agreement would have a significant impact on the financial projections he is preparing."

According to Mr O'Leary, the financial and accounting "due diligence" will often reveal the following areas of difficulty:

- Overvalued inventory due to unrecorded write-downs or write-offs of slow-movers or obsolete in ventary or, failure to count inventory properly.
- Undervalued inventory due to overvaluation of inventories reserved or write-downs or the failure to count or correctly value inventories on hand. This situation may be encountered when privately held companies attempt to minimize taxes.
- No recorded liability for returnable inventory even though there is a practice of accepting returns several months after the purchase date.
- Unusual sales recognition policies such as pre-invoicing.
- Unrecorded liabilities such as inadequate reserves for unexpect ed quality problems for recently introduced products' warranties.
- Inadequate reserves for doubtful accounts, cash and trade discounts, sales returns and allowances.
- The "due diligence investigation" will also reveal the extent to which "window dressing" exists in the target company's figures. Such window dressing could stem from delaying current expenditures as capital expenditure by pre-invoicing and changing accounting principles.

"Mr O'Leary recommends that the buyer reconsiders the seller's income statement by applying the buying company's accounting methods - this could significantly increase or decrease reported earnings."

"The essence of the major reason for the failure of mergers is that the buyer was overly optimistic or was unable to manage the business successfully. Both reflect a lack of understanding of the business being acquired and, to an extent, a lack of understanding of the acquiree's own resources.
Learning to invest in the Jo’burg stock exchange

LAST week I discussed the question of saving or investing your money. Several times I made reference to investments which are connected to the Johannesburg Stock Exchange (JSE). But what, exactly, is the JSE, and what is its purpose?

Why have a stock exchange?

Assume you want to start a business or expand an existing business. That requires money, or capital as it is called

You might need to build new premises. Maybe buy machinery, employ more staff. For a big business, you would be looking at lots and lots of money—probably millions of rands.

The investors who buy these shares now own a part of the company and the money paid for the shares is recorded in the company's account as share capital.

Because they own shares in the company, the investors are also entitled to a portion of the profits made by the company. When some of the profits are paid out, the payment is called a dividend.

Meeting

Most companies pay dividends twice each year, an interim dividend and a final dividend. The company is run by its board of directors who look after the interest of the shareholders.

Shareholders, as the owners of shares are known, are entitled to attend the company's annual general meeting and can vote for directors to be appointed to the board.

If one investor owns shares in the company and sells them to another, money changes hands between the investors and does not get paid to the company.

It is the same as buying a motor car and selling it to someone else later. When you buy the car, you pay the garage. When you sell it, the buyer pays you. This exchange of shares (which gives us the name stock exchange) is handled by stock brokers.

Every working day thousands of shares and millions of rands change hands between investors. Compared to this type of trading, the listing of new shares does not happen very often.

You may recall what happened towards the end of 1989 when Iscor listed its shares for the first time. For months before hand, they used newspapers, radio and television to tell the public about Iscor and what they do, and to invite members of the public to buy Iscor shares when they became available.

What is traded on the JSE?

Equities

In JSE language, they talk about equities. Equity, in this context, literally means share. If you own a share in a company, it means you own shares in the company. You will find, however, that investors may use different words when talking about shares.

They can't talk about shares, securities, equities, scrip or counters. All mean the same thing, and to avoid confusion, I will stick to calling them shares.

As I have already said, once the shares of a company have been listed, they are traded by investors. This trading is arranged by a stockbroker. Only a registered stockbroker is allowed to deal with JSE shares and he or she will arrange transactions (trading) between investors.

Traded

When a company lists its shares for the first time, they do so at a set price. For example, a company wishing to raise a million rands could list 1 million shares at 100 cents each. (By the way, share prices are always quoted in cents, not rands.)

But what happens to the price of the shares after it has been traded for the first time? The value (price) of a share is determined by supply and demand. If I own a share and you want to buy it, we would negotiate the price through a stockbroker. If I do not particularly wish to sell the share, I could place a very high price on it and, depending on how keen you were to own it, you would buy it for that price.

The more the demand (people wanting to buy) for shares, the higher the price of those shares will be.

On the other hand, if I want to sell shares and you are not that interested in buying, then you would offer a much lower price. Depending on how eager I am to sell the shares, I would accept the lower price.

This is the very important thing to realise about shares. The prices go up and down, depending on the demand for the shares.

That is why buying shares can be risky for the investor. If you buy 100 shares for 200 cents each, you will have to spend R200. Now, when you want to sell those shares, the demand for them may not be as strong. Someone could offer you 175 cents per share and you would only receive R175 if you accept the offer. That way you would have lost R25.

The risks

Next week, I will discuss the risks of stock market investment and what factors influence supply and demand in a little more detail.

The main reason for buying shares is to make a profit. The price of a share today is not the same as the price of that share in the future. If you buy shares for R1000 and sell them again for R1200 you will have gained R200. This is called a capital gain.

In most cases, especially if you have held onto the shares for a long time before selling them, you will not be required to pay income tax on your capital gains.

Interest

Another reason for owning shares is to receive a portion of the company's profits—dividends.

Now where do you get the money from? Possibly you could go to the bank for a loan. But if the amount is very large, it will take a long time to repay, you will be paying interest on your loan for a long time. This interest will eat into the profits that you make. And there is no guarantee that the bank will lend you the money in the first place.

In some businesses you might find that several people get together and each person puts money into the business. These people all then have an interest in the business, even though some of them might not even work for the company.

Such people are sometimes called sleeping partners because they put in money to get the business started, but are happy to let others run the business.

Because they put money into the business, however, they are entitled to a share of the profits made by the company.

The same thing happens at the JSE. A company wishing to raise capital can go to the JSE to do so. When this happens for the first time, it is known as a listing.

Company

The company lists its shares on the stock exchange and investors then buy shares in that company. The next time the company wants to raise capital on the JSE, it can issue new shares and these are then available to be bought on the JSE.

What few people realise is that the only time that the company receives payment for its shares is when they list their shares for the first time or when they issue new shares.

Since the beginning of this tax year, the Receiver of Revenue has decided that dividends received by individuals will not be taxed.

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Investing on the Stock Exchange

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One must realise, however, that a company does not have to pay out a dividend, even if it has made a profit. It could, for example, use the profit to expand its business or simply invest it for use at a later stage.

**Investor**

If an investor wants to buy shares in order to receive the dividends, then it would be necessary to examine the dividend records.

You may have heard people talk about "blue chip" shares. What are they? Blue chip is a name given to shares where the company has a strong record of good performance, and investors believe that there will always be a high demand for those shares.

Any company's shares can be classified - by the investing public - as blue chip, but it usually takes a long time for the company to gain the reputation necessary to be regarded as blue chip.

Companies who list their shares on the JSE are divided into different categories, for example mining companies, financial companies, industrial companies, etc. Within these categories are sectors.

**Sectors**

Within the mining category, for example, one has the gold mining sector, the diamond mining sector, the platinum sector, etc. By looking at the financial section of several daily newspapers one can see how the sectors of the JSE are made up.

Most shares traded on the JSE are what is known as ordinary shares. When talking to someone who is involved with the JSE or who knows a lot about the market, you may hear them discuss several other types of investments. Preference shares, debentures, futures, options, gilts,

These are different types of investments sold through the JSE. However, they are often more sophisticated than shares, and require far more explanation than given in this article. I consider them to be outside of this discussion.

The Development Capital Market (DCM) and Venture Capital Market.

A relatively new section of the JSE is the Development Capital Market. DCM shares are, quite simply, the same as ordinary shares. The difference between ordinary shares and DCM company shares has to do with the status of the company and not the type of investment.

Companies listed on the DCM board are small and relatively new to the JSE. Ideally, a company on the DCM board will, at some date in the future, be listed in one of the main sectors of the JSE.

**History**

Companies which are even newer and have less of a history may, to begin with, be listed in a sector known as the Venture Capital Market.

Like the shares of companies not listed on the JSE (i.e. private companies) the shares of DCM and VCM companies should be left strictly to the experienced investor.

In a sense, these companies still need to prove themselves. One should look at conditions carefully before investing large sums in yet to be proven companies. On the other hand, several of the companies listed on the DCM board could well be our industrial giants of tomorrow.

Now you have some idea on why the JSE exists and what shares and investing on the stock market is about.

Next week, I will discuss the factors which influence the price of shares and talk a little about the risks attached to stock market investments.
JSE probe into Arontex Holdings deals

THE JSE announced last night that documentation regarding deals in the shares of the now-liquidated clothing company Arontex Holdings had been forwarded to the Registrar of Companies.

The announcement said the trading period under review was from March 7 1990 to March 20 1990. Market sources said it could indicate suspicion of insider trading, but JSE equity market GM Richard Connellan refused to comment.

Arontex shares were suspended on the JSE on March 21 after it had been provisionally liquidated in the Natal division of the Supreme Court on March 20.

During the period under scrutiny, more than 1.2-million Arontex shares were traded, compared with an average monthly trade of 141,062 shares.

Arontex sources said a major shareholder had sold his shares during this period.

Former director Selwyn Kowolsky said he had sold 100,000 of his 1.2-million shares at 4c a share before the suspension.

The share was suspended at 4c a share after reaching a high of 49c last June. Its fall followed bad performances from various Arontex subsidiaries.

Former Arontex chairman Trevor Aron commended the JSE's move, saying he had never sold any of his 5.1-million shares. During the period in question they were all pledged to one of its creditors, Senbank.
TGH's Claasen ... back to Arwa?

Huth, and bigger fish such as Gant's — provided buyers can be found

Gerald Hlushen

The price may have increased because of an article in the London Sunday Telegraph, which spelled out the intentions of the consortium that now controls the group. This was apparently the first news London investors had on the subject.

However, investors may have got wind of a deal in which TGH will sell its 59% stake in the debt-burdened Arwa. Sources reckon the most likely buyer is Johan Claasen, who headed TGH during much of its expansion. If so, then Claasen may fund the purchase of Arwa's assets and liabilities with his remaining 5,89m Duros shares.

This would extend the rationalisation that started when Murray Louw and David McCay sold their Duros shares to Claasen — who was then chairman of Duros — and left the group. Assuming Claasen now disposes of his Duros shares at a price in line with the 650c price at the time of the previous deal, rather than the present market price of 750c, the transaction could be worth some R38m.

Claasen, who was previously the controlling shareholder of Arwa, would be resuming control of a business which currently has a debt/equity ratio of about 2.7 and held interest-bearing debt of roughly R57m at the December 31 balance sheet (Companies-June 8).

The sale would thus remove Arwa's hefty borrowings from the TGH balance sheet, while also bringing cash into the group. In total, it could mean a debt turnaround of close to R100m TGH's balance shows long-term liabilities of R113m.

If the Arwa deal comes off it is unlikely to be the end of the mooted rationalisation. Other potential candidates include Budget Car Hire, the bicycle interests of Deale &
SAA won't be privatised in near future — Bartlett

THE South African Airways would not be privatised in the near future, the Minister of Transport, Mr George Bartlett, said yesterday.

Introducing the second reading debate on the Air Services Licensing Bill, he said it was aimed at providing safe and reliable services to the public.

In supporting the bill, Mr Robin Carlisle (DP Wynberg) said the bill needed the full support of the private sector.

Mr Errol Gordon (LP Bergvliet) said this was an authorisation bill to compete with the SAA and could be a forerunner for the privatisation of the SAA. The LP supported the bill.

This bill prepared the SAA for privatisation, Mr Jurgens Prinloo (CP Roodepoort) said. The CP opposed the bill. — Sapa
Probe into Arontex

An examination of Arontex Holdings's share register has shown that a director sold sizeable amounts of his shares in March.

The examination followed Tuesday's announcement by the JSE that it had sent to the Registrar of Companies documentation relating to deals in the shares of Arontex Holdings for the period from March 7 to March 21.

During the last week of trade before the suspension of Arontex on March 21, more than 1.3-million Arontex shares changed hands. Arontex was provisionally liquidated on March 20.

Investigations into the transfer of Arontex shares during March disclosed that one of the company's directors, Jorin Rykebusch, sold 800,000 shares, and Marline Yvonne Reesel (not a director), sold 300,000 shares to Kayemess Nominees.

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Aronnex

(Pty) Ltd

Both Rykebusch and Reesel were registered at the same postal address in Port Shongweni. Rykebusch currently holds 8,000 shares in Arontex.

The deal occurred after March 15, according to McGregor's ("Who owns Whom") database. A McGregor's spokesman said Kayemess had no more than a 0.2% holding in Arontex at that date.

Kayemess's 1.2-million shares represent more than 10% of the issued shares of Arontex. No more than 200,000 shares changed hands in any Arontex deal during the year to March 16.

Jan van Eerik, a spokesman for Arontex's liquidators Metrust, said shareholders were still not sure whether they would get anything for their shares because the company had been finally liquidated but details had not been finalised.
At a time when interest rates are at a record high, the WGA empire's debt load is a reminder that the company is still a leveraged buyout. The WGA empire's debt is estimated to be around $5 billion, with a debt-to-equity ratio of around 6:1. The empire's debt is mostly secured by the company's assets, including its film and television production studios, and its library of copyrighted works.

However, the WGA is not alone in facing financial challenges. The entertainment industry as a whole is facing a slowdown in revenue due to declining DVD sales and increased streaming competition. This has led to a decrease in profits and a need for companies to cut costs and restructure.

The WGA's Chairman, Jeff Tambor, has stated that the company is considering a variety of options to address its financial situation. These include restructuring its debt, selling assets, and exploring new revenue streams.

Jeff Tambor has also expressed concern about the current state of the entertainment industry and the challenges facing companies like the WGA. He has called for a more collaborative approach to address the industry's challenges and for companies to work together to ensure a sustainable future.

Despite these challenges, Tambor remains optimistic about the future of the entertainment industry. He believes that there is still a lot of potential for growth and innovation in the industry, and he is confident that the WGA and other companies will be able to weather the current difficulties and emerge stronger in the future.
Light on horizon for FVB holders

Business Times Reporter

The suspension of Federale Volksbeleggings (FVB) shares on Friday could herald the long-awaited offer to the long-suffering minority.

A minority take-out is only one option for the company. It could also restructure the company, sell assets, or place the conglomerate, or parts of it, in its other conglomerate subsidiaries, Murray & Roberts or Malbak.

It might have nothing to do with FVB, but some M&R directors are learning to speak Afrikaans.

An analyst says that if M&R or Malbak were involved, their shares would also have been suspended. It is also unlikely that a large-scale carve-up will take place while the minority is still on board. The best bet is a take-out, recapitalisation — then a ruthless rationalisation drive.

One analyst says "Minority shareholders have stayed with underperforming management for years on the grounds that this was a good asset situation. They won't accept any offer unless there is a fat premium".

FVB has done abysmally relative to its rivals for 20 years, hence the large discount to asset value, but it is of considerable historical and sentimental significance.

It was the vehicle by which Afrikamere made their mark in private industry. Four years ago Sankorp had several problem children. Today FVB is the only one.

The company has sound subsidiaries with large market shares, such as Fedico, Fedfood, SA Druggists, Firestone, Avis and Wilson Parking and a minority stake in Sathcl — but it has always had acute problems in one area or another.

Tractor-maker FedMech and white-goods producer Tek are the latest headaches. The group has long been too highly geared. After losing most of shareholders' funds to forex errors, it has twice been recapitalised in the past four years.
Fed Volks may shed subsidiaries

Analysts believe the suspension of Federale Volksbeleggings' shares on Friday at the company's request is related to the disposal of loss-making subsidiaries, in particular Fedmech and Tek.

These two subsidiaries were largely responsible for Fedvolk's 35 percent decline in earnings in the year to end-March 1990.

A company announcement said the Fed Volks directors were investigating proposals which could have a material effect on the company.

The shares stood at 300c when they were suspended after having risen by 40 percent since their April low.

The listings of both Fed Volks' ordinary and convertible preference shares were suspended pending negotiations.

Neither Fed Volks' chairman Marius Dalang nor managing director Piet van der Walt would expand on the announcement and said a further announcement would be possible next Monday when the listing might be reinstated.
US sale talk puts pressure on De Beers

JSE flagship De Beers came under strong pressure on Friday on reports that a US fund was apparently selling its holding in the diamond leader as part of offloading a major portion of its portfolio.

Market talk was that the US fund was quite illiquid and was taking profits on shares in its portfolio. It is believed to have sold 300,000 De Beers shares and another 300,000 were said to be overhanging the market.

De Beers shares tumbled 2.3% or 390c to close at R6.8 on Friday on 136,110 shares worth almost R12m changing hands in 136 deals. The latest selling means the shares declined 5.5% on the week and it could open even lower on the JSE today as the shares were quoted at about R6.7 in New York dealings.

The rand firmed to R3.9050 from R4.0590 at the start of the week with currency dealers ascribing its strength to supply and demand factors in a thin and quiet market. They said there had not been much creation of rands on the JSE through overseas selling or buying of SA shares and the Sappi acquisition of five UK paper mills in partnership with an international consortium had no impact on the market.

The strength of the rand provided no cushion for sliding mining shares on the JSE and gave a further twist to the downswing spiral of the market. Most analysts believe the worst is not yet over for the gold price and expect the metal could go below $340.

Trading was therefore sluggish in a nervous market as investors adopted the maxim, when in doubt, stay out, and most institutions remained on the sidelines.

Relief from the woes on the mining board was, however, provided by activity in the financial services sector with market talk that Anglovaal, the only one of the major mining houses what did not have a financial services division, is on the prowl for a bank after the group's formation of a R500m life assurance company.

Richemont was the strong feature on the industrial board as the shares raced up to a peak of R25.80 before backtracking on Friday to close at R25.55.

See Page 6
Federale shares suspended

THE suspension of Federale Velskebelling shares on the JSE on Friday was believed to be related to the disposal or restructuring of poorly performing companies that pulled down the annual results released in May. 61c 22c May 90

Federale was suspended at 90c after climbing 27.6% or 6sc from 23c at the beginning of May. This contrasted with the net asset value of 82sc a share.

According to sponsoring brokers Senkal Mouton & Kitshoff, Federale directors were involved with a reorganisation that could take up to a week to finalise.

Federale CEO Peet van der Walt declined to comment, saying that a full announcement would be made next Monday, when the company's listing might be reinstated.

He felt Federale would benefit from developments currently underway. An announcement said company directors were investigating proposals which "could have a material effect on the company."

Market analysts generally agreed on Friday that a reorganisation had been looming for some time.

The Federale group includes a range of diverse activities including Avis, Ster-Kinekor, Link, Price Forbes, Telyx, Firestone, Exide, Simba and Tabletop.

Analysts said the major contributors to

Federale's 35% drop in earnings for the year to March were appliance group Tek and farm equipment supplier Fedmech.

At a media conference in May, Van der Walt said remedial plans had been introduced to return the group to profit growth, including rationalisations, disinvestments and other operating strategies.

More than one analyst rejected speculation that holding company Sankorp could be planning to make an offer to minorities to delist Federale.

Another said there were two options. Federale would be looking to unlock some of the value of the wholly owned subsidiaries by listing them separately, or it would sell off the poorer performers.
Chemont closes at new peak ahead of results

Zilla Efrat

Diamond Borkum Hare analyst Pierre Greyvensteyn said the earnings were expected to show growth of more than 30%.

He said rumours that Richemont — listed in Zurich, Geneva, Basle and Johannesburg — might float off its luxury goods arm, Luxco, in a separate listing had been around for some time.

Richemont, through its own holding and its stake in Rothmans International, had a 99% interest in Cartier Monde, which consisted of Baume & Mercier and Piaget and which was largely involved in luxury watches and jewellery.

But Greyvensteyn could see no logic in the floating of this investment as Richemont was cash-flush.

JD Anderson research head Charles Booth said a separate listing of Luxco might enable Richemont shareholders fully to realize Rothmans' true value.

Another reason for the rand-hedge stock rising could be expectations of a weakening rand. A London spokesman for the group declined to comment before the publication of the results.
TRADEGRO subsidiaries Frasers Consolidated (Frasc) and Frasers Ltd will be delisted from the JSE on Friday, and the black clothing chain Smart Centre will be listed on July 2, merchant banker for the deal, DMB Securities, says in a statement issued today. This follows a deal in which Frasc and Frasers opted for voluntary liquidation as part of a major restructuring of Tradegro.

According to the terms of the deal, for every 100 Frasers ordinary shares, shareholders will receive 84 shares in Metro Group, eight shares in Cashbuild, and 200 shares in Smart Centre.

Cash

Frasc shareholders will receive 41 shares in Metro, three shares in Cashbuild and 98 shares in Smart Centre for every 100 ordinary shares they hold. Holders of Frasc and Frasers shares will receive a cash consideration of about 123.8c and 70.8c respectively for each share. DMB Securities says final liquidation and distribution accounts of Frasers and Frasc will incorporate interest on the cash resources of the companies for the period since the date of liquidation. Shareholders will be notified of details of the final cash award once the final liquidation and distribution accounts have been confirmed by the Master of the Supreme Court, DMB Securities says.
DCM-listed Spectrum Industrial Ltd was provisionally liquidated in the Rand Supreme Court yesterday following an urgent application by director and shareholder Brian Benjamin, who holds 634 000 ordinary shares in the company, said Spectrum, a distributor of industrial and engineering products, had liabilities of R9 632 533 and assets of R8 411 867.

It is also the holding company for three subsidiaries - National Hardware Wholesalers (Pty) Ltd, SA Industrial Supplies (Pty) Ltd and Wedner Cleaning Equipment (Pty) Ltd. Another subsidiary, Spectrum Industrial Properties (Pty) Ltd., was recently sold.

Benjamin said a fifth, Titan Tool Hardware (Pty) Ltd, was no longer a subsidiary and was now controlled by himself and three others.

He said Spectrum was hard hit by high interest rates and difficult trading conditions last year. When interest rates rose more than 20% Spectrum found it necessary to rationalise and dispose of businesses which had proved to be unprofitable.

Benjamin said if the interests of controlling shareholders were to be bought the purchasers would be compelled to inject more than R2m into Spectrum to make it solvent and provide adequate working capital.

"The alternative would be to dispose of the company's business. In either event it is impossible for the company to continue trading indefinitely on a cash basis."
Share price shuffling could disguise market's fragility

With three days to month end, there is concern on the JSE that big players might be shuffling share prices, writes MERVYN HARRIS.

And the past month's shrinking market could have tarnished performances.

Unit trusts will better be able to market the units they have to sell if their funds can show consistent growth. Pumping small amounts of money into index shares in a thin market could transform the performance of the funds in the June quarter.

This week's rise in the spot and futures markets has come on small volumes with turnover just under R72m on the JSE on Monday. This contrasts with turnover ranging between R120m and R142m in the previous week's market downturn.

Rising share prices on small volumes is making some traders nervous. They believe it indicates the fragility of the market, which should prompt extreme caution. Igniting the market on Monday was the rise of less than $5 in the gold price to above $350. There is nothing like a former gold price to bolster optimism on the JSE.

But the "mining town" mentality, still a feature of trading on Diagonal Street, tends to go into overdrive. Quickly forgotten is that gold has shed about $70 since peaking earlier this year around $425.

Surging share prices were therefore out of proportion to the gold price's rise. Professional jobbing could have accounted for much of the trade on both the spot and futures markets but the hot air coming out of the international gold conference in Venice could have also fuelled interest.
Liquidations up by a ‘staggering’ 45%

PRETORIA — Company and close corporation liquidations went up in the four months to end April by a “staggering” 45% compared with January/April 1969, Information Trust Corporation CEO Paul Edwards said.

Compared with the last four months of 1968 liquidations increased 8% to 604.

He said the higher rate of business failures confirmed the economy was responding to constraints and was slowing faster than estimated.

However, the latest figures were nowhere near the record high of the 1,058 liquidations in 1958 — a figure 76% higher than the current rate.

“We are coming off a low base in 1969 and should rather look at the trend and not the size of the increase,”

Edwards said the economy was set to slow further before interest rates were lowered.

Referring to bank credit, he said this confirmed there were still signs of life in the economy. This was shown by the hire purchase credit growth increase in May of 15.7%.

Typical of the downward phase in the economy was that lending institutions tended to raise their minimum qualifications as the debt default risks increased.

He warned the prime lending rate could be expected to be maintained until the last quarter of 1969. Then rates could be expected to drop to about 17% over the next six months.

With the Reserve Bank’s commitment to maintaining real interest rates, prime rates were not likely to drop below 15% in the longer term.
Controlling with less than 50% equity

By ARI JACOBSON

WHILE the biggest of the big four on the JSE — Anglo American/De Beers — controls companies totalling 45.3% of the market's capitalised value, it owns a mere 11.9% of the assets reflected on the exchange, says Mathison Hollidge economist Jos Gerson.

Writing in The Executive magazine, Gerson says this contrast between ownership and control is perpetuated through a variety of techniques by which dominant shareholders, whose equity falls short of 50%, obtain total control of companies.

He explains: "If a controlling shareholder acquires 50% of the shares of a holding company which, in turn, holds 50% of the shares in the underlying operating company, he has effectively acquired control of the entire group with a mere 25% (50% of 50%) of its equity. If he interposes yet another holding company, his stake reduces further to 12.5%.

Gerson said the prominence of the pyramid structure is largely attributable to the fact that simpler alternatives — shares with dual voting rights — have long been restricted.

"Companies that have already issued such shares are allowed to continue with them and to use them for the purpose of restructuring. The Anglovaal group, Woolworths and Rex Trueform are among the exempted companies enjoying the concession."

Gerson mentioned that pyramids and/or dual-class shares are restricted in most major English-speaking countries but quite common in Scandinavia, West Germany, Japan and several other European countries.

"As it happens corporate voting power in Sweden is so concentrated as a result of the prevalence of dual-class shares — a few families control almost all the major companies on the Stockholm Bourse."

Gerson said concentrated shareholdings did not necessarily retard corporate performance.

"Many people object to the idea of too much wealth being concentrated in too few hands. However, the issue is a red herring in the context of determining the ideal corporate structure. So is the colour and identity of the wealthy."

The second objection to the concentrated structure of corporate shareholdings and control was based on the suspicion that it enabled firms to rip off consumers by colluding at their expense.

"The domination of a product market by a few big players (so-called oligopoly) does not automatically or necessarily lead to collusion."

"In the US, the problem is rife, managers and 'outside' directors accumulate all sorts of perks and benefits for themselves. They also pile up cash reserves which they refuse to distribute to shareholders lest it diminish their power and influence."

"For much the same reason managers keep debt to a minimum. After all, having to service debt calls for greater efficiency which is hardly conducive to a relaxed working environment."

Gerson asserts that, to avoid managerial abuse, tough and powerful controlling shareholders are required.

Besides the aforementioned methods of issuing dual-class or pyramided shares this could be achieved, he said, by raising the level of debt within a company so that putting up 50% of a diminished equity base becomes easier to attain.

"Few individuals, even if one includes the Oppenheims and Gettys, are sufficiently rich to put up 50% of the value of a large modern corporation."
Legislative Insider Trading

LINDA ENSOR

Let's put an end to this.

Prohibition: General insider.
NCI in 'sensitive overseas negotiations'

NEW Company Investments (NCI), one of the three companies listed on the venture capital market, was busy with sensitive overseas negotiations, project manager Fouche Fourie said yesterday.

This was the background to a cautionary announcement published today which could explain the tremendous activity experienced in NCI's share since the company's listing in April.

NCI was the overall volume leader last week. Since its listing, an average of 1.5-million shares have been traded per month.

This is in stark contrast to other shares in the venture capital sector and the DCM.

Last week NCI's share price posted the largest increase on the JSE — a rise of 38.8% from 12c to 19c compared with the yearly low of 6c.

Fourie said he was optimistic about the company's future prospects.

"The venture capital market industry is booming at the moment — we are also looking at a main board listing some time in the future," he said.

But he emphasised that the NCI was a share for the serious long term investor, as most of the projects the company was involved with could only mature in about five to seven years.

There was a definite move towards getting involved in new technological projects overseas, making it less prone to local economic conditions.

NCI's interests include manufacturing electronics, mining supply and water purification.
Protection for the worker comes first

APARTHEID required regulations and licence control. To enforce separation of the races the law criminalized the black people, laws and rules were necessary. Initially these mostly discriminatory rules assisted business. The market for goods produced was adequate and the whole population provided the skills needed for the economy. But from late 1960’s economic growth also became constrained by apartheid rules.

Furthermore the 1973 Natal demonstration strikes and 1976 Soweto youth who wanted business, because they strengthened the international campaign against South Africa.

Business formed pressure groups to lobby Government to change to what it saw was needed, eg. Urban Foundation and Federation of Free Market Foundation (FMF)

FMF argued that regulations should go and state enterprises be privatised. This argument was accepted in the wider society because the examples to explain those principles, the racial constraints on the Black people were quoted.

Hence initially the ideology of free markets and individualism was not challenged. But as a new South Africa starts to emerge with no usual constraints the impact of that ideology as solutions for the country’s problems has to be questioned.

Federations

The union federations have warned against privatization and deregulation. The assumption that no rules are necessary and collective needs of people are not the State’s responsibility has to be challenged.

Other pressure groups such as Job Creation and the Community Group want no restrictions to be placed on the small businessman in its employment practices. Whose interests are they protecting?

Industrial relations

Unions fight for and have achieved throughout the world protection of their members against exploitative and industrial injustices. Black unions fought for recognition in the last two decades.

Industrial relations principles of due process and fairness, which procedures of the recognition agreement requirements are now supported by the Courts.

WHY is deregulation seen as the answer to all problems? Should small businesses not be responsible to those who work for them? Will the removal of minimum working conditions create more or fewer jobs? This article raises the issues around the question.

The minimum wages and working conditions in agreements negotiated by unions and employers’ associations for an economic to improve the quality of life of most workers covered by the LRA Act.

Condition societies develop institutions such as the Industrial Courts, industry training boards and bargaining forums (industrial councils) because it is recognised the individual worker is powerless. He has to beg for work and cannot protect himself.

Contract

The employment contract between the individual worker and the employer cannot be equal unless:

- there are minimum job protection requirements;
- there is an enforcement to ensure that employer adheres to these minimum requirements

What are they? Who does the checking? The conditions of work and quality of life which have to be protected include:

- hours of work, control over amount of overtime, payment for overtime, paid holidays, medical funds to pay for doctors and medicine and other medical costs, some protection when injured on duty, safety in the workplace, risks against dangerous substances which damage health;

- social security schemes to give sick leave when off work because of illness, when old age, when force retired, when unemployed, when there is retrenchment,

- the factory is an anchor, shortage of work because of unforeseen circumstances, etc.

This is why over the decades labour laws have been developed such as Basic Conditions of Employment Act, Gudance and Placement Act, Wage Act, Workmen’s Compensation Act, Machinery and Occupational Safety Act, Unemployment Insurance Act, Marpower Training Act, Labour Relations Act.

Apartheid

The removal of apartheid laws must not be used to quietly retrace the social citizenship protection and rights of the above laws.

Business pressure groups must not remove protection in the name of profit as the only goal to guide society.

Are these business people prepared to say the following are not entitled to protection?

- The injured worker, the worker with a lung disease or cancer from chemical substances, the worker who is not paid on time, the worker who is paid for an unskilled work but does a responsible job, the widow whose husband was killed because of employer negligence, the worker retrenched after 10 years service, the worker who is sick, etc.

Regulations require enforcement to ensure adherence. In the field of industrial relations this is best done through shop stewards, agents of industrial councils, inspectors of the Department of Manpower.

Since the 1960’s the Department’s statutory institutions are emphasising ideas such as self-regulation by the parties as occupational health, devolution in the establishment of industry training boards.

Industrial relations is concerned with social rights and procedural and regulatory requirements which cannot be contempt with licensing.

Pressure

The pressure from the current Government to force Industrial Councils to give permanent exemptions for small businesses defeats the principles of labour policy of the Government.

Since the 1960’s the departments of industrial council to give permanent exemptions for small businesses defeats the principles of labour policy of the Government. The present principles are unfairness, freedom of association, maximum measure of self-governance, minimum measure of state interference, etc.

The present Government cannot claim to protect public interest in the deregulation and privatization policies as they were set by a white Government in response to interest of business pressure groups.

Should the Department of Manpower not stop all privatization and deregulation plans?

The exemption process and renewal

The business lobbyist for free enterprise, deregulation and privatization can no longer hide behind apartheid restrictions and inappropriate licences requirement to promote their ideology.

The social context for the situation has to be acknowledged. The FMP attempts to deregulate everything in the Cullen triggered the social context.

The above concerns do not mean certain situations do not require special consideration and exemptions from regulations.

A number of industrial council agreements might require renewal.

Process

Now that black unions are party to industrial councils the renewal process can be started.

But those situations and the disputes caused by them can be processed Industrial councils do grant exemptions to small business or companies making specialised products.

In the 1960’s industrial councils did exempt certain employers in consultation with the workers, from certain clause of wage agreement – but for a specified period.

If these exemption processes are not working or cumbersome, then they should be and can be simplified.

There might be a need for an independent objective arbitration procedure of temporary exemption from certain rules established in the name of protecting social rights of industrial councils are believed to be unfavourable.

The idea of a body like a small claims court but, then for the employment relationship, could be considered.

The experience of a decade of industrial relations can be brought together by federations such as SACC, Nactu and Cosatu to negotiate a code of conduct to help small business.

Such a code could ensure specific agreement clauses of certain industrial councils are not restrictive for a small business in the first year of its operation.

Business

Small business faces financial costs to ensure the social rights of the ordinary worker are protected. But they are not exorbitant and do not prevent their operation.

At the same time they are for the common good. And the new South Africa is a South Africa where privilege cannot be maintained for a select few.
Investing on the JSE

LAST week, we discussed some of the principles of investing on the JSE. Today I would like to talk about how one accumulates wealth by investing on the JSE and what the risks might be.

Let us consider what it means to buy shares.

Assume you have R1 000 to invest; share A has a price of 100 cents and share B a price of 1 000 cents. (Remember that share prices are quoted in cents.) Which one should you buy?

Well, for R1 000 you could buy 1 000 of the A shares and 100 of the B shares. Now, assume that there is a strong demand for B shares and the price increases by 15 percent to R1 500. Your 100 shares would now be worth R1 500.

If the price of share A moves up by 5 percent to 105 cents, 1 000 shares would be worth R1 050. Clearly share B would have been the better one to buy.

Some tips

The important message is that it is not the original cost of the share which should influence your decision to buy shares. What will happen to the share price in the future is what counts.

Here are a few tips on buying shares.

1. Never borrow money to buy shares. If the share price goes down and you have to repay the loan before the prices go up again, you will be in trouble.

2. Never use money which you are going to need in the near future to buy shares. If you have saved up money and you are going to need it within the next 12 months, do not invest it on the JSE. The

3. Before you buy shares, make sure that you have enough life insurance and have some money for emergencies in a savings account. If you buy a share and then unfortunately die, your dependents will only get the value of the shares.

4. Do not buy shares on hot tips. Several people buy shares in the same way they put money on the horses. Often, at the race track, the hot tip does not win the race. The same thing happens with the share market.

Rather get qualified advice from someone who knows the market very well before buying shares.

5. Do not be afraid to ask for advice. As I have said, only a stock broker can buy and sell shares on your behalf. On the other hand, many financial institutions like banks, building societies and insurance companies employ advisors who can help you. They will be happy to give you advice and put you on the right road.

When you buy shares, you must buy 100 shares or multiples of 100. You can buy 500 shares in a company, but you cannot go out and buy 530 shares.

What is more, you must pay for your shares within seven days.

Dennis Mattrill of Southern Life continues his article on the Johannesburg Stock Exchange. This is the third in a four-part series to help readers gain an understanding of the JSE, which is a closed book to us. For more information contact any office of the Southern Life, one of the bigger investment companies in the country.

Company | No of shares | Price at 31 May 1990 | Stock broker charges (100)
---|---|---|---
Anglos | 100 | 12 975 | 3 000
First National | 100 | 3 000 | 3 835
Barlows | 100 | 1 070 | 1 070
Rembrandt | 100 | 20 880 |
TOTAL | 400 |

Let us have a look at what it costs to own shares. I have calculated what you would need to invest in just four companies' shares: namely Anglo American, First National Bank Barlows and Rembrandt.

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Market risk factors

Politics can cause a change to the supply and demand of shares in general in a number of ways.

For example, in February this year Nelson Mandela was released from detention. This political action was welcomed by many and the optimism which followed caused and increased the demand for shares. The result was that, in general, shares prices went up.

When Mandela discussed early views on nationalisation the following week, however, the business community reacted adversely to his political statements. The result was a fall in share prices.

Local politics will also affect overseas investors. If they are not happy with our political situation, they will not want to invest their foreign monies on the JSE. This, too, will cause a drop in share price.

Factors

Politics is one example of the many things which affect share prices. Other factors include sanctions, interest rates, inflation and exchange rates. These are simply some of the things that cause share prices, in general, to go up or down.

The important thing about market risk is that there is nothing which you and I (as individuals) can do about the factors to make them change. For years, share prices have gone up and down.

If prices are low, be prepared to wait and they will go up again. But remember, it could take months, even years for share prices to increase.

Company risk

Company risk relates to specific companies. What may happen to one company may not happen to another company.

For example, good management will mean much for one company but nothing for another.

Some of the factors which impact on the prices of specific companies include management ability, industrial relations within the company, competition, etc.

For example, a well run company (good management) is likely to prosper and its profits should increase.

An increase in profits could mean an increase in the dividends which it pays to its shareholders, thus increasing the demand for its shares.

Again, you have little or you can do in your personal capacities about company risk. If you think just one company's shares, and that company does not perform well (or, worse still, should go under) you would lose your money.

On the other hand, if you owned shares in a number of different companies and one does not do as well as the others, you will still gain from the good performance of all the other.

Concept

This concept - of owning a number of different company shares - is known as spreading your risk. It is like the expression "Do not put all your eggs in one basket."

In summary, therefore, the best way to invest on the JSE is to spread your risk and to have time on your side. Do not invest all your money in the shares of one company, but buy the shares of a number of companies. If the share prices, in general, fall then you must be prepared to wait until they go up again before you sell your shares.

Next week I will tell you a little more about investing on the JSE, and show you a very effective way of investing on the stock market.
Futures floor tensions rise

GRET STEYN

gilts and futures markets. It was attended by most of the banks and other non-JSE members of the exchange, as well as future exchange (Safex) CE Stuart Rees. Rand Merchant Bank's Russell Laubscher said yesterday "People are worried about costs, especially in the current depressed and uncertain state of the markets, and the meeting was held to voice our concern and get the facts straight."

There has been market talk of a mass pull-out from the floor by the banks, most of whom 10 months ago agreed in principle to take up space on the floor. Notable exceptions were Nedbank and UAL.

But Rees yesterday dismissed rumours of a mass walkout, saying "The floor is going nowhere. Many participants who had not committed themselves to dealing on the floor are now coming forward and asking to join."

He took seriously the concerns raised with him this week about the cost of the dual trading system. But he noted that Safex and the EMA (the gilts exchange) had not deviated from the original budgets presented to the markets 10 months ago. He could understand reluctance to sign up for three years because of uncertainty over the future of the markets.

"But I also understand the JSE's point that its building is a special one requiring the certainty of a longer term lease. That is the dilemma we now have to resolve."

The average down payment for space on the floor comes to R3 000. Banks, and other market players, with screen-based dealing rooms, would still have the added cost of keeping a dealer on the floor and the cost of telecommunications and Reuter trading screens. However, Rees says a futures dealer with a reasonable share of the all-share index contracts will find the exchange-imposed costs of one contract (excluding clearing fees) would come to only about 0.01% of the contract's face value.

He said Safex expected to be opened as a formal exchange on August 10.

The JSE was the only market participant to vote in favour of floor trading when a vote was taken on floor versus screen trading two years ago—but in spite of the majority view, a compromise decision to have dual trading was eventually reached.
ARWA/TGH/DUROS F1M 29/6/90

Claasen's full circle

Why has Johan Claasen just paid TGH R42m cash for a group with a net asset value (NAV) of R20,5m (Companies June 8) and interest-bearing debt of R56,8m? Like a gypsy peering into a clouded crystal ball, the answer is not immediately apparent.

Claasen consummated the deal by selling his remaining 3,5m Duros shares at 650c a share to the Duros controlling consortium led by Mervyn Key and Julian Askim.

For Claasen, it was full circle. He first bought control of then ailing Arwa in 1986. In 1987 the company was listed and he was appointed to the board of the Duros/TGH group. From R3,9m, attributable profits rose to R7,3m in 1988, in which year he sold his 58,5c a share.

The 1989 accounts show an attributable loss of R2,8m, a debt equity ratio of almost three, a fall of more than 50% in shareholders' interest since 1987, and zero debt cover.

There are a number of reasons why Claasen reckons it worthwhile to buy back the group. Since his original acquisition, the group has diversified both vertically and horizontally. There are now six separate entities which make hosiery, fabrics, textiles, yarns, ties and leisurewear on which, says Claasen, about R26m capex was spent last year on expansion and modernisation.

These expenditures, reasons Claasen, will not recur for a long time. Stocks, far too high at year-end, will be run down to realise cash. This, in turn, will ease the debt situation. Moreover, he says, he still has great support from the trade and finance houses.

The listed Arwa has become a cash shell, its only asset being R42m. Claasen says the name goes with its operation and the shell is obliged to drop its use immediately.

While he has walked away from the listing with the group's total assets and liabilities, there has been a loud silence from the Duros/TGH consortium on the position of minority shareholders. Before the Claasen deal, the Arwa share price was firm at 300c. Now R42m cash in NAV of 181c a share, at which the share is "bid" in the market.

Perhaps they should not be too upset. After all, before Claasen's buy, NAV was just 89c a share. And with last year's deterioration in performance and interest-bearing debt equivalent to 245c a share, it is a matter of opinion whether more can be done with the cash in the shell than with the credit in the company.

Claasen knows the Arwa operation better than anyone. He has turned it around before. As it is now a Pty operation, the market will be none the wiser about his progress. Maybe anonymity was an important reason for paying that premium.

Gerald Hutchison
Equity trusts declined in second quarter

EQUITY trusts have produced a negative performance of approximately 5.4% in the second quarter of 1990, Consolidated Fund Managers (CFM) MD Clive Fox says in the company's latest newsletter.

This was due to the general decline in the equity market.

CFM is a portfolio management company which invests in unit trusts on behalf of its clients.

On average, the general equity funds continued to outperform the "specialist" equity funds, Fox says, due largely to price weakness in specialist funds with a heavy weighting in gold shares.

The JSE Actuaries Overall Index, he says, declined about 5.5% in the second quarter due to the weakening of the gold price and the relatively sharp contraction in the economy.

"We concur that fundamentals are far from encouraging, but long-term investors should be taking advantage of periods of market retreat to establish long-term positions," Fox says.

As for the future, he says the gold price is likely to consolidate at lower levels for some time before the trend is reversed, and corporate profits are likely to be pressured until the burden of higher interest rates starts to abate.

"Interest rates will probably remain high through the larger part of the third quarter of 1990. We would then expect rates to start showing marginal declines as the demand for money eases.

"While these prospects do not augur well for equity investment or investment in unit trusts, there is a considerable amount of liquidity accumulating in institutional hands, and when this is deployed in the stock market, share prices could rise materially in the face of negative fundamentals.

"It is estimated that in excess of R1.5bn may need to find a home on the JSE during the course of 1991. Those funds coupled with accumulated liquidity, could provide a significant boost to share prices."
Metclo to buy out minorities

Shareholders of Metal Clonies Group SA (MCG SA) will attend a general meeting next Tuesday when they will be asked to pass the necessary special resolutions in terms of which the shares held by minority shareholders will be converted into redeemable preference shares and then redeemed.

The deal has been proposed by UK-based group Wassall which acquired MCG SA's UK parent MCG in the first quarter of this year.

Wassall has decided that for strategic reasons it wants MCG SA to become a wholly owned subsidiary of MCG.

According to the official document the proposal, which will be implemented in terms of section 59 of the Companies Act 1973, "will entail the conversion of the shares held by the shareholders, other than MCG, into redeemable preference shares and their redemption for cash, utilising the profits of MCG SA available for distribution as dividends and will result in such shareholders receiving a consideration of R23 per ordinary share in MCG SA held by them."

Some R22.50 of the consideration will constitute a dividend for income tax purposes with the balance of 50c constituting a return on capital.

The JSE has asked MCG not to vote at its next Tuesday's meeting because the resolutions can be passed by 75 percent of the shares present and voting.

As MCG has 77 percent, the outcome would be a foregone conclusion and not give the minorities a say in the matter.

However, according to the official document, "primarily because of the necessity for MCG to attend the meeting to secure the necessary quorum, but also because MCG SA has been advised by Finabank that the proposal is fair and reasonable to shareholders of MCG SA, MCG has in the interests of such shareholders decided to attend the meeting and vote in favour of the resolutions proposed thereat."
Tongaat-Hulett
to spend R250m on
new investments

By JON BEVERLEY

DURBAN. — The Tongaat-Hulett group plans capital expenditure of R250m this financial year and has set up a unit to find new investment avenues, the chairman, Chris Saunders, says in the annual report.

He says that maintaining and advancing "our competitive position in the diverse businesses which make up the group heads our list of priorities."

The first two months of the financial year had been difficult and the economic climate was not expected to improve in the immediate future.

"At this stage it is difficult to forecast earnings for 1991, although it is unlikely that they will exceed those achieved in the past year."

Earnings per share were 238.6c (previously 214.3c) out of which dividends of 79c (71c) were paid.

He noted that following the political changes flowing from the State President’s speech earlier this year there had been proposed changes which included the nationalisation concept to tackle the mass grievance and bitterness displayed in the wide disparity between rich and poor.

He said that there was no evidence anywhere in the world of the effectiveness of nationalisation or of its economic success and it has "become totally discredited."

Privatisation rather than nationalisation would appear to be a far more effective way of bringing about a new economic order, he said.

The report also mentioned the various divisions. In the sugar division (pre-interest earnings of R76m) the weather had been promising and a cane increase was expected - though results were "encouraging."

Domestic market sales were expected to stabilise and export prices had fallen to last year’s levels and were likely to move within narrow limits.

The forecast was for a similar profit contribution this year.

The report notes that construction of an ethanol plant is "unlikely" but that the deregulation proposals for farmers within 30km of mills will benefit the group.

The building materials division (with pre-interest earnings down to R18m from R28m) forecast that the deliberate slowing of the economy by the government and political uncertainty would affect sales of their products.

But demand is thought to be in balance with affordability levels at current high interest rates. Sales levels and profit levels are expected to be similar to this year to the 1989/90 contribution.

It is noted that considerable funds are heading towards the building market but were still held by the government.

In March the Vtro brick factory at Springs was exchanged for Tongaat’s 50% holding in Coverland. Two new production facilities were commissioned.

Tongaat Foods with pre-interest profits at R23m expects a substantial profit improvement this year, which will be cut by increased taxation.

The mushroom division will bring into operation a high-technology farm at Shongweni and the third phase of the Pheasantkraal (Bellville) this year pushing capacity to where it can meet local demand and export.

Hulett Aluminium with R70m in pre-interest profits says that as a significant exporter it will be "seriously" affected by the drop in prices and changes to export incentives and expects a drop in earnings.

Delivery of the 3 800 ton extrusion press was delayed and will now be commissioned towards the end of the year.

The textiles division (pre-interest profits of R23m) faces the clouds of a projected 39% cotton price rise, a downturn in local trading conditions and deteriorating labour conditions.

The first half will be difficult but an improvement will follow allowing for an increased contribution to group earnings.

Employees at the Hebox division at Mpumulanga face severe unrest and violence and production and export orders were impeded.

African Products (R20m profits) expects an increased demand to continue this year but it was unlikely that the same rate of growth would be achieved. The division aims to achieve a low-cost producer status.

Profit levels should improve in spite of the tighter economic environment.
SOFT market conditions will mean the performance of the unit trust industry for the June quarter will not match that achieved during previous quarters, industry sources say.

The flow of results from unit trusts began yesterday and will continue for the next few weeks.

Clive Turner, deputy chairman of the Unit Trust Association, said the market's performance during the last quarter would not allow the same kind of dramatic figures reported by unit trusts in recent quarters, when some funds showed 60% or more year-on-year growth.

"But the top performers in this quarter are likely to report percentage growth in the high 20s for the year to end June, which still beats inflation," Turner said yesterday.

The funds will be competing with an overall JSE index which has moved up 18.3% in the past 12 months, and the all gold index which has improved only 8.6% during the same period.

Turner said general equity trusts were likely to rank as better performers than specialist and income funds.

"In the coming months, we would like to think investors will use the quieter market as a good time to invest in unit trusts, but uncertain, volatile markets are not necessarily conducive to any major investment thrust. On the other hand, unit trusts are increasingly being better sold and on the strength of that, we might see people coming in.

"Liquidity would generally be higher to reflect the uncertainty in the market."
Sanlam's five unit trusts outstrip indices, inflation

ALL five of Sanlam's unit trusts outstripped important indices as well as the inflation rate in the quarter to end-March.

This was despite the listless stock market, said portfolio manager Stafford Thomas, adding that the strategy adopted was to concentrate on blue-chip shares and to maintain cash levels.

Share purchases for the five trusts — Sanlam Mining Trust, Sanlam Trust, Sanlam Index Trust, Sanlam Industrial Trust and Sanlam Dividend Trust — were focused on mining and industrial shares with the most important purchases being De Beers, Palamino, Anglovaal and Minorco.

The emphasis was on rand-bhev stocks which have performed well relative to the market, Thomas said.

He added that no gold shares were bought but a significant penetration was made into the coal sector on a weak rand, hopes that sanctions would be lifted and heightened export prospects arising out of European integration which is likely to see a cessation of subsidisation and the closure of some coal mines.

The interim income distributions declared were Industrial Trust 16.1c, bringing the income for the 1989/90 year to 29.1c (27.8c) per unit, Index Trust 23.8c, giving a yearly income of 41.4c (32.6c), Mining Trust 7.7c, translating into a yearly income of 18c (15.7c).

The Sanlam Trust and Dividend Trust declare income distributions in March and September.

Thomas attributed the increased income yield in the Index and Industrial trusts to strong dividend growth of the larger shareholdings, such as De Beers, Rembrandt and SA Breweries, and the higher interest rates on cash balances.

Three of the unit trusts increased their cash levels in the last quarter — Sanlam Trust from 18% to 20%, the Index Trust from 14% to 16% and the Dividend Trust from 12% to 15%.

Sanlam Industrial Trust's liquidity level remained unchanged at 20%, while the Mining Trust's level was lowered from 20% to 15%.

Thomas said one of the reasons for the slight drop in the Mining Trust's quarterly income per unit was its lower cash content. "Because interest rates are so high, even a small change in cash content can have a significant effect on income," he said.

Thomas did not envisage any significant change in the portfolio in the coming quarter.
Picprop applies to change sectors

PICARDI Holdings (Pichold) subsidiary Picprop has applied to the JSE for a transfer of its listing to the banks and financial services sector.

The move follows the disposal of its investments and operating assets, excluding its interest in a property-owning company, for about R17.6m cash and the acquisition of Pichold's indirect investment in Corporate Investment Group (CIBG).

Directors said the disposals were motivated by the fact that the growth potential of "the company's operating assets was limited by capital constraints and extensive competition within their industries".

The acquisition of the stake in CIBG has been accomplished by Picprop's purchase from Pichold of the entire share capital of SA & General Investments & Trust Company (SAGIN), which has a 30% interest in CIBG, for R13.2m.

The directors said the effect of the transactions has been to create a company well-positioned to expand further in the financial services sector. Pichold's name will be changed.

Had the transactions been in place in the year ended June 1989, and on the basis of other assumptions, Picprop's earnings would have decreased from 23.6c to 25c a share and net asset value to 275c from 316c.
Advice on Sankorp offers

FEDVOLKS shareholders should take up parent Sankorp's cash-plus-shares offer rather than its cash offer.

Ed Hern, Rudolph analyst, says Vianello recommended this yesterday despite the fact that neither SA Druggsts (SAD), Fedfood nor Teljoy — whose shares investors have the option of taking up — offered good short-term prospects.

He was commenting on Sankorp's proposed offer to minorities, in terms of which it plans to increase its 63% stake in the ailing Fedvolks to 100% and delist it in a bid to restore it to profitability.

Holders of ordinary Fedvolks shares are offered 460c a share, or 66 SA Druggsts, 12 Fedfood and 12 Teljoy shares — valued at an unchanged R269,40 last night — plus R265 per 100 Fedvolks shares held.

Vianello said both SAD and Fedfood had problems which would hamper growth in the current year, but were "fundamentally good long-term investments".

"Teljoy also offers a good long-term investment. While it is burdened in the short-term by heavy debt financing costs which will dampen profit growth in the current year, the TV rental business as a whole has a bright future," Vianello said.

"In addition, both SAD and Fedfood shares are difficult to trade in, and shareholders taking up shares in these companies will be circumventing this problem. The shares are also not over-priced at current levels."

Meanwhile, Fedvolks' shares — re-rated yesterday — closed at 425c, a 41% gain over their pre-suspension price of 300c on June 22.

According to Vianello, past history has shown that new management in any company tends to begin by writing off "everything they can find above and below the line."

If Fedvolks' new management decides to start with a clean slate, results for the current year will be "a near-disaster", he says. But financial 1992 should reflect a significantly better performance, aided "hopefully" by a better economy, he adds.
LAST week we examined some of the risks involved in investing on the Johannesburg Stock Exchange. In order to invest successfully on the JSE and to reduce the risks involved, you really need three things - knowledge, money and time.

Let us have a look at each of them in a little more detail.

Knowledge In the previous article we looked at the factors which affect market risk.

The factors which make a specific company’s shares risky or not include the company’s different fields to be able to anticipate the level of risk involved in the JSE management ability, competition, internal industrial relations, etc.

The important fact that is coming from these discussions is that you need to be something of an expert in a number of or a specific share.

Unfortunately, one cannot look at a situation in hindsight (after an event has already taken place) and then make your investment decision.

The key to accurate risk calculation is to anticipate matters in advance and then act accordingly.

Sanctions
For example, if you believe that sanctions are a likely threat, you could avoid investing in a company whose market is going to be affected.

What I am really saying is that to understand all the factors affecting JSE investment, you need to have knowledge and experience.

This could take years to accumulate.

Time Time is the one factor which you, as the investor, controls. By this, I mean that you decide for how long you are going to hold onto shares before you sell them.

Now, if one considers just these three requirements for JSE investment - knowledge, money and time - the task of investing becomes quite difficult.

Is there an alternative? Yes. The alternative is to invest in a unit trust fund.

How does a unit trust fund work?

In many ways, a unit trust fund works like an investors' pool or syndicate. While one person may not be able to buy shares if a number of us pool our money, together we would be able to invest on the stock market.

So, many investors - thousands - put their money into a unit trust.

The fund manager in charge of the unit trust then buys and sells shares on behalf of the fund. This way the fund can afford to buy a whole portfolio of shares (at least 20 different companies' shares), thereby reducing company risk significantly.

Experts
Just as important, the management company will employ a number of stock market experts - portfolio managers, analysts, etc.

These people are trained to interpret JSE developments and they usually have years of experience in this field of expertise.

By investing in a unit trust, therefore, two important matters - knowledge and money - are taken care of for you.

You, of course, have to provide the time. Unit trusts are not short-term investments. Management companies will suggest that you invest for at least three to five years, if not longer.

There is quite a lot more to unit trusts than I have covered in this article.
THE JSE listing of Sequel Computer Holdings will terminate from close of business on Friday, the JSE said in a statement yesterday.

The delisting will take place despite the owner of the suspended cash shell not having fulfilled his offer to purchase the shares of minorities.

Hermanus Redelinghuys bought 89% of Sequel from Fintech last July for R67.6m, offering to buy out the minority stake at R1.22c a share. The cost of purchasing the 3.3-million minority shares would have been R1.32m.

JSE equity market GM Richard Connellan said yesterday the JSE expected Redelinghuys to fulfil his obligations to minorities.

He would be given an opportunity to take action, but if he did not do so, "we reserve our rights", Connellan said, adding that there was also the question of interest on the amount owed to minorities.

He said the delisting was necessary because Redelinghuys had not met the JSE's requirement that assets be injected into a cash shell within six months of its becoming one.

Simultaneously with the purchase of Sequel from Fintech, it was announced that Sequel had, subject to certain conditions, acquired Westcoast Quarries from Redelinghuys for R20m.

Westcoast was said to own a tract of land near Saldanha Bay on which two granite quarries were located.

But Connellan said the quarries did not meet up with the JSE's listing criteria.
Tongaat-Hulett to invest R250m

DURBAN — The Tongaat-Hulett group plans capital expenditure of R250m this financial year and has set up a unit to find new investment avenues, chairman Chris Saunders said in the annual report.

He said that maintaining and advancing the group's "competitive position in the diverse businesses which make up the group heads our list of priorities".

The first few months of the financial year had been difficult and the economic climate was not expected to improve in the immediate future.

He said it was unlikely earnings for 1991 would greatly exceed those achieved in the past year.

Earnings a share were 236.6c (214.3c) in the year to end-March out of which dividends of 70c (71c) were paid.

The report on the sugar division (pre-interest earnings of R76m) said sucrose results were "encouraging".

Domestic market sales were expected to stabilise and export prices, which had fallen to last year's levels, were likely to move within narrow limits.

The forecast was for a similar profit contribution this year.

The report noted that construction of an ethanol plant was "unlikely" but that the deregulation proposals for farmers within 30km of mills would benefit the group.

The building materials division (with pre-interest earnings down to R18m from R22m) forecast that the deliberate slowing of the economy and political uncertainty would affect product sales.

Sales levels and profit levels were expected to be similar this year to the 1989/90 contribution.

"It was noted that considerable funds were head towards the building market but were still held by government.

In March the Virio brick factory at Springs was exchanged for Tongaat's 50% holding in Coverland. Two new production facilities were commissioned.

Tongaat Foods, with pre-interest profits at R25m, expected a substantial profit improvement this year.

The mushroom division would bring into operation a high technology farm at Shongweni this year, pushing capacity to where it could meet local and export demand.

Hulett Aluminium, with R77m in pre-interest profit, said in its report that a major exporter it would be hard hit by the drop in prices and changes to export incentives, and expected an earnings drop.

The textiles division (pre-interest profits of R23m) faced a projected 36% cotton price rise, a downturn in local trading conditions and deteriorating labour conditions.

The first half of the year was expected to be difficult but it would look up later, increasing its contribution to group earnings.

Employees at the Hoedspruit division at Mpumulanga faced severe unrest and violence and production and export orders were impeded.

African Products (R26m profits) expected increased demand to continue this year but it was unlikely that the same rate of growth would be achieved.

The division aimed to achieve a low-cost producer status.

SA equities' foreign sales rise in June

LIZ ROUSE

FOREIGN sales of SA equities speeded up in the latter part of June, according to the latest figures released by the JSE.

Sales increased to nearly R180.1m in the week ended June 22 from R141.4m in the previous week while purchases declined to R88.6m from R106.5m. This resulted in a net deficit of R91.2m (R35.8m) on foreign transactions handled through the JSE.

These transactions are a small part of total equity transactions of 60.5-million shares worth R493.8m transacted in the week ended June 22 (51.8-million shares worth R479.1m were transacted the previous week).

Foreign transactions in the gills market remained steady, with purchases at R356.6m (R347.4m) and sales at R253.9m (R253.4m) resulting in a net surplus of R102.7m (R104.3m).

The weak gold price caused a sharp decline in the number of coins traded — 490 coins worth more than R44m changing hands in the week, compared with 2,565 coins worth R4.3m traded on the JSE in the previous week.
New share deal fee proposed

THE JSE has proposed a basic R30 fee per one share deal, whether small or large. Currently, investors pay a basic cost of R1 per share on the purchase and sale of shares, with a maximum charge of R25. An investor who buys fewer than 2,500 shares therefore pays less than R25 per deal.

The Registrar of the Financial Services Board has approved the proposal but has opened it for inspection and comment, favourable or otherwise. Final approval is expected within weeks.

JSE president Tony Norton says the rationale for the proposal is to raise charges to a more economic level for brokers, which are having to turn away small investor business because they have to carry the ever-rising costs of handling small individual deals.

Raising the charges can only lead to a healthier position for small investors and brokers alike as brokers will actively seek the business of the serious small investor, says Norton.

He says built into the charge are not only the costs involved in processing one transaction, but also the benefits of free advice and guidance by brokers backed by teams of investment analysts.

If the higher charge is approved, the JSE will still be one of the cheapest sources to handle investments, also comparing favourably with the 5% charge by mutual funds.

Norton says that, without any investment advice, the charge on a single transaction by London brokers firms is £10 or £16 outside the City.

In recent years some brokers firms have

Share deal fee

become reluctant to accept small investor business because they are carrying such an investor by actually financing the costs on a deal.

For example, one brokerage firm, whose policy has always been to accept all business from small investors, has found itself financing about 35% of small deals transacted, with 40% of deals just breaking even.

The amount of the basic fee has been calculated carefully in the interests of both the brokerage firms and the serious small investors, Norton says.

The charge will discourage the small jobber or speculator who dips into and out of shares investors will now be encour-aged to invest in a longer term basis to maximize their profits on sale, taking the higher charge into effect.

Robin McGregor of McGregor's Online Information, however, believes that the higher charge will reduce the number of small investors in the market — certainly the dabblers — at a time when the shareholder base should be broadened. Small investors currently make up less than 15% of the total market.

However, Norton is disappointed that the authorities have not seen fit to speed up the phasing out of the additional 1.5% tax levied on the purchaser's price and broker's costs.
CORPORATE PROFITS

Falling into step

A corporate profits crunch — for so long predicted — is rapidly becoming a reality. Until early this year, businessmen had for some time been surprised at the continued resilience of profits. The rate of increase in earnings and dividends had been slowing markedly from the previous year — but many forecasts proved unnecessarily gloomy as the economy kept its momentum and sales kept growing at rates well into double-digit figures.

The past six months, though, have been a clear turning point as government's restrictive economic policies have taken their toll and South Africans' political hopes and fears have vacillated. White elation over President F W de Klerk's reform initiatives and Nelson Mandela's release was rapidly transformed into apprehension, no more so than in the inwardly-confident business sector. Everyone expressed confidence, in public at least. But confidence was dealt a series of blows as the ANC repeated its party line on nationalisation and wealth redistribution.

There had been some hope that the informal sector, estimated by a few optimists to be as high as one-fifth of official GDP, would act as a buffer to keep some business momentum going. But even that was illusory. For while this sector may be growing rapidly, it remains still very basic.

For most corporates the profit pace has slowed abruptly. Few are managing to keep profit growth ahead of even a declining inflation rate, and several large groups have posted losses sharply lower than those for their year-ago periods.

The table (pages 34 & 35) shows the effects on about 170 of the larger groups listed in the JSE's industrial sector. It includes much the same list of companies whose results were summarised in a similar table six months ago (Leaders January 5). The main criteria for inclusion are size (measured by turnover) with sales of around R100m taken as an arbitrary cut-off point, and comparability.

In the previous table, the general trend by no means reflected hard times. Turnover was still rising by an average 31.5%, operating profits by about 40% and EPS 28%. When the latest table was compiled, based on results published since the beginning of the year, it showed an average turnover increase of roughly 23%, operating profit rising by about 24%, EPS by 14.5% and dividends by 16%.

These figures are based on a simple, unweighted calculation, and comprise a mixture of interim and year-end results. Reporting periods and seasonal factors will thus have influenced the trend, with groups reporting for a full year still reflecting some of the momentum that all were enjoying in the middle of last year.

The averages thus understated the severity of the deceleration that became evident from the performances posted for the six months to end-March. Generally stodgy sales and slower volume growth — particularly since February — as well as high real interest rates and, often, fiscally tax charges have all taken their toll. Margins are falling again and now, even the exporters, including the vaunted rand-hedge stocks, are being hurt by softer commodity prices and a firm exchange rate.

As a result, some of the largest groups have surprised many investors with the extent of the deterioration in their latest results. Examples include Barlow Rand, whose EPS were down 9%, Federele Volksbelegings (down 35%), Plate Glass (down 27%), Boumat (down 25%), Altron (down 25%), TSI (down 33%), Metker (down 39%) and OK Bazaars (down 16%).

It may be argued that these include special situations, and some beleaguered industries, but on the whole management must now be well aware that the economy has thundered into a recession — wistful talk about a soft landing is fading fast.

Another perspective is given in the graphs, which indicate the year-on-year percentage growth in earnings and dividends for the companies reflected in the JSE Industrial index. We are far from negative territory but the decline is precipitous and growth rates seem set to fall well below inflation over the next half year.

As for the likely progress of the JSE for the rest of this year, yields on industrial shares remain comparatively low on a 20-year view — investors have not yet responded fully to the deteriorating earnings and dividend outlooks.

The influence of the large, cash-rich insurance companies and pension funds remains the dominant factor in an hermetically sealed market. But they are becoming increasingly demanding — particularly as more and more financial products are being devised to tap the institutions' cash hoards.

Andrew McNeilly
CORPORATE power in SA is highly concentrated in the hands of a few large groups and, with the exception of Old Mutual and Standard Bank (respectively 7% and 8% of the market capitalisation), ownership is quite a different matter. For instance, Anglo-American/De Beers controls 45.3% of the JSE and owns only 11.9% of the equity-based voting rights. This divergence between control and ownership is exacerbated by the pervasive use of “pyramid” or “holding” companies. Shares with unequal voting rights, which serve much the same purpose as pyramids, are restricted in SA and only a few companies (e.g., Anglovaal, Woolworths and Richert) have been allowed to remain using and developing such differentiating instruments.

In the US, the UK and much of the English-speaking world, pyramids, cross-holdings, and controlling shareholders (all of which serve to concentrate the power of principal shareholders) are restricted or prohibited altogether. Yet, in Japan, West Germany, Switzerland and Scandinavia, they are quite common, even desirable.

In Sweden, the corporate structure is so concentrated that a mere nine families own 25% of the total market capitalisation of Stockholm Bourse, almost 40% of which falls under the sway of the Wallenberg family. Although corporate performance can conceivably be undermined by allowing too great a divergence between shareholders and control, the perils of prohibiting any such divergence are far more ominous, as the dilemma of corporatism clearly illustrates.

Well-managed companies normally enable powerful shareholders who can whip management into line yet acquire 40% of a typical large corporate organization to exercise the security of a well-diversified portfolio, is usually beyond the reach of even the richest individual.

So how is the dilemma resolved? In two ways. First, they may be made of dual-class voting shares or pyramids which allow the dominant shareholder to reduce his equity stake without losing control. Secondly, corporate debt may be employed in order to shrink the equity balance thereby making control, say 55%, more attainable. The problem with the latter option is that the debtholders will worry about the risks that a highly geared firm may be tempted to take.

The solution is to allow the principal creditor (usually a bank) to acquire a significant number of shares and, therefore, a say in the running of the company. In Germany and Japan, it has long been the practice for banks to acquire an equity stake in the companies with which they finance.

In the US, however, both of these “front doors” to shareholder control stand shut. Dual-class shares were prohibited in 1926 and pyramids in 1935. The Glass-Steagall Banking Act of 1933 ruled out the possibility of banks holding equity stakes.

The result of all these restrictions is a corporate landscape characterised (as far as the bigger companies are concerned) by disparate and weak shareholders, and by managers and outside directors accountable in effect to no one but themselves.

The implication of this state of affairs and the development of a market in junk bonds is a desperate attempt to open a “back door” to shareholder control. Takeovers constitute one way of getting rid of underperforming managers and were facilitated by the relaxation of the 1927 US antitrust act of an absurdly over-restrictive antitrust policy.

Junk bonds were used to obtain a higher level of debt finance in order to effect the takeovers, often of demobilised conglomerates by the various division managers themselves. Thus back door route has run into trouble, but merely reinforces the need to unblock the front door route to effective shareholder control.

In last October’s Harvard Business Review, Michael Jensen hints that the relative decline of America in the postwar era may be due to its displacement by Japan and West Germany may well be attributable to the strengths and weaknesses of their respective corporate structures.

What are the lessons for SA? We do not have a problem of week and disparate shareholders, the off-hand complaint is that our dominant shareholders control too much. It would be presumptuous to conclude that all is well in our corporate backyard but, in contemplating possible changes, we should be careful not to throw the baby out with the bathwater.

We should certainly not be lured by the shadow and populist arguments inherent in the American disease. Rather, we should ponder the very different (and seemingly sustainable) structures of Japan, West Germany and Scandinavia, with which we already have much in common.

More importantly, in the face of new political pressures, we must be able to distinguish between serious and spurious cries of distress from our present corporate structure. On the serious side, if enhanced corporate efficiency is our objective, the managerial worry is that managers are not the only group that can indulge themselves and abuse their position. Powerful controlling shareholders can do so too, and in all sorts of ways (especially if their equity stake is small). That is why the share of a company has been known to rise upon the death of its controlling shareholder. Examples are provided by the deaths of Walt Disney, Henry Ford and Philip Frame as owners of companies on the New York Stock Exchange in their latter years, they were perceived as harming their companies’ profit potential in some way prejudicing the interests of their co-shareholders.

An important mitigating consideration is that whereas managers may get away scot-free, a controlling shareholder, who indulges in the expense of this company, pays for it through the depreciated value of his equity. He also faces higher costs of capital in the event of a rights issue, since his indulgent behaviour will have frugiated off the market of shareholders to the point of effecting a discount on the price of the new shares.

Most often, therefore, controlling shareholders go out of their way to ensure prospective moulders have the desire to maintain the value of their shares.

A semi-spurious charge against our greed is that it facilitates collusion and therefore rips off the consumer. This cannot logically be deduced as a direct cost of the divergence between ownership and control (which is determined by the “vertical” depth of the pyramid). It may be taken as an attack upon the “horizontal” diversification of the major conglomerates.

There may be some substance to this argument, but more likely it is a figment of the popular imagination. An economy with the rest of the world (imports comprise about 30% of total spending) cannot have a surplus and the presence of a few big players is no evidence of collusion. If occasional instances occur, the solution is not to put more teeth into the Competition Board.

The most misguided criticism of the corporate structure is the one that associates it with the concentration of wealth. The two issues are separate and distinct.

Imagine a future government deciding to redistribute the Oppenheimer family’s pay in Anglo-American/De Beers or even buying out the controlling minority shareholders. Would that change the nation’s distribution of wealth? Not a jot — unless, of course, the asset is repudiated.

Even then, the equalising effects would be trivial whereas the blow to business confidence would be catastrophic.

Gerson is chief economist at Matshon and Hollis Inc. These ideas form the backdrop for a CRR-based research project.
Thank the Mutual

Minorities have Old Mutual to thank for the revised offer for Fedvolks from the Sanlam group. The Mutual, which for years has held an 11% interest in faltering Fedvolks, flatly rejected Sankorp's original cash bid and demanded that underlying quoted assets — SA Druggists, Fedfood and Teljoy — should be distributed in specie. Once Sanlam had given Sankorp the green light to accede to the demand, the offer had to be extended to others.

The net effect is that minorities are being offered R460 cash for every 100 Fedvolks held. Or they can take R205 cash plus 1.6 SA Druggists shares, 12 Fedfood and 12 Teljoy for each Mutual share. Before Mutual's intervention, Sankorp was hoping to succeed with a bid in the region of 350c (Fox June 29), the top of Fedvolks' trading range of the previous 12 months.

The revised bid will be pushed through willy-nilly Old Mutual has accepted for its 11% and so has Southern Life for its 5%.

worth. So a rights issue based on market price would be impractical, while one based on net worth would leave all the shares with the underwriter.

Roets adds that Sankorp was reluctant to give minorities what he describes as a free ride of an effective refinancing by Sankorp.

Sankorp's plans for restructuring Fedvolks are still in the melting pot. It has not decided how necessary finance will be injected into underfunded subsidiaries. Nor, it seems, has a decision been taken on the eventual resting place of Fedvolks' ill-matched subsidiaries. Some will go directly to Sankorp, others could end up in another Sanlam company, Malbuk.

Roets says there will be no bid for SA Druggists minorities. If a transfer of the controlling shareholding in the pharmaceuticals company seems to require a bid to minorities, ownership will be left with Fedvolks.

The only part of the restructuring to be disclosed is the immediate appointment of Peet van der Walt as CE in place of Johan Moolman, who is retiring a year earlier than he'd planned. Roets assures me Moolman, who led Fedvolks into its latest troubles, has not be pushed out. Rather, he says, Moolman himself decided to leave early to give the new CE as much time as possible to put his mark on the company.

Minorities are best advised to accept the cash and share offer.

Jim Jones

M-NET

More enjoyment

The M-Net share offer could be oversubscribed two or threefold. This translates into between 60,000-90,000 of the 430,000 subscribers. Stockbrokers say the offer could even surprise with a higher oversubscription.

The offer is 20m new ordinary shares of 2c at R1, to subscribers (15m shares) and business associates (5m). The R20m proceeds will help the company cash up for satellite broadcasting, and possibly expansion of its entertainment and sport, and cut gearing from 217% to 22%.

After the August 1 listing the public will hold 13.2% of M-Net's 1.52m shares, management 7.9% and M-Net Holdings (in turn owned by the major press groups, including the FM proprietor Times Media Ltd) 78.9%.

 Wynand van Niekerk, of Senekal, Mouton & Kitshoff, one of the sponsoring brokers, says the most attractive reason to invest in M-Net is that downside risk is limited, but there are significant opportunities and
Businessmen less optimistic about real growth this year

The South African Chamber of Business (SACOB) says its business confidence index (BCI) declined marginally during June to 91.8 percent from May's 92.

Sacob says that the decline would have been harsher had it not been for "One-off" developments in the CPI figures and a bunching in motor car sales as a result of the launch of the Uno.

The three main factors affecting the BCI were:
- The weak gold price;
- The length and depth of the current economic downswing and
- The uncertainty arising from political developments internally and abroad that affect South Africa.

The main negative factors affecting the BCI, says Sacob, are:
- A small decline in imports which is seen as a slow-down in the economy;
- The fall in share prices on the JSE and
- The rise in the number of insolvencies and a sharp decline in the value of building plans passed.

Positive developments are:
- A slight improvement in the rand/dollar exchange rate;
- A decline in the rate of increase in the consumer price index;
- A slight decrease in the three-month BA rate;
- A sharp increase in new car sales;
- The number of new companies registered continued to increase slightly and
- An improvement in the net immigration figure.

Milder slowdown 6/7/90

Sacob comments that at the moment the economy is in a relatively modest recession but that business slowdown is milder than the two previous downswings in the last decade.

"Overall, it would seem that, although the current downswing is somewhat harsher than expected, it cannot yet be designated a deep recession."

The body went on to say: "There is less optimism now about the real growth rate for 1990 which is likely to be zero or slightly negative.

"Two big disappointments which have affected growth performance this year are the weak gold price and a less than satisfactory agricultural season."

Sacob goes on to emphasise the negative impact that the low gold price has had on confidence and says that prevailing supply and demand patterns indicate that there is little reason to expect a significant increase in the bullion price within the next 12 months or more.

Sacob concludes by saying:
"1990 Must be seen basically as a year of adjustment and consolidation for the economy so that a sound basis is built for renewed growth next year. Business sentiment will adjust to the new economic and political realities as they evolve." - Sapa.
Bidcorp aiming at R48m buying spree after rights offer

THE BIDCORP group is looking for substantial, self-sufficient operations for the R48m net new capital being raised as part of the Bidvest/Africom R120m rights offer, Bidcorp executive chairman Brian Joffe said yesterday.

Earlier this week the group announced the restructuring of the organisation following the recent acquisition of Africom.

In terms of the restructuring, Bidcorp will become the pyramid holding company of the group and 60% held Bidvest will become the holding company for the group's underlying operations.

Bidvest in turn will hold 100% of Cater Plus, manufacturer and distributor of products to the catering industry, 50% of cosmetic house Justine and 53% of packaging group Africom.

**Debentures**

Afrac will become a cash shell holding R45m.

"We are looking at a few things," Joffe said. "Our basic philosophy on investment is to invest in trading, distribution and light manufacture or, to put it another way, we like to invest in niche markets on the fringe of major industries."

The R120m rights offer will be raised by the issue of 5.9-million convertible debentures at R18 each in Bidvest to raise R108m and 13.3-million convertible de-
UNIT TRUSTS

UAL results a mirror of subdued market sentiment

The quarterly results of UAL unit trusts reflected the subdued market sentiment in the three months to end June.

Total assets under management amounted to R289.1m, which was down on the R306.7m reported for the quarter ending in March.

Its flagship UAL Unit Trust produced a year-on-year appreciation of assets of 28.6% to R450.9m in the 12 months to end-June, making it one of the top five achievers, but which was not as good as some of its previous comparative performances.

The management company was happy with the results given the long-term nature of unit trust investment.

The general equity fund would pay an income distribution of 26.75c a unit.

MD of the management company Clive Turner said in a statement this demonstrated that unit trusts were an "ideal investment for producing a rising income stream in an inflationary environment."

Of the equity fund he said: "There is no direct exposure to gold shares and the view that these shares offered relatively poor value was vindicated during the quarter.

Both of UAL's specialist equity funds had adverse market conditions to contend with.

The Mining and Resources Unit Trust maintained a low exposure to direct gold shares in favour of mining houses and base metals and turned in a year-on-year performance of 20.71%. Total assets amounted to R208.6m.

A statement from UAL said although negative sentiment towards gold had an adverse effect on mining-related shares generally, this performance placed the trust at the top of the specialist resources trusts for the year.

Income distribution of 43.8c a unit has been declared for the quarter.

Direct gold exposure was reduced further with a portion of the trust's holding in Hartbeesfontein being sold, while the total holding of Sasele was also sold. Rights to further Northam Platinum shares were followed, thereby increasing the weighting in this sector.

Y, Friday, July 6, 1990
BIDCORP's 13% convertible debentures (SCRDs) will be redeemed early at 750c — 200c above the pledge to holders when they were issued in February 1989.

This was announced with details of the proposed reorganisation of the Bidcorp group 19 months after the nucleus was formed Executive chairman Brian Joffe bought the Iclef cash shell worth R8m and turned it into the R110m-plus company.

The SCRDs were issued with a view to their being converted into equity in Cater Plus — dominated by the Walter Chaplin businesses. If Cater Plus did not meet JSE requirements the debentures would be redeemed at 550c.

This week's announcement says a Bidcorp subsidiary already owns 98% of the SCRDs and a meeting will be called to approve their early redemption. Cater Plus will not be listed individually.

The new group structure will have Bidcorp as the top company, its sole investment being 60% of Bidvest — formerly Curries.

Bidvest will hold all the operating companies. These are catering products maker and distributor Cater Plus (to be bought from Bidcorp for R80m), 50% of skin-care company Justine (sold by Bidcorp for R2.5m), and 53% of Africom.

Africom will buy the businesses of Alpac for R6.7m, and sell its holding in Alpac to Bidvest for R25m. Africom serves the packaging industry and makes office products.

Bidvest will own 75% of Africom.

By JULIE WALKER

Bidcorp restructure offers tasty carrots

Afracom, a cash shell worth R40m, or 120c a share, which will be sold or liquidated. Bidvest will also have net cash of R4m. Bidvest will raise R106m by issuing 5.5m convertible debentures at R18. The offer will be jointly underwritten by Bidcorp and Investec merchant bank.

Africom will raise R14m.

By the issue of debentures at 106c, underwritten by Bidvest.

Both sets of debentures will be convertible one-for-one at the holder's option either immediately or on June 30 each year, but not before 1993. Any outstanding will be automatically converted in June 1994.

The interest will be paid twice yearly in arrears.

The interest payments will be guaranteed to grow by not less than 20% a year.

The group has dangled enough carrots to ensure that the debentures are well subscribed.

Bidcorp shares at 850c are 10c off a recent peak. Bidvest's are 50c below their 1983 high. Africom has rallied 5c from a 90c low, and Alpac is also 5c — worth 120c.

SUNDAY TIMES, Business Times, July 8, 1990
Metaclo minorities decide on legal action against controlling shareholder

By Ana Crotty

Minority shareholders in Metal Closures SA (MCG-SA) are taking legal action to prevent the controlling shareholder MCG-UK from implementing a proposal that would convert MCG-SA into a wholly owned subsidiary of MCG-UK.

A group of minority shareholders will be making an application to court today to prevent the Registrar of Companies from registering the four special resolutions passed at yesterday's general meeting.

The special resolutions were passed by 77.2 percent, with 12.5 percent voting against.

MCG-UK holds 77 percent of the shares and voted in favour of all resolutions, which are not effective until they are registered.

Donn Jewell of attorneys Jewell, Glyn & Marais who is acting on behalf of the minorities believes the effect of the special resolutions in this instance is oppressive and that a majority shareholder cannot exercise his power in a way that discriminates against minorities.

While it is generally accepted that a majority shareholder can vote in his own self-interest when a proposal is for the benefit of the company as a whole, in this instance the results of the proposals being voted upon discriminate against the minority and advance the interests of the majority.

Major grievance

The major grievance of minority shareholders is that the procedure being used by MCG-UK gives minorities absolutely no say in their expropriation from the company. (The procedure involves the conversion of the 23 percent minority shares into redeemable preference shares and their subsequent redemption at an effective R23 a pref.)

Of secondary importance is the level at which the takeover price has been pitched, which is felt by the minorities to be very low.

At least one of the major minority shareholders seems keen to continue to hold listed MCG-SA shares.

Graham Dickason of the Mines Pension Fund makes the point that it has been invested in MCG-SA since the company was listed "We would like to stay with it.

There are two legs to the action the minorities are taking:

The first leg argues that the majority shareholder has exceeded its power in the implementation of the proposal.

The second argues, under section 252 of the Companies Act, that the minorities have been unfairly prejudiced.

At yesterday's meeting, Gerald Stein of attorneys Werksmans, representing Finansbank, said the procedure used by MCG-UK was legitimate in terms of the law and that if the procedure had been abused then minorities had a remedy through section 252.

Mr Stein referred to the suggestion by brokers Martin & Co that MCG-SA should be valued at R3,480 to R4,850 as "horribly misleading" and asked Martin & Co's Winston Floquet to explain why he felt R23 was an unfair price.

In support of his contention that the price was too low, Mr Floquet said the company's asset base had recently been replaced. Gearing was low by industry standards and the earnings pattern of MCG-UK was less volatile than that of other players in the industry.

"Our valuation of the company is a minimum of R30."

According to Mr Stein, MCG-UK believed it was availing itself of its rights within the law.

"The minorities are well protected in terms of both the procedure and the price."

He said an independent party (Finansbank) had advised on the fairness and reasonableness of the price.
Anglo spells out policy on ‘new’ SA government

Business Editor

Anglo American Corporation, the country's largest conglomerate, says it is prepared to enter into mining-venture partnerships with a future South African government.

The chairman, Mr Julian Ogilvie Thompson, said Anglo had enjoyed successful partnerships with the governments of Botswana and Namibia and he believed this also could happen in South Africa.

A future government would be able to take shares in new mining ventures in exchange for mineral rights, he said.

RAISE GROWTH RATE

Mr Ogilvie Thompson said that from 1985, trade and financial sanctions had compelled the country to restrict the growth rate to 2 percent a year or less, financed by the repatriation of international debt repayments.

"Simply stopping the haemorrhage — a prospect which the European Community summit meeting in Dublin has now brought closer — would enable us to raise the growth rate to about 3 percent a year.

"With the resumption of trade credits and capital inflows, we could raise it to between 4 and 5 percent, perhaps more."

That would add a further R5-billion to R10-billion a year to the country's total resources.

See page 13.
Claims of monopolistic power refuted

Anglo 'owns 6% of SA's assets'

By AUDREY D'ANGELO
Business Editor

ANGLO American Corporation, its associates and "the companies they allegedly control", own only 6% of SA's fixed assets, the corporation's chairman, Julian Ogilvie-Thompson, says in the annual report.

Suggestions that they account for 45% of the total capitalisation of the Johannesburg Stock Exchange are "grossly exaggerated by double counting and other errors", he says in his first annual review since taking over as chairman from Gavin Relly.

"In fact the number of shares constituted by Anglo American and associates and the companies they 'control' is no more than 30%".

Ogilvie-Thompson says it is "fashionable in some quarters to assert that big companies are monopolies.

Monopoly

"If the term is used in its true sense, as meaning control over a sufficiently large part of the production of a particular commodity to be able to manipulate its price, then neither Anglo American itself, nor any of the companies it controls, is a monopoly.

"Anglo American is also criticised, even among those who accept that it is not a monopoly, on the grounds that it is very large. It is large, but not as large as is often claimed."

In any case, Ogilvie-Thompson continues, "administration and control are not — as is so frequently assumed — synonymous. There are generally large, often majority, public shareholdings in companies we administer, particularly the gold mining companies."

"Moreover a director's fiduciary responsibility requires him to take decisions in the interest exclusively of the company on whose board he sits, not the interest of the company which may have nominated him to represent it.

"More illustrative of the real worth of Anglo American and its associates is that ventures they have developed from grass roots now account for some 25% of the JSE's capitalisation. That is an achievement we are proud of."

"But", he goes on, "let us examine the true measure of the concentration of ownership of the national economy by relating ownership to the nation's total fixed assets."

"After adjusting the latest statistics for the recent privatisation of Iscor, about 54% of those assets is owned by the government and parastatal organisations, and 4% by agriculture."

"Another 36% is owned by non-Anglo American companies listed on the JSE, by affiliated entities such as the SA Mutual and Sanlam, the Unit-nationals and private businesses Anglo American and its associates and the companies they 'control' account for the remaining 6%. That surely puts the matter of concentration in perspective."

However, Ogilvie-Thompson continues, SA needs large corporations if it is to compete effectively in world markets.

"Small countries have to compete in the same world markets as large countries and in many cases — not all — successful competition is possible only if companies are of broadly comparable size, able to provide or have access to the technologies that keep them competitive."

"The US and other large countries can afford the luxury of preventing what they term to be unduly large aggregations of capital, as this still leaves them with the largest companies in the world."

"Small countries such as Switzerland, Holland, Sweden and SA cannot — and should not try to."

"Moreover, countries which are both small and developing have to stretch their skills and resources to the maximum possible extent. The group system practised by the SA mining houses came into being precisely because there have never been enough skills to go round."

"So evolved a system of combining in one organisation a range of managerial, financial and technical skills that could be made available, economically, to a number of mines, together with the financial resources required to provide for their present and future capital needs."

Ogilvie-Thompson said critics alleged that large accumulations of capital in the hands of conglomerates led to a socially undesirable pattern of investment or to too little investment altogether.

But it was "absurd to argue that the minimal growth in net real investment is due to a failure of the savings system. It has delivered an immense flow of savings, part of which is being used to finance the capital outflow (a use which, however negative to most people, seems to find favour in the pro-sanctions lobby)."
Anglo holds monopoly, say analysts

AUDREY D'ANGELO
Business Editor

MCGREGOR's Who Owns Whom insists its claim that Anglo American Corporation controls 45% of the market capitalisation of the Johannesburg Stock Exchange is correct — in spite of a denial by the corporation's chairman, Julian Ogilvie Thompson, in his annual review.

But a spokesman for Anglo American said yesterday that McGregor's was mistaken and that it had been guilty of double counting and even multiple counting.

And Jos Gerson of stockbroking firm Matheson Hollidge said that "this numbers game" was beside the point — what mattered was whether the size of the corporation’s holdings did good or harm to the economy or had a neutral effect.

Gerson said he did not agree with McGregor's that it had a debilitating effect. There were other countries where ownership of listed companies was highly concentrated but where the economies performed well.

In the US, on the other hand, where such concentrations were prevented, "you find a kind of disease in the corporate world".

Ogilvie Thompson, in reaction to criticism that the corporation was "monopolistic", said in his review that it controlled no more than 30% of the JSE and owned only 6% of SA's fixed assets.

Andrew McGregor, an executive director of McGregor's On-Line, said it had analysed the shareholding of every single company listed on the JSE. "We identified 70 companies controlled by Anglo American."

Asked how big the corporation’s stake in each company had to be before it was considered to have control, McGregor said this varied with the spread of the shareholding.

"We stand by our claim of 45% They say some of these companies operate autonomously. But whether they exercise control or not is not the issue — it is whether they could exercise it if that counts."

McGregor said he would like to see the calculations on which Ogilvie Thompson based his statement.

Mike Spicer of Anglo American said a great deal depended "on how you define control."

The corporation had tried to follow McGregor's definition but had found some double counting and "once you tidy this up you get the figures we arrived at."

Spicer said that, before its latest edition, Who Owns Whom had included Consgold and Gold Fields of SA among companies controlled by Anglo American. "They still have us controlling Palabora Mining, which must either amuse or annoy Rio Tinto Zinc."

"Freegold has been counted six times through various holding companies."

Jos Gerson, who estimated in a recent article that the corporation owned 12.2% of SA's fixed assets, said the figure of 6% given by Ogilvie Thompson was "interesting."

Gerson said he had quoted McGregor's Who Owns Whom verbatim, when saying the corporation had control of 45% of the JSE, and had acknowledged it as his source.

"He pointed out that the dispute between the corporation and McGregor's could not be resolved unless their calculations were available for comparison.
Large firms urged to pay up promptly

THE managing director of Small Business Development Corporation, Dr Ben Vosloo, this week appealed to large corporations to pay promptly when dealing with small businesses.

In a statement, Vosloo pointed out that a stable cash flow was of vital importance for the financial survival of a small business.

He said that was particularly evident in the present economic climate.

Liquidations of companies and close corporations increased sharply during the period January-April 1990, while the average number of liquidations a month in 1988 and 1989 was 130. In March and April this year, they were 172 and 190 respectively.

Annualised, that represented an increase of 16 percent on the number of liquidations during 1989.

Cause

Undoubtedly, a major cause of the increased occurrence of liquidations was the high interest rate. This affected all business by increasing the cost of loan capital which, if not matched by increased prices, reduced profits.
Employee share schemes hit by tax exemption

By DAVID CLEGG of Ernst & Young

ALTHOUGH the general exemption from tax on dividends just confirmed in the Income Tax Bill will be welcomed by most shareholders, it has an adverse impact on employees who are able to purchase shares in their employer's company under a share incentive or share trust scheme.

In terms of these schemes the employee is granted a low-interest or interest-free loan to purchase the shares. He is then taxable on the deemed fringe benefit on the difference between the "official rate" of interest (currently 19%) and the actual interest paid.

Prior to exemption from tax on dividends he would, however, have been able to claim a deduction of two thirds of his deemed and actual interest cost from his two-thirds taxable income from dividends. He would thus effectively have paid tax only on one-third of the deemed interest benefit.

Now, because his dividends are not taxable, he will not be able to claim the interest deduction and will therefore be at a cash flow disadvantage.

To partially counter this problem the Income Tax Bill provides for a deduction of 50% of the deemed interest, but only for employees who are prevented by the rules of the particular scheme in force at March 15, 1990, from selling their shares and repaying their loans.

The deduction only applies to loans granted before March 15, 1990 and will be allowed for the shorter of five years to February 28, 1995 or the period during which the employee is prevented from selling his shares.

The deduction will not apply to new entrants to share incentive schemes, nor to existing participants who are free to dispose of their shares but choose to retain them and not repay their loans.

This means that the benefits of share incentive schemes to employees will now be denied to many employees who will be forced to sell their shares in order to avoid the punitive tax cost.
Speculation mounts over Kan hym, Fedfood merger

By Ann Crow

There's growing speculation in the market that a deal may be hatched between Fedfood and Kanhym, which would create a giant food empire with an annual turnover in excess of R2 billion.

Kanhym sources are emphatic that there are no talks on the go.

Both food groups are within the Sankorp stable — Fedfood is a subsidiary of Fedvolks and Kanhym is a subsidiary of Mailbak.

Analysts believe that with Sankorp currently studying the Fedvolks portfolio — with a view to cleaning it up and sorting out problem areas — combining the two groups in the Sankorp organisation seems a reasonably logical step.

There may have been some reluctance to undertake such a step while Fedfood was stabilised at Fedvolks. But now that Fedvolks is being delisted, and possibly dismantled, the situation becomes much more fluid and gives Sankorp management a freer rein to link up appropriate assets.

Although both Kanhym and Fedfood are major players in the food industry there is little apparent duplication in their activities.

This is the justification for keeping the two groups separate.

It could also be regarded as justification for merging the two to form a giant conglomerate with a well-balanced portfolio.

Fedfood operates in five sectors of the industry — butchers, grain processing, fishing, frozen foods and snacks.

Kanhym is an integrated meat producer and retailer.

It has interests in livestock auctioneering, and leather production.

In recent years emphasis at Kanhym has been on value-added products — this has been a successful attempt to give management more control over its bottom line.

At the release of interim results early this year, Kanhym management said it was interested in moving beyond meat products into groceries and was keen to add to its own basket of branded food products.

Although Fedfood is by far the larger of the two and profitability has recently improved, the market gives Kanhym management a better rating.

Analysts believe that if, and whatever way, they are put together Kanhym management will feature more prominently at the top.
Unit trusts show moderate gains

As expected the record-breaking pace set by the unit trust industry in the first quarter of the year slowed somewhat in the second quarter.

Figures released yesterday by the Association of Unit Trusts reflect the more modest trend. However, the market value of the assets held by the country's 36 unit trusts amounted to R7.58-billion, which is only marginally lower than the all-time record of R7.62-billion reflected at March 31, 1990 (332).

Sales of units during the quarter registered R476.8-million compared with the record R638.6-million reflected for the first quarter of the year. With industry-wide repurchases at R209.5-million (R273.9-million) the net inflow for the three months was R267.3-million compared with the R364.7-million record established in the previous quarter.

Association chairman Roy McAlpine says he is very satisfied with this trend: "It would have been unrealistic to expect unit sales to be maintained at the hectic pace of the first quarter."

During the quarter, the unit trust capital index declined by 2.6 percent and stood at 172.98 points at June 30. This decline is considerably less than the 5.5 percent decline evidenced by the JSE all-share index for the same period.

The income index however continued to forge ahead and stood at 2,076.39 points at June 30, a rise of almost 6 percent during the quarter — Sapa
Metalco deal fair, says UK chief

LONDON — Chris Miller, chief executive of the Wessell group which owns Metal Closures UK, yesterday defended his group’s buyout offer for the 23% minority in the SA subsidiary.

“We think that what we have done is legal, fair and reasonable,” he said after returning from Johannesburg where Metalco SA was taken to court by minority shareholders to try to block the deal which would give the UK parent 100% ownership.

“The matter is now before the Supreme Court and we will have to see what happens. But as people who want to invest in South Africa I can only note that disinvestment doesn’t seem to attract the same amount of fuss,” he said.

“I can only repeat that we took a course of action on the basis of valuations by three advisers all of whom concluded that Metal Closures SA shares were worth less than R23 each.”
McGregor's sticks to guns over Anglo

From MALCOLM FOTHERGILL

JOHANNESBURG — Unchastened by having its figures rubbish by Anglo American this week, McGregor’s On Line Information is sticking to its guns.

The giant corporation, it insists, accounts for 45 percent of the total capitalisation of the Johannesburg Stock Exchange.

Anglo’s view, expressed in the 1990 chairman’s statement by Julian Ogilvie-Thompson, is that the corporation accounts for no more than 30 percent.

The root of the dispute is that McGregor’s and Anglo are using different criteria to measure Anglo’s size.

Anglo, says spokesman Michael Spicer, takes issue with McGregor’s on two counts. One is that Anglo does not control some companies McGregor’s says it does control. The other is that McGregor’s has been double-counting.

“They have companies in their list that by no stretch of the imagination can be said to be controlled by Anglo,” says Mr. Spicer.

“Until this year’s edition of Who Owns Whom, for instance, they claimed for many years that Palamin was controlled by Anglo. In fact, it is clearly controlled by Rio Tinto Zinc.

“And when they say Consgold and Gold Fields are controlled by Anglo, this is clearly quite wrong — at no point in history has Anglo controlled those companies.”

Examples Mr. Spicer gives of double-counting are Ofal, which owns shares in Freegold, and Placor, the Plate Glass pyramid.

These should not be included, he says, because they relate to the same underlying operations — so Anglo counts Freegold, but not Ofal, and Plate Glass, but not Placor.

The argument fails to convince McGregor’s Andrew McGregor.

“ Anglo is making its own rules,” he says.

“We’re talking about the value the market places on a company, and we find what that is by looking at the price the market is willing to pay for the company’s shares.”

“Is Anglo saying Placor shares are worth nothing? If they’re looking at underlying assets rather than market capitalisation, that’s a totally different story.”

McGregor’s criteria for judging where an investment shades into control are flexible, says Mr. McGregor.

“There’s no fixed formula. We look at the spread of shares in each company to decide who controls it. You can control a company with 30 percent of the shares, if the other shareholdings are all small.”

“We’re confident our market-capitalisation figure for Anglo is about 45 percent, which is based on the methodology we’ve been using for 10 years, is correct.”

Over the years, changing market conditions have caused McGregor’s estimate of Anglo’s size to fluctuate from 52.5 percent of the JSE’s market capitalisation in March 1983 to 60.1 percent in March 1987.

Anglo’s nearest rival, Sanlam, is far behind, with a 1985 low of 6.4 percent and a 1985 high of 12.2 percent.
Debate on who controls what through.

HELENA PATTERN

4170 16710
Tollgate embarks on time of consolidation

TOLLGATE Holdings (TGH) is embarking on a period of consolidation during which growth will be organic rather than by acquisition, says outgoing chairman Johan Claassen in the diversified industrial holding company's latest annual report.

He says the emphasis in the coming year will be on rationalising investments, increasing profit margins by effecting improvements in asset management, particularly working capital, cost reduction and greater operating efficiency.

TGH, whose subsidiaries include Gant's, Entercom and Budget Rent-a-Car, posted earnings of 23.5c a share in the 18 months to end-December, compared to an annualised 15.7c. Dividends of 27.5c (18.3c) were declared.

"Certain of the divisions have been operating well below their true potential and we expect improvements in their results in 1999," Claassen says.

The economic slowdown and continued high interest rates would still affect the group's results in the coming year.

"At this stage it still seems that a further period of slow economic growth is ahead of us, with no likelihood of a material reduction in interest rates before the end of the year," he says.

"The recent political developments could have far-reaching implications for the economy of southern Africa, quite apart from the changes in political and social life facing us," he says. He said that while a settlement would set the stage for a period of long-term growth, the immediate future was one of uncertainty and high risk.

The past 18 months had seen the transformation of TGH from a road passenger transport company into a diversified industrial holding group with a wide range of interests, Claassen said.

"This has been a most intensive and strenuous period, involving a number of major transactions, which has resulted in total assets employed increasing by 248% to R808m and shareholders' funds increasing by 55% to R167m."

"Such a period of rapid change and expansion has not been without its difficulties."

He said while group turnover and operating profits almost reached the levels targeted, net profit after tax was below expectations.

The interest saving that would result from TGH's R44m rights issue would have a considerable impact in the future, he added.

Writing in pyramid Durco's latest annual report, Claassen said emphasis during the remainder of the current financial year would be on increasing profit margins and rationalising industrial investments.
Trade finance houses are underrated, say analysts

TRADE finance houses are underrated on the JSE, say some analysts. This is despite their "recession-proof" nature and recent impressive earnings performances.

For example, GDM Finance recently announced a 38% increase in attributable earnings and dividend growth of 41%, yet the share price has failed to respond. The shares traded at R3.90 last week. At this price they offer historic earnings and dividend yields of 22.5% and 9.2% respectively. Net asset value is R9.00.

Major competitors Merhold and Reuchmans are also poorly rated, according to analysts. Merhold's dividend yield is 6.8%, Reuchmans yields 10.1%.

A misunderstanding of the business of trade financing could be behind the low ratings, say analysts and industry executives.

"This business is relatively recession-proof, especially in an inflationary climate," GDM MD John Cowper said on Friday.

In a recession there might be a small fall-off in volumes, but in monetary terms the value of business was bound to increase, he said.

"Demand for our services may grow in a slowing economy as clients who are overstocked may need help while reducing stock levels."

Trade finance activity is split between imports and local buying. In boom times the ratio might be 80:20 in favour of imports, and in a recession this might be reversed, said Cowper. "The point is that although the ratios change, the same amount of business is still being generated."

Another benefit enjoyed by the trade finance houses is their relatively low tax rates. GDM's rate was 22% for the year to end April because of assessed losses in certain subsidiaries and lower rates applicable to offshore operations.

Cowper said that Reuchmans and Merhold enjoyed even lower tax rates.

The companies offer financial services to groups involved in trade. Profits are earned from commissions and from interest income.

There are some similarities with traditional banking operations, but these are limited. Some players describe trade finance houses as offering "secondary financial services."

Like all industries trade finance was susceptible to bad debts during economic recession, said Cowper. "We try to limit bad debts by holding security over assets," he said. GDM also limited its exposure by maintaining a broad client base.

No client, or even sector, represented a majority of the assets, so individual risk was minimised, said Cowper.

Regarding debt to equity ratios, trade finance houses resemble banking groups more than normal trading companies.

GDM's stated objective is to limit gearing to 5:1. At end-April the ratio was 4:1. Total assets were R121.7m compared to capital employed of R28.4m.

GDM should maintain strong organic growth, said Cowper. Recently acquired African Shipping - a clearing and forwarding operation - had excellent prospects, he added. GDM turned the loss-making Afshp around within three months of acquisition.
INVESTMENT WARNING FOR SA

LONDON — A director of one of Britain’s largest merchant banks yesterday urged Nelson Mandela to call off sanctions immediately, or let SA run the risk of losing out to Eastern Europe in the “intense” international competition for investment funds.

Kenneth Costa of S G Warburg and Co Ltd. said if the ANC deputy president was serious about his commitment to maintain economic growth ahead of population growth, “this could only be done through foreign investment requiring at least £2.5bn (R11.75bn) per annum in foreign capital.”

“It is also interesting to note that every one year’s delay adds 1-million people seeking jobs to the population in SA.”

Speaking at a seminar on Britain and SA organised by the Centre for Policy Studies (CPS) here yesterday, Costa said it would take time for the various legislative and other sanctions directives to be dismantled.

“This process needs to be put in place immediately in order for the economy to begin the process of readjustment.”

Turning to nationalisation, Costa said: “For as long as nationalisation in any of its guises remains a commitment of the ANC, for so long will international investors be deterred from investment in SA.”

KIN BENTLEY

“This much is clear from the reaction of the business community to Mandela’s recent visit.

“Privatisation is a key to the development of a vigorous enterprise economy. This market-led economy is the natural way to help eliminate the disparities between black and white in pensions, housing, social welfare, education, etc.

“The command economy distributes poverty and will not create the wealth necessary to establish an economy in which all can participate.”

Costa also called for the estimated £20bn (R94bn) of assets in state-controlled companies to be privatised and for these shares to be distributed free to people in SA as a “peace dividend”.

“These shares are, after all, owned by the state on behalf of the people. To distribute, say, R2 000 per head as a peace dividend will be a significant step towards establishing the enterprise culture of the market economy.”

He said: “Before the lever of nationalisation is pulled, consideration should be given to the proper deployment of all state-controlled assets.

“In the context of SA, nationalisation is the one option that is not consistent with prosperity.”
Tollgate restructuring: final plans are outlined

CAPE TOWN — Plans for the final restructuring of Tollgate Holdings (TGH) have been announced.

Masterminded by London-based entrepreneurs Julian Askim and Hugo Brielmann and their localcolleagues, Mervyn Key and Lawrie Mackintosh, TGH is to become the group's holding company while Duroc, Enterco and Norths are to be delisted.

The main purpose of the restructuring is to make its shares more attractive to foreign investors.

TGH is listed in SA and on the International Stock Exchange in London. It is understood to have attracted a foreign institutional interest since Askim's consortium acquired the group in July.

Most of the group's assets are based in SA, but Askim and Brielmann plan to expand the group internationally by acquiring new assets in the UK and the US.

The consortium plans to convert Duroc, Enterco and Norths into wholly owned subsidiaries by buying out their minorities.

Enterco shareholders will be offered 66 TGH ordinary shares and R2,53 in cash or R23,53 in cash for every 100 shares held, while Norths' shareholders will be offered 33 TGH ordinary shares and R1,12 in cash or R111,67 in cash for every 100 shares held.

If shareholders approve the transactions, both companies will continue to operate as wholly owned subsidiaries.

It is proposed that Duroc sell its insurance investments — 4.1% in Hosken Consolidated (HCL) and 24.1% in Safirian Life — to cash shell Arwa for R50m.

TGH will then offer Duroc shareholders about 240 of its own ordinary shares for every 100 Duroc shares and 200 TGH 14% compulsorily convertible debentures worth 350c each for every 100 Duroc 14% compulsorily convertible debentures worth 700c each. This will convert Duroc into a wholly owned TGH subsidiary.

The JSE yesterday approved the scheme subject to certain amendments. Once shareholders approve the Arwa transaction, the company will be suspended from the JSE for six months in accordance with the normal stock exchange rule. Once the acquisitions from Duroc have been concluded, it will apply for reinstatement.
Gilt trade’s second successive record

ROBERT GENTLE

THE value of public sector stock (giltis) traded on the JSE in the first quarter of 1990 beat from the previous quarter’s record R5.8bn to a new record of R77.5bn, the Reserve Bank’s latest quarterly bulletin revealed.

However, it fell sharply in April, a decline the bulletin attributes partly to the large number of public holidays during that month, and to a lesser extent, to a marked fall-off in net purchases by non-residents.

These retreated from a monthly average of R2.6bn in the first quarter of 1990 “significantly less” than half that amount in April.

Although non-residents account for a very small proportion of all gilts traded on the JSE, market sources have been watching the decline evidence of increased nervousness abroad.

They attribute this mainly to the dashed expectations that arose after Nelson Mandela’s release in April.

Spokesmen from the gilt divisions of Standard Merchant Bank, stockbrokers Edey Rogers and Simpson McKee said Mandela’s statements on a future SA economy had had a negative effect.

It was also pointed out that in recent months general political uncertainty was not confined to the words of Mandela, and also included far-right activities.

The Simpson McKee spokesman, who returned recently from a trip to Europe to gauge foreign investor sentiment, said that a wait-and-see attitude had developed there.

“Those who already have large positions in SA gilts appear to be staying put. Those who want to come in are thinking twice before doing so.”

This explained why there were no signs of any massive selling orders, he added. Indeed, there was even the odd small buying order.

The bulletin said another possible reason for the fall-off in foreign interest in SA gilts was the hardening of real yields on similar instruments in other Western countries.

Soviets flood SA mission with immigration requests

THE SA mission in Helsinki, Finland, had received 6,000 immigration applications from Soviet citizens in the past six months, Foreign Affairs spokesman Alayne Ressberg said yesterday.

And Eastern Europeans had addressed 30,000 inquiries about emigration to SA’s embassy in Vienna, she said. Sapa-Axter reported from Helsinki yesterday that the unprecedented wave of applications — from all over the Soviet Union including the Baltic republics, Moscow and Azerbaijan — had taken the embassy by surprise.

Ambassador Johannes Lotter said he was amazed that the Soviets chose to apply to his mission, adding that there had previously been no applications.

He said 90% of letters were from unqualified people with little chance of acceptance. Most seemed to be applying for economic reasons and none had yet been approved.

Ressberg said it was well-known that Eastern Europeans often “shopped” around at a number of foreign missions when they crossed the Iron Curtain.

Confirming that most of the Soviet applicants were unlikely to be approved, Ressberg said that in addition to their lack of needed skills, many of the applicants had no knowledge of languages other than their own dialects.

The ANC Heimatt Representative Mohamed Hussen said the organisation objected to “this attempt to mop up the disenchanted people from the East”.

The ANC, he said, opposed immigration controlled by SA, adding that the government ensured that only whites were allowed to immigrate.

The Leegall Clothing Co Limited

(Registration number 05/34784/06)

Cautionary announcement

Shareholders are advised that negotiations are under way which may affect the price of Leegall shares. Shareholders are advised to exercise caution in this regard.

A further announcement will be made as soon as possible.

Johannesburg
19 July 1990
Gloom for most JSE companies

BOTTOM-LINE profits of JSE companies are expected to come under attack on a number of fronts in the coming year, with few likely to rise above the gloomy economic and stock market conditions, say analysts.

High interest rates, political uncertainty, inflation, stuttering prospects for precious metals prices and dwindling consumer confidence will all play a role in the assault on profits.

"One analyst sums up the situation by saying that it is now "a very difficult time to pick any winners" Steve Rubenstein of Ferguson Brothers says an average growth of 13% is predicted for the financial and industrial sectors of the JSE for companies with 1990 year-ends.

Output

More beleaguered than most is the mining sector.
Gold mines are being squeezed "every which way" An unwarranting gold price, high cost inflation and Reserve Bank determination to protect the rand are some of their headaches.
Platinum companies are also looking at a flat world price because of more output in the global market.
The benefit from a good rhodium price is likely to be small.
Base metal companies have similarly few highlights to look forward to, although one analyst says the improved nickel price could have a positive spinoff for platinum companies.
Coal's outlook is less than bright, because Eskom's consumption has reached a plateau and export prices have weakened.
The banking and financial services sector is the one with happier prospects than most and shares in this sector are described as "defensive in an uncertain market".
The consensus among analysts is that margins will hold up well compared with the rest of the industrial sector and earnings and dividend growth of 15-20% can generally be expected.
Financial companies are expected to do well in their portfolios, said one stockbroker. This was due to an undemanding price earnings range of between about 5 and 7, compared with substantially higher ratings of some blue chips like Richemont, SAB and Tiger Oats, but their earnings outlook was not particularly good.

Thorns

Building societies' margins are benefiting from favourable interest rates in the retail market and the fact that the cost of funding is likely to start declining faster than the cost of their retail lines.
The thorns in the otherwise rosy picture for this sector are potentially worsening bad debt ratios and slower volumes.
The insurance sector has to be seen in its two distinct components life companies are forecast to produce earnings of between 20% and 22% and are said to be relatively recession-proof, because policies are not easily cancelled.
Short-term insurers, on the other hand, are much more cyclical performers and earnings are expected to be well down on last year's 35-40% earnings growth. Earnings improvement this year is not expected to exceed 10-14%.
The industrial sectors are being affected by the slowdown in the economy, uncertainty about politics and the looming probability of retrenchments.

Trouble

Some analysts forecast a 20% decline in the earnings of the likes of Barloways. Anic is also expected to see a dip in earnings.
Remgro's earnings growth is not expected to be more than 5-10%. Rainbow's results were forecast to be well below prospective forecast, Kamyn could not expect more than 10% growth, the cement producers could expect a 20% drop in earnings and the building and construction industry is said to be in trouble.
The only relief from a generally depressing scene was in the furniture and household sector, which has seen a 30% annual growth in the past three months, but even this is not expected to be sustained.
The clothing sector has also been showing some real growth, a broker said.
Plunge in earnings growth of SA firms

YEAR-on-year earnings growth of financial and industrial companies has slowed from 33 percent in January to 23 percent by June, and this trend will continue, says UAL managing director Clive Turner (322) 567 890.

In the UAL quarterly report released yesterday, Turner said the present economic conditions dictated a cautious investment stance and UAL would maintain conservative liquidity levels for its trusts under these conditions.

Commenting on the unit trust quarterly results, Turner said UAL Unit Trust had no direct exposure to gold shares, but the diamond sector performed well and now constituted the largest sectoral weighting in the portfolio.

The present level of liquidity, in excess of 20 percent, is considered a suitable buffer against market volatility.

UAL Mining and Resources was affected by negative sentiment towards gold.

UAL Selected Opportunities stood up well to the uncertain investment climate over the quarter, and UAL Gilt's exposure to the gilt market through stock options was currently in balance. — Sapa
Tollgate ‘won’t bypass SA potential’

ARI JACOBSON

BUILDING Tollgate Holdings into an international organisation which will generate the bulk of its earnings in foreign currency does not mean bypassing the potential of its SA market, CE Julian Askin said yesterday.

In a telephone interview Askin, who is based in London, said the decision to get involved in SA was based on a decision to take advantage of the changing perceptions of this country "by building an international business with SA connections".

Local acquisitions

He stressed the policy of the group would be one of active management by acquiring assets and stripping off unproductive parts to enhance the underlying value.

"Local companies with potential could be acquired by the group to fulfil its growth strategy, within the next 12 months."

Askin said a clear-cut corporate structure coupled with an owner-manager scenario of the group's assets was the force behind the restructuring of TGH.

The removal of the existing pyramid structure in TGH provided management with direct control over the trading assets, he said.

"This also prevented the possibility of frightening-off potential investors through the complexities of a corporate structure which had little appeal on the London Stock Exchange."

The restructuring is being planned through a scheme of arrangements in which Duros, Entercor and Norths are delisted and incorporated within the holding company TGH.

Duros will cease to exist and the other two will remain in business as wholly owned subsidiaries of TGH.

Both the Entercor and Norths minorities are being offered substantial premiums to the respective market prices at 223c and 112c a share.

Cash flush

Arwa and Gants will remain as listed subsidiaries.

Arwa, the recipient of Duros's insurance investments worth R35m, will remain cash-flush with the R42m injection from the sale last month of its operating assets to Johann Classen.

Askin said this streamlined approach was an attempt to tidy up the cluttered structure of the group and place emphasis on the value contained in the holding company.
That collective bargaining must be institutionalised at relatively central levels if there’s to be any kind of social regulation or compact between the State, capital and labour.

The assistant director of the Wits Centre for Applied Legal Studies, Halton Cheadle, argues that some form of regulation is important to set reasonable standards. The Free Market Foundation is very wary about this.

The Labour and Economic Research Centre’s Taffy Adler illustrated how industrial councils have made a significant contribution to general social welfare, preventing wages from sinking to very low levels. He argues that the gradual demise of industrial councils has had the effect of lowering employment standards and damaged collective bargaining as an instrument.

Ironically, says Adler, the result of the break-up of industrial councils is a massive additional burden to the State and society as a whole.

It is argued that deregulation and privatisation are taking place without reference to unions or negotiation, and here Competition Board chairman Pierre Brooks, unable to gainsay the charge, came in for a roasting. Natal University’s Chris Albertyn describes this by-passing of the unions in the changing of regulations as typical of the features of the authoritarian state, as outlined by UCT Prof Andre du Toit in an earlier address.

The charge seems to be supported by the concerns expressed by Adolph Landman (chairman of the labour relations committee of the National Manpower Commission), about the Department of Manpower holding back the law-making process for pushing through the Saccola-Cosatu-Nactu accord.

"I suggest the department is overstepping the mark," Landman stuck his neck out, adding that though the NMC is government’s official adviser, "it does seem to have other advisers who are not publicly accountable."

UCT’s Clive Thompson says any new legislation has to serve two periods — the present transitional phase as well as the new order to come.

It is ironic that labour, once at the progressive forefront, has now started to lag behind political developments. The search for better dispute resolution procedures that measured up to ILO standards, says Thompson, is being thwarted by the Department of Manpower.

He believes it a curious omission that the draft labour legislation makes no mention of affirmative action — essential to the future.

While we have a core of fairly well-protected industrial workers, says Thompson, there is a crucial need, linked to the land issue, to extend such rights to rural workers. Labour and management are going to have to adjust their attitudes in order to replace SA’s deeply adversarial labour relationship with a co-operative one. Union autonomy, he adds, is going to be crucial in the new SA if democratic pluralism is to succeed.

LABOUR CONFERENCE

Guarding the flame

Deregulation and privatisation — and their impact on collective bargaining — were at the core of this year’s labour law conference, jointly organised by the labour law departments of UCT, Wits and Natal.

The conference, now the premier event of its kind, commenced with the general issues of economic restructuring and democracy in societies in transition, before tackling the impact of political policies on collective bargaining, directions in labour law and the role of collective bargaining in what was assumed would be a social democratic state (undefined) in future.

It was regretted that there was "unwillingness by government and certain large employer representatives to participate and advance positions in public which they espouse in practice. For example, on levels of bargaining" — an indirect reference to Barlow’s preference for plant-level bargaining.

Broadly, three themes emerged:

\[ \square \] That democratic regulation of organisations and, ultimately, society involves pluralism and the importance of maintaining free and independent trade unions,

\[ \square \] That some level of regulation is necessary to assure a balance of power between unions and employers, and to check the unfettered use of power by either; and

But should the right to strike be inalienable? Thompson believes the ILO convention should form the basis of this right in law. Cheadle says it’s inalienable but a question of where you draw the line — either the court is given that power or it’s written into the statute.

Numsa’s Geoff Scheckner reckons the line should be drawn by the parties themselves, adding "we don’t believe in the absolute right to strike." He suggests more emphasis should be placed on compulsory arbitration in extreme cases.

Cheadle revealed that the Saccola-union accord proposes restructuring the labour appeal court to make it more of a specialist labour court — with the status of an appeal court, beneath which would function the industrial court.

Discussing unions and political affiliation, Chris Gilmore, of the Italian union federation CGIL, drove home the message of the "incompatibility between trade unions and political office," which has been formally adopted by his union.

Not only does this make the formation of more cohesive unions possible, it is a question of different roles, says Gilmore, who is here advising Cosatu. This does not mean unions reject intervention on socio-political issues that affect workers as citizens.
Golden egg cracks

This time last year we made the obvious point of how difficult it was to get the market consistently right. This time around let's make another. It's easy to go badly wrong or wonderfully right if you put all your eggs in one basket — particularly golden eggs in a leveraged basket. That's certainly the lesson from the performances of the six brokers who participate in our light-hearted portfolio.
Iscor shares are facing a long haul

Thompson says there is probably little downside risk in the current share price, given that holders will probably not be inclined to sell below the original issue price.

Also the share must at some stage overcome the present period of indigestion, permitting a rating based purely on fundamentals.

But although disillusioned investors have been selling Iscor, the outlook suggests the shares are cheap at their extremely depressed price.

Consider:
- The rand-dollar rate has declined moderately, thereby aiding export receipts although for more than 30 percent of Iscor’s turnover.
- “Logistical” problems relating to Iscor’s export drive have been overcome.
- Western Europe’s steel industry is already recovering. Although European production of basic steel was down by 2.3 percent in the first five months of 1990 against this period last year, the May figure revealed a rise. It could be the start of a sustained upswing, as steel companies begin to benefit from the reconstruction of East European economies.
- Iscor is starting to benefit from improved access to foreign markets, as unofficial boycotts diminish in intensity. It has, for example, achieved a breakthrough with exports of iron ore to Poland.
- Iscor is stepping up its involvement in beneficiation. A R250 million joint venture with Durbym to manufacture seamless steel tubes will go ahead, and there is the distinct possibility that a stainless-steel plant will be launched at Saldanha Bay. Iscor may also enter the stainless-steel market.

Rising exports should have helped ensure that Iscor’s earnings a share reached 48c in the year to June 1990.

The original dividend forecast of 17.6c will almost certainly be lowered. On this basis, the prospective dividend yield is a generous 9.8 percent.

Although the domestic steel market is weak, expected international improvement should lead to a further export boost.

Hence, it would not be surprising to see Iscor earn at least 55c a share and pay 20c in the current financial year for a forward yield of 10.1 percent.
Tollgate seeks world centre stage

DUROS, Entercor and Norths will become wholly owned subsidiaries of Tollgate Holdings (TGH) and Arwa will buy Duros' stakes in Safrican Life and Hoskins.

The proposals have to be accepted by a general meeting. Control of Duros was acquired by a consortium of Julian Askin, Hugo Biermann, Mervyn Key and Lawrie Mackintosh in March. The first pair have had great success in Britain. The consortium intends to expand TGH's earnings and asset base internationally. Because TGH is listed in London and Ireland, it will be retained as the integral part of the new group.

The restructuring announcement says that investment criteria used by overseas institutions include a bias against investing in pyramid and control companies or in a multiplicity of listed companies within a group.

Entercor and Norths members are given an opportunity to realise their investment at a premium to the market price at any time in the past three months, or to switch into TGH, which will become Tollgate's official name. TGH offers the holders of 100 Entercor either 68 TGH plus R14.25 cash, or R24.33. Holders of 100 Norths are offered 33 TGH plus R11.12 cash, or R11.67.

Duros currently holds 60.6% of TGH. It is proposed that the TGH shares and debentures held by Duros be cancelled, and that TGH buy ordinary shares and debentures in Duros.

Duros shareholders will be offered between 326 and 346 TGH shares for every 100 Holders of 100 Duros debentures will be offered 250 Duros 14% debentures convertible on July 1, 1993, or sooner by option.

Duros will sell to Arwa — which recently sold its assets to Johan Claassen — its stakes in Safrican Life and Hoskins for about R35-million. Tollgate's annual report, issued last week, was signed on May 15 by chairman Johan Claassen and by company secretary N. Blackburn.

It included a notice that the annual meeting would be held on July 30. If erroneously, included Mr Key as a director — he was not then, but is now.

Since then, the chairman has resigned and has bought out textile division Arwa.

The restructuring was announced only two days after the report for the year to December 1990 was published.

Mr Key says the consortium was unable to act before the end of June because the change of control became effective only from then.

Deal architected by Askin is on holiday but will be in SA soon. The more whiff of foreign investors is enough to excite the JSE.

Tollgate jumped smartly from 6.60 at the start of the week to 380c and was offered higher after the announcements. Duros gained 25c to R3.00, but closed but at 830c.

Norths — formerly Drivetech — gained 30c to 1.10c, as did Entercor, formerly Deale & Huth — to 2.10c.

TV rental tough for T

TV-rental newcomer Tedelex is finding the going tough. Tedelex entered TV rental in July 1989 through subsidiary Empusa, challenging market-leader Teljoy.

Empusa, now with four stores fewer than the 56 it had at the start, has lost R14.4-million for its rental business.

Tedelex managing director Jack Cohen says the aim is to gain a third of the market — 140,000 sets in five years, from the six it had in 1989.

Mr Cohen says: "The market has been quiet. We are up against Teljoy, a sound trader running an excellent business."

"Our rental business will show a profit this year and will be a significant contributor to earnings in the future. Interest rates have not affected our business because they were high when we launched our operation."

Teljoy chairman Theo Rustem is not worried about Empusa's arrival, saying "Tedelex is not the threat we thought it would be. We are trading and the

WEEK IN BRIEF

A SUMMARY of the week's corporate announcements.

MONDAY: Metal Closures scraps proposal to buy out the minority. Last day to register LDR for Retepa to accept 48c is 3/8 firstitco warning.

TUESDAY: Frigate borrows R50-million in redeemable prefs from Finansbank, which takes 40% of Frigate for R110.

WEDNESDAY: Western Areas warning.

THURSDAY: DPF in investment war, so does Leegall.

FRIDAY: charter to 1870 in 1990.
Unit trust trend slows somewhat

As was expected the record-breaking pace set by the unit trust industry in the first quarter of the year slowed somewhat in the second quarter.

Figures released by the Association of Unit Trusts reflect this more modest trend. However, the market value of the assets held by the country’s 36 unit trusts amounted to R7.583m, which is only marginally lower than the all-time record of R7.624m, reflected at March 31, 1990.

Sales of units during the quarter registered R476.8m ‘compared with the record R638.6m reflected for the first quarter of the year. With industry-wide repurchases at R209.5m (March R273.9m) the net inflow for the three months totalled R267.3m compared with R364.7m record established for the March 1990 quarter.

Roy McAlpine, chair-man of the Association of Unit Trusts says that he is very satisfied with this trend.

“...It would have been unrealistic to expect unit sales to be maintained at the hectic pace of the first quarter when, for the first six weeks of the year, the Johannesburg Stock Exchange was booming with turnover reaching record levels...”

“The pace has moderated but the net inflow into unit trusts for the quarter is nevertheless, the second largest inflow since the heady days of the 1987 share market boom.

“As far as gross sales are concerned, the industry achieved its third largest sales ever during the quarter. Only in the first quarter of 1989 and the third quarter of 1987 were industry sales higher.”

McAlpine said that another pleasing feature of this quarter’s results was the rise in the number of unit trust accounts to 645 000. He commented “...This means that an ever increasing number of South Africans are coming to appreciate the benefits of unit trust investment. In three months the industry has attracted almost 44 000 new accounts which is very gratifying...”

The association figures show that most of the accounts (76 percent in fact) are in general equity trusts. Of the balance 22 percent are in specialist equity trusts and the remaining 2 percent is held in high income funds.

Analysing the portfolios one can see that the general equity funds’ liquidity levels did not increase dramatically during the quarter in spite of the quieter share market conditions.

Mr Bastien van der Westhuizen, assistant GM: Investments
Old Mutual strengthens leadership

Old Mutual Unit Trusts strengthened its leadership position in the industry with unit holders investing more than R660 million in its five unit trusts for the financial year ended 30 June, 1990.

In this period 64,000 new accounts were opened, bringing the total to some 270,000 and making the company by far the most popular choice of unit trusts in the country, the giant institution says in a statement.

"These numbers constitute the investments of the man-in-the-street of which a large portion invest on a regular monthly basis," said Mr Bastiaan van der Westhuizen, assistant general manager for investments. Unit trusts.

More than half of the accounts opened were debit order accounts.

The combined assets of the five unit trusts exceeded R2.5 billion, a leap of 39 percent from the previous year, making the organisation's unit trusts more than twice as large as its nearest competitor.

Van der Westhuizen contributed their success to an exceptional "track record", its range of products and the value for money investors received.

"Unit holders received more than R110 million in distributions declared during the financial year.

"In addition, we offer superior investment returns.

"For example, in over five years the Investor's Fund achieved a return of 30 percent. An amount of R25,000 invested on 30 June 1985, was worth more than R93,000 on 30 June 1990.

"We were also the most active unit trust company during the past 12 months, launching two new specialist funds.

"The Gold and Industrial Funds were introduced to offer investors a wider choice. The investor's fund is the ideal vehicle for the average investor, but for the investor who takes a view on gold and industrials, we offer superior share selection," he said.
AA LIFE's Allegro unit trust, established in March, ended its first quarter with assets of R56.3m and more than 2,500 individual unit holders.

Although income is distributed/reinvested at six monthly intervals, the annualised yield projected at the end of its first quarter was over 6%.

"This projection compares favourably with the current general equity fund average yield of 5.2%," the quarterly report noted.

In an uncertain and volatile stock market, Allegro's fund managers adopted a "balanced and defensive" investment policy. They believed long term value could be found in some of the low cost producers of platinum and gold should precious metals consolidate at current levels.

Liquidity at end-June stood at 10.4%.

New holdings in AA Life and Genbel were established, while the fund's exposure to Mid Wits and W&A were reduced. The holding in Anglovaal Loan Stock was replaced by increased weightings in Hortec, AVI, AH and Grinleek.

Top ten holdings were Implats, ABI, De Beers/Centenary, Lonrho, Johannes, Genbel, AVI, Anglos, Altron and Knights.

"All Allegro's holdings were increased to utilise the benefits of the current market weakness for long term performance," the report said.
Earnings up at Tempora Investments

SUNCRUSH subsidiary Tempora Investments, listed in the investment trust sector, has lifted earnings before a R1m extraordinary item to R2,1c (R1,5c) a share in the year to June.

This was based on turnover which grew 3% to R4,3m (R4,1m) and tax-earned profit which climbed 13% to R3,5m (R3,1m). After the extraordinary item — surplus on the sale of listed investments — this translated into a R4,5m profit (R3,1m). A dividend of 32c (38c) has been declared.
Traders fall through collapsed futures floor

THE brand new R3.3m futures and gilts trading floor in the JSE annexe opened yesterday—literally—and at least two traders fell through it.

There were no serious injuries when the traders crashed through a section of a false floor covering a 50cm-deep area for computer and other cabling.

A spokesman from the Bond Market Association, which runs the new floor with the SA Futures Exchange (Safex), confirmed the incident.

He said the company that had installed the floor had been called in to check on the structural integrity of the area.

Safex CEO Stuart Rees, asked whether this could jeopardise the formal opening of the floor on August 10, when 300 people—including Finance Minister Trevor Jojo — would be present, said "Under no circumstances will anyone be allowed on the floor under the auspices of Safex until we are absolutely certain that it is safe".

Cynics lost no time in speaking of a couple of traders "going short" when the "bottom fell out of the new market" after "heavy position taking".

Johannesburg Options Market MD Dave Bullard wrote on his Reuters screen of the "collapse of capitalism".

On a more serious level, there was much activity in the gilts pits, where trade now takes place after the closure last week of the JSE's gilts floor.

There was no trade at all in the futures pits. Most traders said they had not been formally notified about the opening—a charge Safex denied.
Afex predicts satisfactory final results

DIRECTORS of Luxembourg-incorporated investment company Afex Corporation are predicting "satisfactory" results for the year to end-September following an increase in midway earnings to $0.0773 ($0.0465) a share.

Chairman David Marshall says in a statement accompanying the interim results that while the JSE-listed company's US property investments had a "disappointing" period, its general investment portfolio reflected the bullish conditions on Wall Street.

In addition, Afex's farming results will be brought to account in the second half, as in previous years.

Barring unforeseen circumstances, directors will "at least maintain" the $0.9 dividend and again offer the scrip dividend alternative, Marshall says.
FSI stable takes beating as shares tumble on JSE

BRENT, MELVILLE

SHARES across the FS Industries (FSI) stable took sharp dips yesterday amid speculation of problems within the group's overseas interests.

FSI tumbled from 850c to close 11.7% down at 760c. The share is being offered at a seller's price of 775c although buyers are trying to pick it up at 700c. (An FSI spokesman said last night it was understood that the JSE computer had mistakenly shown buyers at 500c rather than the correct 700c.)

Homemakers dipped by 20c to 380c and Hunts fell 10c to 740c a share, and is being offered at 730c. The big chill, however, came with V & A which shed 14c to hit a low of 650c before finding lower-end support to come back and close at 690c — a decline of 12.5%.

A analyst said that the declines could reflect impending poor results, especially within the group's far-reaching international interests, and a general downswing in the mood of the market towards underperforming and overrated shares.

In response, FSI group chairman Jeff Liebesman said he had no idea why the shares had slumped, adding that the group was expecting good interim results and had stabilised its overseas operations.

In his 1989 annual review, Liebesman expressed concern over the fact that international alliances were developing as organisations responded to opportunities opening up within the major trading

FSI shares, 1980

blocks, and to the intrusion of foreign competitors into their home markets.

He said in the review the group was continually examining options for streamlining its financial structure, to improve operating returns and management effectiveness and to assist investors in SA and overseas to gain a clear understanding of the group.

A market source said yesterday that it was known that FSI had made a proposal to the JSE to restructure the group. He said that while the salient details of the proposal were not known, it was ostensibly made to accommodate the poor results of FSI's overseas concerns, diluting the effect of any losses among the lower end of the pyramid.

"And apparently the JSE committee has rejected any suggestion to restructure," he said. Liebesman commented only that the JSE had "declined nothing that might or might not have been put to them".
Good news for all Unidev shareholders

UNIDEV shareholders can look forward to good prospects of sustained future growth, says chairman Henry Vorster in his latest annual review.

He says the consolidation and tight controls which have been introduced will contribute to the 1990 results being well above the rate of inflation "providing shareholders with a real return on their investment."

The Unidev share closed at 106c yesterday on a dividend yield of 13% and a p/e of 1.9 times. The share reached a low of 85c in March after its October high of 190c.

Its pyramid company, Unidev Consolidated Holdings (Uncon), closed at 185c on a dividend yield of 4.3% and a p/e of 12%. This was slightly below its yearly May low of 190c and well below the October high of 225c. Industrial holding sector averages were 5.6% and 9.2% respectively.

Last year Unidev underwent a restructuring and strengthened its financial ratios by raising just under R200m in a rights offer underwritten by newly-created Uncon, which holds 56% of Unidev's shares.

In the year to end-December, Undev reported a 31% increase in attributable profits, increasing its dividend by 17% to 14c (12c) Net asset value at year-end was 296c.

Unidev has an industrial division which holds 23% of Rusturn, 81% of Prestige, 53% of Medicor (unlisted), 33% of Hyperette and 26% of Debonair.

Its property division has been consolidated into a 40% stake in listed Equkor Holdings, a development company operating mainly in the western Cape which is involved in development projects worth more than R200m.

The electronics division consists of Coritech, one of the top five electronic companies in SA.

Finally, the group operates a financial services division comprising investments in Unidev Financial Services, Mercantile Bank Holdings, Unidev Registrars and Questor IV.

Divisional contributions to total group operating profit and equity earnings of R23.6m were industrial (R8.9m), property (R1.7m), electronics (R3.8m), and financial services (R12.1m)
The Reserve Bank is compelling banks to do foreign gilts transactions through JSE-registered brokers after indications earlier this year it would relent and allow banks to do their own deals.

In January, it was reported the Bank was on the point of changing the ruling so that the JSE would not be the only avenue for foreign gilts deals. This followed intensive lobbying by merchant banks, commercial banks and discount houses who objected to paying an "unnecessary" fee to a broker.

Reserve Bank senior deputy governor Jan Lombard yesterday confirmed the banks had recently been told the authorities felt the JSE was a necessary intermediary in the interests of greater control.

"We understand the banks' problem and naturally the issue will be reviewed again once the entire gilts market is formalised under the auspices of the Bond Market Association (BMA)," he said.

The authorities wanted to be certain the prices quoted to foreigners reflected market prices for gilts. As the deals went through the financial rand, there was much scope for abuse. The Bank wanted the safety of a regulatory authority such as the JSE. But once BMA structures were in place there would be a different authority and banks would be able to supply their own "broker's notes." Discount houses would also be able to do their own deals.
New-look Tollgate Group on the cards

From JOHN SPIRA

JOHANNESBURG — Tollgate Group Holdings, which holds its annual meeting in Cape Town on Monday, is undergoing a fundamental transformation involving rationalisation of its domestic businesses and overseas expansion.

Accordingly, the share has been reincarnated as an investment with exciting growth prospects and intriguing rand hedge qualities.

TGH is a diversified industrial holding company with interests in high-volume consumer and brand-oriented industries.

Subsidiaries operate in the food, textiles, tourism, sport and leisure sectors.

In addition, TGH retains its long-established transport interests.

In the 18 months to the end of 1989, total assets employed soared from R232 million to R308 million as the group diversified away from road passenger transport.

Not surprisingly, so rapid a change in focus was accompanied by a measure of dislocation.

Thus, while sales have rocketed, taxed profit has fallen way short of expectations.

On an annualised basis, earnings fell from 31,7c a share in 1988 to 15,7c in 1989. And the distribution sagged from 20c to 18,3c.

Flies in the ointment were Arwa and Gants Foods, along with the group’s high gearing and the resultant heavy interest burden.

To reduce borrowings, TGH raised R44 million by way of a rights issue of convertible debentures in June.

Profitability

To improve operating profitability, TGH is busy rationalisation certain of its interests.

But this is all background to the main attraction — the change in control at holding company Duros, which has been acquired by a consortium led by London-based former South Africans, Julian Askin and Harold Beermann.

The new management team has ambitious plans. Already a major restructuring programme has been announced.

Duros is being absorbed into TGH, while minority shareholders in Entecor and Norths are being taken out.

TGH will become a pyramid company, with just two listed subsidiaries — Arwa and Gants — and two wholly-owned subsidiaries in the form of Entecor and Norths.

As a result, TGH’s net worth should increase by 18 percent to 36c a share, while earnings should rise by 34 percent to an annualised 23,5c a share in the year to December 1990.

Significantly, TGH is listed in London and management has extensive plans to convert the company into an offshore vehicle for making foreign acquisitions using TGH paper.

Indeed, it is well worth noting that TGH has become the first South African company in many years to have developed an active market in its shares in London.

Messrs Askin and Beermann are highly regarded in the UK if their foreign strategies come to fruition, TGH will become an important rand hedge counter and a shield against ANC-inspired nationalisation threats.

Track record

A track record is required before the shares can be regarded as more than speculative in nature.

But they could, in due course, come to be highly rated on the back of the overseas plans.

In the meantime, an encouraging recovery looks to be in prospect following the rationalisation programme and the emphasis on boosting profit margins.

An unchanged 1990 dividend of 18c from earnings which should be in the region of 25c a share makes the prospective yield an undemanding 6,2 percent.
FSI shares stabilise after plunge

BRENT MELVILLE

FS INDUSTRIES' (FSI) share price stabilised yesterday after plunging to its lowest level in over a year on Tuesday, with rumours of house support rife on the market.

However, a nervous wobble appeared on the JSE with FSI preferred ordinaries dipping 10c to 335c, and FSI Group preferred ordinaries dropping 25c to 375c. W & A's holding group Wacer also shed 10c to close at 310c, while Homesmakers continued its slide to close 10c lower at 370c and McPhail lost 8c, finishing off at 330c a share.

Sidney Frankel, of house brokers Frankel Kruger Vinderine, dismissed suggestions the house had been propping the share or that FSI was buying its own shares. Stockbroking firm Anderson Wilson & Partners was understood to have been buying FSI shares and J Bosman & Co FSI Group shares.

Responding to an assertion in yesterday's Business Day by FSI spokesman Richard Wagner that the JSE computer had misrepresented a 700c buyer price on FSI shares yesterday as 500c, a JSE spokesman said there had been 'no error' in the computer and the bid price had, in fact, been 600c. 10-77 36/777

Wagner yesterday apologised for the misinformation and said the error had been made in "good faith".

A market analyst said despite assertions by FSI chairman Jeff Liebesman to the contrary, "informed sources" in certain of the overseas countries where the group was believed to have "significant operations" had indicated a severe downturn in that market.

"It's not impossible that this downturn would have a significant effect on FSI's results," he said.

However, another analyst said he believed operating levels were likely to be up, with profits for the overseas interests "significantly" improved. He said that at current levels the share offered sound value. But a third analyst said there was "unlimited downside potential to FSI".
A quiet week on the JSE

By GILLIAN COUNIHAN

THE past week has been very quiet on the Johannesburg Stock Exchange, so quiet that on most days over 80 percent of the shares have been unchanged.

Of the five shares in this month’s competition, it’s not surprising that one has recorded a price change. That was a mere 5c drop in Malbak to close at 635c.

Looking at the JSE prices pages in Finance Week (July 26) you will see that Sasol closed at 1270c, Lions Match at 250c, Foschini at 7200c, and our two-year guarantee store Morkels at 82c.

At 250c Lion Match offers a dividend yield of 5.2 percent, which compares favourably with the interest offered by building societies and banks on amounts under R1 000.

Asset

Its net worth is 221c, which shows the share has good asset backing.

Your net worth would be your house/cars/possessions less all your debts, so its your Real value, and in the case of shares it’s always interesting to know what the share is really worth, compared to the price you pay for it on the JSE.

The share at 250c reflects a per ratio of 8 which is below the market average of 10, a good point to consider when buying shares.

Lion Match is 71 percent owned by SA Breweries, a strong well-managed parent. There are 45 million shares in issue, making the company worth about R106 million.

The share has recently risen from 235c to 250c, compared with a high of 275c and low of 205c in the past 12 months.

Apart from manufacturing matches, Lion has interests in packaging, domestic appliances (Berdea and Salten are two of the brand names) and personal care consumer products including Wilkinson Sword.

Our competition for July closes at the end of the month. So watch the prices and see how they move then.

Shares

You stand a chance of winning 100c Genkor shares, which are worth R1 110, by watching the share prices of our five companies and sending in a list of the five shares showing how they have performed.

There was no winner for our last month’s share competition, so the share prices have been increased to 200 Malbaks, valued at R2 220.

This competition is sponsored by Genkor, one of the major investment companies in the country.

Concern over slaying of Soweto traders

THE Soweto Independent Traders Association will hold a crucial meeting on August 8 to discuss the killing of black businessmen.

Secretary Thami Skenjana said that over the past four weeks, four traders had been killed in Soweto.

"Something must be done about this and we call on all our members and those interested to come to this meeting. It will be held at the Jabulani Standard Bank and starts at 12 noon," he said.

The murder of traders and salesmen in the townships has always been a matter of concern with chambers of commerce. Last year Soneta held a meeting with the Soweto police chief and even closed shop on days when members were being burned.

The spate, however, continues and traders are now to consider new methods of addressing the problem.
Gold revival continues: Up to $371

By TOM HOOD
Business Editor

GOLD has gained about $12 an ounce this week, bouncing over the important $370 level and holding at a two-month high of $371 on world markets this morning.

Political tension in the Middle East is reported to be encouraging wealthy Arabs to buy gold again. Dumping tons of gold by Arab countries forced the gold price to crash this year.

Analysts also believe the prospect of Iraq forcing Middle East oil producers to curb production in a bid to push up the oil price could also be behind the former gold price.

TRIGGER INFLATION

A higher oil price could trigger worldwide inflation and set off renewed investment demand for so-called hard assets.

The prospect of lower interest rates in the United States could also trigger the latest wave of buying, say analysts.

If the price stays above $370, it could boost the coffers of the depressed gold-mining industry, where about half the mines are running at a loss.

When gold hit its 1990 low of $346.90 on June 20 the mines were receiving only R297.40 a kilogram.

However, the price is still below the average R35 500 a kilogram the mines received in the March quarter. See page 3.

De Beers shares rocket at news of $5-bn deal

Business Staff

NEWS of a $5 billion (about R13 billion) diamond deal between the South African De Beers organisation and Glavalmaznolo of the Soviet Union started a rush for De Beers shares on the Johannesburg Stock Exchange.

The price jumped R3,50 to R97,25 yesterday as shares worth more than R30-million changed hands.

The Argus Foreign Service reports from London that the Swiss-based De Beers Centenary AG yesterday agreed to export and sell the Soviets' production of rough diamonds for the next five years.

Glavalmaznolo is the main administration for precious metals and diamonds under the Soviet Council of Ministers.

Centenary said political developments in South Africa helped to bring about the deal, which took three months to finalise.

The stones will be marketed in London and Lucerne.

Centenary Holdings SA, De Beers Centenary's Luxembourg subsidiary, has also agreed to make a secured advance of $1 billion (about R2.6 billion) to the Soviets against future diamond deliveries.

Repayment will be over five years, beginning in November this year.

The agreement was signed in London yesterday by Glavalmaznolo head Mr Valery Roudakov and Mr Nicholas Oppenheimer, deputy chairman of De Beers Centenary AG.

"GOOD NEWS"

Mr Julian Ogilvie Thompson, chairman of De Beers Centenary, said: "The establishment of a close business relationship between De Beers Centenary and the Soviet Union's diamond industry — one of the world's top producers of gem diamonds — is very good news, not only for De Beers Centenary but for the continued stability and prosperity of the international diamond industry."

Mr Oppenheimer said: "At a time of considerable financial strain the Soviet Union has been able to raise a loan of $1-billion while signing a contract with De Beers Centenary, which assures it of a steady flow of funds from its diamonds for the next five years."

De Beers Centenary AG was formed at the end of May this year to head the non-South African business of the De Beers group.
Most acquisitions fail

By AN JACOBSON
Rookraal's shareholders sell for R1,2m

CHARLOTTE MATHEWS

SHAREHOLDERS holding 62% of DCM-listed food company Rookraal Foods have sold their 4,98 million shares to Stratplan for R1,2m, says an announcement released today.

Stratplan has paid 25c a share in cash to the shareholders, and has undertaken to make a similar offer to minorities to acquire all the issued shares.

Rookraal shares closed at 32c on the JSE yesterday with buyers offering 31c.

The company's results for the six months to end December showed an 11% drop in attributable profits to R326 000 from R367 000 and sharply higher finance charges.

Stratplan has indicated its intention of selling the Rookraal business as a going concern.

Details of Premcon and Retco share offer

CHARLOTTE MATHEWS

DETAILS of the offers to be made to Retco and Premcon shareholders were released today after the announcement in May of the reorganisation of the Property Group of SA (PGSA).

The objectives of the reorganisation are to simplify and streamline the corporate structure of the group and make Retco the industrial arm and Premcon the property arm of the group.

Retco's capital will be reduced by a distribution of 50 Premcon shares at 45c each for every 100 Retco shares held. Retco shareholders registered on August 17 will qualify for the distribution.

With effect from August 17, Retco will consolidate its capital on the basis of four shares into one. Shareholders who hold less than 400 shares on that day will be able to sell their entire shareholding to PGSA for 30c in cash for every consolidated Retco share.

In a separate announcement, Premcon minorities are being offered a cash consideration of 45c for every Premcon share held or one consolidated Retco share for every five Premcon shares sold.

Premcon minorities registered on August 10 can take part in the offer.

This offer does not apply to Retco shareholders who obtain Premcon shares as a result of the reduction of Retco's share capital.
Liquidity levels rising
The JSE's dismal June quarter performance did not deter investors from pouring more money into unit trusts. But the slide in share prices, and lack of investment opportunities, caused the funds to be largely inactive and their performances deteriorated.

Quarterly figures from the Association of Unit Trusts show a net inflow of R267m in the June quarter. This is a 27% reduction on the first quarter, when the JSE was extremely buoyant, but was still well above quarterly inflows during 1989. Reasons for the continued strong inflow probably include the fact that many investors realise the benefits of investing in a weak market, the abrogation of tax on dividends and the appearance of new unit trusts.

With a few notable exceptions, unit trust investment managers barely changed their portfolios. Investment decisions were heavily influenced by the fall in the gold price, from about $420/oz in February to just above $350/oz in June, and by adverse sentiment created by the vacillating political environment.

Deteriorating economic fundamentals, weakening corporate profits and high interest rates helped to limit the appeal of non-mining counters.

Investment managers turned cautious. Liquidity levels were raised to 19% from 17% at March 30 in general equity trusts and to 17% (14%) in specialist equity trusts.

The notable exception is Momentum, which reduced its liquidity level to 17% from 29% in the first quarter despite sales of all gold holdings (representing about 15% of the portfolio). Industrial holdings — Imperial, Lonrho, Messina and Richemont — were the major area of additional investment, large blocks of cash-rich Mauoli, Commercial Union, J D Group and Pepkor were also bought.

Mefund was another of the more active funds. It moved right out of mining financials — in which 23% of its assets were invested last quarter — into other mining operations and cash.

Across the board, general equity funds reduced their holdings in gold to only 4% and in mining financials to 17%. Funds sold a wide variety of gold mines but a number opted to dispose of their holdings in Gold Fields of SA and AngloGold.

Investment in financial and industrial counters remained steady but there appeared to be general sales of Barlow Rand.

Specialist equity funds reduced gold and mining financial holdings and raised their exposure to other mining, including copper, platinum and coal.

During the June quarter short-term interest rates remained stable at high levels, whereas longer-term rates were fairly volatile and the yield curve flattened. A number of the high-income trusts lengthened their portfolios in the expectation of lower, shorter-term rates as the economy cools and inflation slows. Medium- and long-dated stocks were bought in an effort to limit a fall in income when the decline in rates begins.

Though the association does not provide quarterly performance figures, a comparison of annual figures to March and those for June show the latest quarter performances were dismal and mirrored that of the JSE. During this quarter the Overall index declined by 5.5%, the All Gold index fell by 22.4% and the Financial & Industrial index by 0.4%.

Fixed income trusts appear to have the advantage for now. Based on R1 000 invested as a lump sum in June 1989, best performing funds are Sygro (general equity fund), Sanlam Industrial (specialist fund) and Seabank Gilt (high-income trust).

On a five-year basis the best equity fund performers are Old Mutual and UAL Mining & Resources.

Unit trusts are continuing to operate in difficult conditions this quarter. The slowing economy, political uncertainty and a low gold price are limiting activity and price movements on the JSE.

Current liquidity levels are likely to be maintained and a further slide in performance may be on the cards.

Pam Berkout
De Beers to control world diamond sales

By ARI JACOBSON
THE $1bn-deal struck between De Beers Centenary (the offshore arm of the giant SA-based mining house) and the Soviet Union's diamond industry is set to stabilise the world's supply of precious gems but unlikely to affect the market price of gems.

While direct channels between Moscow and the Central Selling Organisation (CSO) were cut after Sharpeville, the bulk of Soviet uncut diamonds has continued to find its way to the CSO for selling at its headquarters in London or, for smaller stones in Lucerne, Switzerland.

Market sources said gold bullion would be the largest precious metal benefactor as the Soviets gave up their "divestiture" tag in the quest to satisfy short-term creditors. They added that roughly 90% of world diamond sales was now officially administered by the CSO.

The deal worth $5bn over five years — Centenary has the exclusive right to sell all the Soviet's rough-diamond exports over this period — provides the cash-strapped Soviet government with short-term debt finance.

In exchange diamonds valued at $1bn will be held with the CSO as collateral.

The CSO, a network of operations in the De Beers Centenary fold, has controlled diamond distribution, up to now, with 90% of the world's stockpile.

The inclusion of the Soviets leaves Angola as the only major diamond producer as a non-member of the CSO and tightens the organisation's control over the diamond market worldwide.

Frankel, Kruger, Vanderme & Co's mining analyst Keith Bright said the latest addition allows the organisation absolute discretion over diamond pricing.

However, he added this was a cartel that, in the past, had acted in the interest of both buyers and sellers in setting prices.

Bright said obtaining finance for the loan had provided some interest because the partitioning of the group into an offshore and local division, last year, left the overseas staple with "very little cash".

"The local arm kept the balance sheet items, which included the cash, while Centenary maintained control over the trading operations which generated the profits but lacked reserves."

Bright said exchange controls prevented profits from remaining abroad until the separate staples were consolidated.

"The CSO, now able to retain profits, has concluded about $6bn worth of sales over the six months to June, which translates into profits of $1.5bn or $600m."

This partially covered the funding of the loan, with the rest, coming from financial institutions abroad. He ruled out the possibility of an inter- company loan with the knock-on effect it would have on the value of the rand.
MINORITIES in Manserv, the cash shell worth R15-million plus interest, have had a long wait for their money. But there may be hope.

Control of the cash shell was held by the Map consortium after the Manserv assets were stripped out into Cashworths, now named Coffin Map and sold its 90% stake for 106c a share in February.

Since then, minorities have heard nothing. They cannot sell their shares on the JSE because cash shells are suspended pending the acquisition of assets. The JSE allows six months for something to be injected, otherwise a shell is delisted.

Six months and a bit have passed since Manserv was suspended.

It would not be in the minorities’ interest if steps were taken to delist the shell as long as no offer has been extended to them.

The JSE says it is trying to resolve matters.

I spoke to Coffin, which told me a few weeks ago that it was preparing documentation on behalf of the new controlling shareholder, represented by Naas Ferreira.

Coffin’s Chris Shone says the paperwork is almost done, and will be sent for comments by the sponsoring broker and others so that a clean copy can be presented to the JSE within the next two weeks.

Reasons

He tells me that an offer of 106c a share will be made to minorities without disclosing details of the assets to be injected into Manserv.

The reasons are that a long time has elapsed, and the potential diluting always in the background.

“Judging from the minorities we have spoken to, they will be happy to get their money back.”

It looks as though an interest component will not be included to compensate minorities for the long time between the dates on which the controlling shareholder got its capital back and the date on which they will get theirs. This is a separate issue, complicated by already difficult position.

Mr Ferreira says he is not a shareholder and is merely acting for the new shareholder. Manserv’s new assets will comprise:

- 20% of Osprey mine, which issued a warning recently.
- 25% of Lancochem “which is in a troubled stable” at the moment, according to Mr Ferreira. He says there will be a rights issue of R25-million in Lancochem, which is to become a granite producer.
- 80% of current cash shell Meters Systems, which will buy “one of SA’s largest engineering concerns.”

Ferreira declines to name it because the deal has not been signed.

He says the offer to minorities is safe, backed by bank guarantees. Only technical problems are holding up proceedings. The new Swiss controlling shareholder cannot buy Manserv shares through a bookover because trade is suspended.

Assets

It will be up to the JSE to scrutinise the assets Manserv proposes to take aboard, but by that time at least minorities should have had the opportunity to disembark.

My view is that the Lancochem connection in particular smacks a little too much of the delisted and liquidated Turf Holdings, with which Mr Ferreira was associated.

I would take the money – when it is eventually offered – and run.
**Triple-A rating for blue-chip giant Eskom**

By ROBERT GENTLE

JOHANNESBURG — Electricity giant Eskom, widely regarded in the market as a blue-chip state corporation, has been awarded a triple-A (AAA) rating by local rating agency Republic Ratings.

Seven of Eskom’s gilt issues were also rated AAA. An eighth, the actively traded and liquid E-189, was rated AAA+.

This development, announced by Republic on Friday, means Eskom is the first SA company to receive such a rating. It will almost certainly serve as a benchmark for subsequent ratings.

Overseas, agencies like Moody’s and Standard & Poor routinely rate both companies and debt issues. The ratings are then used by investors as a basis for investment decisions.

The Eskom rating was welcomed by the Reserve Bank and by those in corporate treasury circles as a positive development on the road to a more sophisticated financial market.

A Reserve Bank spokesman echoed the sentiments of a spokesman from Discount House of SA, saying “We would like to see the concept of ratings gain momentum. It creates an additional measure of prudence in the market and is a good example of self-regulation.”

Republic’s executive director Gideon van Rhyne said a number of other important public and private sector companies had also requested ratings for their debt issues.

Eskom Finance GM Mike Davis said the ratings would provide overseas investors with an additional tool with which to judge the merits of different SA debt issues.

“Without rating agencies, the SA financial markets will never reach a level of maturity,” he said.

On the fact that the rating was AAA, Davis said it came as no surprise and merely confirmed Eskom’s standing in the market.

Marilyn Visser, gilt trader at stockbroking firm Simpson McKie, agreed “It was to be expected,” she said.

The consensus among those canvassed for reaction was that the Eskom rating will force other companies with a good reputation in the market to get themselves and/or their commercial paper rated.
Overseas expansion plan for Tollgate

By AUDREY D'ANGELO
Business Editor

THE restructured Tollgate Holdings will be "a totally different animal within the next nine months", new chairman Julian Askin said at the annual general meeting yesterday.

He told shareholders that the restructering so far announced — with Duroc to be re-absorbed into Tollgate, Enter-core and North Industries becoming wholly owned subsidiaries and Arwa sold — was "only the beginning".

Its London listing was one of the reasons his consortium had bought control of the group. Most of the new board were based in London and a great deal of expansion was planned overseas.

Within 18 months more than 80% of group earnings would be non-rand "so the SA activities will become less relevant".

However, Askin said, he would not make any move overseas until "the situation in SA has been tidied up."

The first priority was drastically to reduce the group's debt, which cost R56.1m in interest in the 18 months to December. "I have never liked high borrowings. I have never run highly geared companies."

He was reticent about his plans "I know precisely what I want to do, but I am not going to show my hand at this stage. I am very reluctant to be more specific," he told shareholders.

He added: "I have put a great deal of my own money in and I am not going to blow it. I stand as the largest shareholder and I have no intention of shooting myself in the foot."

In answer to questions from the Chairman of the Shareholders Association of SA, Issy Goldberg, Askin said the group would have survived without the takeover of control by his consortium.

"There were some excellent businesses in it. It expanded too quickly, and it was over-borrowed, and over-taken by high interest rates."

But, he said, its asset value "would have pulled it through."

Askin said it had been a priority of his to dispose of Arwa. "It was not doing well and was not a company I understood. I have not got a manufacturing background and textiles are very volatile."

There had been inquiries about other companies. "There are always after any takeover."

In answer to Goldberg, he said the group was not at present involved in negotiations to sell any company. There had never been any negotiations to sell Gants.

The company was not under pressure, and did not need shorting up. There was activity in its stock in London, and would be more.
The Premier Group has acquired the entire fishing operations of Cape Town-based Atlantic Fishing Enterprises, for an undisclosed sum, with effect from today.

Premier chairman and CEO Peter Wrightson said, in a statement issued yesterday, that it had been bought as a going concern and would continue to be run by its "highly competent management".

Atlantic, which has modern premises in Cape Town Harbour, is involved in the catching, processing, storing and trading of fish and shellfish including deep sea lobster from the south coast.

Wrightson said the acquisition "presents Premier with a rare opportunity to complement and expand its fishing operations in a tightly held industry, particularly in the profitable south coast lobster market."

He said Atlantic also had "a well-developed export marketing arm enabling Premier to increase its participation in this substantial market."

"The acquisition of Atlantic Fishing, which has been funded by the issue of shares in Premier, should marginally improve the group's earnings in the current financial year."

Atlantic was owned by Caspar Wolff, who founded it in 1975 in partnership with Peter Cuttell and Sean Keegan, and bought complete control three years ago.

He said yesterday "I have had 35 years in the fishing industry, and I think that is enough I am retiring from it, at least for a while."

Wolff said that, although the coastal fishing industry is having a difficult year, his deep sea operations have done well. The deep sea lobsters are a different species from the West Coast rock lobsters. We filled our quota in as good a time as any other year."

Confirming this, Premier deputy CEO Gordon Uiten said the West Coast lobsters had been of poor quality this year and in limited supply. But this had not applied to the deep sea variety.

The acquisition of Atlantic would widen the scope of Premier's fishing activities. "It will give us an entry into the white fish market."

...
Shoprite features in acquisition talk

PEPKOR-controlled retailer Shoprite appears to be poised to acquire Score Foods' wholly owned Grand Bazaars supermarket chain for between R50m and R60m.

This follows separate announcements from both groups on Friday advising shareholders that negotiations were underway and warning them to exercise caution in dealing in their shares.

"We've cleared the decks and are now cash-flush. All divisions are now autonomous and looking at their own acquisitions. And Grand Bazaars is in line with what Shoprite would be looking for," he said.

Score Food MD Carlos dos Santos and directors John McLean and Ronnie Turog could not be reached for comment.
**Buses should be sold**

Business Editor

TOLLGATE Holdings should sell its fleet of buses to the Government or local authorities and manage them under contract, the Chairman of the Shareholders Association of SA, Issy Goldberg, said yesterday.

Recommending this at the AGM, he said it was ridiculous that a company which paid taxes should take over the responsibility for providing public transport — which should be that of the authorities.

Tollgate chairman Julian Askin said the transport side of the business was profitable. He told Goldberg “I hear what you say about the buses. “I have ideas of my own, and I don’t want to prejudice any negotiations that may be held.”

After the meeting Goldberg pointed out that the replacement value of the company’s fleet of 2,400 buses all over the country would be enormous.

“Then value would be very great if they were exported — but the Government would never allow that.”

If, instead, Tollgate sold the buses to the authorities — allowing them credit over 10 years — the paper could be discounted, to clear the company of debt, he suggested.

It should be made a condition of the sale that Tollgate would continue to run the bus services under contract, so that it would be done efficiently.
OWNERSHIP & CONTROL — 1990

AUGUST — DEC.
Gilts system delay after banks protest

A CAMPAIGN of resistance by the banks against using the JSE's gilts clearing system — once the gilts market is formalised — has paid off with authorities giving the market time to develop a new system.

This means the formalisation of the gilts exchange, known as the Bond Market Association (BMA), will be delayed by at least nine months. Banks will continue trading in the current informal way and will in the meantime not take up space to trade gilts on the new trading floor in the JSE annexe.

The banks fought against the JSE system — the GCH — because they maintained it was ineffective, especially from a cost point of view.

But the BMA decided that the GCH should be used as an interim arrangement to hasten the formalising of the market. A new system, known as Unexcor would be developed in the meantime and would be up and running by mid-1991.

The banks' protests against the interim measure of using the GCH were heard by Registrar of Financial Institutions Piet Badenhorst at a meeting in Pretoria yesterday.

BMA spokesman Willem Kok yesterday declined to confirm that the status quo would continue in the gilts market until Unexcor was up and running.

He said there had been a meeting between the Registrar, three members of the BMA's executive committee and three representatives of the banks.

Proposals had been made which would be conveyed to the full BMA executive committee at a meeting today, Kok said.

Market talk is that the JSE pushed hard for the GCH to be used as an interim measure, arguing that the formalisation of the market should not be delayed and that the system was adequate. But the banks' presentation convinced the Registrar.

About 12 trading banks, representing more than half of the market, were involved in the move to ditch the GCH.

The formalisation of the BMA and the futures exchange (Safex) has been dogged by hard feelings, much of it directed at the JSE. There has been unhappiness about the futures clearing system and banks are still resisting dual floor/screen trading for cost reasons.
JSE futures floor's outlook questioned

SAFEX (SA Futures Exchange) CE Stuart Rees said yesterday that if the absence of futures trading on the new R3.3m trading floor continued, the floor's existence would have to be re-examined.

The floor in the JSE annexe is owned by the JSE and administered jointly by Safex and the Bond Market Association (BMA).

Since it opened for futures trading on Monday -- a week after it opened for gilts trading -- there has been little activity.

Routine visits to the floor have shown Safex surveillance officials chatting at their posts, surveying empty futures trading pits. The impressive electronic display boards overhead, meant to be the focus of attention for dozens of keen traders eager for the next deal, pass unnoticed.

The only activity is in the adjacent gilt pits, where traders operate since the closure earlier this month of the gilt trading floor in the JSE main building.

"However, it is still too early to make a definite prognosis," Rees said.

The floor is scheduled to be formally opened on August 10.

The virtual absence of futures trade on the floor has rekindled debate over the usefulness of such trading in today's screen-based environment, prompting questions over why the floor was even built.

Two JSE brokers gave three reasons for their reluctance to use the floor: it was too remote from the main market, too slow, too exposed to competitors' eyes, and too expensive.

They said it was better trading on screen within the JSE main floor area where one was in closer contact with the rest of the market (equities, finrand, gold).

One broker said "all the running around" on the new floor meant a deal could require five phone calls.

The other wondered how the new floor in the annexe was expected to succeed if the informal futures floor the JSE had prepared for its brokers before the Safex opening had not worked.

JSE brokers continue to do good volumes in the futures market -- but on screen. Safex statistics released yesterday showed they accounted for 20% to 30% of the market.

See Page 3
Amrel shares are expected to stabilise.

MARIA KLEIN

AMREL should show a sluggish turnover growth rate in 1991 followed by a 30% growth in 1992, according to Frankel Kruger Vindberg's retail analyst Jacques Magluolo.

He expects a 77% return on capital and dividend growth — a 10% share investment with a two-year view.

Group MD Stan Berger said in the annual report that would be difficult for the group to match present earnings in the year ahead due to anticipated high interest rates and a tapering off of retail activity.

Chairman Meyer Kahn said "Long term prospects for retailers in a new SA remain most exciting."

Magluolo expects the share price to stabilise with an increase in earnings of 13% a share to R2.88 in 1991, and 22% to R3.57 for 1992. The shares are trading at R5.25.
Pepkor aims for R2bn turnover

By PIETER COETZEE
Financial Editor

THE Pepkor group of companies expects turnover to exceed the R2bn-mark in the present financial year to end-February 1991, said group chairman Christo Wiese at a banquet on Wednesday night in Upington to mark the group's 25th anniversary.

The results for the first six months of the year show an improvement of more than 30% over the corresponding period last year, when turnover rose to just under R1.5bn.

"A total turnover of R2bn is therefore within our reach as the best months of trading still lie ahead," said Wiese.

"We expect operating profit to increase to the same degree — from R135m last year to R180m this year."

The Pepkor group has shown a dramatic increase in turnover since it was started 25 years ago. It rose from just R100,000 in 1966, to R6m in 1970, to R15m in 1980, and to R1.5bn in the 1990 financial year.

Pepkor, which grew out of a small shop in Upington, has just become the first SA retail operation to have 1,000 branches country-wide. The group currently employs about 15,000 people.

The celebration at Upington coincided with the opening of a R6m shopping complex by Shoprite, one of the operating companies in the Pepkor group.
In R17m cash deal...

Shoprite buys Grand Bazaars

By AUDREY D'ANGELO
Business Editor

SHOPRITE, the rapidly expanding supermarket chain in the PEPkor group, has bought Grand Bazaars—for only R17m, in cash, plus the value of grocery stocks.

A joint announcement was made by PEPkor and the sellers, Score, late yesterday afternoon. Market rumours had put the price in the region of R24m.

The acquisition of Grand makes Shoprite, which will open its 49th store this month, one of the largest food chains in SA with a projected annual turnover of more than R1bn.

Grand has 27 stores, of which 17 are in the Western Cape.

Asked if the present recessionary conditions made this a good time to take over a supermarket chain catering mainly for the lower end of the market, Shoprite MD Wellwood Basson commented: "This is the best time in terms of buying it."

The announcement said Grand had been bought as a going concern, with effect from August 20. Basson said that, in addition to the R17m, Shoprite would pay for stocks in hand on August 20.

It was estimated that these would be worth R35m. But it could be less, because they would be run down for the stocktaking.

A statement issued by Score MD Carlos dos Santos said: "The transaction will enable Score to concentrate on expanding its traditional core businesses of Trador Cash and Carry and Score Supermarkets."

"We will also be looking at opportunities in the rest of Africa."

Grand, de-listed after control was bought from the Sachar family by Score Food Holdings three years ago, did well at first under its new management.

Score achieved a R525m turnover after Grand had reported a loss of R279m in the first half, and lifted earnings to 75c (43c) a share.

But in 1993 a weak performance by Grand was blamed for Score's failure to lift earnings in the first six months.

It was said this was due to stock write-downs at Grand, and pressure on margins.

Last year control of Grand was switched from its head office in Epping to Johannesburg.

Basson said yesterday that the Grand stores had "not been doing very well if you relate it to what Shoprite was doing."

But he hoped this could be changed.

Score supermarkets had smaller stores than Grand and "it must have been difficult to run two different types of supermarkets."

He said this problem did not exist for Shoprite. Both chains had stores similar in size and were aimed at the same target market.

Grand would in future be managed from Shoprite's headquarters in Barony Road, who was the founder of Shoprite and a former director of Grand, would play a key role in its management.

Basson said Grand would retain its separate name and identity. But the acquisition would give his group an entry to areas where it had been unable to obtain suitable premises, including Sea Point and the Southern Suburbs.
Shoprite picks up Grand 'bargain'

Shoprite has acquired Grand Supermarkets from Score — picking up 27 supermarket outlets for just R17 million cash.

To establish similar supermark- et outlets from scratch would cost Shoprite approximately R1.4 million a piece (or R37.8 million in total) for furniture, fixture and fittings and, related assets (excluding stock). Shoprite is paying less than half of this — R630 000 for each of the stores.

In addition the R17 million includes some payment for trade marks and this can be written off with tax benefits.

Of course the Shoprite management may not have chosen exactly the same sites if they were starting from scratch — but Shoprite MD Mr Welwood Basson believes that only four or five Grand Supermarkets (formerly Grand Bazaars) will overlap with existing Shoprite stores.

The bargain price at which Shoprite has picked up the Grand Supermarkets reflects the damage that this poor performer wreaked on the Score group since it acquired Grand back in 1963.

Group earnings

For Score the acquisition was trouble from day one. Not only did it never make any contribution to group earnings but with so much management time devoted to trying to sort out the problems, other areas of the Score operation may not have received the appropriate amount of management attention.

In the second half of calendar '88 Score's rating on the JSE dropped sharply on speculation of trading difficulties.

During financial 1988, Score merged the Grand and Score trading operations into Grand Score Supermarkets. There were some savings on management structures but still no profits from Grand. According to Score MD Mr Carlos dos Santos, in financial '90 Grand broke-even.

Referring to the sale of Grand, Mr Dos Santos says: "It will enable Score to concentrate on expanding its traditional core businesses of Trador Cash and Carry and Score Supermarkets."

The acquisition will only be a bargain if Shoprite can make the supermarkets perform without investing much additional money or management time.

Mr Basson seems confident, despite the fact that the deal substantially increases Shoprite's asset base in one go — from 40 to 75 outlets. "We are not worried about problems. The Grand Supermarkets are very similar to the Shoprite outlets — we will apply the Shoprite formula to Grand." Both are dominant in the Cape and target the B/C markets with an 80/20 split of food and non-food merchandise.

Intervening years

As major competitor, Mr Basson is already familiar with the Grand Supermarkets. Mr Barney Rogut, who is a founder director of Shoprite, was also a founder director of Grand Supermarkets.

Shoprite had expressed some interest in acquiring Grand back in '86 but Score elicited the deal.

It is likely that Shoprite management has been closely tracking Grand's performance in the intervening years.

In contrast to Grand's failures, the Shoprite formula has been extremely successful. For the 12 months to end-February, Shoprite reported a 34 percent increase in turnover and a 19 percent hike in earnings.

Despite ongoing openings of new stores, Shoprite continued to enjoy relatively low gearing. This will help it carry the debt burden attached to the R17 million acquisition.

This burden will put some strain on the balance sheet in the initial years. Funding for the deal will come from Shoprite's cash rich parent, Pepkor.

The deal is effective from August 29. The stock valuation will be determined at that date and is likely to lift the overall cost to around R50-R60 million. But as Mr Basson points out, the stock element of the price will pay for itself as stock is sold.

Mr Basson does not expect much of a contribution in the current financial year but thereafter the Shoprite formula should produce significant benefits.
Escalating liquidity crisis forces firms to defer debts

THE escalating liquidity crisis in SA has forced many companies to defer their debts to improve cashflow and to finance their operations.

Latest Credit Guarantee Insurance Corporation (CGIC) figures show a 6.74% increase in debtors outstanding over 90 days — for all industries — during the first quarter of this year. This compares with 4.82% for the previous quarter, and a further rise is expected.

CGIC statistics show that liquidations rose 33% during the first five months of this year, compared with the same period last year. High interest rates, banks’ strict credit restrictions, strike action causing longer operating cycles, decreased sales and stock movement, and increased debtors’ days are forcing businesses to use credit to improve cashflow effectiveness.

Kreditinforn director Jack Browning says debts overdue increased 8% for the period from November 1999 to June 1999 compared with the previous six months.

Companies are extending credit by increasing their credit days, issuing post-dated cheques and creating queries on their accounts, he says.

Westrust director Les Cohen says companies can meet cashflow problems through deferred payment on government levies and medical aid.

Problems vary depending on industry and region, says Information Trust Corporation chairman Paul Edwards. The situation was causing concern.

Worst hit are companies operating in cyclical, overtraded industries or competitive markets, those with poor management and new companies.

CGIC said average quarterly percentage figures for debtors outstanding over 30 days showed that some industries were more adversely affected than others in the first quarter of this year than in the quarter to end-December.

The percentage for the wool industry rose from 6.32% to 9.25% in March; clothing from 6.50% to 11.36% and engineering (electrical goods) from 12.53% to 16.58%.

Furniture increased from 3.94% to 8.53%, printing and stationery from 4.88% to 8.76%, clothing and textile wholesalers 5.24% to 10.27% and consumer durables wholesalers from 5.63% to 10.99%.
Gulf war sparks JSE share surge

Laid by golds; shares surged across the board on Diagonal Street yesterday as gold jumped to a high of R387 in the wake of the Iraqi invasion of Kuwait.

The Middle East action also boosted oil prices to their highest levels since 1988.

The moves on Diagonal Street mirrored the violent roller-coaster ride on world markets — gold, oil, equities and currencies — as panic buying of bullion drove up the gold price and the price of Brent North Sea Blend crude.

But sentiment cooled both on the JSE and international markets as gold retreated to close only R4 up on the day in London at R373.25 amid confusion and uncertainty in financial markets.

The metal closed in New York last night at R377.25.

The markets got very hysterical when New York opened and a lot of short sellers of gold rushed in to cover their positions but then people started to think through the situation and started to take profits," said Robert Weinberg at brokers James Capel.

The previously quiet capital, forex and futures markets saw the return of much-needed volatility, and reacted feverishly to gold's jump.

However, the rand's usual appreciation in tandem with the gold price did not materialise as the dollar found support as a traditional safe haven in times of crisis or uncertainty. It fell back to R2.0190 to the dollar earlier before closing at R2.0072 from Wednesday's R2.039 close.

In active two-way trade, the JSE all gold index climbed 6% or 94 points to end at 1 658, but was off a high of 1 672 as profit taking emerged to trim early gains.

The overall index rose 1.75% or 55 points to 3 216 as the improved sentiment spilled over to industrials and the index gained 17 points to 3 062 — against the trend of sliding industrial shares on major stock markets.

Producer selling of gold, notably by the Australians, and a reassessment of the implications of rising oil prices were mainly responsible for taking gold off the boil, analysts said.

The outbreak of hostilities between Iraq and Kuwait, among the world's biggest oil producers, sent the spot price of North Sea Brent Blend up from R26.40 a barrel to R32.62, the sharpest jump since the Iran revolution in 1979.

Share surge

Later, Brent crude (for September delivery) was back to R32.70/barrel.

While the inflationary implications of rising oil prices was good for gold, observers feared higher oil prices could turn already sluggish growth levels in major industrial countries into recession.

In the capital market, the key long stock indicator, Eekom 168, fell nearly-20 points in early trade as gold leapt to R387 and the quarterly options close-out revealed the market's fundamentally bullish sentiment.

Dealers said last month's encouraging money supply and inflation statistics and next week's talks between the government and the ANC underpinned the bullish market, which has seen the E168 fall 75 points in under two months.

Sentiment, however, was mixed as to whether rates could fall further without another substantial rally in the gold price.

Mervyn Harris, Andrew Gill and John Cavill

The E168 closed at 15,581% from Wednesday's 15,541% after falling all the way to 15,745% earlier and the RSA 150 fell 11 points to 16,225% after touching 16,171% earlier.

The dollar strengthened against the Deutschmark trading at Dm1.62 after testing its all-time low of Dm1.58 earlier in the week. It closed weaker in Frankfurt at Dm1.6067.

The financial rand continued its upward trend strengthening to R3.8590 from R3.8650 partly on the back of reasonable offshore demand for gilts ahead of next week's talks.

The recently sluggish futures market attracted renewed interest with the all-gold index futures for September jumping 82 points to 1 684 points in substantially higher volumes.
PC to meet on 'economic ownership'
New 'loan stock' JSE sector

A NEW SECTOR for property loan stock companies will appear on the JSE from Monday August 13, GM, listings and equity markets, Richard Connellan confirmed on Friday.

The loan stock companies that have been invited to participate include Amaprop, Barprop, Boardprop, Growthpoint, Hyprop, Rotprop, RMS Property Holdings and Pangbourne Properties.

Of those invited to join, three or four have so far confirmed acceptance.

"We have not put out a release yet because the process is not as easy as it sounds," Connellan said.

"There are some candidates with linked units which move across quite easily, such as Pangbourne and Boardprop, but units such as Amaprop or Barprop raise the question whether the whole unit moves across or only the loan stock portion.

"We will also have to put out the indices for each sector. You have to ensure that the bottom does not fall out of the property sector index with the removal of some listings."

Max Pollak & Freemantle property analyst John Rayner welcomed the move, saying it was difficult for the inexperienced investor to identify loan stock companies.

"The property trusts and the property loan stocks are perceived as physical property according to the new prudential requirements, while property companies are regarded as equity.

"By separating out property loan stock companies it becomes easier to make comparisons with the property trust sector."

CHARLOTTE MATTHEWS
Shareholders benefit as Tomkor cuts gearing

THE decision to address the problem of Pretoria property group Tomkor’s high gearing by eliminating about R30m in borrowings through the restructuring of the group would enable shareholders to enjoy the benefits of that growth, Tomkor chairman Alec Wapnick said in the company’s latest annual report.

Tomkor’s capital structure served its purpose well when it was essentially a capital building vehicle, using gearing and untaxed growth to build wealth. But, Wapnick said, this structure did not reflect the changing face of the company, and of circumstances.

Tomkor was involved in two separately identifiable and fundamentally different activities, he said. One produced relatively high earnings from rental on developed properties and the other derived lower returns from the acquisition and development of land and property, its value being chiefly its capital growth potential. The company is to be split into two — Tomkor and Octodec Investments, a wholly owned subsidiary of.

Tomkor, the listing of which is anticipated for September, Octodec will focus on maximising returns on developed properties while the reconstituted Tomkor will concentrate on acquiring and developing properties, he said.

Both companies will be listed on the JSE.

Octodec will be established by way of a renounceable rights offer to Tomkor shareholders as a totally debt-free entity. It will acquire the bulk of the existing Tomkor properties, a portfolio of mature properties valued at about R146m after assuming the R63m of Tomkor debt. The R30m debt will be extinguished from funds raised in the rights offer, he said.

“Following the restructuring... Tomkor will be reconstituted and will initially hold developing properties valued by the directors at about R15m with a reduced level of interest bearing debt of about R30m,” Wapnick said.
Genmin in R36-m granite deal

General Mining (Genmin) has acquired a 75 percent interest in Transkei Pioneer Mining Company (TPMC), with effect from the beginning of July, for R36,19 million from private investors.

TPMC owns three high-grade black granite deposits in the Willowvale area of Transkei. Exploitation began in 1989. Current production is 300 to 500 cubic metres of granite a month. Some 95 percent is exported.

Genmin's general manager, business development and strategy, Trevor Rees, says an extensive drilling programme proved the deposits are not only high quality, but substantial. Production will be raised over the next two years. It is estimated the reserves will last well into the next century even if production is increased to 3,000 cubic metres a month.

Mr Rees says there is a huge demand for quality black granite abroad and that granite produced by TPMC is equal to the best Belfast Black. World demand for quality black granite exceeds production by 50 percent.

The mine provides job opportunities for 100 people and if production is increased the number could double. The company is investigating the possibility of cutting and polishing the stone locally, which will increase revenue substantially.

The previous owners, AC Baradas, PN Zappa, P Soldati, C Ferrar, M Zappa and E Zappa, still own 25 percent of the company.
Number of shares traded soars as gold recovers

THE value of shares traded on the JSE in the last week of July — when the gold price recovered to $370 for the first time in two months — jumped 31.5% to R400.3m from R271.8m in the previous week, latest JSE statistics show.

This translates into an average turnover of R90m a day compared with the previous week's R74.3m, a welcome relief for brokers who have recently been struggling with low turnover.

The volume of shares traded, however, increased by only 5.6% to 51.2-million shares, with the real change showing up in the average price per share, which jumped 25% to R9.69 from R7.67.

Non-resident transactions conducted through the JSE realised a net gain of R41.3m compared with R12.5m in the previous week.

This was reflected by a stronger rand in the last week of July, which had firmed to R3.90 by the end of the week compared with R4 on the Monday of the previous week.

The total consideration in respect of gilts and semi-gilts traded increased by 96% to R455bn compared with the previous week's R235bn.
Aspects of statements challenged

ROBERT GENTLE

MARKET sources, mainly audit firms and derivatives experts, have contested certain of the statements made by the JSE in defending its handling of the development of the Traded Options Market (TOM).

On the specific issues of consultancy fees, two leading chartered accountancy firms have said that FMDC's hourly $200 (about R550) fee was much higher than local figures. They put their hourly rates at about R150-R200 for average level consultants to about R300-R350 for the very senior categories.

On the issue of non-availability of local expertise in options, a spokesman from Andersen Consulting says Andersen has helped design a number of leading overseas exchanges. 

These included the fully automated Softex (the Swiss Options and Financial Futures Exchange) and the similarly designed West German Deutche Terminboerse.

David Bullard, MD of options broking firm Johannesberg Options Market, says SA could have had two futures exchanges for the money TOM has so far absorbed.

The SA Futures Exchange (Safex) has an all-in cost of R3.4m which includes building, infrastructure, salaries and computer systems.

Says Bullard "One wonders which poses the greater danger to capitalism — the ANC or the JSE."

Meanwhile, at least one merchant bank has told Business Day that it is working on its own traded options market and has suggested the financial markets would probably be able to get by without TOM.
JSE lifts the veil of secrecy over TOM

THE JSE has finally lifted the veil of secrecy hanging over its Traded Options Market (TOM), which is a year behind schedule, has swallowed up R7.8m in development costs and is still no nearer completion.

TOM is designed to be a state-of-the-art system of unrivalled sophistication which will enable trading of options on key JSE indices and a number of blue-chip stocks.

In an exclusive interview with JSE president Tony Norton and three senior colleagues, Business Day has learned that the second module of the computer systems part of the project — about half the total work — has to be redone. A key project member has resigned.

The man, who has now left, had sole responsibility for writing the crucial systems software and to all intents and purposes answered only to himself.

"With the benefit of hindsight, maybe we should have had a team of programmers on the project," says Norton.

The man had also never programmed before on financial market packages, much less on options, his background was industrial. Had the JSE erred in hiring a man with no direct experience?

"He was a consultant who performed well and had the intelligence to learn things quickly," says JSE GM Darryll Till.

"It was not important that he have the exact previous experience." The TOM project manager, a UK citizen recruited by the JSE from London, is not an options specialist either. "He was hired as a project manager, not as an options specialist," says Norton.

The JSE then brought in an overseas consultancy firm, Financial Markets Development Corporation (FMDC) in 1998 to provide the options expertise and oversee the operation.

It is FMDC that has been the subject of the most of the market about high consultancy fees (paid in dollars), accommodation in Bryanston and a constant coming and going of jet-setting consultants.

The JSE admits to all of this, but sees nothing amiss in it. Yes, they are expensive at about $200 an hour, but only marginally more than local consultants. Yes, they do have a Bryanston townhouse with a swimming pool, but it is much cheaper than keeping them in a hotel; yes, they do fly in and out, but then that is normal as they are based overseas.

Norton says FMDC is a top-class outfit. Nevertheless, could the JSE not have hired a local consultancy/audit firm like Andersen Consulting, Aiken & Peat, Ernst & Young or Deloitte Pim Goldby?

"Expertise in options may be available at some of these outfits today, but that was not the case two years ago," says Till.

FMDC's fees to date have been the single largest item in TOM's still-growing R7.8m price tag. They accounted for half of the R16m design cost:

Programming took R32m, electronic price recording systems R55m and the computer interface R223m.

On whether TOM needed to be written at all as there are plenty of off-the-shelf packages on the market, Norton says "That is the case now — and we are looking into some..."

In 1987, Norton held himself accountable for the mess. Norton holds himself accountable "We fast-tracked the project," he says. "We took a commercial risk. But on the facts at the time, it was a far, commercial decision."

However, he does not see it as grounds for his resignation, not least of all because the JSE cannot be judged on one single project which is not even complete yet.

"TOM is not a commercial disaster."
SPRINGS. — Proponents of "a redistributive quick-fix, a once and for all transfer of wealth" as the optimum way ahead for growth in SA were living in a world of make-believe, Anglo American chairman, Julian Ogilvie-Thompson, said yesterday.

"If one were to distribute all the assets of Anglo American Corporation equally to every person in the country, the capital value will amount to less than R1 000, and it is certain that the productive capacity of those assets would be severely curtailed."

The problem in SA, Ogilvie-Thompson continued, was not that companies were too large, but that the economy was small, and the State accounted for as much as 54%, which left little room for the private sector.

"What SA needs is more big groups like Anglo and De Beers able to back large companies that can compete on an international scale." — Sapa

Amic's interest will be reduced from 63.7% to 53%. Anglo American's interest will remain unchanged at 30%.

Ogilvie Thompson said NTE had in-
MONDI PAPER and associate NTE are to receive a huge capital injection of over R500 million from De Beers and Anglo American.

Making the announcement yesterday, Anglo chairman Julian Ogilvie Thompson said Mondi and NTE were involved in major capital expenditure programmes and the injection of capital would support future expansions.

De Beers will inject R318m and Anglo American R136m bringing the total capital injection to R514m.

Anglo American Industrial Corporation (Amic), part of the Anglo stable and the major shareholder in Mondi, proposes to reduce its interest in Mondi in order to maintain a reasonable balance between the capital demands on its resources.

Ogilvie Thompson said Anglo's sister company De Beers has shown interest in obtaining a more meaningful stake in Mondi. The increased backing of such a powerful investor would be invaluable over the long term.

According to the announcement Anglo American Industrial Corporation (Amic), the major shareholder in Mondi, will cede its rights in terms of the capital injection and sell sufficient of its shares to De Beers to increase De Beers' interest in Mondi from 63% to 53%.

Amic's interest will be reduced from 63.7% to 53% Anglo American's interest will remain unchanged at 30%.

Ogilvie Thompson said NTE had incurred heavy capex in recent years in buying timber plantations and land for a forest station. The company supplied significant volumes of timber to Mondi and this would increase as forestable land is developed and plantations reach full rotation.

"It will take a number of years before NTE reaches its full profit potential and becomes entirely self-financing. As a result, the shareholders have agreed to inject R500m into the company," he said.

Because Mondi and NTE are independent, it was deemed the shareholdings in both companies should remain identical.

Thus Amic's interest in NTE will be reduced to 53%, and De Beers will increase its interest to 17%. The net cash flow effect being cash injections into NTE of R42m by De Beers and R18m by Anglo American Industrial Corporation.

De Beers will also pay Amic R25m for the small number of shares in both Mondi and NTE that will be sold to adjust shareholdings to the agreed levels.

For purposes of the deals, Mondi and NTE will be valued on the basis of their future earning capacities and asset backing.

There will be no material effect on the respective net asset values or estimated earnings for the year of Amic and De Beers, Ogilvie Thompson said.
Liquidations surged 67% during June

LIQUIDATIONS surged 67% from May to June and were 51% higher than during the same month last year.

The downward trend is expected to continue into next year.

Central Statistical Service (CSS) said the April-to-June quarter saw liquidations, which involve companies and close corporations, rise by 46% compared to 186 during the same period last year, and 11% on the 434 seen during 1990’s first quarter.

Chamber of Business (Sacomb) economist Keith Lockwood said that June figures confirmed the economy had moved into full-blown recession. He expected to see the number of liquidations rise steadily until the first quarter of 1991, but not to reach the levels seen in the 1985 recession.

Credit Guarantee Insurance Corporation (CGIC) economist Luke Dog said the downturn had permeated all facets of business. The worst-hit sectors in June were manufacturing, construction, wholesale and retail, and financial services.

During the second quarter liquidations in the construction industry leapt 84% over the first quarter. They jumped 46% from 13 in May to 20 in June.

Liquidations during the second quarter in the wholesale and retail sector, which includes catering and accommodation services, rose 37% to 160, compared to 121 during the first quarter. The manufacturing sector saw a 46% rise to 83 in the second quarter, compared to 57 in the first.

“The sectoral increases confirm our prognosis that even medium and larger-sized enterprises are now suffering under high interest rates and a contracting economy,” said Dog.

Volkskas economist Adam Jacobs said it was clear a major shake-out was in progress: “We are now entering the second phase in the downturn in the business cycle, and there are no prospects of a turnaround for the rest of this year or even 1991. Although short of a mediating halt, constraints have brought a marked and

Liquidations 67% during June

Intended deceleration in business tempo.

Stellenbosch University Bureau for Economic Research head Ockie Stuart said the figures dramatically illustrated the sharp reaction in the economy to government’s financial and other restrictions.

He expected the trend to move sideways between now and the end of the year. A relaxation of interest rates during the fourth quarter could slow the process.

“By mid-1991, if we’re lucky, there could be signs of recovery or at least that we have hit the bottom,” Stuart said.

CSS figures also showed that insolventcies — which involve individuals and partnerships — jumped 12% to 243 in May from 186 in April, and were 8% higher than during May last year. From March to May they rose 8% to 680 compared to the same 1990 period. Compared to the previous three months — December to February — the increase was 20%.
Safex will be formally licensed tomorrow

SA FUTURES Exchange (Safex) CE Stuart Rees is feeling a lot more relaxed these days, and for good reason, his exchange, teething over nicely since it opened in April, is to be formally licensed tomorrow.

Finance Minister Barend du Plessis will open the exchange in a ceremony which takes place on the newly opened trading floor in the JSE Annex.

It marks a long slog for Rees, who has been in the spotlight for most of this year as the exchange's various problems, from serious to trivial, made headlines.

However, he can now point to an exchange which is covering operational costs and handling volumes comfortably higher than last year, even if these are less than initial estimates had suggested.

"In the first week of this month, we did nearly 50% of the volume done in the whole of August 1989," Rees says.

He says this helps clarify the misconception in the market that because the floor is not working — for now — that futures as a whole are not working.

"People are trading where they always have been — on screen. That said, the floor deserves to be given a chance. At the end of the day, however, the old adage will apply, namely that market is a price, not a place."

Rees was part of the team at Rand Merchant Bank that introduced SA to futures over three years ago.

Now that Safex is operational, he believes its perceived image in the market has improved considerably.

"People doubted we'd ever open."

His plans for the future? To get volumes up, and stay abreast of market developments. "One can't be too complacent in this fast moving field," he says.
Small investors ‘do well’

THOUSANDS of small investors on the JSE have seen the value of their holdings soar in recent weeks. "Some companies in which individuals have large shareholdings have enjoyed good stock market performances recently," said JSE president Tony Norton. "This is most pleasing as it should encourage more small investors to participate in the market."

The main groups in which small investors control substantial blocks of shares — the building societies — have found strong buying support recently.

Share price gains in many such companies have far outstripped the market during the past few months, say analysts.

"When groups like Allied and UBS were listed small investors were encouraged to invest — many have retained their shares," said one.

They were aided by legislation which limited any institution to a 10% equity holding in such companies.

Small investors had done well out of share price increases, encouraging further investment on the JSE, he added.

M-Net has also been a good performer for smaller players. It was listed on August 1. The offer to purchase 20-million shares at 100c each was aimed at M-Net subscribers who subscribed for 3.6 times the number of shares on offer. M-Net shares are trading at about 165c.

Both shares performed well immediately after they were listed last year but later fell below the initial offering price.

The JSE has long been criticised as being too dominated by institutional investors.

A few institutions chase only selected shares and are often reluctant to sell once they acquire a quality portfolio, so liquidity is poor, said an analyst.

Norton said he would be delighted to see an increase in the number of small investors on the JSE.
HLH to exploit growth avenues

Hunt Leuchars & Preburn Holdings (HLH) directors' preference for growth remains strong, but they will exploit all appropriate opportunities for acquisitive growth and actively pursue them as they arise, says chairman Louie Rive.

He says in his latest annual review the obvious opportunities in this regard exist in the expansion of the group's sugar milling capacity and the development of new differentiated products in Transvaal Sugar (TSE). 

They lie in the acquisition of added timber benefits processes and product positioning, and the reap[ing of benefits from investments in research and development in mine stopes supports Sylivia Du Plessis.

This will, we believe, have a radical effect on lowering the cost of support to the mining industry in real terms, and gives the mining timber company a unique strategic positioning advantage as well as bringing significant benefits to our customers in the industry.

"Also, within the Robertsons fold, we have secured the local rights to key brands and have grown markets and market shares appreciably."

Rive says HLH management, while committed to performance that will outstrip the economy, is unlikely to sustain growth in the food and timber group's earnings.

The group, held by Rembrandt through pyramid company Huntcor, produced a 37% rise in attributable earnings to R108m to end-March.

The increase in issued share capital following its R147m rights issue to acquire a 25% interest in Rainbow Chickens eroded growth in earnings to 22%, or 81.4c (66.3c) a share. Dividends of 28.6c (24c) were declared.
Crookes investors approve share split

DURBAN — Shareholders of Crookes Brothers yesterday agreed to a fourfor-one share split and the distribution of one C G Smith share for every four Crookes shares held.

The new shares will be listed from August 20.

The divestment would lead to the reduction of about R1,223m in dividend income, but the dividend estimate of 75c (18,75c on the new shares) would remain firm, chairman Ian Gillatt told the shareholders' meeting.

Gillatt said the purchase of four Eastern Transvaal farms was part of a long-term plan which would be enhanced if a proposed sugar mill in the area was commissioned.

No capital would be required yet, but the grant of a cane quota and a decision to turn the land to cane would require capital expenditure.

Interest and tax charges were expected to be higher, with the result that operating profits would be much the same as last year's.
Gold shares firmer amid indecision

GOLD shares were generally firmer on the JSE yesterday, although minor declines in heavily weighted counters such as Vaal Reefs caused the JSE all gold index to record a small gain of three points to 1,674.

In general, the market was indecisive as the gold price churned in a narrow $3 range between $383 and $386 on European bullion markets. However, the JSE board showed reasonably active trade in golds and mining financials.

The industrial index shed four points to 2,924 while the overall market index was off five points to 3,132. Platinum shares continued to slide in relation to oil price moves. BID. 10:48 90.

Bullion dealers said gold's movements were in tandem with new developments in the Gulf region. The market was very nervous because of the Gulf tension and if the situation there flared up, many players felt gold had room to move higher, said an ABN AMRO DJ report.

Good support is seen at about $382, while light resistance is seen in the region of $386/$387. Some dealers believe that if these levels are pierced, gold could surge towards $400.

The London afternoon fix was $383.60, and it rose further to close at $385.75, $3.50 up on the previous day's close. In New York gold closed at $386.00, up $2.75,
JSE brokers increasing their share of market

The cake representing the futures market has been growing bigger over the years, though the way it is being consumed has changed.

The most noticeable aspect of the accompanying chart is the way JSE brokers have increased their market share over the past year, moving from 4% to over 25%.

This is because brokers were only allowed by the JSE to start using the futures markets for themselves and their clients in February this year.

Their gains appear to have been primarily at the expense of the merchant banks and institutions. Futures brokers still constitute a solid core, accounting for about 25% of the market, while commercial banks pick up the crumbs.

The curious way the cake is sliced is also a reflection of how the different players of the SA financial markets view the issue of risk and how they hedge price exposure in the underlying instruments of their respective sectors.

**Hedge**

Futures brokers, JSE brokers and merchant banks are in the market almost exclusively to hedge exposure to, or take speculative positions on, volatile share price movements.

This explains why the bulk of activity is in the share-index futures.

In July 1990, for example, Gold Index futures accounted for about 37,000 contracts and All-Share index futures 24,000. Next in line was the E-108 long bond future, which traded a mere 1,400 contracts.

Discount houses, commercial banks and building societies are active in money market futures (three-month liquid BA future) and capital market futures (E-108 future), reflecting the underlying nature of their business - short-term and long-term interest rates.

However, the banks and building societies are nowhere near as active as they could be in interest rate futures - surprising when one considers about 75% of their earnings are interest-rate related.

In June 1990, for example, interest rate futures accounted for only 2.8% of all contracts traded.

**Volatility**

The reasons are varied, and include the lesser degree of volatility in interest rates compared to share price movements because of the pegging of the Bank Rate by the Reserve Bank, the lack of liquidity in these markets, the reluctance of banks to actively manage interest rate risk and the so-called "mining town mentality" where few people dare take opposing views in the market.

Safex is hoping the licensing of the market and the legal framework it will usher in will remove the key obstacle that has always stood in the way of conservative fund trustees - the risk of operating in an unregulated market.
Marshalls' earnings rise 20%

SYLVIA DU PLESSIS

JSE-listed Marshalls, which owns rental income-producing commercial and industrial properties and garages mainly in Durban and Pinetown, has posted a 20% rise in earnings to 14.2c (11.8c) a share in the six months to end-June.

An interim dividend of 9c (8c), covered 1.6 (1.5) times, has been declared.

Midway turnover — consisting of sales, commission and rental income — fell to R14.4m (R17.8m), but group profit increased marginally to R23m (R23m).

After interest paid of R52.0m (R54.0m) and taxation of R2m (R1m), this translated into attributable earnings of R12.2m (R11m).

Chairman David Marshall said demand for rented premises remained strong, with Marshall's commercial properties in Cape Town, being fully let, Pyramid company Marshall's Controlling Investments (Marcens), whose sole investment is a 98% stake in Marshalls, produced earnings of 6.7c (6.6c) a share, and a dividend of 4.25c (3.75c) was declared.

Marshalls' performance during the period under review comes on the back of a 3% rise in taxed earnings to 22.4c (21.6c) a share at December year-end, when a dividend of 17c (15c) was declared.
Safex gets its wings

The SA Futures Exchange is due to open on August 10 as an approved, self-regulatory body for a fully public market. It is the first financial exchange to be licensed under the Financial Markets Control Act, 92.

The controversial R3.7m JSE screen floor is still a big problem. Stockbrokers who insisted on the floor in the first place are having second thoughts about using it — despite leasing 27 of the 40 booths.

FINANCIAL MAIL AUGUST 10 1990

Stockbrokers do 28% of all local futures traded and 90% of contracts are equity based. They are still dealing via screens on the JSE equity floor where they are in immediate touch with the underlying shares that drive the share index futures and get immediate international feedback from equity colleagues. This is essential when even a two-minute lag could cost business, says one.

Safex CEO Stuart Rees (see People), says lack of support for the floor is not critical to the success of the market. Volumes through the screen-based market, he says, are thoroughly respectable for a market established for three months.

He points out, since Safex took over the market in May, volumes each month are exceeding those of the same month in 1989.

- May by 8%,
- June by 12.5%, and
- July by 30.1%.

All were traded on screen. (A total of 58,595 contracts were traded in July including 18,261 in the week ended July 27, of which 17,537 were share index futures.)

Safex and the Bond Market Association (BMA) are committed to a one-year lease with the JSE — recently reduced, at Safex and BMA members' request, from three years. The clock on lease payment started ticking for members in June. Rees says unless the floor is used, no further money will be spent on it. "Safex and the BMA will have to make a straight business decision whether to continue with it when the lease is up."

Solutions suggested include closed-circuit TV showing real-time JSE equity prices and unauthorised stockbrokers' clerks on the futures floor who would deal on instruction from the equity floor.

Aside from the floor, Rees says the challenge now is to boost trading in interest rate futures, which have underperformed. As a start Safex will cut its charge on the E168 future from R15 to R1m per trade to R5.

Rees also hopes recent political decisions may lead to readmission to the international community. "When that happens we must have the skills to compete."
Confusion over Soviet gem deal

From JOHN CAVILL

LONDON. — Confusion surrounds the fate of De Beers Centenary's $3 billion (about R13bn) diamond marketing agreement with the Soviet Union, which has been declared void under a new law passed by the parliament of the Russian Federation.

The Decree on the Economic Basis of Russian Sovereignty — the latest move in the power struggle between Mr Boris Yeltsin, president of the Russian Federation, and Soviet president Mr Mikhail Gorbachev — was enacted just 17 days after the deal signed in London between Swiss-based Centenary and the Soviet precious metals and diamond administration, Glavmazzoloto (Glava).

It could mean that the contract will have to be resubmitted for approval by the Russian — as opposed to Soviet — authorities.

Under the agreement Centenary has loaned $1bn to Glava to be repaid over five years. Glava is to deposit $1bn worth of rough gem stones to be held as collateral by the Central Selling Organisation (CSO).

In return all Soviet exports of diamonds for the next five years will be exclusively marketed by the CSO.

Ms Joan Braune, spokeswoman for Centenary in London, said "All we can say is that we have a valid and binding contract with the duly constituted Soviet authorities. We have been told nothing officially about the Russian legislation."

According to the Soviet news agency Tass, the decree passed on Friday was a direct result of the Glava-Centenary agreement. The Russian legislature was not consulted and learned about the deal through press reports.

This was confirmed by Mr Sergei Shakhrai, chairman of the Russian parliament's legislative committee which drafted the decree which nullifies all contracts involving foreign sales of the federation's "strategic natural resources" unless these have been specifically approved by "organs of the Russian Federation."

Mr Bashkova claimed this made the Glava-Centenary contract retroactively void. But it could become effective if submitted for ratification to a special Committee for the Regulation of State Property which is to be created under the new law.
A bridge too far for Tollgate

Tollgate management went on a binge in the period to December 1989, buying companies engaged in food, textiles, tourism, sport and leisure, distribution and transport and Budget Rent-a-Car — seven industries. But what a disaster!

Now parent Duros, controlling 69.6 percent, which itself underwent change of control in May 1989, plans major restructuring.

The lesson is simple — don’t buy companies willy-nilly that you know little about, put them under an umbrella and hope to boost the share price with their earnings.

Management should be experienced in the industries acquired.

I thought Duros had the merchant banking experience — obviously it didn’t, judging by the 1989 Pandora’s Box in the annual report.

The vanity was more than R1 billion in sales, the insanity the meagre bottom line after substantial interest and abnormal write-offs.

Worse were the massive extraordinary write-offs below the line. Then still, amazingly, dividends were paid.

To pay for acquisitions, the number of shares in issue rose from 24.2 million to 53.9 million at end-December and authorised capital further increased by 100 million shares in May 1990.

Acquisitions included Arwa (72 percent), Entercor (62 percent), Gants (54 percent), North Industries (72 percent) and Budget (100 percent).

By end-December 1989 debt had soared to R373.7 million, with management now hoping to reduce it via a rights issue of R44 million and by selling non-performing assets.

In the US, Tollgate would be in good company because such high debt is fashionable. But SA’s high interest rates are the killer, so its hardly surprising restructuring is needed. I hope this is not just rearranging deck chairs in a soft economy.

I believe Duros has its eye on Tollgate’s London listing as the restructuring is designed to support both local and overseas investors.

Forget about the worth of Tollgate and Duros after restructuring. Rather, how did management perform in the 18 months to December 1990?

Poorly, with many problems it leading to price competition and declining margins, no clear improvement is expected in the short term.

Heisery and fabrics ran into trouble at Arwa, with cost overruns and delays and considerable production sold at a loss.

Only yarns, ties and leisureswear returned record profits.

Certain of transport’s operations are not profitable. The balance sheet is weak.

While ordinary shareholders’ funds total R167.37 million (1988: R105.14 million), this includes almost R160 million in increased share capital to pay for acquisitions.

There’s also R84.94 million (1988: R10.69 million) in goodwill, trademarks and trade names not written off.

Working capital has remained negative, declining further to R257.71 million (1988: R15.15 million).

Debt of R373.7 million has risen 700 percent. Contingent liabilities — guarantees for loans and advances — total R34.5 million and the company has guaranteed liabilities for subsidiaries of R50 million.

Strangely, holding company Duros borrowed R20.23 million from a subsidiary and gave pledges of 446,600 Honor shares, as per note 29. I thought a holding company was prohibited from using a subsidiary’s funds.

Then there’s an odd financial agreement (Note 19) consisting of preference shares of R30 million, a loan of R70 million and a deposit of R100 million offset to fund a subsidiary. What a web of indebtedness?

Tax losses have risen to R45.32 million (1988: R12.53 million) to be used later. Net asset value per share has tumbled to R3.10 (1988: R4.45).

Arwa is out of the group and the emphasis in 1989 will be rationalising investments, increasing profit margins, improving working capital, reducing costs and greater operating efficiency, says Mr Claasen.

It would be wise for management to be more single-minded, stick to the knitting and know its industries. The numbers in the annual report reveal crisis management.
Safex to list new financial instrument

A NEW financial instrument that has been trading informally — options on futures — is to be listed by the SA Futures Exchange, Safex, in the next few weeks.

An options on futures contract gives the purchaser the right, but not the obligation, to purchase a futures contract.

The regulation of the product is one of a host of new developments in the financial markets mentioned at the official opening of Safex in the JSE annex on Friday.

Safex CE Stuart Rees promised to improve the clearing system and said automated trading would be considered as well.

Before any of these steps were taken, however, consideration would be given to rationalizing bureaucracy by merging Safex and the gifts exchange — the Bond Market Association (BMA).

Finance Minister Barend du Plessis, who was the guest speaker at the official opening, announced that the formalisation of the BMA had in the meantime been delayed until July next year.

The official opening of the BMA was to have taken place soon, but it had been decided to put this off until a new clearing system, Unexco, was up and running.

Du Plessis said, “As far as rationalisation is concerned, I can say it especially concerns the clearing systems used by the different markets. Clearing systems should be centralised rather than separate for each different market.”

As a first step towards central clearing, development had begun of a central scrip depository for the safekeeping of the ownership certificates of the different markets. The depository would be ready by next year, Du Plessis said.

Safex chairman G T Ferreira said Safex aimed to introduce futures contracts on foreign exchange and commodities and to offer participation in offshore contracts for South Africans and non-resident participation in the SA market.

Referring to the controversy over the new futures trading floor, which many in the market believe is an expensive white elephant forced on them, Ferreira said, “I would urge you to give the floor a chance.”

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Building societies stay strongly independent

ByARI JACOBSON

UNATTACHED building societies are confident of maintaining their independence in spite of the attention of the large predator banks—a prelude to the Deposit-Taking Act becoming law.

Although smaller banks are also considered takeover material for the bigger banks, the real focus is on building societies with no deep allegiances and a decent home loan book. Saambou, Allied, Natal Building Society (NBS) and the United Building Society (UBS) are all considered as potential targets in the otherwise closely connected banking system.

Allied's Group Chairman Norman Alborough said highly publicised threats to independence, with the introduction of the new banking bill, failed to account for the opportunities arising from synergies.

"The option to remain independent or regroup within the banking system will be based on shareholder support," he said.

The ability to sway opinion within the group was reliant on marshalling majority support from Allied's 50,000 shareholders.

Adequate capital reserves and sound technological backing are strong ingredients for bypassing allegiances in the banking system.

Interviewed in Cape Town yesterday Natal Building Society MD John Gafney said the in-house computer facilities which NBS possesses are "state of the art technology.

"The ability to add to these facilities will keep future technology costs at manageable levels," he said.

The NBS had avoided asset growth without the ensuing profits, so that capital reserve ratios along international guidelines had been maintained.

"A 30% growth in assets in the past financial year translated into a 40% increase in bottomline profits,“ he said.

Dividend cover policy is intended to be bolstered to three times, staving off a rights issue in the immediate future, Gafney said.

A banking analyst said building society shares have generated a flurry of activity ahead of the changing banking laws.

Banks and building societies, under the new laws, will be governed by the same rules.

The real impact of this is that the present rule that no one shareholder can have more than 10% of a building society will no longer apply. A bank holding company will be able to grab a 100% stake in another.

All these holdings are dependent on the approval of the Registrar of Banks and in certain circumstances the Minister of Finance Building societies fearing the threat of a hostile takeover would need to convince the authorities that they "were not in the public's interest," said a banking analyst.
JSE shares at R104m a day

THE average daily value of shares traded on the JSE in the first week of August increased to R104,6m from R98m the previous week, more than the R100m that JSE president Tony Norton has indicated would make him happy.

Latest JSE statistics show that the total value of shares traded in the week ended August 3 increased by 6.7% to R523.2m, after increasing by 31.9% to R490.3m the week before.

The number of shares traded increased by 10% to 56.6-million, bringing the average price per share down to 92c from 99c.

Consolidation at higher levels was reflected in the gilt and semi-gilt markets which, at R4.41bn, held just below the previous week's 96% higher R4.3bn.

Non-resident transactions saw a net outflow of R79m.
Private clients set Safex soaring

GOLD's giddy run on the back of continued uncertainty in the Gulf has spilled over into the futures market, where more than 7,000 contracts worth R144m were traded yesterday.

Preliminary statistics released by the SA Futures Exchange (Safex) at the close of trade showed that 56% of the total was in the September 1990 and December 1990 gold index futures.

The overall volume figures of the past few days are running at twice the level of those prevailing before the Gulf crisis started two weeks ago.

A Greenwich Futures trader said most of the activity he had seen was by private clients, with institutional participation remaining small.

Safex senior manager Patrick Birley said the spread (the difference between bid and offer) on the gold futures had narrowed to $1 in morning trade, compared with $2 on the international gold price. Narrow spreads, the result of a rush of clients driving bid and offer prices together, are a key indicator of an active, liquid market.

Safex, which had been targeting a 20% increase in volumes over August last year, is now well on its way to at least 50%.

"We will exceed our budgeted revenue target this month," said Birley.

A Safex seat yesterday changed hands in the market at R53,000, a record.

Birley said that three weeks earlier, another seat traded at R50,000 and indicated renewed market interest in Safex.

Seats (nothing to do with sitting) are essentially shares issued by the Exchange.

They confer membership of Safex on the registered holder or lessee.
Restructured group to spend R23m

By AUDREY D'ANGELO
Business Editor

THE restructured Property Group of SA (PGSA) — renamed Abbey Holdings — has more than R23m to invest through its industrial arm, Retco, it was announced at special meetings in Cape Town yesterday.

There was no opposition to the restructuring which, PGSA executive chairman Benny Rabinowitz explained, turns the complex group into "a simple triangle".

Abbey Holdings will be the top holding company. All its industrial interests will be in Retco — renamed Fenix Industries — which will have fabric manufacturer Ivtex and about R23.5m in cash to invest in suitable acquisitions.

All property interests will be in Premier Consolidated — renamed Property Corporation of SA. It will have a 23% stake in Farecape Homes, 100% of property company Bellcanto (Pty) and 19.27% of property company Bristol Industrial Corporation.

Abbey Holdings and Fenix Industries will be transferred to an appropriate sector of the JSE once new acquisitions have been made.

Rabinowitz said Abbey would have 79% of both Propcor and Fenix "and approximately R10m in the bank from the sale of Retco properties".

Retco shares will be consolidated on a one for four basis from Monday, August 29. PGSA will make an offer to buy the entire shareholding of Retco shareholders with less than 100 consolidated shares for 300c each.

Its offer to Premcon minorities will be to acquire all or part of their Premcon shares for 45c each, or one consolidated Retco share for five Premcon shares.

Rabinowitz pointed out that this gave Premcon shareholders three choices — either to stay with the company, sell for cash or move to Retco.

Retco chairman Cedric Walton said it had been decided to change its name because Retco had "for so many years been synonymous with property".

It would now be looking for industrial investments and wanted to control any companies it invested in.

After the meeting he explained "We shall not just be an industrial holding company. We are an industrial company and we want to take an active part in the management of our companies."

"Owning less than 50% we would have no say in the direction they were taking."

The directors expected to find good buying opportunities in the industrial market in coming months but they would buy with care.

They would avoid companies likely to be the target of industrial action in the next two or three years and would be careful to avoid any company which would take a long time to turn around — "we shall have to consider how long we would have to finance it".

A company with the potential for success in the export market would be "marvellous", said Walton.

Rabinowitz said that the Property Corporation would go into partnerships and joint ventures with reputable people in the property industry.

The company would invest cash while the partner also put in money and did the "hands-on work".

In answer to questions from the chairman of the Shareholders' Association of SA, Issy Goldberg, Rabinowitz said Abbey Holdings would have R10m in cash — which would be kept as the reserve for the whole group — no overdraft and no gearing.

Goldberg said it seemed likely that cash would be king in the times ahead.
Restructured PGSA has R23m to invest

Own Correspondent

CAPE TOWN — The restructured Property Group of SA (PGSA) — renamed Abbey Holdings — has more than R23m to invest through its industrial arm Retco, it was announced at special meetings in Cape Town yesterday.

In terms of the restructuring, Abbey Holdings will be the top holding company with all its industrial interests in Retco — renamed Fenix Industries — which will have fabric manufacturer Tvilax and about R23,5m in cash.

All property interests will be in Premier Consolidated — renamed Property Corporation of SA.

Abbey Holdings and Fenix Industries will be transferred to an appropriate sector of the JSE once new acquisitions have been made.

PGSA executive chairman Benny Rabinowitz said Abbey would have 70% of both Propcor and Fenix "and approximately R10m" in the bank.
Broking firms feel the squeeze

STOCKBROKING firm Matheson & Hollidge (M & H) had cut costs "across the board" and Frankel Kruger Vinderne recently retrenched 10 staff members as tough trading conditions coupled with JSE charges squeezed profit margins, broking sources said yesterday.

If low trading volumes persisted, actions at these two firms would be only a precursor to a major shake-out of stockbroking firms involving retrenchments of staff and mergers, they said.

Trading volumes on the JSE have slumped from more than R450m a month in November last year to below R150m in April this year and to about R170m in July.

Sources said yesterday M & H had cut salaries by 15%, but N & H spokesman

Peter Redman declined to confirm or deny the scale of cuts at the firm. "A business decision has been taken by the firm to cut costs due to lower turnover coupled with higher JSE charges," he said.

A source at Frankel Kruger said 10 people had been retrenched, but none of them had been "key" people.

"In a boom period people are taken on willy-nilly and when the squeeze is on, the firm can do without them. But all is still basically intact here."

The source pointed out that if government increased marketable securities tax (MST) to circumvent the problem of declaring capital gains for tax purposes, it would "knock a lot of firms on the JSE for a six".
JSE probes suspect broking practices

THE JSE was investigating stockbrokers whose members were suspected of trading irregularities such as inter-broker collusion, share price fixing and profiting from client deals, JSE sources said yesterday.

These practices are either illegal or against the spirit of the Stock Exchange Control Act which governs the way in which brokers operate.

One of the sources, among them brokers from four stockbroking firms, said he had heard that the investigation started a few months ago and involved up to 10 brokers.

Approached for comment, JSE chairman Peter Redman said: "The JSE is investigating certain irregularities among its members. Investigations of this type do take place from time to time."

He would not comment on the exact nature of the trading irregularities being investigated.

Members found guilty of the charges brought against them would be disciplined in accordance with JSE rules.

ROBERT GENTLE

Redman said:

This could take the form of a reprimand, suspension or expulsion.

The sources who disclosed the alleged irregularities said they were nothing new and had been happening for years.

The most common one was front-running, a form of insider dealing that works as follows:

A client asks a trader to buy, say, 10,000 De Beers shares. The trader buys some De Beers for himself, then executes his client's order, which naturally moves the price. The trader then sells his own De Beers at a profit.

Another irregularity involved a trader executing deals not through his own stockbroking firm, as required by JSE regulations, but through traders in other stockbroking firms for a better profit on the deal.

Lastly, a ring or syndicate reportedly existed on the floor through which trades in a given share was always routed via

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the same person A source likened that person to a " Mafia boss" who enjoyed a monopoly on that particular share.

The source said: "The bottom line is that the investing public at large are getting the losing prices. The JSE is not a transparent open outcry market as JSE president Tony Norton often says. It is a cartel."

□ From Page 1

The other unanimous view expressed was that most of the cases ended up being thrown out because the JSE was "judge and jury" and "looks after its own." Redman denied this, saying many of the cases proved to be groundless.

He said all serious penalties, like expulsion, were made known to members of the JSE.
New laws improve business

Changes in SA legislation are making it possible for public sector bodies to conduct more direct business with truck dealers, specialist truck service operations and vehicle hire companies.

Deregulation, the new road transport quality system (RTQS), along with the privatisation and commercialisation of public sector and parastatal organisations, will mean more business for the motor trade, says Key Motor Group MD Paul Emanuel.

"We are beginning to witness municipalities going directly to dealers instead of manufacturrs to buy trucks. They are also making greater use of private sector facilities for vehicle maintenance or repairs." He says certain public sector bodies, such as municipalities, expect to make less use of or close down their workshops.

Delta Motor Corporation CEO Kerther Butler Wheelhouse says more fleet operators will look to specialist truck service operations to take over responsibility for vehicle maintenance and repairs.

"Delta plans to increase the number of these within its heavy truck dealer organisation," he says.

Boost

Another factor set to boost business in the removal of operating permit restrictions thus should facilitate the growth of more smaller and privately operated haulier companies, says Emanuel.

Proposed privatisation of test stations is also enabling dealers such as Key to establish and apply new facilities in conformance with RTQS requirements.

As registered test stations, they will be able to issue Certificates of Fitness (CoF) for vehicles hived out as well as roadworthy certificates for trucks.

A factor that should impact positively on truck dealers and other repair centres is growth in the medium truck (3-ton to 9-ton) market, he says.

The trend to mediums, which can be largely attributed to the greater flexibility in terms of having more smaller trucks available instead of tying up larger capacity trucks for small loads, is evident worldwide.

Emanuel says there are about 500 000 medium trucks on SA roads, many of them ageing.

Butler Wheelhouse says an estimated 70 000 trucks are at least 10 years old.

"Taking into account that engine longevity is a critical cost factor, the industry is presented with a rising national refurbishment, repair and maintenance market," say Emanuel.

Meanwhile, parts availability has become a crucial factor in the competitive SA truck servicing business.

Availability

Propower national marketing manager Peter Davies says the availability, distribution and service capability are key elements to success in the trucking industry.

"Competition in trucking tends to become severe when the market softens and service quality can, consequently, determine the economic viability and long-term survival of competing companies."
90 days to make futures floor trading succeed

ROBERT GENTLE

THE JSE and other futures market participants committed to backing trading on the new floor in the JSE Annexe have been given three months to make it work, Safex (SA Futures Exchange) CEO Stuart Rees said yesterday.

The R3.5m floor, owned by the JSE and jointly managed by Safex and the Bond Market Association (BMA), has been shunned by futures market participants who continue to trade on screen.

Gilt trading is the only activity on the floor where JSE gilt traders now operate.

Rees said that if after three months the floor was still not being used for futures trading, a Safex executive committee meeting would convene to decide the fate of floor trading of futures.

"The main participant committed to using the floor is the JSE, whose strong advocacy of an open outcry pit system in the initial stages of Safex resulted in the compromise solution of a dual floor/screen system. However, Rees said, the JSE futures brokers had now discovered that they preferred screen trading.

On the cost implications of an eventual pull-out, he said members he had been in touch with had indicated they would fulfil their financial obligations for the first year. After that the floor reverts to the JSE.

Safex members may not yet have been informed about the latest decision because of administration problems linked to the nonavailability of staff following the township violence, Rees said.
JSE holds ‘frank’ crisis meeting

ROBERT GENTLE

A JSE crisis meeting was held at the close of trade yesterday, during which problems such as the over-budget Traded Options Market, the under-utilised floor in the JSE Annex and alleged trading irregularities were discussed.

A stockbroker present at the closed meeting — held on the main trading floor — said it had involved a frank exchange of views between the JSE executive and all its members; Senior figures present included JSE president Tony Norton, chairman Peter Redman, vice-chairman Humphrey Berkum and operations manager Mike Thompson.

The stockbroker described the meeting as “constructive” and said it had enabled members to talk about all the issues affecting development of financial instruments.

Another stockbroker said the meeting had been given added urgency by the spate of recent reports about problems at the JSE, the latest of which concerned investigations into alleged trading irregularities.

There was no comment from the JSE after the meeting.

Earlier in the day, however, Norton acknowledged that investigations were continuing but said the JSE would not divulge further.

JSE meeting details to the public.

“We are a self-policing, membership body and we are judged by our peers. We do publish information concerning censured members, but it is done internally,” Norton rebutted suggestions that the JSE was judge and jury and consequently never brought any of its members to book.

“We have expelled a member in the last few months. However, he is appealing and the matter is subsequently sub judice.”

Moreover, the Registrar of Financial Institutions, which oversees the JSE, was aware of “every single case.” Norton refused to give any breakdown of the number of investigations undertaken to date or their outcome, except to say that very few went the full distance.

On allegations some brokers had been waiting for up to six months for their cases to be heard, Norton said, “Justice always takes time. It is not summary justice.”
Who is going to pay?

Rapid expansion — and the urge to meddle — are causing problems

The magnificent glass and concrete edifice of the Johannesburg Stock Exchange on Diagonal Street, downtown Johannesburg, is a permanent symbol of free enterprise. It should, therefore, be a lean, mean and highly profitable undertaking. But it is not seen that way by some of its 350 members.

The main reason is that this turnover has fallen dramatically just at a time when the institution is in the middle of a R65m-plus capital expansion programme involving information systems, trading floors and buildings — the utility of some of which is being questioned.

Theoretically, each of the 50 brokers will have to meet this bill by chipping in R1,3m or R260 000 a year over five years, without taking into account any interest or financing charges or cost overruns.

Nor are these figures the real cost of the institution itself in particularly sparkling nick. Its borrowings are up 70% and its liquid investments have fallen by 70%. It is also paying off the capital costs of the building it occupies in addition to what has been added.

All this has taken place under the management of executive president Tony Norton, who has taken over from the retired chairman most likely to pull the administration into sharp focus while the brokers themselves got on with their own businesses. No question about it, but the costs are now whether they can still afford this style of administration.

Norton, who is by no means sanguine, makes the point that what disaffected brokers should be doing is taking account of the cost now, but the value they will be getting in future.

But brokers, by seeing the resale value of their Daimlers and Porsches, are not to be pacified that easily. For when they shake the kitty these days, the angle is not what it used to be. Meanwhile, the rate of increase in charges and capital spending remains disturbingly high.

Take for example the recent increase in equity clearing house charges, from R3.50 to R6.50 — an 87% increase in one go.

Norton rightly points out that every decision is passed by the JSE committee which consists of 12 stockbrokers. No brokers who are vocal with their complaints will agree to be quoted. Their business depends too much on the goodwill of the powerful officials who run the day-to-day affairs of the exchange — or so they claim.

Norton deems trying to recover large sums spent on computer systems, trading floors and new buildings from those who do not use them, but the bills must be paid.

Norton says: “We charge legitimate costs on a cost-recovery basis. We recover costs only once the system is brought into production.” For example, Norton says brokers are already paying for the costs of computer systems which have been brought into production which will be depreciated over the next seven years. “And the annexe is paying for itself with rentals,” he adds.

Norton says that expenditure has been financed mostly through medium-term loans. Brokers will have to pay these off. In 1990, the annual report, term borrowings rose 71% to R470m. Interest on borrowings at prime would amount to about R9m a year. “We expect to repay call-debt over the next decade,” Norton says.

Some of the capital expenditure has been financed by JSE gilt, semi-gilt and cash investments which were reduced by 71% to R6.2m in 1988.

In addition to its high borrowings, the JSE has a debt of 12,125% of which secured by mortgage over its building redeemable at par at equal drawings of R200 000 on June 30 each year over the next nine years.

The latest cost brokers are expecting to pay for is the R7.8m spent on the Tradeclearing Options Market. Half the computer system has to be redone at an expected additional cost of about R2m. More than R24m has been spent on developing a new mainframe and peripherals and rewriting software. The cost of the JSE annexe, which was built mainly for extra parking facilities and the new gilt floor, was feasible when volumes were high, was about R35m.

There is no doubt that computer systems have to be updated and the cost of new technology is considerable. Ane the JSE has been working off a system which has been bastardised and added to since 1967. But brokers say the noise, the cronyism and the closed-minded way in which the JSE management executive approached the developments pushed costs unnecessarily high.

“The worst overhead of the JSE also make the system uneconomic,” a broker says. “The JSE shouldn’t own buildings and should have approached outside consultants for a computer system.”

Twelve brokers have over the years elected to use the Management Accounting System for Stockbrokers (Mass) system developed by an outsider. It is believed to be inferior to the present Broker Client Accounting system and much cheaper. Most get a tape from the JSE system each day to input the day’s prices and volumes.

Though Broker Client Accounting is now being rewritten, it will be replaced with the more sophisticated Broker Direct Accounting system, the new system is expected to cost brokers three to four times more than Broker Client Accounting which has pegged costs to the R2 per deal charged to users of Mass. “We expect to pay R6-R8 a deal once the new system comes on-stream,” a broker says. “Rumours are that this could be even more depending on what it costs to get the Broker Direct Accounting system to do it is supposed to do.”

Another broker adds, “Management refused to consider the already functional and perfectly adequate Mass system.” Norton says the JSE should have its own system to maintain its independence.

One small broker is running a pilot of the new Broker Direct Accounting system in tandem with Broker Client Accounting. Asked whether it is able to calculate dividends and interest, he will not comment “because it would be to the detriment of the JSE as a...”
whole." But it is believed the Broker Direct Accounting system cannot yet operate on its own. Bankers and those involved in development of the system says, "It has taken much longer than expected. There have been many problems we could not foresee."

Brokers have also heard that the JSE management executive is considering not allowing those who now use the JSE system to opt-in. "We are under the impression that we will be forced to use Broker Direct Accounting," a stockbroker fears. "Obviously, they have to recover costs," Norton says what has been decided is that if brokers don’t use the new system they will still have to pay for it.

If brokers are worried, it might put them under severe financial strain. They are especially worried about volumes are particularly low now. They have fallen to around 173m in July from well over 200m in previous months, 279m in January, 244m in February, 281m in March, 220m in May, and 275m in June. April was an exception with only 152m shares traded.

"We need about R100m and 4 000 deals a day to break even," Norton says, "with market liquidity at around only 4%, this is becoming less possible."

Norton reckons the average fixed cost of a deal is R30, though most brokers say their break-even is R25-R30. The recommended minimum R30 per transaction (except where the value of the deal is under R200) has become necessary so brokers would find it feasible to do deals for smaller investors.

But with institutions now side-stepping the stock exchange because of real returns of around 6% on the money market, compared to average dividend yields of 4% and little hope of capital appreciation, brokers and their staff are becoming more vocal with complaints, especially as they forgo August bonuses. Salaries are said to have been cut and lay-offs being discussed.

Some who are complaining about the automatic and unbusinesslike operations of the JSE management institutional participants in the gilt and derivative markets have become concerned about the JSE’s interference. Norton explains, "We understand the regulation necessary to support financial markets and want to yet cross-market risks. It is for this reason we have contributed to the formalisation of the futures and gilt markets."

When the Bond Market Association committee was elected in June last year, many lobbying by the JSE resulted in three members being elected while clearing banks, which deal in more than half the gilt market, were not represented. However, after some complaining, the JSE proposed that a clearing banker should be represented. Nedbank’s Eben Smith was elected.

The association was due to be registered as a formal market along with the SA Futures Exchange (SAFEX) on Friday. Its association was under the impression that it was necessary to have a clearing system if it was to be registered and was offered by the JSE.

its Gilt Clearing House as an interim measure. Though most association executive committee members initially rejected the idea, the recommendation was eventually adopted with the persuasive help of JSE GM in charge of non-equity markets, planning and market development, Darrell Till.

"The JSE proposed to offer this service at R20 a leg or R40 a deal which was clearly a rip-off," a gilt dealer says. A merchant bank says, "After some investigation we found that Safoods, Safo’s clearing house, could do the same thing for R6 a leg or R12 a deal."

Another dealer says, "The JSE thought it had the only system we could use."

Norton says JSE costs were more because the dual computer system duplicates all systems as a disaster recovery. "We were just making a commercial offering," he says.

"We have cut our offer to R15 a leg as we would prefer to make a small loss and have some form of regulation so the market is protected." He adds that the JSE system has been tried and tested.

"Only when we complained to the Registrar of Financial Institutions Piet Badenhorst was the decision reversed," a merchant banker says. The association has now been given time to develop its own system and the market will continue as an informal one until the new system, UNEX, is developed.

Empty floor

Another point of contention is the futures trading floor — built at a cost of R3.2m and this does not include Reuters screens or other extras. Since it opened on July 1, few deals have been done and a visit showed an empty floor with no traders. Safo’s CE Stuart Rees says the floor may have to be closed.

None of these expenses would have been incurred but for the strong advocacy by the JSE of an open-outcry or pit trading system. Though futures dealers were in favour of screen trading it was decided to compromise and use both systems until it was proved one was superior.

Norton says he will not admit the floor was just a costly exercise until the 14-month lease (cut back from 18-months "to show belief in the floor") is up and no one renews his lease.

The JSE is said to have lobbied for the floor so it could have more control over the futures market, which provided added competition to equity, as well as recovering some of the money spent on its R35m building. Norton says it was after worldwide research showed an open-outcry system was better for liquidity.

Though Norton’s five-year term as president is almost up, he says he is not planning to leave. During his term he has done a lot which former part-time presidents usually in office for two years mostly did not have the time or inclination to initiate and follow through.

He says he has introduced strategic planning, proper cost accounting, personnel structures and new computer systems.

Nor can the blame for JSE mistakes be put solely on Norton’s shoulders. Darrell Till is one of those responsible for many of the mistakes. "He was in charge of computers and is now in charge of non-equity markets," a broker says. "The record speaks for itself."

The question is whether Norton and his team (including the 12 broker members of the committee) are victims of government’s unusually sustained efforts to curb excess demand in the economy. Once business activity revives and demand for capital increases, boosting share dealing activity, will brokers again be sufficiently flush to view the JSE’s capital commitments and authoritarian administrative ways as insignificant irritations?

Or, at the least, whether the present situation has highlighted a deeper malaise that requires a more open-minded management executive and broking members of the committee with more chatzpath? Or maybe a more open and competitive system?

There is, of course, nothing wrong with the JSE that increased competition would not put right.

None of the extravagance outlined here would have occurred were it not for the Stock Exchanges Control Act, the charter behind which both the institution and its members, with the help of Proton, seek to preserve an archaic exclusivity under the spur of keeping an orderly market.
Royal seeking acquisitions

Royal Corporation is looking forward to continuing growth in the current year, despite deteriorating trading conditions.

In the annual report for the year, executive chairman Vivian Imerman ascribes the deterioration in the second half of the year to high interest rates and unstable socio-political conditions.

His confidence in the future is bolstered by the group's strong performance over the past year during which a number of major changes were made including the acquisition of Royal Beechnut and Manhattan Confectioners.

Mr Imerman stresses that the growth that the group is now seeking in both its food and pharmaceutical/chemical sectors will be attained locally and overseas.

In both sectors, considerable emphasis is being placed on further acquisitions, particularly the food and confectionery division.— Sapa.
Acquisition boost

Klipton's acquisition of Austin Safes and Access & Mobility Group stepped up the group's performance in its 1990 year. But a higher tax rate and increase in the issued share capital diluted the gains to the earnings level.

In the year to end-June, operating profit rose 81% on a 56% turnover advance. These figures include the acquisition of Austin Safes for the full year and ladder and castor maker AMG for the second six months.

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

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

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

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

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

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

Pam Backord
Making markets

The Department of Finance and the Reserve Bank have been taking a hard look at how to improve marketability of government stock, particularly the roughly R20bn R150s. They hosted a discussion group this week for key private-sector players, including merchant banks, stockbrokers and institutions.

It seems perceptions will have to change for the stocks to become truly marketable. This could take years.

Trading in options is one way of laying off risk for a dealer. Until now Eskom’s active options book has helped give the E168 the edge over the R150s in marketability. Because the Bank has not actively quoted doubles, participants find big options positions on the R150s risky.

Now the Bank’s short-term objective is to increase liquidity by imitating Eskom’s strategy of quoting doubles and writing options. It reckons this will eventually bring down the cost of funding.

Appointing and establishing market makers in government bonds will be part of a long-term solution. The Bank started an R150 options book in February, which it says is becoming more active. On August 13, JSE turnover included R150 options valued at R330m, surpassing Eskom’s R495m worth for that day.

Dealers reckon that, despite the appointment of official market makers, the Bank may have to become a market maker in its own stock and buyer of last resort. “Eskom has done this and has built itself into a position of trust. Though it cost initially,” says a dealer, “Eskom is probably only buying back a small portion of its stock now.”

In 1988, the Jacobs report on the bond market came out against assuming a market making function as “dealer of last resort.” A change in approach came after amendments to the Exchequer Act 66 of 1975 last year. For the first time, Treasury was allowed to buy back stock before it matured, enabling it to consolidate stock with the same maturity period into new issues. A number of gilts were consolidated into four new issues (R144, R147, R150 and R153) between August-December 1989.

Dealers suggest the Bank should be allowed to sell short, in response to market demand. Also Treasury must be prepared to go long of stock when demand is low. Another way of laying off risk is to take an opposite position in an alternative investment. As such alternatives are lacking, the gap watched is between the R150s and E168s. Dealers hope to profit by subtle shifts between the two.

Government stock should trade at a lower rate than semi-gilts, primarily because of the quality of debt when government is the primary borrower. But in SA, these instruments are less in demand than semi-gilts, which pushes rates above those on Eskoms.

About two months ago, the Bank tried to narrow the gap between the price of the bellwether Eskom E168s and the R150s — and closed it from 53 to 45 points.

Some participants claim the Bank favours a select few and point to the R1bn deal, with call options, through a merchant bank in 1988. These over-the-counter deals affect rates, dealers say. The authorities feel an organisation clever enough to structure an innovative deal should benefit from its efforts. "In the Bank’s experience, best results are obtained by dealing on a confidential basis through intermediaries,” says the Jacobs report.

The Bank says it is trying to push business through the floor, but even this it prefers to do anonymously. A press release this week denotes it is singling out specific merchant banks. In future, all trades will go through the BMA and volume and prices recorded.

A dealer says the authorities should do more to feed the market with information on deals. The Bank has appointed a working group to investigate long-term strategies.

Jacques Ballard
JSE stocks plunge 5.3% \( \text{US share 24/8-26/8/90} \)

THE Johannesburg stock market plunged 5.3 percent yesterday as panic selling struck after lunch on jitters about failing international stock markets amid a worsening Middle East crisis and rising oil prices, dealers said.

The overall share index closed a massive 167 points, or 5.3 percent, lower at 2 962 versus Wednesday's 3 129 close, while the industrial index fell over 4.5 percent to 2 786 from 2 921.

Gold shares, after a firm start, also succumbed despite support from firm world bullion prices. The index was down at 1 779 at the close from Wednesday's 1 894 close after rising to 1 923.

"I think there's been a fair amount of panic," said an analyst, explaining that local investors see higher oil prices leading to recession among South Africa's major trading partners.

"We need some significant (positive) event in the Middle East to pull us out of a bear market," he said.

Among market leaders, De Beers lost R5.25 at R73.75, heavyweight gold share Vaal Reefs R17.50 at R330 and Impala Platinum R8 at R71.50, while mining financials had Anglos R9.50 lower at R109.

Industrial Barlows fell to R31.25 from Wednesday's R35.75 close, Richemont to R21.75 from R23.90 and Safren to R39 from R42.

US wealth concentrated

WASHINGTON, March 28
WoM may hear a sweeter note

A WORLD OF MUSIC shareholder wants to know if and when the 13-month long JSE suspension on trade in the company's shares will be lifted.

The JSE says a meeting will be held tomorrow with WOM. WOM chairman Peter Cooke says an approach was made to the JSE, which asked for an audited three-month trading profit. He says the company has been restructured and its businesses will be the record arm and recording studio. There will be net assets of R1.6-million.

Mr. Cooke says there is no association with Joe Calleura, who was associated with Proiec Holdings. Proiec, formerly Canvueso, was delisted after failing to respond to the JSE's requests for information. The shares climbed from 7c to R1.1 on huge volume after a one-for-five consolidation. Furoxand dealing was prominent.

Mr. Cooke says Mr. Calleura approached him with a view to buying WOM and holding company World of Leisure last October, but nothing came of it because certain conditions, such as the suspension being lifted, were not met.
MINORITIES IN SHELL PICKLE

JUST when Manserv minority shareholders thought the long-awaited offer to them by the new controlling shareholder was safe, another obstacle has emerged.

The controlling stake in the R15.4-million Manserv cash shell was bought in February by Financial Ltd, a company registered in the Isle of Man.

The seller, Map consortium, received 106c a share for its 89% holding. Financial had ceded its rights to SA company Garditec, so the deal between Map and the buyer did not involve financial rands. Financial undertook to make an offer on the same terms to the Manserv minority.

Map insisted that Financial lodge the full amount as security with a bank. UAL has R1 346 205 on deposit as security.

Manserv cannot be traded on the JSE because cash shells are suspended until assets have been inspected. It recently delisted the Sequel cash shell, leaving the minority in an unlisted company without having been made a cash offer by the new controller. Manserv minorities fear they may suffer a similar fate.

Action

The problem relates to finrand transactions. When the Map-Financial deal was taking place, the Reserve Bank introduced a rule whereby the JSE was obliged to prevent companies from buying cash shells through the finrand without the bank's permission.

Finrands can be used without the bank's permission to buy quoted companies. The money on deposit at UAL came in without the Reserve Bank's permission. Financial has still not made a formal application to the Reserve Bank. UAL did not know the money came in through the finrand.

Therefore, Financial cannot physically make an offer to the Manserv minority until the Reserve Bank grants permission for the funds to come in through the finrand.

The first course of action is for the Reserve Bank to be persuaded to allow UAL to book that deal as a finrand transaction. Thereafter, the minority should be made an offer.

The JSE will allow Financial to make an offer to the Manserv minority without having to disclose the assets it proposes to inject into the shell. Garditec has already sold Charnay Mining into the Manserv for R13.6-million without an announcement.

Map spokesman Jeff Wiggill says Financial is in breach of a contract signed by the two parties in February, as well as the JSE and Companies Act requirements.

Guardian National reports the half-year to June.

Its results are in line with those who are suffering from a sluggish insurance market. Guardian's underwriting loss turnaround from profit of R7.9 million in the year of turn around the insurance industry's losses in the year. The board blames the poor performance on the increase in the incidence and theft.

Other classes of insurance business saw a surge in premiums and domestic content.

Premiere

Guardian's investment income increased by R3.9 million. Earnings a share dropped to 24c from 3c.

Net premiums written totalled R17.2 million, the same time last year. But pretax profit was R17.3 million. The effective tax rate was 50%, because of the high proportion of pre-tax profits, together with a contingency reserve.

An interim dividend of 55c was paid on previous year's total, but up by
Broker DRC defaults on R1m exposure

ROBERT GENTLE

THE slump on world equity markets claimed its first SA fatality on Friday when futures broking firm Davis Ralph Sadleir (DRS), unable to meet its financial obligations, defaulted on an exposure of more than R1m.

In accordance with SA Futures Exchange (Safex) rules, Cape-based Corporate Investment Bank Clearing Pty (CIBC), through which DRS routed its trades, assumed all known cleared proprietary contracts entered into by DRS and its clients.

CIBC is a part of CIB (Corporate Investment Bank), which used to be known as Cape Investment Bank until its merger in February with Corbank.

Safex said that no Safex member or client had been prejudiced.

CIB director Spiro Lobie said that all the proprietary DRS open futures positions had been liquidated in the market by close of trade on Friday.

Lobie said that, insofar as CIB's margin payments held by Safex had covered all positions on the contracts, the bank would suffer no loss.

Following a Safex market alert, DRS was precluded from trading from 8am on Friday. The arrangement by which DRS routed its trades through CIB has also been terminated.

The demise of DRS, formed in March 1989 under its old name SA Futures &...
Protesters march on SABC, urge impartiality

JOHANNESBURG — About 800 people marched to the South African Broadcasting Corporation’s Auckland Park head office on Saturday morning to present the SABC with a memorandum protesting against planned restructuring and privatisation of the corporation.

The march, organised by the Campaign for Open Media, was supported by members of various media associations, the Black Sash and the ANC.

At the SABC’s Pretoma Building, former Rand Daily Mail editor Mr Raymond Louw presented the memorandum to SABC Corporate Communications manager Mr Theo Vorster. He asked that the memorandum be conveyed to SABC chairman Professor Christo Viljoen and that an answer to demands be given within one week.

The memorandum deplored the appointment in March this year of a broadcasting task force chaired by Professor Viljoen and made up of “broaderborders and bureaucrats who represent the interest of minority rule.”

It called for the task force’s disbandment and the establishment of an independent board of directors to ensure impartiality of the corporation.

Mr Vorster told reporters the size of the protest indicated that the majority of the 17 million viewers and listeners “must be relatively satisfied” — Sapa, UPI
Developer placed under provisional order

A RAND Supreme Court judge yesterday placed the developer of the Stellen-oord Retirement Village — Linden Developments Ltd — under provisional liquidation.

The proposed retirement village was due to have been built on a 5.7 ha property in Stellenbosch. It was expected to cost R1.8bn.

The proposed development consisted of 75 sectional title units and a variety of community services such as a clinic, a restaurant and a heated swimming pool.

The application was brought before Mr. Justice Goldstein by Stocks and Stocks.

Cape Ltd, which claimed it was owed more than R1.8bn by Linden Developments and that the developer was commercially insolvent, was yesterday upheld.

The return day of the provisional order is September 25.
Tomkor given go-ahead

Business Day Report (232)

IN a meeting last week, Tomkor shareholders unanimously approved the restructuring of the property portfolio into two separate companies, Tomkor and October Investments (Octodec). The loan stock company Octodec will be listed on the JSE on September 20 through a renounceable rights offer to Tomkor shareholders. The sale of Tomkor properties worth R160m into Octodec was approved.

Tomkor directors declared a dividend in specie of linked units in Octodec to shareholders registered on September 21 on the basis of 100 linked units for every ordinary share held. The rights offer opens on August 31.
IDC acquires 37.6% stake in ERF SA

THE Industrial Development Corporation (IDC) has acquired a 37.6% stake in truck and bus supplier ERF SA, a subsidiary of UK-based ERF Holdings, for an undisclosed amount.

IDC senior GM Jan de Bruyn said the acquisition was made by the IDC's two listed investment subsidiaries — Industrial Selections and National Selections — on an equal basis.

He saw the deal as an attractive investment opportunity which would increase local industrial activity and which went hand in hand with ERF SA's proposed expansion plans.

Arode-based ERF SA, which has been in South Africa for 25 years, assembles and manufactures trucks and bus chassis. It was previously 100% owned by its UK parent.

ERF SA MD Des Davies said the deal emphasised ERF SA's intention to be more closely identified with its SA origins and was in line with its policy of controlling growth and increasing local content.

ERF SA sales and marketing director John Barnett said the acquisition enabled ERF SA to take advantage of opportunities opening up in southern Africa.
Bust futures firm in client cash row

FORMER clients of DRS (Davis Ralph Sadler), the futures broking firm which defaulted on an exposure of over R1m last week, disclosed yesterday they were attempting to recover about R600,000 owed to them.

They have contested public statements by the SA Futures Exchange (Safex) that no Safex member or client suffered any prejudice as a result of the default.

Attorney Malcolm Douglas of Cape-based law firm Routledge-MacCallums, who obtained a provisional liquidation order against DRS on Friday, said yesterday former DRS clients he represented were owed around R600,000.

They had had positive cash balances to that amount in their DRS accounts when the default occurred and had not had any futures contracts open in their name, Douglas said. His clients should therefore have been given back the money by CIBC (Corporate Investment Bank Clearing), the Cape-based clearing company which assumed all known open DRS proprietary positions after the default.

“We have been told the money is not available,” Douglas said.

Another former DRS client, who did not wish to be identified, said he was owed about R120,000 on positive cash balances lodged in his DRS account. He too said the money had not been invested in the market at the time of the default.

Jack Crook of Syrets Group, who has been appointed liquidator for DRS, said:

“Several people have told me that their positions were closed prior to the default on Thursday.”

Investors or clients with claims on DRS should get in touch with him so he could establish the facts, he said.

Safex (SA Futures Industry Association), the futures watchdog body, confirmed it had received calls from people claiming they were still owed money by DRS.

Reacting to these disclosures, Safex CE Stuart Rees said: “At this stage, we are confident that CIBC has discharged its obligations towards clients and other parties in respect of open proprietary positions.”

Anyone who does not have an open position in the futures market is not considered a client under Safex rules and consequently falls outside of the default protection.

Rees added, however, that Safex was associated with an investigation into the possibility of co-mingling of clients’ and members’ proprietary funds at DRS.

Co-mingling means client monies are not kept in segregated accounts with the broker, but are lumped together and used for activities clients may not be aware of. This practice contravenes exchange rules and breaches the terms of the Financial Markets Control Act.

Neither of the two directors of the defunct DRS could be reached for comment.

See Page 11
Rand hedge shares lose their appeal

RAND hedge shares have lost their sparkle in the past three months and appear to be even less attractive because of recent events.

The authorities' commitment to protecting the value of the domestic rand and its external value, plus tottering international equity markets and sagging economies, such as the mighty US, all put a question mark on investment in rand hedges.

Rand hedge stocks such as De Beers, Ruthermond and Barlows, have been in a downdraft over the past three months.

Amiti proved last week that it is sensitive to disastrous results in the present climate, losing as much as 13% after the release of results.

Rand hedges are market leaders and as such are as vulnerable as international market leaders if, as some analysts expect, equity markets are in for a rough ride.

The US is now seen as being closer to a recession than previously thought.

This coincides with higher oil prices, which raises the spectre of inflation.

The price of oil is even more important to the Japanese economy and the Tokyo equity market's plunges partly reflect Japanese apprehension about the direction of their economy.

Europe appears to have better prospects of avoiding a recession if the Eastern Bloc is opened up economically.

But there are serious problems involved in integrating the highly industrialised West Europe with the tottering, out-dated industries of Eastern Europe.

Some analysts foresee continued turmoil in international equity markets.

This may add to gold's attraction as an investment, but a higher gold price is unlikely to flow through to gold shares.

Given general uncertainty and gait shifts in world economies, manoeuvrable cash is preferred.

Analysts are unwilling to haul out their crystal balls to foresee the future of rand hedge stocks against such a complicated background.

The fact is that these stocks have plunged on the JSE over the past three months.

De Beers has come off 24.7% over three months, Anglos is down 18.7%, Barlows down 15.5% and Liberty down 12.5. Ruthermond has fallen 17.5% over the past month and SA Brewers shed 8.6% in one month.

From a price earnings (PE) point of view, the JSE's average PE ratio is still healthier than that of other major bourses.

New York's PE ratio of 14 is well below the average levels reached before the 1987 crash, but it remains higher than at any time since December 1987.

With US corporate profits now expected to sag further, shares will soon look overvalued even when the Middle East panic subsides.

London's PE ratio has dipped to just over 11 and equity prices look reasonable.

Frankfurt's PE ratio soared after the Berlin Wall came down at the end of last year. The Middle Eastern fall leaves the PE ratio still high at 18.5.

The difficulties arising for attempted absorption of the Eastern German economy and fears of higher tax have caused nervousness in Frankfurt.

Tokyo's PE ratio is now down to about 40 from its 1987 peak of 68.

Although the Japanese accounting is different and Japanese investors pay less attention to PE ratios than elsewhere, the Tokyo stock market looked overvalued well before the Iraqi invasion of Kuwait because of a tighter monetary policy.
Shift from Gilts to Equities

Institutional investors put only 8% of cash flows into Gilts in 1989 after the announcement that prescribed asset requirements would be scrapped — compared with 20% in 1988.

Figures in the Reserve Bank's Annual Economic Report show that once institutions were no longer forced to invest in public sector stock, they poured into equities — 57% of cash flows went into the JSE in 1989 as against 29% in 1988. Property, too, benefited from the move with the percentage of total funds invested more than doubling to 14% from 8%.

Selling of Gilts by institutions did, however, have a negative effect on the capital market as foreign investors took up the slack.

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Greta Steyn

The report ascribes high levels of trading activity in the capital market in 1989 and early 1990 to a significant extent to foreign investors buying public sector stock, as well as to institutions' shifts from Gilts into equities.

"Non-residents' large-scale changeovers into interest-bearing securities were, in fact, credited with having caused a decline of more than one percentage point in the yields on long-term government and Eskom stock".

The report notes record turnover levels in public sector were notched up in the fourth quarter of last year and first quarter of this year (R773bn on the JSE). However, this was followed by a sharp decline to R494bn in the second quarter.

The abolition of prescribed assets did not create problems for public sector borrowers needing to raise new funds.

Government sold R4.6bn in new stock on the open market between April and July this year, an amount that already exceeds the needs indicated at the time of the Budget. Thus, it is higher than the R4.2bn sold at this point last year.

Another facet of the capital market to emerge during this period of high interest rates has been that deposit-taking institutions are a bit more popular now with the investing public than they have been in the past. The flow of longer-term funds to deposit-takers, which had decreased by 20% in 1988, rose by 37% in 1989. The flow of funds to insurers, which had risen by 30% in 1988, rose by a slower 19% in the next year. However, net personal savings in SA is still much lower than the contractual savings flowing to the institutions.
Safex’s reputation hinges on the handling of default
ROBERT GENTLE

THE SA Futures Exchange’s reputation hinges on the manner in which the demise of futures broking firm
Davey Ralph Sadie & Partners (DRS) is handled.

DRS defaulted on an exposure of more than R1m on
Friday, barely a month after Safex’s formal opening.

If the default goes off with barely a murmur of
discontent among clients of the now defunct DRS,
Safex will emerge with its reputation considerably
enhanced.

If, on the other hand, DRS clients are out of pocket
as a result of the default, Safex will almost surely be
the target of accusations over its much-vaunted
concern for client protection.

As far as clients who have open positions with DRS
at the time of the default are concerned, Safex can
point to a smooth, strictly monitored unwinding of
their positions in accordance with exchange rules.

To all intents and purposes, it made little difference
that DRS was no longer solvent because cleared
open proprietary positions were automatically
assumed by Corporate Investment Bank Clearing
(CIBC).

This is because CIBC is a clearing member of
Safex, and it is the clearing members which collec-
tively ensure the financial integrity of the exchange.

Safex rules require a clearing member to have a
minimum net worth of R30m, put up a R10m minus-
mum third party suretyship and be part of a R35m
loan guarantee fund. There is also a R10m insurance
policy.

It was clear that the DRS default scenario was a
relatively minor one which did not trigger any of
Safex’s multiple guarantees.

“The default will be contained locally at CIBC,”
said Safex’s CEO Stuart Rees.

If the good news was that open proprietary client
positions were honoured, the bad news was that this
might not have been all the DRS obligations out in the
market. DRS was known to be a big writer of options
on futures. Options are over-the-counter instruments
— that is, with full counter-party risk and covenant
espionage as the watchword.

Mike Davis — the D in DRS — confirmed the
existence of outstanding options on futures, but could
comment no further on how these would be honoured.

Insofar as Safex guarantees only cover futures,
DRS options clients cannot look to the exchange to
guarantee contract performance.

Other DRS clients in the same situation are those
without open contract positions at the time of the
default, but whose accounts at DRS showed positive
cash balances.

These two categories of clients could give Safex a
rough ride in the coming weeks as they seek redress
for what they feel is inadequate protection from a
market committed to client confidence.
Nedbank offers investment deal

**NEDBANK** is offering its clients the chance to invest in a minimum of 10 combined units valued at R1 000 each in Johannesburg's old Stuttafords building on the corner of Russel and Pritchard streets.

A bank statement and clients are being offered 6128 combined units consisting of one ordinary share and one unsecured debenture.

If the investor sells his 10 combined units at the end of five years, the projected value of the units is R26 443.7, which represents a capital growth of more than double the original investment. The offer to buy units opened last week and information is at all Nedbank branches.

Stuttafords building was erected in 1912 and is protected under the National Monument Act of 1986. It has shops and offices and is 80% occupied by major tenants. The OK Bazaars has the largest space.

"The Stuttafords building is strategically located in relation to major developments within the CBD."

Nedbank deputy MD and chairman of Nedbank's Secured Investments division Johan Westraat said "It is situated within two minutes walk of the civic space. Other new developments in the area include the new headquarters for Old Mutual and Bank City."
Anglovaal declares share split

Anglovaal Holdings (AV) will have a five-for-one ordinary share split and will issue participating preference shares in a one-to-one ratio for each subdivided preference share after implementation of the split.

The split would take effect on October 1, if ordinary shareholders approve the proposal, the company said in an announcement today.

The share split was decided upon to increase the marketability of AV Holdings shares, it said.

The company's ordinary shares were recently traded above R30 a share.

After the split, AV Holdings would have 456 780 653 ordinary shares in issue and the same amount of participating preference shares.

It said by retaining the participating preference shares and the subdivided ordinary shares, a shareholder should be in at least the same position as if the subdivision and capitalisation issue had not been made.

The capitalisation issue would achieve greater flexibility in the capital structure of AV Holdings.
Gold's slide continues for a second day

LONDON — Precious metals markets remained under pressure yesterday as buyers withdrew and waited for the outcome of UN secretary general Perez de Cuellar's attempts to mediate with Iraq in the Jordanian capital of Amman tomorrow.

Gold was volatile, swinging over a $15/oz range after Monday's $225.70 slump in New York. Gold closed in New York at $232.65—a fall of $10.60 in two days.

In London, gold closed at $232.50, after not being traded on Monday due to the August bank holiday. The metal traded steadily, with the dollar's weakness against the yen— it fell from 145.90 yen to 145.15 yen— sustaining the market.

But on the JSE investors were reticent to let go of gold shares despite the weakening gold price and the firmer rand.

"On the back of the demise of bullion to just above the $280 support level in London yesterday, JSE investors left the gold index just 38 points down at 1,619 on expectations that the index could crumble by as much as 150 points on the day.

The overall index finished a mere eight points down at 2,924 and the industrial index capitalized on some rare bullish sentiment, rising on its blue chips to climb 41 points and close at 2,820.

Platinum, palladium and silver tracked gold. Platinum closed in London at $422.50 (after a low of $480) and palladium sagged to $108.16.

However, crude oil prices steadied after dropping more than $4/barrel to $28 for North Sea Brent blend (October). It was

JOHN CAhill and BRENT MELVILLE quoted at $25.70/barrel having been down to $25.40 on expectations that Opec would formally sanction and join Saudi Arabia's planned increase in output to offset the loss of Iraq-Kuwait supplies.

But Iran has demanded that consumers run down part of their stocks—equal to 100 days' demand in the industrialised countries—before Opec steps up production.

London traders and analysts, however, said the main factor was the cooling off of war tension in the Gulf.

Smith New Court's Albert Loveless said: "Gold was headline driven, now it's chart driven. It was overbought and a pull back to the 200-day moving average price is in line with chartist behaviour and that's what it has done."

Johnson Matthey's Mike Rose said "The

See Page 2
Bureau for Information initiates its news service

AFTER ditching privatisation plans, the Bureau for Information this week launched its own national news service.

The first hint of the Bureau's return to media liaison centre stage came on Monday when it issued more than 2,500 words on issues, as diverse as black taxi protest, a national census and the negative effects of strike action.

Bureau spokesmen yesterday stressed that it was not competing with other media sources, particularly the SA Press Association (Sapa) which supplies news to all daily newspapers and broadcast media.

Sources expected that the Bureau's propagandist image would improve, with a shift in emphasis from conveying government information to facilitating communication between government and media.

They said the Bureau was experiencing an unprecedented degree of freedom from political interference.

Public relations executives said, however, they believed much of the Bureau's work should be contracted out to the private sector.

"The Bureau's domestic media liaison head Chris van der Westhuizen said yesterday the news service would mostly put out researched reports involving a number of departments.

"Ordinary media liaison would still be done by the departments concerned."

Although spokesmen said the news service would be headed by a senior seven-man editorial committee, including Bureau head Dave Steward, none were able to say what its budget would be.
Unit trust yields 'misunderstood'

COMPARING yields is not the way to determine which unit trusts are doing the best, as yields are not a gauge for the investor interested in capital growth.

Sanlam Managers, which administers the group's unit trusts, says that many investors are under the impression that the higher the yield, the better the unit trust's performance.

This is not necessarily the case. For example, the market value of 100 units in unit trusts A and B is R100 in both cases. Both declared a dividend of R7 in the past 12 months, which meant a yield of 7%.

But, before the next dividend is declared, the value of A units grows to R150 and that of B units to R200. The dividend yields are then 4.6% and 3.5% respectively.

The yield of the unit trust with the most rapid growth is therefore lower than when both declared the same dividend and is lower, too, than that of the unit trust with the slower growth.

Yield, is, therefore, not a gauge for the investor who is interested in capital growth. It is only an indication of how the income of a unit trust performs.

Looking at the daily quotations of unit trusts in the financial pages of daily newspapers, in columns 1 and 2 the unit's price is expressed in cents. For each trust there are two prices — the buying price (the higher price) for buyers, and the selling price (the lower price) for sellers.

LIZ ROUSE

The price in column 2, the lower price, is always the market value (selling value) of a particular unit at that stage. The investor can calculate how much his investment is worth by multiplying the number of shares held by the market value.

The price in column 1, the higher price, is the market value of the unit plus the relevant costs. It is the price at which an investor buys a unit.

If an investor does a transaction today, in most cases he will be able to see what price he bought or sold at only in tomorrow's newspapers.

If the investor reads the column daily, he will notice that the price rises and drops, changing yields all the time. Should the buying price rise and the year's income remain the same, the yield decreases, and vice versa.

If the buying price remains the same and the year's income changes, the yield will increase if the new year's income is higher, or drop if it is lower.

Sanlam Managers says the column is even used incorrectly by investors to determine what sort of unit trust they want to invest in. Because the non-share trusts, or rather income funds, often yield the highest returns, an investor could well invest in a non-share trust, while he should rather be in a share unit trust.
"Amend investment guidelines"

INVESTMENT guidelines prescribing how insurers and pension funds prudently invest their assets should be amended because they prevent portfolio managers from using futures effectively. Old Mutual Reks Investment manager Dave Mitchell said yesterday.

Mitchell, elaborating on remarks made during an SA Futures Exchange (Saferx) seminar for portfolio managers, said the present regulations did not reflect the existence of licensed futures exchange. They came into effect on October 1, 1969 and superseded the old prescribed asset requirements.

While the present regulations stipulated maximum percentages to be invested in specific areas — for example, equities (65%) and property (30%) — they made no reference to derivatives. These necessarily fell into the "other assets" category, a mere 2.5%.

"There is a conflict here because while prudent fund management may require exposure to futures and options to guard against market swings, current investment regulations effectively preclude this," he said.

Mitchell said that portfolio managers should be allowed to manage their funds as fiduciaries, but the regulations sometimes conflicted with their duties to their clients.

The Registrar of Financial Institutions Piet Badenhorst needed to be "encouraged" in this respect.

Mitchell said Badenhorst had already indicated a willingness to amend the regulations.

The Registrar could not be reached for comment.
M & R boosts profits 36% 

By AUDREY D'ANGELO  
Business Editor  

HIGHER contributions from its construction, building, engineering and property companies boosted profits by Murray & Roberts Holdings in the year to June 30.

The huge conglomerate reported a 36% rise in operating profit to R300,5m (R223,2m), achieved on a 17% rise in turnover to R4 014m (R3 443m).

Earnings rose by 27% to 543c (426c) a share, with a rise in the number in issue to 28 328 000 (27 813 000). The final dividend is 92c (77c), making a total of 132c (110c).

The interest bill rose to R27m (R22,8m) and tax to R110,1m (R72,2m).

Earnings attributable to ordinary permanent capital holders were 39% higher at R159,5m (R123m) Earnings attributable to ordinary shareholders were 30% higher at R153,7m (R115,4m).

The contribution of the industrial division to consolidated operating profit before interest was slightly down at R96,5m (R100,6m) although it still remained the main contributor.

But the contribution of the construction division was sharply up at R34,8m (R43,1m).

The suppliers and services division contributed R66,2m (R61,8m), M & R Engineering R23,4m (R15m) and M & R Properties R17,7m (R8,2m).

Director Jeremy Racliffee pointed out: "The construction industry normally lags any downturn or upturn in the economy, because of its long-term contracts, while industrial companies react quickly to changes in demand. For fact our industrial division pretty well maintained its contribution before tax while our construction division virtually doubled its profits and has done exceptionally well."

"One of the things about our group is its portfolio effect. One of the ideas about our conglomerate design is that one division can help to compensate for another during a downturn." Racliffee said the group expected "another 12 to 18 months of tough times." The construction division still had "nice order books, which is good. But they will not last forever."

However, Racliffee said, he thought Reserve Governor Chris Stals was right to keep up the attack on inflation.

"SA has got to go through a full course of this medicine, in spite of increasing unemployment and its effect on unrest, in order to build a sound platform for future growth."

He said M & R's international activities had made "a positive contribution last year."

"One has to look at exports. Consani Engineering exports tank containers and some of our industrial companies are in the export market."

Chairman M Daling and CE Dave Brink say they expect to achieve "real growth in dividends" in the current year, in spite of the large increase in shares which will result from the compulsory conversion of 7 381 730 debentures."
Difficult times push up number of delistings

GROUP restructuring and rationalisation, more cash shells and disenchantment with being a listed company have all served to push up the number of delistings on the JSE.


There were 23 terminations in the year ended March 1986.

In an interview, JSE GM of listings Richard Connellan noted that although reasons for delistings varied with each case, the increase in number was related to the current difficult economic climate.

Delistings were mainly the result of group restructuring and rationalisation, although the number of terminations relating to cash shells had also risen.

"A fair number of the listing terminations relate to companies cleaning up messy structures so investors can clearly identify the best entry point into the group," Connellan said.

Terminations reached their low during the boom preceding the October 1987 crash, and as such showed a cyclical tendency directly related to the state of the economy and the stock market.

In Connellan's view companies were being forced to consolidate positions after the exceptionally high p:e ratios and low yields that accompanied the boom in 1987.

Cash shells had also contributed to the increase in terminations. The economic boom saw a vast increase in the number of companies seeking a listing on the JSE. The high cost of a listing, both in time and money, made buying a cash shell a desirable alternative.

But cash shells were scarce and the premium on buying one rose as high as R600 000, one analyst said.

Lower premium

With the present tough economic situation pushing struggling companies towards liquidation, many listed enterprises had become cash shells.

The increase in supply had lowered the perceived premium to about R250 000.

Despite the decreased cost, many cash shells were exceeding the six-month limit given them by the JSE to re-establish their listing requirements. The result was automatic delisting.

A small percentage of terminations could be attributed to disillusionment of management with their listing. Companies which had been managed autocratically did not like the exposure of a listing, Connellan added.

A listing gave management extra responsibilities and exposed it to criticism by minority shareholders. Management was answerable for its decisions.
Abbey pays out special dividends

CHARLOTTE MATHIEWS

ABBEY Holdings, formerly known as the Property Group of SA, has declared earnings of 14.36c a share for the year to June and a distribution for the year, including special dividends, of 18c a share.

Abbey is now the holding company of the group with 70% of property group Property Corporation (Propcor) and 70% of Fenix Industries.

Abbey's attributable income fell to R2.5m from R6.2m in 1988 as a result of reduced earnings from Propcor and Fenix.

An extraordinary item of R0.6m represents the sale of Retprop Investments, Pressed, President Medical Investments (Pressed) and Research Surveys.

Propcor has declared a total dividend of 3c (4c) a share on earnings of 6.20c (12.21c) a share. Operating income fell to R944 000 from R3.1m in 1989 as a result of the sale of subsidiary interests.

Fenix Industries, formerly Retco, has posted attributable income of R2.2m (R9.9m) which translates into earnings of 5.06c (20.2c) a share. A dividend of 70c (7.5c), which includes special and an interim but no final dividend, has been declared.

Pangbourne earnings up

CHARLOTTE MATHIEWS

PROPERTY loan stock company Pangbourne Properties has boosted payments by 18% to 67.8c a combined unit for the year to June compared to 57.66c a unit in 1988.

The interest entitlement on nine debentures is now 50 times the dividend on one ordinary share for the full year.

Earnings rose by 25% to 72.02c (50.07c) a unit.

An extraordinary item of R2.3m, which has been transferred to non-distributable reserves, represents the increase in net realisation of properties over holding cost.

Kaplan and Stewart analyst Robin Pegler believes at the current yield of 12.3% on a price of 556c a unit, Panprop represents good value.
Chemical companies set to merge

CH CHEMICALS and Whitney Chemical are to merge to create a major new force in the chemical industry with an annual turnover of R1500m, a year.

The merger of the two new company, CHW Chemicals, effective from October, aims at taking advantage of the potential for synergy between the companies, says new group MD Peter Columbine.

CHW Chemicals — formed through a management buy-out when US group Dow Chemical divested from SA — represents Dow in southern Africa, marketing its range of chemicals, polymers and urethane and agricultural products.

Whitney Chemical is the agent for the US-based Hoechst Celanese Chemicals in South Africa and has interests in the manufacture of coatings, plastics and fibres.

CHW Chemicals will retain these and other developing agencies, and market them through its expanded network of sales, services and technical offices.

Columbine says "combining our two product ranges produces a superb fit, and gives us a turnover of some R5 000 tons of ex-stock bulk and packaged chemicals."
More small firms failing
as recession takes toll

PRETORIA — The recession is squeezing the life out of a
growing number of companies and close corporations,
says Information Trust Corporation (ITC) chairman Paul
Edwards.

At the weekend he said the number of companies and
close corporations being liquidated had increased dra-
matically in the first half of the year compared with
January to June last year.

In the first six months of this year, 916 companies and
close corporations were liquidated compared with 671
last year — an increase of 37%.

June's figure of 195 liquidations was the highest month-
ly figure since July 1987. The economy, Edwards said,
was unquestionably in recession. This was borne out by
the negative growth over the last three quarters.

Some industrial sectors were being hit harder than
others but generally profits were under severe pressure
and cash flow problems were crippling other areas.

The rate of liquidations, Edwards said, was likely to
continue to rise over the next 12 months. He could not see
an upturn in the economy before mid-1991.

It was sad, he said, to see businesses with full order
books fail. However, unless money from sales found its
way into the bank, businesses were at risk.
JSE is ‘price-fixing monopoly’ but legal

THE JSE was a monopoly and its fixed commission structure as well as the proposed minimum fee on share dealing amounted to price fixing. Competition Board chairman Pierre Brooks said yesterday.

However, the JSE was not operating illegally because the Stock Exchanges Control Act under which it operated excluded it from the ambit of enforceable legislation in these key areas.

Brooks, in an interview, said: “There is no doubt that the JSE falls into the accepted definition of a monopoly.” This was a situation in which two or more persons with a substantial economic connection controlled the class of business they engaged in with respect to a given commodity. “The JSE constitutes a person in the legal sense of the word, while the commodity in question is share dealing,” he said.

Similarly, the JSE’s fixed pricing structure, as well as its proposed minimum fee for share dealing, amounted to price fixing or collusion in terms of Government Notice 861 of May 2, 1986. However, paragraph 8 of the notice excluded any person whose business operated under existing legislation – in this case the Stock Exchanges Control Act and rules.

“Monopolies are not always unlawful,” Brooks said.

On whether steps should be taken to investigate the JSE’s monopoly, Brooks said the only grounds for such a move would be complaints that the JSE was abusing its position or acting against the public interest.

“We have never received any complaints of this nature,” Brooks said.
Fedfood takes 83% stake in Patoma Foods

FOOD investment holding company Fedfood has expanded its interests to the processing, marketing and exporting of sub-tropical fruit and vegetables.

It bought an 83% interest in Patoma Foods for R9m. The price is made up of R6m in cash and R3m in existing Patoma shares.

Fedfood MD Jan du Toit said the cash will be used for essential extensions to present capacities and to finance operational assets.

"Patoma Foods is presently the largest canner of sub-tropical fruits and citrus segments in SA of which a significant proportion is exported."

"The range of products which are processed, positions the company to grow with both the burgeoning mass market as well as the sophisticated consumer market," said Du Toit.

"Excellent growth opportunities exist in all those products and synergies with existing Fedfood companies are obvious, which further influenced this investment decision," he said.

Patoma operates two factories at Kaapmuiden and Nkowankowa and has a packaging and distribution facility at Verwoerdburg.

The total market in which Patoma operates is worth about R550m a year. Patoma also controls 33% of the atchar market and 65% of the market for canned citrus segments.

"An investment in Patoma will make a contribution to the improvement of Fedfood's portfolio strategy and contribute positively to Fedfood's share earnings," said Du Toit.

The current top management structure and all the staff at Patoma will remain in place.
Slowdown takes mounting toll

By Michael Chester

The number of businesses forced to close down because of cash problems has climbed by more than 36 percent, compared with last year, as the slowdown takes its toll.

The latest count of business failures shows that 916 companies and close corporations were forced into liquidation in the first six months of the year, compared with 671 in the first half of 1989.

Information Trust Corporation chairman Paul Edwards says the trend is worsening.

The number of businesses forced into closure is moving higher as the recession drags on. In June alone it reached 195 -- the heaviest toll in a single month since 1987.

There could be worse to come.

Evidence that the slowdown had developed into a full-scale recession is underscored by official statistics showing that the economic growth rate was below zero for the third quarter in succession.

Company profits in general are under growing pressure and severe cash-flow problems widespread.

Business liquidations

Mr Edwards fears that the toll of business liquidations will increase over the next 12 months.

He says there is little prospect of a reversal of the recession until the middle of 1991 at the earliest.

"With the Reserve Bank relentlessly pursuing its tight monetary policies, businesses are faced with very high real interest rates coupled with declining demand. "

"They are being squeezed from both directions. "

"One would normally expect interest rates to drop at this stage of a recession, but Reserve Bank governor Dr Chris Stals is staring businessmen in the eye and refusing to allow rates to fall until money supply growth and inflation are under control."

There are now forecasts that the Reserve Bank will soften its stance over the next few months and allow prime interest rates to ease lower by perhaps two percentage points by November to relieve the worst of the pressure.

However, the mild cut would mean little to smaller businesses, whose loans are normally pitched up to five percent above the prime rate.

"For small business firms, the prognosis for the next six months is not good."

Often the root cause of severe financial strain is a weakness in the management of debt, leading to cash-flow problems.

"It's a tragedy to see businesses fail, even when they have a full order book."

"Unfortunately, it can happen, unless actual cash from sales finds its way into the bank."

"Sound credit and debtor administration is more vital than ever if many small companies hope to survive the current economic conditions," says Mr Edwards.
FUTURES & OPTIONS

SETTLING DRS (232)

Creditors will have to wait at least a fortnight to see what they salvage from the recent Davis Ralph Sadler (DRS) default. Provisional liquidator Syfrets says the appointed auditors will be reconstructing clients' accounts to determine the exact credit or debit position of each in relation to DRS.

In addition, a separate legal investigation is going ahead with the assistance of the attorneys of record, but Syfrets is unwilling to comment on the likelihood of clients and other creditors receiving any repayment.

Syfrets has taken control of a bank account containing R345,000 and a credit balance which, according to a circular from Syfrets, "appears to be held to DRS's credit by the clearing bank." The circular indicates a formal inquiry might be needed in terms of the Companies Act to examine the possibility of instituting claims against unspecified third parties.

Safex points out that it cannot be held responsible for other trades DRS might have done in instruments, such as options, which do not fall under its jurisdiction.
Unlike its competitor Merhold, which has diversified into other areas of financial services, GDM Finance continues to concentrate on providing trade-related finance from R100m Business is spread across a broad client base and a number of business sectors to alleviate risk. Household and consumer goods represent the largest portion of turnover, at 27%. “No one client represents more than 5% of receivables,” he says GDM does not define bad debts, but says in its annual report it “has not been unduly affected by client defaults.”

Because trade finance houses are in the borrowing and lending business, gearing is normally high. Cowper says GDM would like to keep gearing between 3.5:1 and 3.1:1 increased to 4:1 last year, mainly because of the Afship acquisition. Cowper expects gearing to remain around that level this year.

He forecasts the group will again achieve real growth. GDM is the best rated of the trade finance house on the banking board. The 4.9% and 8.3% yield compares with 3.7 and 11.7% for Reichmans and 3.7 and 9.7% for Merhold.
to comment on the likelihood of clients and other creditors receiving any repayment.

Sycrets has taken control of a bank account containing R245 000 and a credit balance which, according to a circular from Sycrets, "appears to be held to DRS's credit by the clearing bank." The circular indicates a formal inquiry might be needed in terms of the Companies Act to examine the possibility of instituting claims against unspecified third parties.

Sycrets points out that it cannot be held responsible for other trades DRS might have done in instruments, such as options, which do not fall under its jurisdiction.

FUTURES

SAFEX RULES, OK?

They were a long time coming, but the rules governing the SA Futures Exchange (Saifex) have been published (Government Gazette August 24) in terms of the Financial Markets Control Act 1999. Submission of objections close today.

Saifex's Bob Power says amendments are likely as the futures market evolves. Issues now being addressed are options on futures and syndicates.

Thinking is that a syndicate which is a legal entity will be treated like any other client. However, with an informal group there are two choices: either all members can be jointly and severally liable; or a leader will be chosen to be liable for the group as a whole. "The onus will be on members to approve the financial worth of the leader," says Power.

By the end of the year the tax and accounting implications should be clarified. Power reckons this will add liquidity to the market as investors would be better able to assess their financial situations.

Saifex intends to streamline dealings between its members and portfolio managers. By signing one blanket agreement a registered portfolio manager could act as agent for its clients with a Saifex dealing member.

The portfolio manager would have to operate on individually signed mandates from clients who agree that part of their money may be invested in futures. Margin payments would be routed through the portfolio manager to Saifex member. Client accounts will be kept separate.

"We hope to reduce paperwork and boost liquidity," says Power. "However, our concern is to ensure both client and portfolio manager are aware of the risks of dealing in futures. Saifex intends running seminars to educate potential investors."

What protection?

In the wake of the Davis, Ralph, Sadlerdefault, most new investors want to be clear on how they are protected. "There will probably be lessons to be learnt from that case," says Power.

Largely owing to the Gulf crisis, futures volumes peaked up during August and total contracts traded were 61% up on August last year. Power says this is above the original budget. Saifex's clearing fees were expected to run at about R280 000 for 60 000 daily trades August's 108 000 trades generated about R450 000.

Trading patterns have shifted since the market formalised in August. JSE brokers have shown the biggest jump in activity, moving from 7.5% to 27.4% (compared with average market share in the informal market to April) and futures brokers were up 2% to 30.5%. The rest slowed down during the same period. Discount houses from 14.6% to 3.6%, merchant banks from 41.6% to 33.8%, clearing banks from 1% to 0.3%, and institutions from 6.8% to 4.4%.

ECONOMIC EVOLUTION

NUTS AND BOLTS

The weakness in the present approach to economics, says British economist and former adviser to Margaret Thatcher, Sir Douglas Hague, is the tendency to look only at the big picture. This focus on macro-economics has prevented economists from looking more closely at the micro-structures of economies and the links between them.

"They aggregate too much instead of finding patterns within the aggregates. So we have very little notion of the structure of things and how they are related and your average UK university undergraduate has little sense of nuts and bolts."

A CBE, Associate Fellow of Templeton
Royal looking for real growth rate

Following a 38 percent hike in attributable income last year, Royal Corporation is looking for growth above inflation this year from existing businesses.

It will also be pursuing local and off-shore acquisitions.

Royal, previously Lovasz Chemicals, was reconstituted in March 1989 to incorporate the Royal Beech-Nut acquisition after disinvestment by RJR Nabisco.

Lovasz has been renamed Royal Corporation, and its listing transferred from chemicals and oil to industrial holdings.

Royal now has three major divisions - Royal Beech-Nut (food and confectionary), pharmaceuticals/chemicals (merged operations of Lovasz and Holpro) and Regency, the international division.

Group MD Doug Johnston says the group is looking at separate listings for wholly owned subsidiary Royal Beech-Nut (RBN) and the merged operations of Lovasz and Holpro.

Mr Johnston says RBN, which contributed 63 percent of group attributable profits in financial '90, will list when it makes an acquisition or when the market is right for a listing.

A listing of RBN in the food sector could give it a better market rating. Management believes a P/E ratio of 12 is possible in the short term.

RBN is looking for acquisitions, particularly in the UK confectionery business. With the strong brand names (trademarks are listed at R33 million in the balance sheet) it plans to take offshore, RBN would only need to acquire production capacity.

Exports from RBN’s SA operations will form another growth leg. In financial '90 exports were up 40 percent from a fairly low base.

Financial director Jacques Fransis is looking for even faster growth in exports.

Reason for optimism on the export front is that after the break-up of the RJR Nabisco empire two years ago, RBN can now trade in previously restricted markets.

RBN has established markets in the Middle East, the Far East and Europe where it is registering further trademarks and taking advantage of new opportunities in Eastern Europe.

Africa represents a major growth area, says Mr Fransis, but lack of foreign currency for non-essential imports is curbing trade.

On the chemicals side, management believes the integration of the Lovasz and Holpro businesses in March this year has led to improvements in operating efficiency and cost savings.

Despite difficult conditions, Mr Johnston says the medium-term outlook is robust.

However, the proposed listing of the merged operations has been delayed because of disputes with the sellers of Holpro.

The outcome of the dispute could lead to a material reduction in the purchase price.

Royal's international trading division started three years ago as a strategic purchase-type operation with offices in London, Hamburg and Atlanta, Georgia. But trading is fast becoming an important component of RBN, according to Mr Johnston.

Since Royal's first published results (1988), turnover (boosted by acquisitions) increased from R45 million in 1988 to R171 million in 1990 - a compound growth of 25 percent.

Operating income showed a compound growth rate of 115 percent over the same period from R3,9 million to R17,7 million.

Royal has a fairly low tax rate (11,5 percent in financial 1990), which is expected to apply in the foreseeable future because of assessed losses and the capital expenditure programme (R9 million this year)
JSE tightens rules for brokers in futures deals

THE JSE has tightened up on the way brokers may deal in futures and has reiterated earlier warnings on the need for all options on futures to be registered with the SA Futures Exchange (Safex).

The move comes just three weeks after the demise and subsequent provisional liquidation of non-JSE futures broking firm Davis Ralph Sadler (DRS) after it defaulted on an exposure of more than R1m.

Market sources, including two JSE brokers, said a circular was issued on Monday instructing JSE broking staff dealing in futures to pay margin — about 10% of contract value — on the day a contract was entered into.

It is understood that previously payment could be settled within 24 hours.

A second circular apparently reminded JSE brokers of the importance of registering all options on futures with Safex.

The JSE would not comment on the measures, saying they were an “internal matter.”

The result is that JSE broking staff wanting to take short-term speculative positions — for example, to enter a futures contract in the morning and close it out before close of trade — will now have to pay margin up front.

A futures trader said there were such “punters,” inside and outside the JSE, who played the futures markets without ever putting up full margin.

He likened it to the common practice of buying and selling gilt or shares within the so-called account period — before the day settlement has to be made.

The JSE reminder to register options on futures with Safex stems from options being over-the-counter instruments with full counter-party risk.

Registration affords some degree of protection, although this will be completely in place by about July 1991 when such options should be fully regulated by Safex.

Meanwhile buyers must beware, as illustrated in the DRS default, where DRS clients who had options on futures were unable to look to Safex to guarantee contract performance.

The JSE was not immediately able to comment yesterday on whether its guarantee fund was sufficient to cover liabilities that might arise as a result of a default of one or more of its members.

The fund stands at R46m, compared with about R46m last year when JSE brokers were virtually absent from futures. Today, they account for about 25% to 30% of the turnover. JSE brokers accounted for 27% of the 107,000 contracts, worth R2.3bn, traded in August.

Meanwhile, market talk suggests that the DRS default has had a dampening effect on futures trade.

Former DRS clients, who had open futures positions, are still waiting to be paid out. Some said DRS clearing CIB Clearing had said they would be paid only the initial margin and not any additional margin they might have had at DRS.

Jack Crook of Syfrets, the DRS liquidator, said in a letter to all known creditors this week that it was not possible for him to comment on the likelihood of claims and other creditors receiving “any form of repayment” with regard to their claims.
**Building empire from scratch**

By JOHN VIJJOEN
Staff Reporter
MULTI-millionaire founder of the Pepkor Group, Renier van Rooyen, believes a single-minded determination, coupled with family enterprise, is the key to business success.

Renier, who now lives in Estoril, Portugal, returned to Upington, “where it all began” for recent celebrations marking the 50th anniversary of retail giant Pep Stores.

Starting with only one general store, he created an empire that, today spans 1 000 outlets,irteen years, the chairman in March 1981, handling the reins of a long-standing friend Christo Wiese.

“My recipe (secret for success) is quite straightforward,” said Renier, the unarguable success story. “You must select a market, know the product you are selling and you must believe in what you are doing. Then you must be prepared to be single-minded, and to work day and night.”

“My family and I have always enjoyed a good Arabian coffee.”

Renier was born on November 26, 1912 in Kenhardt in the North West Cape.

After matriculating in 1930, he joined the Upington office of the Receiver of Revenue.

Dissatisfied with the poor wages he was paid and the low sales, he joined the Tungsten Mines as an Associate Manager and later on became a partner.

In 1955 Renier bought a half-share of a small general dealer in Bridge Street, Upington. The 100m² store stocked second-hand furniture, iron pots, donkey carts, bicycles, groceries, patent medicines and some low-priced clothing.

When, in 1956, it became a paying proposition, Renier bought out his partner for R2 200 and decided to specialise in clothing.

“I thought I saw a clothing opportunity in the platteland and changed my merchandise I experimented and found what became the forerunner of what is now Pep Stores.”

Renier established the Bargain Shop in February 1957, with the aim of selling clothing profitably, but at prices lower than those offered by any other store.

In 1959, he formed a second company, Upington Volkswagen, to deal exclusively in clothing at discount prices. The two were merged in 1960 and renamed Bargain Store.

This proved an immediate success, and at this time Renier’s son, Balthazar, and his brother Gert joined the venture. Progress was rapid and branches opened in Kuruman, De Aar and Port Nolloth West.

By the beginning of 1966, the business comprised a lively group of four stores trading as BG Bazaars.

In July 1967, the company was ready to launch a chain store enterprise incorporating existing family businesses but with expansion assisted by people prepared to invest capital and to work for the group.

Pep Stores was registered, based on the proven formula of the original shop, and backed by Renier’s intensive personal experience of the previous 10 years.

Unfortunately, some of the men with the biggest mouths got cold feet, and some of the big money talkers were without substance. My family’s commitment to the idea was, however, complete.”

During the six months to February 1968, the company lost R8,676 but from that day on profits have been made every year.

On a single day in 1971, Pep opened a staggering nine shops. By the end of that year the total number of stores increased to 115 and turnover to R12,6 million.

Disaster struck when a Pep warehouse was razed by fire, resulting in financial loss of more than R1 million.

On June 7, 1972, Pep Stores became a public company through the listing of 350,000 shares on the JSE.

An intensive expansion drive and major acquisitions followed - first the Half Price chain of 20 shops; in May 1979 the Shoprite chain, in March 1984 the Ackermans chain, and in June 1986 Grand Supermarkets, adding a further 27 outlets to the Shoprite chain.

Renier’s decision to emigrate in 1981 made front-page news and was linked to prevailing economic pessimism. “It was a totally personal decision - I love to travel and I had to legalise my position so that I could have an income overseas.”

**Remove the pressure**

“I also left to remove the pressure of people trying to draw me back into business. It had nothing to do with economic circumstances here at the time and I had no intention of doing business overseas.”

“I wanted to be able to relax, to feel free and not bound by any restrictions.”

“Renier, the man who set up home in Estoril - it has a perfect climate, and the Portuguese are nice, responsive, warm people. I plan to live there for six months of each year, and to travel. But I’ve turned my back on this country. I will always be South African - I’m at my happiest when I’m in the platteland.”

Renier, who holds 11 directorships, is optimistic about the country’s economic prospects. “I like what I see. I see no fear for a bit. I see a new government, as long as it is truly capable. I have confidence in the African people that we will find each other.”
CONCOR was the pick of the bunch in this week's results. On an 18% climb in turnover, pre-tax income jumped by 16% to R15.3-million for the year to June. Earnings a share almost doubled to 46c and the dividend was lifted by 6c to 18c. The directors say the second half was better than forecast because of the "favourable finalisation of certain large contracts and strong performance from all the divisions." They foresee a difficult trading year, but are confident of maintaining earnings.

Fraser Alexander also spoke in the year to June the mining and materials handling specialist made 24% more profit from a rise in turnover of 22% to R215-million. Earnings a share rose to 155c and the dividend was lifted 21% to 46c.

Management regards the performance as satisfactory, given the tough conditions it reports a sharp drop in activity in some divisions and expects the current year to be more difficult than any of the past five.

But the directors hope to weather the downturn without a large impact on earnings, services or commitment to staff. The share price is steady at 1.225c.

Suppliers' cost increases of well above the inflation rate squeezed margins at Gypsum in the year to June. Sales growth of 13% to R106-million resulted in a 15% rise in earnings to 101c a share, and the dividend was raised 10% to 60c.

Crown Foods suffered a large decline in profitability. Sold by Murray & Roberts in 1987 and billed a high-quality lighting, Crown's performance has hardly been a royal one. In the year to June its earnings fell by 39% to 7.6c a share from a small reduction in turnover.

The directors say trading will continue to be difficult, but expect an improvement in earnings.

Companies reporting interim figures were a mixed bag. Top of the pile was clothing retailer Bergers in the six months to June it boosted attributable income by 38% to R3-million from the same incremental climb in turnover to R22.6-million. Four months of trading by the Hilco Werner company are included for the first time, and some have made a successful debut.

The group has opened a shop in Blantyre in partnership with a Malawian company.

Pennyfarthing's pre-tax earnings climbed by 5% to R3.3-million in the six months to June. It raised R10-million in a rights offer in June and aims to bring down gearing further. The interest bill grew by more than 76% to R1.2-million — about a third of operating income.

Underpants were down at Merilees, which lost nearly R1-million to June. Domestic sales made modest money, but losses were incurred on exports and the interest bill of R1.6-million was almost double the operating profit.

Angold's interim earnings and dividends to August were predictably 29% lower because of reduced dividend income from its porthole of gold shares.
South Africa's postal and telecommunications systems will not be privatised, according to Postmaster-General Johan de Villiers.

Mr de Villiers made the announcement in a television broadcast yesterday in which he sketched out the plans for dividing SAPF into two State-owned companies.

Telkom SA is the new name for South Africa's telecommunications system, and the postal system will be known as Sapos.

Mr de Villiers said because of the diverse activities of telecommunications and postal operations it was necessary to separate the two undertakings.

He said telecommunications were capital-intensive while postal services were labour-intensive.

Dividing posts and telecommunications and managing each according to its needs and characteristics would result in greater efficiency, he said.

Mr de Villiers said draft legislation had been presented to Parliament, to make provision for the department to be converted into two public companies.

"According to this proposed legislation, the State cannot sell shares in the companies. There is thus no question of privatisation."

Mr de Villiers said boards of directors for the two companies would be appointed before the forming of the companies.

He said that before the companies were founded, regulations would be issued which made provision for the forming of a collective-bargaining forum for each of the companies.

The company and the recognised staff associations and trade unions would have equal representation on the bargaining forum, Mr de Villiers said.

He gave the assurance that all staff benefits were protected in the draft legislation.

Service conditions would not be less favourable than the present ones, and no staff member would be retrenched as a direct result of restructuring.

—Sapa
Giant new retailing group in the offing

By Ann Crotty

Tradehold, which has a 54.6 percent stake in Tradegro, reported turnover of R7.3 billion and operating profit of R155 million

Pepgro, which has a 58.2 percent holding in Pepkor, reported turnover of R1.5 billion and operating profit of R134 million for the 12 months to end-February

The acquisition of Grand Bazaars (via Shoprite) will lift turnover to around R2 billion

In the absence of comment from either Sankorp or Pepgro, speculation is that the plan may involve the merger of the two groups into one company, which would hold the operations of Tradegro and Pepkor.

Given the general antipathy to pyramids, it is likely that instead of creating another company to hold Tradehold and Pepgro, the latter would be merged into the former, with Tradehold shares being issued in exchange for Pepgro shares

Pegro chairman Christo Wiese and the other controlling shareholders of Pegro would presumably convert their shares in Pegro to a stake in an enlarged Tradehold

And Sankorp, which currently holds 68 percent of Tradehold, would then have a smaller percentage of the larger company

A deal of this nature means that cash payments by one controlling party to another would not be involved

This means that minority shareholders in Pegro would be offered shares in Tradehold, which may or may not be underpinned by a cash offer

Because of the disparity between the profit performance of the two groups, which is reflected in a much higher market valuation for Pegro, it is likely that the deal would be done on the basis of net asset value and not share price

Tradehold is currently trading at 70c, which is a P/E rating of nine times and a dividend yield of 7.1 percent (for June figures)

Pepgro is trading at R23.50, which reflects a P/E of 7.5 times and a dividend yield of 3.7 percent (for February figures)

But Pegro’s share price represents a massive premium on its net asset value of around 58c a share

By contrast, Tradehold’s share price is at a discount to its net asset value of around 188c a share

At this stage, establishing the size of the merged entity in terms of shareholders’ funds (and the percentage the two main players would have) is complicated by the existence in both companies of debentures and convertible instruments.

The potential downside of the deal is the size of what is being created

It may turn out to be an unmanageable monster and if Mr Wiese gets actively involved in trying to manage it, Pepkor might suffer from an inevitable reduction in attention

This fear seems to be based chiefly on the damage that Checkers is believed capable of inflicting - with Metro and other trouble spots in Tradehold regarded as being manageable

Emphasis on decentralisation into viable units seems the only way of avoiding the danger of a monolith.
'SAPT will not be privatised'

PRETORIA — SA’s Postal and Telecommunications (SAPT) systems will not be privatised, according to the Postmaster General Johan de Villiers.

De Villiers made the announcement in a SABC television broadcast yesterday in which he sketched the plans for dividing SAPT into two state-owned companies.

Telkom SA is the new name for SA’s telecommunications system, and the postal system will be known as Sapos.

De Villiers said owing to the diverse activities of telecommunications and postal operations it was necessary to separate the two undertakings.

He said telecommunications were capital-intensive while postal services were labour-intensive. Dividing posts and telecommunications and by managing each according to its own particular needs and characteristics, would result in greater efficiency.

De Villiers said draft legislation had been presented to Parliament to make provision for the department to be converted into two public companies. The state would own the companies.

"According to this proposed legislation the state cannot sell shares in the companies. There is thus no question of privatisation."

De Villiers said boards of directors for the two companies would be appointed before the forming of the companies.

One of the board members would be appointed MD of the company concerned and would act as chairman of that company’s management board.

He said before the companies were founded, regulations would be issued which made provision for the forming of a collective bargaining forum for each of the companies.

The company and the recognised staff associations and trade unions would have equal representation on the bargaining forum, he said.

The forum would have an independent chairman. The management board of each company, with permission of the board of directors, could change conditions of service.

Salaries and wages, fringe benefits, allowances, leave and pension, could not, however, be changed without a process of collective bargaining.

De Villiers gave the assurance that all staff benefits were protected in the draft legislation.

Service conditions would not be less favourable than the present ones.

No staff member would be retrenched as a direct result of restructuring, he said. — Sapa
JSE, banks differ on gilts clearing

THE JSE is pushing hard to convince Registrar of Financial Institutions Piet Badenhorst that the entire gilts market should use the JSE's Gilts Clearing House (GCH) — in the face of strong resistance by the banks.

Bankers were shocked to learn Badenhorst could decide to go against the recommendation by the Financial Markets Advisory Board to ditch the JSE's system. The market had initially assumed that the implementation of the board's decision was a mere formality.

Regulation

But Badenhorst, who recently held two meetings with representatives of the banks and the JSE, said yesterday: "It will be a tough decision based on what is in the best interests of the market." He could not indicate when a decision would be reached.

At the centre of the issue is the formalisation of the gilts exchange — the Bond Market Association (BMA) — which cannot take place until a clearing system is in place. The banks maintain the GCH is an inadequate system and the regulation of the exchange should wait until a proper system is in place.

But JSE GM Darrell Till said: "The JSE is not promoting the GCH as such. What we want to see is a regulated market and that cannot occur until a clearing system is in place. The postponement of the formalisation of the BMA until a new system has been developed could mean another year or more of an informal gilts market."

As a gesture to the banks, the JSE has dropped the clearing price per transaction for non-JSE members to R13 from an initial R20. However, JSE members would continue to pay R25 if the GCH is used — a plan which has triggered unhappiness among some brokers.

Till said: "We do not like keeping the playing fields unlevel but because we are keen to see a formal market, we are prepared to lower the cost of clearing to draw the other players."

He added that the JSE would not allow non-JSE members to deal on the gilts floor until the market was regulated.

But the banks said the status quo had worked fine for years, and waiting a little longer until a more acceptable clearing system had been developed would do no harm. The lowering of clearing costs had not convinced them to fall in with the JSE's plans as they believed the GCH was fundamentally inadequate. The feeling among dealers at banks, who did not want to be quoted, was that the JSE's main interest was revenue and not the market.
Capital market rates drift higher as investors keep to the sidelines

CAPITAL market rates have drifted higher recently with inflationary and political fears keeping big investors out of the market.

The key Escom 168 rose above 16% for the first time since mid-July yesterday and continued low volumes. It has slipped 25 points since its August 22 level of 15.74% to yesterday's 15.09% close.

Volume last Friday totalled £2.24bn, well down on volumes in excess of £1bn in early August.

Analysts say one of the problems is a lack of clarity over inflation, which they say is set to lose its downward momentum as a result of the fuel price increase.

Market fears that another fuel price hike is on the cards is also depressing market fundamentals.

Gold's lacklustre performance over the past few weeks has been another factor stunting bullishness and dealers say little trust is put in a surging gold price because of the dramatic declines that have followed the jumps.

"The longer-term fundamentals are still good," a senior trader says, "but the market is caught between the possibility of a Bank rate cut and the inflationary implications of the petrol price rise."

The violence in the townships has also depressed sentiment as fears of a breakdown in the peace initiative and flagging foreign interest escalate.

Sentiment has been somewhat more bearish on government stock than on the E168. The differential between government's similar-dated long stock and the E168 widened to more than 51 points last week amid speculation that government would come to the market for an even larger amount than the £1.2bn indicated earlier this month.

However, a Finance spokesman said it was not yet certain the full £1.2bn increase in the financing requirement would be borrowed in the giltz market. Government was hoping for income from privatisation and its pension funds, the Public Investment Commissioner, could also provide additional finance.
Spareco has deals for R4-m, court told

By Cathy Stark

An urgent application launched by brake manufacturers Ferodo (Pty) Ltd for the provisional winding-up of Spareco Holdings Ltd was postponed until tomorrow after Mr Justice M M Joffe heard argument in the Rand Supreme Court.

Yesterday the judge heard that Spareco was still supplying to send agents into Spareco's 24 outlets and hold all movable assets.

The application for provisional liquidation follows three applications on September 4 by three banks, which each had notarial bonds Ban-

korp Ltd, (formerly Trust Bank), First National Bank and Alpha Bank were allowed

Payment for Perodo's application. They

are Payen Components, who are owed R277 763, Harpo Gaskets R73 119, A E Engine Parts R49 183, Auto Parts Marketing R49 264, and Velo-
tol-Parks R137 397.

Izar, SC, for the applicants, said they had been told there was "only limited trading" at the branches which the banks had locked but it was not known how much of the

R4 million contracts were being fulfilled.

D Fine, SC, replied that if the applicants could prove from invoices that it was their

goods which had raised the money being put in a special bank account, they could bring an action for damages.

The judge postponed the matter until tomorrow. Costs were reserved.
Rules on mergers, takeovers gazetted

SA yesterday moved a step closer to major financial markets abroad with the gazetting of draft rules which will eventually govern takeovers and mergers.

The regulations were drafted in terms of the Securities Regulation Code on Takeovers and Mergers, which emanated from the Securities Regulation Panel chaired by Mr Justice Cecil Margo.

The code is described in the Government Gazette as “based to a large extent” on the code on takeovers and mergers issued by the London panel on the subject.

To date, the lack of such rules and the ambiguity about what constitutes control have resulted in predator companies being able to acquire sizeable share stakes in target companies without having to make an offer to minorities.

In markets such as the UK, a predator company must, under established rules, launch a full bid for a target company once its share stake exceeds 29.9%.

The draft rules will operate “principally to ensure fair and equal treatment” of all holders of relevant securities involved in a takeover or merger and lay down under what conditions a offer must be made.

A level of 30% or more of the voting rights of a target company will constitute control as defined in the gazette.

Accordingly, when any person ends up with 30% or more of the company’s voting rights — whether by a series of transactions or otherwise — he must, unless the panel rules otherwise, extend offers to “any class” of equity capital holder, voting or non-voting.

Offers will be “for the same consideration or be accompanied by a cash alternative at not less than the highest price paid by the offerer or any person acting in concert with it for securities of that class within the preceding 12 months”.

The board of the target company must not take any action that might frustrate holders of the securities or deny them the chance to judge the offer on its merits.

Recently, Anglo associate Minero accused the board of UK mining group Consolidated Gold Fields of doing just that during the failed 1986 takeover battle.

On the key issue of secrecy — and by implication insider dealing — all persons concerned in an offer or contemplated offer shall “conduct themselves so as to minimise the chances of an accidental leak of information”.

The rules are now open for comment and will be submitted to the Ministry of Trade and Industry for approval.
Regulatory code for timeshare salesmen

MARIETTE DU PLESSIS

The SA Property Owners' Association (Sapoa) had adopted measures for better discipline and control within the industry, timeshare division chairman Brian Stocks said.

Certain regulatory measures, such as the recent introduction of the diploma in timeshare sales principles, were deemed essential to upgrade the standard of expertise and professionalism of timeshare salesmen.

In addition to the diploma — which would qualify salesmen to sell timeshare on behalf of any member of the timeshare division — salesmen employed by members of the division were required to register with the association.

Salesmen operating as agents or brokers and employees of organisations who develop and sell their own timeshare must have passed either the Estate Agents Board examination, or the association's examination to qualify for registration.

"In future, members of the public who are interested in buying timeshare will be able to insist on dealing only with salespeople who are specifically qualified to sell timeshare," Stocks said.

The diploma, of which the first examination had already taken place, was developed by the association in conjunction with Wits University's Department of Building and the Human Sciences Research Council, he said.

Commenting on the latest Sapoa rulings, Riviera project developer Rodney Epstein said: "The stage has now been reached where, if an organisation is not affiliated to the association, buyers will want to know why.

The association's timesharing members were carefully vetted for both financial strength and standards — and if an organisation could not meet their demands it was likely to be suspect.

The association would print brochures and run television and Press advertising stressing the advantages of a timeshare developer being an association member.

These notices would also summarise the association's code of ethics and warn timeshare buyers of loopholes they should beware of before signing for a purchase, Epstein said."
Application for Spareco liquidation

AN URGENT application for the liquidation of Spareco Holdings Limited, brought in the Rand Supreme Court yesterday, will be heard tomorrow unless a solution to the company's financial crisis is found.

Ferodo Pty Ltd, yesterday applied to have the company wound up immediately, but after hearing argument Mr Justice M Jaffe decided that the application would be heard tomorrow.

'Advocate Dennis Fine SC for Spareco asked for the postponement because he said company representatives were negotiating the injection of R10m in share capital into the company to satisfy creditors.

In an affidavit placed before the court yesterday, Ferodo's regional GM Milford Areington said that an amount of over R200,000 was owed to his and other companies, overdue for payment.

Alpha Bank Ltd, First National Bank of SA Ltd and Bankorp Ltd were authorised last week to hold all Spareco's moveable assets after alleging that Spareco owed the banks a total of over R6m.

Since this court order was granted, Spareco's 24 branches were to have remained locked and not have been open for trading. But Areington said he had been advised that by special agreement the company had continued to supply goods to the Johannesburg City Council and Sasol.

'Advocate Manny Zar, acting for Ferodo, argued that the capital gained from the sale of Ferodo's products would form part of Spareco's assets on liquidation, and that Ferodo would only be a concurrent creditor in respect of this capital.
Police probe Arontex share transactions

THE inquiry into certain share transactions in liquidated clothing company Arontex before its suspension on the JSE in March has been referred to the police commercial branch, Registrar of Companies Monique van Rensburg said yesterday.

JSE equity market GM Richard Comelian refused to comment yesterday.

More than 1,2-million Arontex shares changed hands during the last week of trade before its suspension on March 22, after its provisional liquidation in the Pretoria Supreme Court the previous day. This compared with a previous monthly volume of 140 000 shares.

Meanwhile, an investigation into the affairs of Arontex in terms of the Companies' Act should be completed in November. Ernst & Young, liquidator Lloyd Spendiff, said yesterday.

Although he declined to give details, he said all assets were sold in July by public auction. Spendiff said Lara’s, flagship of the group, was sold to a nominee company.

A Business Day investigation of the share transactions showed that Jorn Ryckebusch, one of the company’s directors, sold 800 000 shares, and Yvonne Rossel (not a director) sold 380 000 shares to Kayness Nominees. The Kayness deal, which took place after March 15, resulted in it increasing its holding from 0.2% to more than 10%. On March 15 the share price dropped from 13c to 4c, after a high of 46c last June.

Arontex Holdings and subsidiaries Lara’s, Supergear, Personality and Roots were liquidated. The court put major operating company Lara’s liabilities at R18.6m and realisable assets at R4m.
term funds borrowed from other central banks and used to ease the burden of mid-year debt repayments.

CONFIDENCE INDICES: HOLDING UP

With the Middle East crisis, fears of slower world economic growth, increased township violence and a slowing economy, the business confidence index (BCI) is holding up remarkably well. The index, compiled by the SA Chamber of Business, fell to 91.8 in August, down only slightly from 92 in July.

Still, there were a number of strongly negative notes among the indicators, including an increase in number of unemployed of all races, fewer new companies registered and falls in manufacturing production, exports and new car sales.

These were largely offset by a rise in the dollar gold price, a slightly stronger rand and

overall JSE index, a decline in consumer price inflation, and increases in retail sales, the real value of building plans passed and merchandise imports.

Chamber economist Keith Lockwood says hopes are being buoyed by the continued easing in inflation, as well as the prospect of imminent cuts in interest rates, but adds that the unresolved Gulf crisis and continued SA political violence could lead to sharper declines in business confidence.

Confidence in the manufacturing sector also remains uncertain. According to the chamber's August survey, most manufacturers expect a decline in production volumes in the next 12 months, while sales are expected to remain static (see graph). Businessmen are taking a wait-and-see attitude.

Sentiment varies among the regions. Respondents in Durban and Cape Town were fairly optimistic, possibly because of a concentration of consumer goods industries in those areas. Meanwhile, Port Elizabeth manufacturers were sharply more pessimistic, in part due to last month's riots, as well as prospects of lower sales and continued labour unrest in the motor industry.
Comments called for on draft takeover code

By Des Parker

The Securities Regulation Panel's draft code on company takeovers and mergers, published in the Government Gazette, is expected to attract considerable response from the major share-owning institutions and stockbrokers in the month allowed for comments.

The panel is chaired by Mr Justice Cecil Margoff and has 12 members drawn from the ranks of merchant bankers, organised commerce and industry, insurers, brokers, accountants, lawyers and the public service.

It will consider proposals and submit them with the draft law to Deputy Trade and Industries Minister Theo Alant in the second week of October.

Mossie van Rensburg, Registrar of Companies and member of the panel, said there was considerable urgency behind legislation of the code and its rules, and he hoped the Government would be able to gazette them by December.

The code, which has put players involved in securities deals on their guard in recent months, is based extensively on the City Code on Takeovers and Mergers used by the London Panel on Takeovers and Mergers.

While it has been widely welcomed as being in the best interests of small and minority shareholders, there has been criticism.

University of Cape Town School of Business Economics director Brian Kantor said at a recent seminar that outlawing insider trading interfered with the relationship between controlling and minority shareholders and was thus harmful to the economy.

The international trend towards greater protection for minorities was politically motivated.

However, he believed controlling shareholders were invaluable in disciplining managers and were, therefore, vital to the economy.

PLAY ROLE

"It is important that they play that role and that we don't interfere with the rewards for playing that role," he said.

"Insider trading may be one of those rewards."

"If insiders are trading you can be quite sure the price is the right price. All information should be in the market."

An explanatory note with the draft code says: "It is not the function of the panel to judge the commercial advantages and disadvantages of affected securities."

"These are matters for the holders of the relevant securities in the offeree company."

While the panel will not concern itself with "competition policy", it will take note of relevant rulings of the Competition Board."
Court to hold the group's stocks for the purpose of "protecting its security in terms of a notarial bond."

Should these negotiations fail to reach fruition, Les Cohen of West Trust apparently was waiting to step in as liquidator of Spareco. Another application for liquidation was brought by smaller creditors on Tuesday but judgment was postponed to Thursday, pending the outcome of negotiations.

Spareco MD Graham Walker told the *FM* he was anxious for the banks' negotiations to succeed because he "wanted to open Spareco's doors for business on Wednesday morning." One concern is the banks have placed agents at the group's 24 retail branches, "so that possession of the company's movable assets could be handed over.

Market sources believe Midas, another spares group, was the most likely candidate to strike a deal with the banks. Midas director Sarel de Vos indicated a Spareco takeover could make sense at the right price but he would not comment further.

Speculation on possible takeovers was rife earlier in the week and many potential candidates were cited. Alan Schlesinger, MD of the FSI Corp subsidiary, Teamcor, says his group had told the banks a price at which they would be willing to negotiate but he regarded the prospect of an agreement as "close to zero," as others had apparently pitched offers at far higher prices. An unnamed foreign investor is also said to be involved.

Murray & Roberts subsidiary TMS has also been mooted, but financial director Lionel Bird denies it is interested in acquiring Spareco. Similarly, Sankorp MD Marnus Daling denies any interest on the part of Federale Volksbeleggings. The response was the same from Imperial Group.

Analysts believe many of Spareco's problems stemmed from a clash between chairman Chris Stadden and former MD Errol Wucherpfennig, who was appointed MD in November 1988 and resigned on February 5 this year. Wucherpfennig then got involved in S Silver, a spare-parts warehouse operation.

The accounts for the six months to end-December — the last to be published — indicated Spareco was heading into difficulties. Trading profit fell sharply, EPS was halved and dividend passed. 

Gerhard Slabber
AVI profits soar to break new records

BRENT MELVILLE

Anglovaal Industries (AVI), following four years of breathtaking growth, has managed to shrug off a R160m (R44.6m) interest bill to report sustained growth for the year to end-June.

All of the group’s five business sectors contributed to the 28% rise in bottom-line earnings to R207.6m (R184.6m), although increased share capital of 22.25-million shares (25-million shares) diluted earnings to a 12% rise at 733c (657c) a share, from which a dividend of 135c (120c) was declared.

At its current share price of R61.50, off its August 12-month high of R86.60, the results put AVI on a price-earnings ratio of 8.4 times and a dividend yield of 2.2%.

The 42% turnover rise to R5,5bn (R4.6bn) places the group well within the top 10 companies in SA in terms of pure sales.

Pre-tax profit moved up 32% to R313m (R247.6m), with an additional R56.4m (R48.8m) being chipped in from investments.

Chairman Basil Hersov said the adverse business conditions, including high interest rates and reduced consumer spending, curtailed business performance, particularly over the last six months.

In the group’s construction and electronics division, Grinalter Holdings put in a strong performance, following the restructuring of its electronics interests into Grin-

Tek last July. Hersov said Grintel had performed exceptionally, especially in export sales.

Diversified businesses showed growth ahead of the inflation rate, although Hersov said market demand for textile products had declined appreciably in the second half. A mediocre performance in AVI Diversified Holdings was attributed mainly to a poor performance by Claude Neon which lost experienced sales staff who set up an opposition company.

Following the reorganisation of its grocery operations in March, the Dry Food & Beverage division, under the auspices of...

AVI profits

From Page 1

National Brands performed strongly towards year end, Hersov reported.

The star performer was Beekelts, the tea, coffee, breakfast cereals and soft drink marketer, although fast-food outlet Wimpy also showed good profit growth.

Pizza Hut sustained a substantial loss.

National Brand’s 16.2% interest in Cadbury Schweppes rose 38.5c to R108.2m.

In the group’s packaging and rubber division 55% controlled Consol achieved a 40.4% rise in earnings. At the start of the year Consol combined Tycon (which it acquired last July for R176m) with Tredco.

Hersov described Tycon’s first-half profits as “insignificant” because of the 11-week strike linked to the former American parent’s disinvestment. He said production was near normal in the second half and performance had improved.

Consol increased borrowings dramatically over the period as a result of the Tycon acquisition and the installation of a glass furnace at the Clayville factory, contributing to a group gearing of 31% (30%) on interest bearing debt of R211.6m Long-term borrowings were up to R300.2m (R226.4m).

Capital expenditure for the group to June was R232.2m (R225m), and capital, amounting to a further R107.4m authorised. During the year the group made a provision of R10m in its investment in associate Control Instruments against its carrying value.
Safair request tests deregulation laws

SAFMARINE's aviation company Safair has applied to the National Transport Commission (NTC) for non-scheduled passenger and freight flights in competition with SAA on all its domestic and international routes.

Observers say this is the first real test of the new legislation allowing for a deregulated air transport industry.

SAA and Trek Air, both of which operate scheduled international flights, have indicated to the commission they intend opposing the application.

Safair MD Braam Loots said yesterday Safair held a licence to operate non-scheduled passenger and freight services worldwide except on routes already operated by SAA. The application requests the SAA clause be dropped.

The new Air Services Act allows only for the deregulation of domestic routes; international routes are still governed by the clause which restricts competition on economic grounds.

Meanwhile, Trek Airways has become the first airline formally to apply for a licence to fly scheduled domestic routes in direct competition with SAA.

According to the September 7 issue of the Government Gazette, it has requested a licence to fly scheduled passengers and cargo on four daily return flights between Johannesburg and Cape Town, and Johannesburg and Durban; one daily return flight between Johannesburg and Port Elizabeth, and Johannesburg and East London; two daily return flights between Durban and Cape Town; one daily return flight between Johannesburg and Bloemfontein, and Cape Town and Bloemfontein.

Trek Airways will use Luxembourg-registered 747-SFs on the routes, according to the gazette.

A commission spokesman said both applications were expected to be heard on October 8 at a scheduled meeting of the commission in Pretoria.

In another development, SAA has formally applied to the commission to fly a scheduled route between SA and Madagascar. Landing rights in the former French colony were recently granted to SAA following the signing of a trade agreement between the countries' presidents.
GOLD put up a reasonably good showing, but nothing seemed to be able to stir up market activity.

It looks as though the attention of investors is currently concentrated on local events and not too many people can afford the luxury of keeping a close eye on the Middle East.

Fortunately, there were a few deals on the go and this seemed to stop Myles from applying for early retirement.

Talk of the Tradehold/Pepgro deal has generated mixed response, but it seems investors reckon any tie-up between the two will do more for Tradehold than for Pepgro.

Myles hears that at this stage it looks as though a merger between the two would leave Christian Wiese's camp with the major stake — and presumably management control.

Mid-week there was a flurry of speculation that a deal had already been done — independent of the Pepgro negotiations — which would take Checkers out of Tragedro.

Myles is adamant that this sort of talk is completely unfounded — there is no separate deal for Checkers. If a deal is done with Pepgro, Checkers will be part of it.

Seems from the initial discussions that the two management teams should get on quite well as the Pepgro team are quite supportive of the actions being taken by Checkers management to turn the monstrosity into a money-spinner.

Checkers' Sergio Martinez says he would be more than happy with a deal with Pepgro.

It's likely to be a couple of weeks before something firm develops. Meanwhile speculation mounts about Mr. Wiese checkening out before a deal is finalised. Myles thinks not.

Pichel's Union Wine has moved ahead on speculation that there are negotiations to take over the company.

It seems the other party involved in negotiations is Graham Beck (of coal and racehorse fame).

Myles thinks this may be a first step towards trying to extract wine from coal.

Alternatively, Mr. Beck may just be planning an asset strip — selling off the wine farm, Picard's bottle stores and Union Wine facilities.

If a deal is done, it's likely to be struck somewhere between net asset value of 250c and the market price of 65c.

But Myles warns that anyone tempted to buy any of the 10 percent shareholding that's on the market, should be reminded that negotiations could go either way.

Then there's the FSI restructuring. Amazingly, Myles could get no gen on this front except that the major institutions seem to be quite happy with the latest scheme. Final details are expected to be announced next week.

The Bankorp share was reasonably heavily traded, closing at a weaker 270c.

Divergence of opinion continues on this front, with almost half the punters indignant about the massive write-offs, the cost to Sanlam policyholders and the lay-off of staff. The other half believes it's a great recovery stock.

While some believe the write-offs should have been closer to R1 billion, others argue that Mr. Liebenberg has been so cautious that write-backs are sure to provide good profits over the next few years.

Myles reckons that if the latter is the case, Mr. Liebenberg will be sure to highlight it — in line with his more open disclosure policy.

If Bankorp is going to call up all these bad/doubtful debts, it might do more to slow down the economy that even Chris Stals and the Reserve Bank could achieve.

Still no news of the white knight who is going to rescue Spareco... but any day now.

Institutional investors are apparently very disillusioned with Marlim; understandably, as this share was seriously punted a year or so ago.
Frantic bid to save ailing Spareco

FRANTIC negotiations took place over the weekend in an attempt to save ailing motor spares distributor Spareco before tomorrow's hearing in the Rand Supreme Court.

An urgent application for Spareco's liquidation was postponed for the third time -- until tomorrow -- at a hearing in the Rand Supreme Court on Friday.

Ferodo -- which brought an application for the winding up of Spareco last Tuesday -- was supported in attached affidavits by two other creditors, owed R50 000 between them.

This followed a successful application last week in which three banks were authorised to hold Spareco's movable assets, and the company's subsequent suspension from the JSE.

An undertaking for postponement was noted by Mr Justice Joffe after Advocate Dennis Fine SC argued for the banks that protracted negotiations were under way.

An offer had been acceptable to three of the banks. However, a counter offer was made by Bankorp.

Advocate Manny Zar SC, acting for Ferodo, argued creditors were trying to postpone to gain advantage, and were unwilling to divulge the details of the compromise under negotiation.

The offer is believed to have been made by a "German businessman" in Singapore, but the terms of the offer were not disclosed.

Zar argued the banks had perfected their security, and the offer was aimed at the concurrent creditors. He added the offer of compromise could be made during liquidation.
Clearing house ultimatum

PROMINENT players in the gilt market have told the Bond Market Association (BMA) they will pay the full R5 000 a month membership fee on condition that the JSE's gilt clearing house is ditched. The BMA, which will become the gilt exchange once the market is formalised, recently sent members a letter telling them that non-JSE members of the association would have to contribute R3 000 a month from September until June next year. Some market players, notably merchant banks, are using the fee issue to push their case against the JSE's gilt clearing house (GCH). Others regard the membership fee as too high and want to resign, rejoining when the BMA has become an official exchange. Membership is compulsory for all participants in the bond market.

There have been accusations of "unlevel playing fields", as JSE members are excluded from paying the fee. The BMA acknowledged some members had indicated that they might withdraw their membership, but warned that they would face "a considerable penalty" on withdrawal and re-entry.

Ultimatum

Merchant bankers said at the weekend that the original decision had been to levy a R5 000 contribution. The extra R1 000 was added in the belief that the plan to use the GCH would be scrapped and that the JSE deserved some reimbursement for the unnecessary cost incurred in working on the system.

However, it has emerged that Financial Institutions Registrar Piet Badenhorst could recommend use of the GCH to speed up the formalisation of the gilt exchange.

Bankers are fighting to avoid this as they believe the system is inadequate. JSE members who are also members of the BMA do not have to pay the membership fees as they already pay the JSE more than R3 000 a month. JSE regulation BMACE Graham Lund said in the letter: "It should be noted that the differentiation of costs is under exceptional circumstances, and the committee will not differentiate in future between membership commitment in any form."
Broker outlines possible benefits of current affairs

A gradual lifting of sanctions and an oil crisis can benefit a number of shares.

Broking firm H A B Herbst Inc, in its first investment bulletin, presents a selection of shares that can benefit from these two factors in the short to long term.

Analyst Johan Marais says SA investors should accept that the lifting of sanctions will not necessarily be announced with much fanfare. However, local companies that are geared to the export market might quietly go ahead and enjoy the benefits.

Amcoal and Witbank Colliery stand to gain in the short term, while these two coal counters will be joined in the medium and long term by Falamun, Samancor, Keetley, Vaux, Plate Glass, Sunbop, Sappi, Highveld Steel, Iscor and Usko.

The current oil crisis can benefit Amcoal, Witbank Colliery, Engen, Sasol and gold in the short term. In the medium to long term Gencor should be added to the list.

Although Marais advises investors to continue taking a cautious view of the fluctuating equity market, he says he has a positive attitude towards the long-term prospects of the gold price.

He says investors should maintain a healthy balance between quality gold shares and marginals.

Recommended quality golds are Western Deep Levels, Southvaal, Driefontein, Hartbeesfontein, Kloof, Deelkraal and Beatrix. Marginals recommended are Randfontein, Lonmin, Elsburg and Western Areas.

In the mining finance sector, in the short term Anglo American should be considered, in the medium to long term add Gencor, JCI, Minorco and Modウィス.
Minorities get a raw deal

Despite sustained efforts by both Coifin management and the JSE Committee and, despite the fact that only R1,5 million cash is involved, it could still be some time before the Manserv minorities see any sign of an offer from the company that acquired control of Manserv back in February.

The new, much more stringent takeover regulations that are due to come into force in October should protect minority shareholders from the fate being suffered by the Manserv minorities.

At this stage the JSE is considering legal action to force Financial Ltd to make the offer to minorities that it undertook to make at the time that the 69 percent stake was bought from the majority shareholder.

The February deal involved Nasa Ferrer in acting on behalf of Financial Ltd acquiring the Manserv cash shell from the Map Consortium. (The Manserv assets had been sold into what is now known as Coifin, leaving Manserv with cash of R15 million.)

The majority shareholder received JSE a share for its 12,8 million shares but the holders of the remaining 1,4 million shares have so far received nothing.

Coifin MD Jeff Wiggill says that the deal included an undertaking by Financial Ltd to make the same offer to the minorities.

As additional security Coifin arranged for Mr Ferrera to pledge the 69 percent stake he had acquired with a firm of attorneys — this was to act as security for the offer to minorities and would be held until such time as a suitable bank guarantee was lodged with the JSE (Coifin management was acting as corporate consultant to Manserv which was then under the control of Mr Ferrera).

Not delisted

Months passed and no offer was made to minorities Manserv remained suspended and although the JSE threatened to delist the share if no offer was made, it was not delisted.

In normal circumstances if assets are not injected into a cash shell within six months, the shell is delisted. This has not happened in the Manserv case.

The JSE’s Richard Connellan explains that a decision to delist Manserv would have been to the detriment of the minorities.

Meanwhile there is confusion as to exactly what, if any, assets have been purchased with the Manserv cash speculation includes a 20 percent of Osprey, 25 percent of Lanchem, 40 percent of a cash shell which was to be used to acquire an engineering operation and, 100 percent of Chanvey Mining.

Coifin had insisted that any assets sold into Manserv should be subject to a "fair and reason-
Economists explain index performance

THE change in requirements stipulating the prescribed buying by financial institutions of government gilts is one of the reasons for the reasonably good performance of the JSE's industrial index, say economists.

Contrary to the popular theory that recessionary times lead to a poor industrial performance, the index is not easing as traditionally experienced.

Factors economists expected to negatively affect the index included large interest bills and a drop in demand for industrial products, and a possible move away from equities to the short-term money market to capitalise on high interest rates.

An analyst said yesterday that while institutions were not overly keen to buy industrial equities at present, they were also not selling as they wanted to keep their exposure to equities high.

A fund manager said government's move to drop the compulsory prescribed holding level of government stock had had a major influence in steadying the index.

It led to companies increasing their equity exposure at a mature time in the business cycle, and with the shortage of good quality scrip in SA they would prefer to hold their stock through rough times rather than sell and risk not being able to buy in at a later stage, he said.

Discount House of SA manager Chris Greylings said: "On average, among institutions, equity holdings rose 10% to 58% after the change in the government ruling."

Another reason given for the unexpected behaviour of the industrial index concerned the share constituents of the index, many of which, for example Richemont, operated outside the recessionary circumstances in SA.

George Huysamur & Partners' Louis Geldenhuys explained that the industrial index came off a different base as it had to be read against the background of the exogenous shock to the market in 1987 and the subsequent recovery.

"Following the 1985/1986 recession, companies approached the current slowdown in a much stronger position — gearing ratios were stronger, inventories were better managed, and balance sheets were stronger — resulting in earnings growth remaining firm," he said.

Geldenhuys said the expectations of industry, following the changes in the political arena, had had a positive impact on the economy.

"But expectations are now turning sour with the increase in violence and the weakening of the world economy. The political situation with its physical disruptions to the economy and the influence of the world economy on SA could see the recession lasting longer than the average 27 months."

Graph: Lee Emmerich
Source: GEORGE HUYSAMUR & PARTNERS INC
JSE tumbles as oil squeeze hits markets

SPURRED by aggressive selling on the part of nervous private investors, share prices tumbled on Diagonal Street yesterday to sweep the JSE overall index down nearly 3% (77 points) to 2 787.

The fall came in the wake of a nine-year high in world oil prices as the first serious effects of lost Kuwaiti and Iraqi supplies hit world markets, an easing of the gold price in London and New York, and general falls in world markets.

"There was a bloodbath," a dealer said as industrials took a pounding, with the index closing 68 points (2.4%) off at 2 731.

Market leader De Beers and associate Anglos each fell 4.5%.

Analysts said after a slow downward drift in the market, more aggressive selling came on perceptions that the bear trend was in full force and that prices could go lower as reflected in futures trading.

A day after the close-out of September futures contracts, the December all-share and industrial futures traded at substantial discounts to the cash market — much to the surprise of traders.

Greenwich Futures trader Stewart Penn said the 100-point discount between the December futures index and spot index highlighted the inefficiency of the futures market.

He ascribed yesterday's sharp plunge in futures to bearish sentiment and the absence of large players, such as institutions, who would have arbitraged the spot and futures markets.

The rand closed firmer against the dollar at R2.5542 from R2.5333, after disappointing US trade and consumer price data for July. But the rand firmed to R3.86 from R3.891 on steady demand for the investment unit and little supply, adding to the woes of the market.

Oil prices surged to their highest/levels in nearly nine years as the first physical supply problems began hitting the market. Spot prices for the benchmark North Sea Brent blend for immediate delivery soared to $36.50 — its highest level since December 1981.

"The realization that world oil production is running at full steam shocked prices upward," an analyst said.

Another problem is the quality of oil being received since high quality Iraqi and Kuwaiti oil is being replaced by heavier and dirtier Saudi Arabian and Venezuelan crude.

Gold closed $1 down at $589 in London, after a strong rally was crushed by reports of renewed selling by the National Commercial Bank of Saudi Arabia. Gold fell despite a soaring US trade deficit and further falls in world stock markets. In New York gold closed at $386.25 ($390).

World equity markets took a knock with the Nikkei average closing 2% down.

Higher interest rates and oil prices and perceptions that the US was heading for an early recession depressed the Japanese market.

European markets continued the bearish Asian sentiment with the London FTSE 100 losing 4.4% to 2 055 points, the Frankfurt Dax closing 2.2% down, and the CAC-40 in Paris finishing 1.5% off at 1 580.
Govt acted on inquiry into DET
TANIA LEVY

Major changes had been made in the organizational structure of the Department of Education and Training’s (DET) head office to correct management deficiencies, Education and Development Aid Minister Stoffel van der Merwe said yesterday.

Other steps taken included the introduction of budgeting objectives to control financial management. The changes were made since April in response to previous findings of the Van Heever Commission of Inquiry.

Commenting on the commission’s third report — into irregularities in the running of youth camps — he said government regarded inconsistencies and irregularities in a serious light.

Charges of misconduct were being investigated, but departmental action would only be taken after the Attorney-General had decided whether to institute criminal proceedings.

All privately donated funds had been deposited with Revenue. Some of this money had previously been handled by regional directors in savings accounts, but these accounts had been frozen.

Van der Merwe said the Justice Department was considering appointing an ombudsman as requested earlier by the commission.

Spareco must meet creditors judge

A RAND Supreme Court judge yesterday ordered that meetings take place between Spareco Ltd and its creditors to consider a compromise arrangement which proposed a solution to the company’s financial crisis.

Mr Justice Joffe also ordered that the liquidation application brought against Spareco by Ferolpo Pty Ltd be postponed to October 5, the date on which the court will hear the result of the meetings.

The judge ordered that the meetings take place in terms of Section 311(1) of the Companies Act, which empowers the court to order meetings to take place where a compromise arrangement is proposed.

He ordered that the parties should consider a “scheme or arrangement” proposed by the Lakewood Corporation, which is registered in the Cayman Islands.

Loan

In terms of the scheme, Lakewood has proposed that it will make available to the company R16m by subscribing for the company’s ordinary share capital.

It also proposes to procure a loan of R5m to be utilised for working capital.

The scheme also proposes that Spareco’s major creditors — Bankorp Ltd, First National Bank of Southern Africa Ltd, Alphabank Ltd and the International Bank of Johannesburg Ltd — convert their claims into capital and debentures while other creditors are paid from this capital sum.

The banks would be required to capitalise 56% of their claims against the company by converting these claims into 12.65% preference shares in Lakewood.

They would also be required to convert 25% of their claims against Spareco into redeemable debentures, while the remaining 19% of the claims would remain payable by the company as overdraft.

The capital sum of R16m would be distributed towards the claims and costs of the concurrent, secured and preference creditors.

The concurrent creditors would be paid 30c in the rand on the amount of their claims against the company, to the maximum amount of R2.6m, in full and final settlement of their claims.

The secured and preference creditors would receive amounts equal to those received in terms of the Insolvency Act, subject to a ceiling of R222 000 in the case of secured creditors and a ceiling of R242m in the case of preference creditors.

The balance of the capital sum would go to the costs incurred in administering the company and in securing its assets since September 5, when the banks obtained a court order to hold Spareco’s stock.

The scheme also proposes that anyone who has reserved ownership of trading stock not be affected by the terms of the arrangement.

MARCIJA KLEIN reports that a statement from major creditors said negotiations were taking place in an attempt to reopen Spareco outlets as soon as possible.

International Bank of Johannesburg MD Peter Gray said yesterday an agreement would be reached shortly on what was to become of Spareco until court proceedings or offers had been finalised.

He said there was still a possibility of a takeover with a firm offer on the table, but “there are differences of opinion at the moment with regard to offers.”

It was important to open Spareco’s doors again, he said.
Major FSI reshuffle leads to large share price gains on JSE

SHARES of FSI companies Teamcor, Hunts and Homemakers — related yesterday — registered some of the largest price gains on the JSE on news of a group restructuring involving generous offers to their minorities.

Teamcor shares, second in terms of price boosts, rocketed 40c or 16.1% to 269c, Hunts grew 50c (8.5%) to 730c and Homemakers firmed 30c to 440c.

The strong gains followed an FSI announcement detailing interlinked proposals in terms of which W & A Investment Corporation is to become the principal holding company for FSI's global and local interests.

The clean-up includes W & A's acquisition of the minority interests in the three firms, with minorities offered one-third in W & A shares and two-thirds in pyramid Waicor, or cash of 600c and 241c a share respectively.

But while it has generally been welcomed on the market, at least one analyst — Ed Hern, Rudolph's Sid Vianello — believes FSI's huge post-restructuring debt, with its possible ramifications, is cause for concern.

He said minorities would be offered fair value, and he was "particularly delighted" to see an underpinning cash offer extended to them.

However, a simpler structure would not guarantee an immediate re-rating for the shares as a "major issue" to be addressed was that FSI would remain extremely highly-geared with interest-bearing liabilities of just under R300m.

Pattern

"It's in their interests this gearing be cut and if FSI wants to see W & A's share price appreciate, management will have to give some form of reassurance they're not going to sell W & A or Waicor paper into the market in the future to liquidate their liabilities," he said.

"Further, based on W & A's financial structure on completion of the transactions and given its normal growth pattern in the past, we think it could under normal circumstances require a rights issue in two to three years time."

But this could be avoided if the group kept to its consolidation policy in the first half of the decade, rather than continue pursuing its former acquisitive strategy, he said.

Vianello said W & A's current share price represented "more than fair value", given that SA conglomerates tend to trade at a discount to net asset value, the values now placed on various assets being transferred into W & A and that the share price now recognises those in full.

He saw no reason for a re-rating now which could come later when the group had proved its investment profile could give results in favourable and difficult economic scenarios.

FSI shares closed untraded, Waicor's were unchanged and W & A's retreated 30c to 620c, more closely reflecting the value of the firm's underlying assets as determined by merchant bankers and level with the trend on the market, analysts said.
THE RECESSION: Political unrest, the Gulf crisis.

More individuals go to the wall this time around.

By ROBERT LAING

INDIVIDUALS are being hit harder than companies in this recession. The value of consumer judgments is three times higher than in corresponding months in 1988 and twice as high as in 1989. The value was more than R150-million in May.

The number of business insolvencies has not increased dramatically, but the size of those businesses which are going under has.

Ernst & Young liquidator Philip Reynolds says, "Having one big company hit the wall is more damaging to the economy than having 12 little one-man businesses going bust."

"The number of insolvencies is not a true reflection of how serious the situation is because the size of companies is not given. Examining the value of judgments gives a clearer picture."

Kreditinform calculates that the value of business judgments has been averaging about R15-million since March, double as high as in 1988 or 1989.

A relationship appears to exist between the number of insolvencies and interest rates. A graph compiled by Kreditinform clearly shows that the prime rate level leads the number of insolvencies by about 20 months. For instance, in 1985 prime reached its peak of 25 percent and liquidators were hard pressed to cope.

The slaughterhouse months which followed peaked about two years later. By then prime had eased to 12 percent — and the trend in liquidations lagged consistently. However, 1989 saw the pendulum swing back to prime at 21 percent and liquidators predict another wave of liquidations.
FACING DOWN THE LIQUIDATORS

New moves have been initiated to bolster the ailing Pretoria-based Debruyplan retail and office development group and prevent it from being forced into liquidation.

This comes after a liquidation application against the company owning one of Debruyplan’s newest and most ambitious developments, the virtually complete R150m Golden Walk regional shopping centre in Germiston, was postponed last week.

Following a meeting last month (Property August 31) between Debruyplan and its major creditors, financial managers of the creditors were called in to resolve the difficulties of the cash-strapped company. In addition to Golden Walk, the group’s developments include Randburg’s Cresta Centre (subsequently sold on), and Die Meent in Pretoria.

In terms of the agreement reached, a financial manager, appointed by the creditors, has been installed in the group’s offices to monitor the running of the business while its debt and cash-flow problems are resolved.

However, as a result of rumours relating to the financial position of the group, the main creditors formed a moratorium committee which, last week, (September 12) signed a moratorium deed effectively giving Debruyplan until the end of November to get its house in order or, alternatively, face possible liquidation proceedings.

While the larger creditors are party to the agreement, a clear warning has been sounded that the rescue package could be torpedoed by smaller firms not bound by the agreement. A landscape firm, Garden Developments, lodged a liquidation application against Astra Holdings, Golden Walk’s holding company, over the R260 000 they are owed for work done on the project. Debruyplan is implicated because of certain cross guarantees signed by the group.

However, a postponement of the case until September 25 has given the moratorium committee an opportunity to persuade the landscaper to withdraw his application.

Furthermore, rather than fighting fires, the committee is circumscribing all the other non-signatories in a bid to explain to them the benefit of complying with the moratorium.

Other measures taken to try to resolve the

problems include

- The main contractor, Shoredits, is expediting completion of Golden Walk centre so that more tenants can take occupation in accordance with their lease arrangements.
- The committee is investigating the possibility of Shoredits completing the extensions to Die Meent in Pretoria.
- Rationalising Debruyplan's overheads and costs at its Pretoria head office.
- Controlling the group’s income and expenditure by opening new bank accounts on which the creditors’ committee has joint signing powers, and
- Establishing a true picture of Debruyplan’s financial position.

This, the committee believes, is preferable to a forced liquidation because, while costs are being trimmed, the property values are being significantly enhanced, which would be beneficial should the developments finally be sold to pay creditors.

A spokesman for the committee points out that one of the companies in the group, Moskeeplan (Pty) Ltd has had to be liqui-
But he feels there are many positive aspects, as well as some areas of uncertainty. Koseff says the position of an underwriter which finds itself holding 30% of a company needs to be clarified, for example.

As Herbst says, though the extent of the panel's intended jurisdiction is significant, though the panel does have some discretion in the case of private company transactions, she says, this represents a fundamental shift in the regulatory environment in the unlisted market, where offers to minorities and takeover statements will now be required.

"Schemes of arrangement in terms of Section 311 of the Companies Act, reductions in share capital, and various other methods commonly used to effect a change in control, have all effectively been brought within the ambit of this legislation," says Herbst. "We are about to experience a major change in the merger and acquisition environment, for which companies need to rapidly prepare."

TAKEOVER CODE

REGULATION LOOMS

Those who have lobbied over a number of years for a takeover code are going to get one — and perhaps in a more thorough form than many expected.

Draft legislation on the securities regulation code and rules for the Securities Regulation Panel — under the chairmanship of Judge Cecil Margo — was published for comment last week. Comment should be submitted by October 7. Thus follows amendments to the Companies Act in mid-1989, when it was established that there was to be a securities regulation panel.

The draft regulations are comprehensive, far-reaching and specific. In general, they apply to all public companies and statutory corporations, (whether listed or unlisted), deemed to be resident in SA. Included are private companies whose shareholders' interests and shareholders' loan capital, in terms of an offer, exceed R500,000.

The code has been based to a large extent on the City Code on Takeovers and Mergers issued by the London Panel on Takeovers and Mergers. There is no intention to judge commercial advantages or disadvantages of affected transactions, nor to be concerned about competition policy — that will remain a matter for the Competition Board, though the board's references and rulings would be taken into account.

The code would, however, effectively relieve the JSE of its present responsibilities in regard to takeovers and mergers — which would come as a relief to many in Dagonal Street. Detailed procedures to be followed in any takeover situation are laid down.

Certainly, should these regulations be accepted, they will provide clarity that has often been lacking in the past. From that standpoint, they will make matters easier both for participants in actual or potential deals and for those required to enforce the regulations. That in itself should be a step forward.

It should no longer be necessary to see protracted disputes about whether control has in fact changed and whether an offer should, therefore, be made to minorities. Essentially, a stake of 30% has been set as a trigger level, once that is attained, a full offer will have to be made, according to the procedure laid down.

Clare Herbst of Ernst & Young notes that shareholders owning between 30% and 50% of a company will also be affected if they seek to increase their shareholding by more than 5% a year, this, too, will require a mandatory offer to minorities.

Aiken & Peat's Richard Carrera feels this rule may be a little harsh, as it might discourage these shareholders from increasing their stakes and it is questionable whether a 5% increase will always affect minorities adversely. A requirement to publicly announce such increases would be less stringent, he says.

However, though these trigger levels are arbitrary figures, they are clear to all. Tony Norton, commenting as JSE president and not as a representative of the panel, says this should be a far more workable approach than that applied by the JSE in the past, which has been to consider whether effective control has changed.

There have been many cases where judgments were not straightforward and the JSE's ruling was stoutly resisted by parties involved — or where the JSE was criticized for not standing up firmly for the rights of minorities. That has applied particularly in situations argued to be a change of control within a control consortium.

One of the more remarkable cases was Sanlam's takeover of Kirsh Trading, now called Tradegro Sanlam first took a major stake in the group in mid-1984. This happened through an unusual and complex agreement, but the JSE felt there had been a change of effective control. Sanlam and Kirsh did not. Both parties considered legal action, a dispute dragged on, and, in March 1985, both simply agreed to disagree. The control structure established recently for GFSA is another case in point.

Though there may well be disagreement about the shareholdings stipulated by the code, it should not be possible for uncertainty to arise under these regulations. And if that does occur, the panel will be able to make a legally enforceable ruling.

There are extensive definitions. Amongst these, "acquisition" means acquisition of shares or securities in a company by any means whatsoever, including purchase or subscription. "Acting in concert" refers to an agreement, arrangement, or understanding (whether formal or informal) between two or more persons, to co-operate for the purposes of entering into or proposing an affected transaction.

"Control" refers to a holding or aggregate holdings of shares or other securities in a company entitling the holder to exercise or cause to be exercised, the specified percentage or more of the voting rights of that company, irrespective of whether such holding or holdings confers de facto control or control.

The code says the spirit as well as the letter of the precise wording of general principles and rules are to be observed. Among general principles, all holders of the same class of security shall be treated similarly by an offerer. Rights of control shall be exercised in good faith and the oppression of a minority is unacceptable.

Surely, few would argue with principles of this sort. What the investment community is now trying to consider is how the regulations will work in practice. Some are wondering whether the highly regulated approach is appropriate for SA.

Herbst notes that aggrieved minorities will now have recourse to the panel in cases of oppression. Though they will still be subject to the decision of a majority vote, they will have recourse in instances where they are not given a fair opportunity, as in the recent controversial Metal Closures case.

Investec MD Stephen Koseff feels the R500,000 limit for affected private companies could be on the low side and it needs to be considered whether the panel has not "gone a bit overboard." He says that while a 30% trigger level may make sense in the UK, where shareholders are far more widely spread, it may not be logical in SA, where there is already a high concentration of ownership. "Many companies already have a 50% shareholder and another with 30%," he says.
Financial markets: a case for 're-regulation'

THE need for change in SA’s financial markets - characterised by the 183-year-old JSE - was brought home during a top-level conference last week on the regulation of financial markets.

Among the delegates were Reserve Bank Governor Chris Stals, Registrar of Financial Institutions Piet Badenhorst and his deputy Chris Mostert.

Some uncomfortable facts were delivered by visiting lecturer David Llewellyn, professor of money and banking at Loughborough University in the UK and adviser to Western central banks.

"If the 1980s were the decade of structural change in world financial markets, then one can say of the 1990s that you ain’t seen nothing yet," said Llewellyn.

Comparatively isolated financial markets like those of Scandinavia and SA would probably experience these pressures more powerfully in the 1990s, if only because of the excess capacity in world securities trading and banking, he said.

A worldwide trend in regulation had emerged in the key areas of ethos (emphasis on competition), enhanced role for market mechanisms, priority to efficiency and competitive neutrality and deregulation (wider business opportunities, more price flexibility, self-imposed restricted practices competed away).

Equally visible had been a change in structure (more regulatory agencies, a wider range of services subject to regulation) and methodology (more interventionist regulation, more explicit business conduct rules, more emphasis on capital requirements and rules on information and disclosure).

It had escaped delegates’ attention that virtually none of these features characterises the SA market.

The JSE remains a closed monopoly dispensing its services under restrictive pricinng onto a captive market, sheltered from competition by exchange control and the Stock Exchange Control Act, and ultimately accountable only to its peers.

The more open, less restrictive, dual-capacity SA Futures Exchange (SafeX) - which Llewellyn was surprised existed in a relatively small market like SA’s - underscored this.

In a paper subsequently presented to delegates, Llewellyn says that self-imposed restrictive practices and cartels are “anti-competitive in effect, if not by intent, and frequently exchange control has the implicit effect of conferring a subsidy on domestic suppliers of financial services”.

He goes on to make some pertinent remarks on JSE-style self-regulation, when an industry is given formal authority or legal duty to regulate its business.

"There are many instances where self-regulation in general has served the interest of the regulated rather than the consumer, even though it may be rationalised in terms of the interest in the latter. Self-regulation also has the potential danger of being anti-competitive and there is ample historical precedent for this," he says.

"Above all must be the question whether it is possible to rely on self-regulatory bodies always serving the public interest as the public defines it, rather than as the industry perceives it."

Llewellyn's observations suggest that both the JSE and its regulators in Pretoria have a vested interest in maintaining the status quo - the former gets its way while the latter gets an easy ride.

He says: "The easiest framework for regulation is when simple objectives are set, when competition is weak, when the financial system is based on specialist financial institutions (like stockbrokers) and markets, when only domestic considerations need to be considered and when the moral suasion authority of regulatory agencies is universally accepted."

The opposite of self-regulation is official regulation by a public authority, as in London where a multitude of expensive regulatory bodies operate. Llewellyn thinks London may actually have gone too far in the other direction after it deregulated in what has come to be known - erroneously, it turns out - as Big Bang.

It is erroneous, Llewellyn explains, because contrary to popular opinion, Big Bang was never part of a grand design. When Sir Gordon Burre, head of the Office of Fair Trading, threatened to take the London Stock Exchange (LSE) to court under the Restrictive Practices Act in the early '80s, it was with one aim in mind - to remove fixed commissions.

However, due to what Llewellyn calls "the escalation principle", the scrapping of fixed commissions meant the end of guaranteed profits, which meant fluctuating income, which meant risk, which meant more capital was needed. This resulted in outside shareholders, which led to huge financial conglomerates and the merging of domestic and international securities industries.

The lesson to be learned, Llewellyn says, is that deregulation cannot be compartmentalised without creating competitive distortions. Once begun, it is likely to involve more changes than originally intended, and must be viewed as a whole so that adverse consequences in one area are alleviated by counter-measures.

It is for this reason that he calls "deregulation" a misnomer. He prefers "re-regulation".

Either way, regulating a more open market will be difficult because many of its aims are in conflict with one another. More competition adds to the risk of failure, running counter to prudential considerations, however, attempts to avoid risk of failure through prudential controls often blunt the edge of competition.

Regulators have to aim for a middle way, says Llewellyn, because there is no point in trying to protect participants from risk to the extent that one regulates away the very function of financial markets, which is precisely the taking of risk.

Clearly, both Pretoria and the financial markets have some hard work - and some hard choices - ahead of them. Deregulation, hitherto taboo, is now firmly on the agenda.
SPARECO \[\text{date: 21/9/90}\] (232)

SPARES BANK

As the Fm went to press, an affidavit was being prepared to put an offer, believed to be from Hans Schreiber, before the Rand Supreme Court on Wednesday to rescue ailing motor spares group Spareco from the liquidators.

Schreiber, who runs his own financing operation from Singapore and is a director of a major German bank, was in the news some five years ago when he bought Cape wine farm Neethlingshof for R8m.

Spareco MD Graham Walker is adamant that his company won't be wound up. Two deals were on the table on Tuesday, though one is seen just as a backup. According to Walker only a minor hitch prevented the i's from being dotted and the t's crossed.

Why would a German banker be so interested in an ailing SA spares company, believed to be in need of a capital injection of at least R20m-R25m to save it?

If Spareco is wound up the smaller creditor banks will be dealt a severe blow. By gaining control of Spareco, Schreiber will save these banks and perhaps even SA banking.

After an urgent application two weeks ago, Alpha Bank, First National and Bankorp were authorised to hold all movable assets at 24 Transvaal Spareco branches. They alleged that Spareco owes them R40m plus. A week later trade creditor Ferodo brought an application for immediate winding up, postponed twice in the past week.

The Spareco fiasco has focused attention on another problem — banks whose exposures to individual clients are large relative to their capital bases, including Alpha Bank.

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to whom Spareco allegedly owes R6m. The Reserve Bank is monitoring large exposures in preparation for legislative changes next year that will force banks to keep the Bank informed.

Gerhard Siebler
assumption expenditure caused trading conditions to deteriorate and margins came under pressure. The operating margin fell to 9.7% (10.4%) and higher borrowings — largely due to capex and money raised to finance the Tycoon acquisition — caused interest charges to more than double.

All the divisions, except Irvin & Johnson, performed well. Buoyant building activity boosted Grimaker Construction's profits and textile operations for the full year were disappointing, despite strong profit growth in the first half. This, and the poor performance of Claude Neon, detracted from the diversified holding division's profitability.

The dry food and beverage division reflected a substantial improvement but profit from Pakco, Pleasure Foods and Pizza hut declined. Beckers and Bakers traded very well.

During the year the packaging and rubber division was expanded. Tycoon, formerly Goodyear, was acquired for R176m and combined with Tredco (retreader and retail distributor of tyres) to give AVI a strategic stake in the industrial belting sector. The packaging operation, Consol, was negatively affected by lower packaging sales volumes and only reported a moderate increase in turnover. Higher financing costs, resulting from Tycoon's acquisition and the installation of a glass furnace at Consol, detracted from this division's performance.

Income from associate Control Instruments (CI) was only R6.1m, half that of the previous year. Hersov says CI remains a disappointment and a R10m provision has been made against its carrying value. This provision constitutes the major share of a R17m extraordinary item, reflected below the line.

Attributable earnings grew 18% but dilution occurred at the per share level because of shares issued at the time of the group's restructuring last year.

Hersov is planning for improved earnings this year but says "the group expects to meet exacting challenges."
FSI 'will not shed holdings'

Business Day Reporter

There was no likelihood of FSI disposing of part of its holdings in W & A Investment Corporation, Ed Hern, Rudolph analyst at Vielangelo said yesterday.

And FSI chairman Jeff Liebesman said the clarification by Vielangelo of the statement carried in yesterday's Business Day ("Major FSI reshuffle leads to large share price gains on JSE") was consistent with the group's policy.

Vielangelo was elaborating on his comment that FSI needed to give the assurance that it did not plan to sell W & A or Wancor paper into the market to liquidate its liabilities.

"We have no doubt FSI's cash flow from the enlarged W & A is secure, so there would be no need to sell any of its holdings," he said.

"Indeed, FSI's position will be more than comfortable once the proposals announced this week have been implemented."

Vielangelo said the probability of lower interest rates and positive commentary from management must "surely nullify" any suggestions that such sales were imminent or contemplated. They also nullified any suggestions that any group company was contemplating any rights issue in the foreseeable future.
Banks win on gilts trading decision

BANKS won a decisive victory over the JSE at the weekend after Registrar of Financial Institutions Piet Badenhorst ruled that gilt trading would continue in its present form until agreement was reached on outstanding differences.

Until last week, the JSE seemed set to win its battle to have the market route its trades through the JSE's in-house clearing system — the Gilt Clearing House (GCH).

The banks, which do about 67% of all gilt trades and operate outside the GCH, had objected to GCH on grounds of cost and efficiency. On a general level, there had also been dissatisfaction about aspects of settlement and risk management.

Badenhorst acknowledged in a statement that there had been "serious differences" between members of the Bond Market Association (BMA) — the gilt's exchange scheduled to start operating by July 1991.

Following the failure to find common ground between the parties, Badenhorst said, the possibility of an interim unified market with acceptable clearing, settlement and risk management "will therefore not be pursued further."

The financial implications for the JSE and the BMA which flowed from this decision were being discussed, he added.
New GFSA company will be worth R475-m

By Derek Tommer

The merger of the three Gold Fields companies, New Wits, Selected Mining Holdings and Witwatersrand Deep, will create a company with assets amounting to about R475 million.

MR Fuller-Good, a director of the companies, told shareholders yesterday that the enlarged New Wits would benefit from its strengthened asset base and the combined mineral rights portfolio.

New Wits is offering 120 of its shares for every 100 Selected Mining Holdings and 90 of its shares for every 100 Wit Deep shares.

With New Wits shares standing at 1.125c, this puts a value of 1.350c on each Selected Mining share and 1.602c on each Wit Deep share.

Selected Mining shares were trading before the weekend at 1.200c and Wit Deep shares at 1.000c.
moots ANC policy shift

THE ANC's latest — and still secret — economic policy document contains a marked shift away from the ideology of a central statist approach, and emphasises the importance of creating growth through investment.

ANC economics and planning department deputy head Tito Mboweni said yesterday the latest "draft discussion document" had been discussed at a meeting of 50 ANC economists and members in Harare at the weekend.

The document, which he described as "very perceptive", still to be submitted to the ANC's national executive committee (NEC) before being made public and will be further debated by all ANC regions and branches.

Mboweni said the word nationalisation was mentioned only once, in relation to public utilities which had been or might be privatised by the state. These, he said, would be subject to "immediate re-nationalisation" by an ANC government.

Although unwilling to discuss specifics of the draft, Mboweni said the latest document attempted to steer clear of economic jargon.

He indicated the Harare meeting felt the ANC's previous economics position paper over-emphasised the state's role in the economy, and that a balance had to be found between the roles of the public and private sectors.

The recognition that growth should be encouraged through investment and not just through redistribution represented a "new direction in our thinking", Mboweni said, adding that the state would retain an important role in influencing private sector investment.

He said the document recognised the important role the private sector would play in a post-apartheid economy.

The Harare meeting also proposed the establishment of an ANC institute of economic policy.

The unit would coordinate an evolving programme of economic policy research as well as conducting research and publicising it.

Mboweni acknowledged it was "highly unusual for a liberation movement to establish such an institute", but said this was needed because of the organisation's exclusion from most economic and political research in SA.

He said he envisaged the institute — which still had to be approved by the NEC — being staffed by a director and at least eight research fellows. Salaries would be comparable with those offered at universities, he said.

The ANC's Thabo Mbeki chats to Frankel Kruger Vindeline chairman Leslie Frankel during a visit to the JSE by ANC representatives yesterday.

JSE 'paper-chase' fails to impress politicos

AN ANC delegation ventured into the heart of SA capitalism yesterday but was not taken with "the paper chase" on the Johannesburg Stock Exchange.

ANC international affairs director Thabo Mbeki, his deputy Stanley Mabizela, deputy economics head Tito Mboweni and Cosatu assistant general secretary Sydney Mafunudzi visited the JSE at the invitation of stockbrokers Frankel Kruger Vindeline (FKV).

FKV MD Sidney Frankel said there had been a strong and sometimes heated exchange of views. After lunch with representatives of institutions and FKV clients, the delegation wandered down to the trading floor.

A whirl in the gold price came at an opportune moment, boosting share prices and providing some action on what had been a deadly dull floor.

Mboweni said the ANC saw the JSE as a place where paper money chased paper money instead of being used for productive activity such as manufacturing.

"The JSE plays a useful role in showing the level of productivity of the large corporations. But the final emphasis must be on putting money into actual production," Mbeweni said.

Frankel said the invitation was aimed at a cross-pollination of thoughts. FKV would invite anyone who would play an important role in the new SA to meet its clients. In June FKV invited National Union of Mineworkers general secretary Cyril Ramaphosa.

While Ramaphosa found the JSE vast "mind-boggling", it did not convert him to capitalism.
SA firms join European drive

SA COMPANIES were joining the mergers and acquisition (M&A) drive into Europe where attractive opportunities existed in a unified Europe and a more market-oriented Eastern Bloc, Ernst & Young Corporate Advisory Services director Claire Herbst said yesterday.

She said SA companies were also aware of the potential offered by a market of more than 300-million people. There was "increasing scope" for international transactions involving SA.

"We expect increasing international M&A activity by local companies, as sanctions get lifted and SA businessmen are able to look abroad for markets and investment opportunities." This trend had already started with some firms having formed European operations. "Recently we have advised SA companies looking to invest in Europe and, happily, a European company investing in SA for the first time.

But she said it would take time for the international community to accept SA as a sound investment arena. "To a large extent they are still waiting on political and economic factors." SA companies needed to think more globally, Herbst said. "We have to make our businesses more international by encouraging SA companies to invest overseas and allowing foreigners to invest in SA."

She said SA companies wanting to invest abroad were hampered by foreign exchange requirements. Financial rands had to be used for deals of a capital nature, making overseas purchases very expensive. "As a result, deals must be carefully structured — great emphasis is placed on cost effectiveness and tax structures."

SA investment in Europe made sense as, aside from opportunities created by social and economic re-structuring, Europe was also SA's biggest trading partner, she added.
Curator appointed to supervise Alphabank

Greta Steyn

The Reserve Bank has appointed a "curator" to supervise the affairs of small merchant bank Alphabank, which was in the news recently when it emerged that its exposure to troubled Spareco, at R6m, exceeded its capital base of about R4m.

In a statement yesterday the Reserve Bank said: "The appointment of a curator was necessitated by the uncertainty of the position of Alphabank Ltd in view of the fact that the auditors of the institution were unable to express an opinion on the financial statements of the institution for the period ended on June 30 1990."

But the Bank noted that Alphabank had requested the curator's appointment.

Sapa reports Alpha MD Charles van der Walt said the exposure to Spareco had put pressure on the bank's liquidity position. The auditors had been unable to finalise the accounts as it was impossible to determine the settlement from Spareco.

"All depositors will get their money back although this could be later than the maturity date of the loans," he said.

Another small bank with a substantial exposure to Spareco is the International Bank of Johannesburg (IBJ). Spareco owes R12m to IBJ, which has a capital base of about R24m. IBJ MD Peter Gray said the bank had enough security against the exposure and emphasised it was backed by Bankorp and an unnamed foreign investor.

But rumour is rife in the market that major shareholder Bankorp is about to sell its stake as part of its effort to rationalise. A Bankorp spokesman said yesterday no decision had been taken yet.
PDC Holdings to be listed on JSE today

PDC Holdings, a wholesale distributor of about 16 000 pharmaceutical and allied products, will be listed on the pharmaceutical and medical sector of the JSE today.

The listing of 20,9-million ordinary shares of 1c each follows group restructuring and an agreement between Gresham and PDC's pharmacist shareholders.

In a pre-listing statement, PDC said the agreement would make PDC shares more tradeable and the company will have increased flexibility.

Frankel Kruger Vinderne analyst Yeuge Payne said the expected initial trading price would be 60c and no new shares would be issued.

He said PDC, whose earnings declined 9% in the year to March 1990, expected earnings to decline a further 5% in 1991.

Year-end

This should result in PDC trading initially at well below net asset value and on high earnings and dividend yields, said Payne.

PDC reported a net asset value of 274c a share at the March 1990 year-end.

However Payne says PDC has been re-organised and is now part of the Premier Group (via Gresham). He said the company would be listed with little debt and the long term outlook was good.

PDC is 80,5% held by pharmaceutical-listed Gresham and operates from 10 warehouses in the Transvaal. The balance of 19,5% of PDC is held by about 300 retail pharmacists. PDC also holds 50% of the Plus retail pharmacy franchise.

The board of directors is confident of an improvement in performance and profitability with a new management team and the introduction of improved computer technology.
WATCHING your money grow, as anyone knows, is a great experience. Seeing it shrink is depressing. And that is how most people feel about the Johannesburg Stock Exchange right now.

Since the beginning of August, the overall index which measures the performance of the whole market has dropped from 3 160 to 2 759.

The all-important gold price, which affects SA's largest income earner, has traded nervously around the $370 - $390 range, only this week managing to top the $400 level.

And resulting from the crisis in the Middle East, the price of crude oil has rocketed to trade at over $40, compared with $15 as recently as July this year.

The implications of the oil price rise are depressing for our economy, because of the resultant sharp increases in petrol.

Price

The effects of a higher petrol price filter through to everyone, in the form of a higher inflation rate. The latest figure for SA is 13.6 percent, which is high compared to other countries, for example UK 10.6 percent and US 4.9 percent.

Translating inflation into easy terms, SA's inflation rate of 13.6 percent means that anything you bought last year at R100 would now cost R113.60.

With the background of a depressed gold price, dismal stock market and rising gold price, the only cheerful investors are those sitting on fat savings earning high real interest rates, or stock members far away, while they save.

Investors in the JSE have had little reason for good cheer.

Of the five September competition shares only one has shown an increase since the end of August. Unico, listed under Tobacco and Matches, has risen from 2 400c to 2 550c. And according to the prices pages in the latest Finance Week (September 27) the other four have either only managed to stay level or record declines.

Dropped

Frame, in Clothing and Textiles, stayed put at 790c. Arno in Industrial Holding dropped from 800c to 7 000c. Kersaf in Beverages, Hotels and Leisure lost 200c from 1 975c to 1 725c and Genbel, listed in Mining Holding, fell from 650c to 540c.

Our September competition closes on Friday 28, so keep an eye on the shares prices of the above five shares.
Companies differ on dividends

COMPANIES should be strengthening their balance sheets and reinvesting surplus capital in view of the present economic climate, rather than paying out extraordinary dividends, some market analysts say.

The analysts were commenting on companies which had declared special dividends in recent months following the announcement in the March Budget that dividends were no longer taxable. This enabled directors to distribute surplus capital to shareholders.

Groups which have done this include Liberty Life, which paid a special dividend of 50c ahead of Liberty Holdings (120c) and Liberty Investors (6c) on strong liquidity and a new dividend distribution policy.

Contrary issued an 8.5c special dividend ahead of a rights issue, and Putco announced a special dividend of 30c a share as part of a reduction in operations.

S M Goldstein declared a $3c special dividend after a reorganisation with Group 5, while Samancor issued a special dividend of 30c following good results.

In a group restructuring, Abbey

MARCIA KLEIN

Holdings declared special dividends of 183c a share.

Commenting on special dividends, Price Waterhouse director Chris Frame says the situation differs from company to company, and as dividends are no longer taxable companies may see no further reason to hold cash.

Optimism

A change in the investment climate could lead a company to abandon its investment plans and could lead to a decision to strip out cash. Deloitte Pun Goldby investment manager Mark Ingham says SA investors are income driven rather than capital growth driven with a short term mindset.

A way to retain shareholders is to issue a generous dividend, indicating optimism about the future.

In contrast, he says, companies such as Sasol — anticipating a lengthy recession — are raising the cover to keep cash reserves strong. Ingham says there is an argument for companies not paying special dividends, and reinvesting in retention and ploughing the capital back into the company instead — which may save the possibility of a costly rights issue.

Payment of a special dividend does not necessarily indicate economic health, he says, and might mean a reduction of business or a short term stalling mechanism of a company on the way out.

A rule of thumb is “the lower the yield the higher the return”, but the declaration of a dividend is dependent on the style of management and its view of the future.

Where a company has substantial reserves, payment of a special dividend is quite acceptable.

Kaplan & Steward investment analyst Robin Pogler says if a company has surplus cash, shareholders should have it in the form of a dividend rather than the company earning interest and paying tax on it.

Mathison & Holllidge analyst Alona Jonker says special dividends arise out of excess cash, and if a company has a low return on capital, it makes sense to pay out a special dividend.
US reaction to FW boosts the JSE

Mervyn Harris

The industrial index registered its first gain in three weeks yesterday as the JSE's industrial sector reacted positively to the reception accorded President F.W. de Klerk in the US. The index rose 23 points to 2,686 as institutional investors nibbled at leading shares. Prices were also supported by a weaker rand which climbed to R3,855 from R3,68 to the dollar.

Improved sentiment and the weaker rand also gave an upward shove to market leaders De Beers and Anglo American. The JSE overall index rose 20 points to 2,779.

The uptrend came in the face of Tokyo market plunging nearly 5% and a weak opening on Wall Street, but the JSE was encouraged by gold's performance.

Gold rallied towards the close of trading in London to end at $1,13 higher on the day at $405.30 after briefly falling to a low of $399.10. Dealers linked gold's volatility to fluctuations in crude oil prices.

Gold shares veered in line with the metal's movements and the JSE all gold index gave up early gains but recovered its losses to end one point up at 1,083 in choppy trading.

Trading was quiet after the activity on the gold board over the past two days, ascribed mainly to dealings by professionals.

In New York last night, the metal rose $3 to close at $407.25.

Platinum was under renewed pressure yesterday on perceptions that higher oil prices would dampen demand by car makers for catalytic converters. The metal, which is now seen as an industrial commodity rather than a precious metal, slumped from the previous London afternoon fix of $401.80 to $441.75 and was trading as low as $440 in New York.
Voltex beats share forecast

Voltex lifted its earnings to 23.8c a share in the 16 months to June – comfortably beating its 32c a share forecast in spite of increasingly difficult trading conditions. The budding electrical and electronics

The sudden share price plunge followed, with the renamed Voltex Holdings being recapitalised.

However, an H & J shareholder, with attributable earnings of 16.2c a share in the February 1989 year, now qualifies for a

Voltex, formerly H & J Supreme Cables, was acquired last September by the Elecnery and Berzack group. They reversed their respective electrical and electronic supply and manufacturing businesses into it. A major restructuring followed, with the renamed Voltex Holdings being recapitalised.

As a result, a comparison of Voltex’s latest result with those of H & J’s for the financial year to February 1989 are meaningless.

56% higher annualised equivalent of 25.3c; turnover for the 16 months topped R1bn and, with the operating margin at 13%, operating profit was R140m in the 12 months to February 1990, turnover reached R795m and operating income was R58m on a margin of 12.4%

The tax bill amounts to R257,000. The group benefits from various tax allowances and expects that no material tax will be payable, or provided for, in the next two years.

Voltex’s gearing is at 9%, compared with 22% at end-February 1990. Directors expect the recent acquisition of a 52% stake in UK-based Bennett and Fountain to benefit the group through foreign earnings flow and enhanced export activities.

The R42m cost of this acquisition has been met from existing resources. Voltex shares have fallen from a June high of 210c to a current low of 140c a share.

At the present level, they yield 18.1% and 5.3% respectively on the annualised equivalent of the latest earnings and dividend. Comparable figures for the JSE actuaries index of the electronic sector are 14.3% and 5.2%.
The meeting set for October 4, to determine the future of ailing spares group Spareco, could again be postponed. Market sources believe some of Spareco’s creditor banks may be playing for time so that they can exercise rights in terms of a notarial bond granted by the Rand Supreme Court on September 4. That would not benefit trade creditors who would receive little or nothing if Spareco is to be wound-up.

Alpha Bank, First National Bank and Bankorp were authorised to hold all Spareco’s moveable assets at 24 of the company’s Transvaal branches, after making an urgent application to the Supreme Court. It is alleged that Spareco owes R31m to Bankorp, R12.6m to the International Bank of Johannesburg (IBJ), R7m to First National Bank and R6m to Alpha Bank (see Economy).

The purpose of the October 4 meeting is to consider an arrangement proposed by Lakewood Corp of the Cayman Islands. Lakewood has proposed to make R10m available to Spareco by subscribing for the company’s ordinary share capital, plus a loan of R5m to be used as working capital. Lakewood’s proposal was brought by IBJ.

IBJ MD Peter Gray declines to divulge the identity of Lakewood’s owners because, he believes, it could jeopardise the Spareco deal. He says Lakewood’s R15m is already in the country.

It is believed that two other parties are still interested in acquiring control of Spareco and their proposals will also be considered.

Gerhard Stibbe
CAPE TOWN — Tollgate Holdings, the industrial holding company which has done extensive restructuring, has turned in attributable losses of R10,4m for the six months ending June, or earnings of 18,3c (26c) a share.

However, the results include the disposal of Arwa, Norths and other operations within the group and, as such, are not comparable with the previous year's performance.

They reflect the performance of the group before international entrepreneurs Julian Askum and Hugo Biermann took control in June this year, and suggest little of the dramatic changes which are under way.

A reduction in TGH's turnover from R397,3m to R279,1m during the six-month period reflects the disposal of the operating businesses of Arwa and Norths, and the Transvaal operations of Tramway Holdings.

It also reflects the disposal of the cycling, public relations and advertising divisions of Entercor, the termination of the Eastern Cape and Natal commuter bus operations and large staff cutbacks.

After abnormal items of R15,6m, related to non-recurring losses from discontinued operations and the termination of long-term contracts, attributable losses amounted to R10,4m.

A dividend of 6,5c (11c) a share was declared. The group would have reported EPS of 16c a share had the R42m proceeds of the sale of Arwa's business and the R62m proceeds of the rights issue been received in January instead of at the end of June.

Entercor, which was to become a wholly owned subsidiary of TGH, reported an extraordinary loss of R6,5m related to the disposal of the non-performing cycling, public relations and advertising divisions.

Although the company's turnover was reduced by the disposals, profits increased and earnings a share grew from 14,6c to 15,6c during the six-month period. No interim dividend was declared.

The interim results of Gants Holdings included the agricultural machinery division which was subsequently sold to Norths Industries and excluded certain foreign subsidiaries. An attributable loss of R4,4m was reported (R5,5m profit), translating into a loss of 5,7c a share (9,2c). No interim dividend was declared.

The directors said that unfavourable local trading conditions had affected Gants' results.

Chairman Julian Askum said that the directors were assessing strategies to improve Gants' value and performance.

The business of Norths Industries was sold for R12m with effect from January 1, 1993, but the consideration will only be received after the warranties associated with the sale have been met.

Askum said TGH directors were embarking on the restructuring of group activities, disposal of non-performing assets and debt reduction.

The disposal of certain assets and termination of some operations in the commuter business of Tramway Holdings, together with a $38m rights issue, had already reduced group debt by 33% from R374m to R176m.
Multi-million rand losses from Duros

By AUDREY D'ANGELO

MULTI-MILLION rand losses reported by the Duros Group — now in the process of being renamed the Tollgate Holdings Group — for the six months to June 30 stem from decisions taken before the change of control in midyear, new joint chairman Julian Askln said yesterday.

"We have absorbed all losses and now have a very positive cash flow. The company has been turned around and is a very different entity," Tollgate Holdings, which, under a scheme of arrangement, will be demerged and become a wholly owned subsidiary of TGH, reported earnings per share of 15.6c (14.6c) for the first half of this year.

With earnings of R13.5m in the first half of this year, the company met all its expectations and is on track to meet full year profit targets.

Chairman Mervyn Key and director G C O'Leary say that although the company is pleased with the results, the disposal of "non-performing assets" has resulted in an extraordinary loss of R6.1m.

"Our strategy is to focus on core operations and to dispose of non-performing assets," Key said at the annual general meeting. "We are delighted with the results and are confident that we will meet our profit targets for the full year."
Police evict irate clients from bank

ABOUT 70 disgruntled Trust Bank customers were evicted by police from the company's head office branch yesterday.

The Bank refused to honour the pay cheques of the customers who are employees of motor spares company Spareco Ltd which is faced with liquidation.

But the indignant customers, ranging from middle-aged women working as clerks to young drivers, were adamant Trust Bank should honour the cheques because they had assisted in stock taking at Spareco this month under directions from the bank's auditors.

**Escorted**

"If we are losing millions, why can't the bank also lose millions," a grey-haired woman yelled as she was firmly escorted from the bank by a burly policeman.

The employees obtained a court order on Thursday instructing Spareco to pay their money. They went to the company yesterday to receive their cheques.

Although the atmosphere outside the Spareco office in central Johannesburg was genial while they waited for their cheques, the faces turned grim when they faced the prospect of cashing them.

When they came out of the office, an employee said he had heard the cheques would not be honoured. "What do you mean, 'how do I feel'? We want our money and we are going to get it," he said when approached by The Star.

At the bank, about 70 employees were allowed in before the manager realised the extent of the problem. The rest were kept waiting outside while a security guard armed with a shotgun kept a watchful eye from inside the bank.

Apprehension turned to anger when they were told the cheques would not be accepted.

"At no time this whole month were we told we had been fired or retrenched or should start looking for other jobs," another employee said.

"Instead Trust Bank send us people in and we assist them in stock-taking and all of a sudden they say we are not going to honour these cheques," another employee said.

A number of employees entered into shouting matches with the manager, demanding he accept their cheques.

As the crowd outside grew, it became clear the customers inside would not leave and police were called in. They were asked to leave in no uncertain terms "People, you can go outside now, or we will arrest you and you can spend the day in jail," a policeman, who identified himself as Captain Nortje, shouted.

Outside, the crowd, which was about 200-strong, was forced 10 metres back by the police to allow other customers to enter.

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**Overseas flights up 8 pc Monday**

SOUTH African Airways' international airfares will increase by 8 percent from Monday, October 1, according to the information given to travellers and travel agents by SAA in Johannesburg.

However, no official comment has yet been given by SAA.

Travel agents in Johannesburg confirmed that the fare increase goes into effect from October 1 — and are advising overseas travellers to book their reservations on Friday at the old prices — Sapa.
For most South Africans the Johannesburg Stock Exchange might still seem a rich man’s casino — not a place for a sensible person to put away money.

(However, through pension funds and life policies many participate in the institution.)

There are a number of compelling reasons for investing in shares, stocks or equities, as they otherwise are sometimes called.

One is inflation. In an economy where inflation is constant, investment in companies is the only way an investor can be sure of getting a reasonable return.

Tax and inflation together are sure to erode the value of money put into interest-bearing accounts in banks or building societies. Companies, on the other hand, can pass on cost increases to consumers by putting up their prices in line with inflation. The end result is that they can show profits above inflation.

The other reason is tax. Investment in shares can be tax-deferred, among other things, because the length of time the shares are held - enable investors to get a tax-free capital gain.

Few have the wherewithal or the inclination to buy individual shares. Especially the “blue-chip” shares, which have risen to levels where it is difficult for an individual to spread his risk. For example, 100 SA Breweries shares alone would cost more than R3,700.

On the other hand, few brokers are willing to get involved in taking orders for 100 shares or so.

Unit trusts, or mutual funds, offer the ordinary man an avenue to invest in the JSE.

A unit trust makes it possible for a large number of investors to pool their capital for investment on the stock exchange, so getting a spread of investment they could not otherwise achieve. For example, if R20 a share, one can invest in a unit trust and have his investment professionally managed by the unit trust managers.

What also differentiates unit trusts from other stock market investments is the regulation of unit trusts by a set of laws. For instance, under the regulations the company managing the unit trust must have a minimum capital of R2-million and must itself maintain an investment of at least 10 percent of the trust’s units, up to a maximum of R1-million, at the discretion of the Registrar of Unit Trust Companies.

There are other safeguards as well. One of which is a unit trust cannot hold more than 5 percent of its assets in any one company’s shares. This means unit trusts are forced to have a spread of investments and don’t put all their unholders’ eggs in one basket.

There are two ways of investing in unit trusts. One is by way of a lump-sum investment, the other by regular payments. This second method has the advantage of "round cost averaging." If you invest regular amounts regularly, you accumulate more units when prices are lower and fewer when prices are higher. Statistically over a period of time it has been proved this brings down the average cost of buying a unit.

Having a unit trust pays off in two ways. One is the income the fund generates, and which is paid out to the unit holders.

Income is paid either quarterly or half-yearly, depending on the particular fund. It is made up of both dividends and interest. The money you receive is the income generated by the trust minus the service fee, audit fees and any relevant taxes.

The other pay-off is the capital appreciation — the difference between the price you paid for your units originally and the price for which you can sell them to the unit trust fund managers.

If you don’t need immediate income you can select an investment plan which allows the income to be reinvested in units, and many unit holders opt for this.

For many years unit trusts have paid off handsomely, giving returns well above the inflation rate. There is a tax angle as well. These high returns have mainly, though not entirely, been the result of capital appreciation. Now, since dividend payments from share investment are no longer subject to tax the income payments from unit trusts are also to a large extent tax-free.

Not all of the income is tax-free. Some of the income generated by a unit trust from investments in cash, and so is subject to tax. This happens when a unit trust becomes liquid, that is if sells shares. At times like these when the stock market seems shakily and interest rates are high, the fund managers would like to keep a fair amount of cash for interest-bearing investment.

For instance, Old Mutual assistant GM (unit trusts) Bastiaan van der Merwe says liquidity now varies from fund to fund, with some holding as much as 10 percent in cash, some going as high as 30 percent. Unit trusts are compelled by law to hold at least 5 percent of their assets as "liquid assets," basically cash investments.

There are some points for potential investors to note.

Firstly, unit trusts are a long-term investment. Bank on holding on to them five years or more.

Secondly, a basic tenet of investment is that there is no risk without reward, and the unit trust industry offers no guarantees about future returns. It merely points to the returns achieved in the past.

On the face of it unit trusts are hard to beat. The general economy trusts, the most popular investment vehicles, achieved an average annual compound growth — capital growth plus income payments — of over 25 percent over the past five years.

The question a potential investor has to ask is: What is likely to change? Will the government really succeed in bringing down inflation drastically? Will the stock market continue to achieve the kind of returns for investors that it has?

It is likely that a withholding tax of something like 12 percent is likely to be introduced. This will reduce the amount of tax investors pay on interest-bearing investments, and make them more attractive than they have been.

But even if one were to decide that participation mortgage bonds, which have a reasonably high rate of interest, were the main place to put one’s money, unit trusts should form part of any balanced investment plan.
JCI keeps growing

Johannesburg Consolidated Investments (JCI) posted an 18,2 percent increase in attributable earnings for the year ended June. Financial statements released on Wednesday show earnings were higher at R429,6-million which translates into earnings a share of 291c (246c).

A final dividend of 90c was declared to make a total of 132c for the year.

The contribution to equity earnings by the group's mining interests increased marginally by R9,1-million, an increase of 2,8 percent on the previous year.

Platinum and gold's contribution declined by R18,9-million and R5,6-million respectively, mainly as a result of a significant drop in the prices of the metals as well as the impact of inflationary pressures on working costs.

The improved trading conditions experienced by the group's diamond interests resulted in an increase of 8,5 percent to R81,4-million from this source. The increase in coal earnings of 67,3 percent to R33,8-million is largely attributable to the acquisition of a 40 percent interest in the Middelburg coal mine.

Earnings from industrial and property interests increased by 8,8 percent to R226,7-million.
IN BRIEF

THE NEWS LAST NIGHT

Suregro earnings plunge 54 percent

Attributable income of industrial vehicle and materials handling group Sure Group Holdings (Suregro) fell 54 percent to R1,5-million (R3,2-million) in the year ended March.

Suregro said setbacks in its truck and parts division had caused earnings a share to drop to 66c from 13,1c.

There will be no final dividend for the year. An interim of 2,2c was paid after the half year.

Turnover rose 26 percent to R51,4-million (R40,7-million) and operating income by 29 percent to R7,6-million (R5,9-million). A 161 percent rise in the interest bill to R5-million (R1,9-million) reduced taxed profit by 25 percent to R2,57-million (R3,4-million).

Suregro wrote off non-recurring costs of R1,7-million (R400 000) as extraordinary items in the year.

Group MD Keith Blair said all indications at the half-year were that the truck and parts division would continue to trade profitably, but anticipated demand did not materialise.

The group's overseas division performed well, contributing R2-million to taxed profit. The directors forecast meaningful growth in this division in the year ahead.
Imphold profits up

Investment holding company Imphold raised bottom-line profit 21 percent to R16,9-million in the year to June 25. Imphold, a motor trading, car rental, truck systems and financial services group reported earning a share at 30,2c (25c). The final dividend of 5,3c (5,5c) brings the total dividend for the year to 12,85c (10c). Turnover climbed 22 percent from R446,5-million to R544,5-million. Operating profit rose by 29 percent to R50,1-million (R38,8-million). Finance charges increased from R5-million to R7,6-million, leaving pre-tax income 25 percent ahead at R42,5-million.

Imphold's motor division continues to be the largest contributor to turnover at 43,7 percent (43,5 percent) but the truck systems division made the largest contribution to pre-tax profits, earning 33,8 percent or R14,4-million of the group's pre-tax profit.

Imperial Car Rental continued its expansion and pre-tax profit rose by an acceptable 13,3 percent to R12,3-million. Recently launched Regent Insurance contributed R3,8-million or 9 percent of the group's pre-tax profit.

Reports from Weekly Mail staff, 26/27
Provisional liquidation for Spareco

By Ann Crofts

Spareco has been placed in provisional liquidation after Bankorp's decision to support an earlier application by Ferodo. The order was granted by the Rand Supreme Court last night.

The court ordered that the application be granted, but refused another request that a creditors' meeting be stopped.

'The meeting, set for October 4, is to discuss efforts by the Cayman Islands-registered Lakewood Corporation to take over Spareco for 56c in the rand.

Bankorp (which has a claim of R31.4 million, compared with IBJ's, Alpha's and First National's aggregate claim of R28 million) said it opposed the scheme of arrangement and would not support it.

Without Bankorp's support, the Lakewood deal cannot be implemented as it will not receive the necessary 75 percent support of creditors entitled to vote.

Bankorp said it had received far more beneficial offers for Spareco, but that the prospective buyers would formalise the offers only if Spareco was placed in liquidation because of the uncertainty and chaotic state of its affairs.
Court order against Spareco

MOTOR spares distributor Spareco has been placed in provisional liquidation.

An order for the provisional winding up of Spareco was granted by Mr Justice Joffe in the Rand Supreme Court yesterday after an urgent application brought by one of Spareco's creditors, Ferodo.

An affidavit supporting Ferodo's application was submitted by Bankorp — Spareco's largest creditor — which stated Bankorp did not accept or support a proposed scheme of arrangement with Lakewood Corporation aimed at satisfying creditors.

It was stated in the affidavit that Bankorp would vote against the sanctioning of the arrangement at a meeting scheduled for October 4, and as Bankorp was the major creditor a majority would not be obtained.

Bankorp was not prepared to await the outcome of the meetings of creditors on October 4 and supported the application for the liquidation of Spareco, said the affidavit.

An attorney acting for Ferodo said last night that the October 4 meeting with creditors was still scheduled to take place.

On September 11 Ferodo applied for the liquidation of Spareco, and the application was postponed to October 9.

However, the creditor brought an urgent application yesterday following the resignation of three Spareco executives and the refusal by TrustBank to honour cheques for the payment of Spareco staff wages on Friday.
Capex of R1.1bn on the cards for AVI

ANGLOVAXAL Industries (AVI) had budgeted R1.1bn for capital expenditure over the next three years, chairman Basil Hersov said in the group's 1990 annual report.

This compares with R220m spent in the year to end-June 1989 and R209m in 1991.

In the year under review, AVI raised attributable profits by 26% to R207.6m from R164.8m and a dividend of 1.35c (12.8c) was declared.

Hersov said each of AVI's five business sectors contributed towards this improvement. Grinaker Holdings performed well despite pressure on civil engineering margins in Grinaker Construction.

Earnings from AVI Diversified Holdings grew ahead of the inflation rate. Market demand for textiles was strong in the first half of the year but was disappointing for the full year, partly as a result of labour unrest, he said.

Engineering related investments performed considerably better than in 1989 with the exception of Claude Neon.

National Brands' earnings improved significantly. Some of the best performers included Beckett's - tea and coffee and breakfast cereals marketer - and Bakers.

In the frozen food division, Irvin & Johnson did not manage to maintain its record of sustained earnings growth because of soft markets, a decline in the Namibian fish resources, reduction in SA's hake quota and a poor catch mix in SA waters.

Consol's earnings grew 46%.

AVI's investment in Control Instruments Group has been disappointing and a R18m provision against its carrying value at June 30 1990 has been made.
**Spareco liquidator**

6/10 3/10 (232)

**to be named today**

**Business Day Reporters**

A LIQUIDATOR for Spareco will be appointed in Johannesburg today, attorneys for Spareco creditor Ferodo said yesterday.

Attorney Michael Young also said that creditors requiring information on their dividends should attend tomorrow's meeting at the Carlton Hotel in Johannesburg at 9am to consider an offer of compromise.

It was Ferodo's successful urgent application that put Spareco into provisional liquidation on Monday. Spareco's major creditor Bankorp has already rejected a rescue package proposed by Lakewood Corporation and said on Monday it would vote against the agreement. A majority would therefore not be obtained as Bankorp has a weighted vote.

Bankorp senior credit manager Adriaan Burger would yesterday not confirm or deny whether the bank planned to take steps to halt the meeting with creditors tomorrow. He said he did not know whether Bankorp had already written off the R31.4m Spareco owed it.

A Spareco employee said he believed Bankorp was against the offer as it was made by foreign investors Lakewood Corporation is registered in the Cayman Islands, and sources confirmed it is linked to German businessman Hans Schreiber who has a number of interests in SA.

An employee of Spareco confirmed that a meeting had been held yesterday between regional managers of Spareco and Valtrucar (Valcar). However, neither party would comment on the content of the meeting.
**Investors’ Spareco rescue operation gets under way**

A RESCUE operation to save motor spares distributor Spareco from final liquidation got under way yesterday with meetings between motor group Vaaltrust (Valcar) and Spareco management and staff.

Spareco company secretary Mark Chassey said last night there would be a meeting today of a consortium of investors — Valcar, RH (which is backing the deal), and “another party” — and Spareco’s liquidators and creditor banks.

Valcar and Vaaltrust have issued a cautionary announcement to shareholders that negotiations are taking place.

Directors of Valcar — the company operates sales parts and service outlets in the Transvaal — could not be reached for comment yesterday.

Mike de Villiers of Deloitte Pun Goldby and Les Cohen of Westrust have been appointed provisional liquidators of Spareco.

Chassey said the consortium of investors had already been in contact with Spareco’s major creditors.

At a meeting yesterday, all Spareco’s remaining executives and managers supported the deal.

“All staff members of Spareco were completely behind the deal, and Spareco can be saved,” Chassey said.

The investors were looking for a complete takeover, with Spareco being delisted, as they “want to take over a clean company.”

Chassey said the deal seemed promising.

He thought Spareco subsidiary Eddies, which is being held as security by the International Bank of Johannesburg, would come in as part of the deal with the consortium.

Meanwhile, Lakewood Corporation’s offer to buy out Spareco has lapsed.

It was confirmed yesterday that the offer by the Cayman Island-registered group was subject to certain conditions, one of which was that the company should not be placed in liquidation.

However, the meeting which the court ordered today would go ahead.
group, this week's court order came as no
surprise. Three Spareco executives quit last
Friday, including MD Graham Walker, who
had been particularly active in rescue efforts.
Shortly before he quit, the Industrial Court
ruled that Spareco must pay September sala-
daries to its employees, this, however, was no
straightforward matter in view of the lack of
funds. Another development was the involve-
ment of the listed motor group Vaalreucar as
one of the parties interested in saving the
spares group. Vaalreucar executive chair-
man Sarel Germaine declined to com-
ment.
Les Cohen of Westrust has been nomi-
nated by certain major creditors to act as
liquidator. The Master of the Supreme
Court was to appoint him and certain others
as liquidators this week.
Latest available accounts for Spareco are
for the year to end-June 1989, which were
published in February 1990. These accounts
indicate a sombre outlook for shareholders
and creditors. It's understood that net cur-
cent assets dropped substantially in recent
months and this situation helped persuade
the Rand Supreme Court to grant three
banks authority to hold Spareco's stocks for
the purpose of "protecting its security in
terms of a notaral bond."
Nor do the fixed assets offer much en-
couragement: the accounts show book value
of fixed assets stood at R23.4m, of which
R8.4m (36%) represented trademarks and
R5.2m (22%) computer software.
The investments listed on the balance
sheet include a R7.5m 000 interest in an air-
craft partnership. Thus, we understand, re-
fers to a Beechjet seven-seat passenger bus-
ness jet, registration number N3127R, now
grounded at Lanseria and in the safekeeping
of National Airways. One of the creditor
banks obtained a court order in this regard
some three weeks ago.
The business jet was financed through an
HP Agreement with Southern Aviation
Finance Sources at Lanseria told the FM
the other party in the aircraft partnership is
Sladden International and that Spareco
chairman Chris Sladden frequently piloted
the jet. According to the accounts, the com-
pany is committed to an injection of
R943 504 into the aircraft partnership each
June and December until December 1993
and a final injection of R5.9m in February
1994 — totaling more than R11.5m.
Meanwhile, it is believed that Bankorp is
considering selling its interest in Internation-
al Bank of Johannesburg (IBJ) to a French
consortium. Peter Gray, MD of IBJ and a
Spareco director, could not be contacted this
week.

Gerhard Slabber
Demands for nationalisation have been toned down by the ANC and their supporters. But they have achieved at least one of their aims — they have persuaded government to put plans to privatise State undertakings on the back-burner.

Apogetically, government, which had sensibly adopted privatisation as official policy, is now using terms like "commercialisation," previously seen as a halfway stage to privatisation, to describe a final policy objective in itself. Commercialisation is the laudable process of turning State corporations into mock private companies.

Sats (now Transnet), the Post Office and numerous other State entities were, in terms of this policy, being groomed as profit centres so that they could eventually be sold to the private sector at the highest price.

Now Postmaster-General Johan de Villiers tells us the Post Office won't necessarily be privatised if commercialisation alone does the trick of making it more efficient.

The initial motivation for privatisation wasn't government's ideological commitment to free enterprise or to broaden democracy but a scramble to top up State coffers. It is a legacy that helped to create the hostile attitudes towards a privatisation process which has been successful in improving economic performance wherever it has been applied.

The Johannesburg Stock Exchange (JSE) has been only too glad to let government take its time. Says JSE president Tony Norton: "We expect a company to have an audited four-year profit history before it can qualify for a listing on the main boards and, for instance, SA Airways' profits as a monopoly aren't relevant to its future in a deregulated environment."

But a stock exchange flotation is only one of at least 27 recognised methods of privatisation. In some cases, assets have been sold or given away to the work force, in others, corporations have been split into smaller business units, or shares have been distributed through more ordinary channels such as post offices, which don't have the elitist connotations of the stock market.

The flotation, however, is probably the least easy to sell to political radicals who see the stock exchange as a rich white man's club. Moreover, the political objections of the ANC have come at a mighty convenient time for many public servants who fear loss of tenure through privatisation. And there are even some businessmen who have begun to raise objections. For instance, many in mining and industry, including Chamber of Business president Les Boyd, oppose the privatisation of Eskom, as they believe it would lead to huge tariff increases.

Two significant privatisation sales were planned for this year, the Abattior Corp and the Phosphate Development Corp. But Abakor's Frans van der Vyver says the corporation won't be privatised until the deregulation of meat sales, which is being addressed by a committee which has yet to report. The Foskor listing has been delayed because the fertiliser industry lobbied on the fear that it could push fertiliser input or raw material costs sky-high.

But privatised businesses are regulated by the most efficient regulator of all — the market. It would be vital to make sure that fertiliser companies had full access to imports and the deregulation of meat prices should accompany Abakor's privatisation.

Opponents of privatisation even point at Iscor, which is now trading at a discount to the issue price, to say that privatisation isn't such a boon to the public. Those same critics argued, when it looked as though Iscor might provide a neat capital gain to consumers, that privatisation would create a casino mentality in the people and make them greedy for short-term profit.

While normally socialist countries like New Zealand and Czechoslovakia are privatising at high speed, SA, which our own government has been holding out in recent years as a bastion of capitalism on the tip of Africa, is taking its time.

A stock argument is put by Jasper Nieuwoudt, the CE in the Office for Privatisation: "In the UK, certain companies were once in the private sector and developed a business record and then were nationalised. It was, therefore, relatively easy to return them to the private sector."

"In SA, however, businesses were never nationalised but were born in the public sector, so an entirely new business culture has to be created. The widening of share ownership is a desirable goal, but it is only one part of the process. Turning corporations into efficient businesses is an important development in its own right."

The argument glosses over the fact that in the UK water and telecommunications were also born in the State sector but have nonetheless become part of the private sector. Or that privatisation plans in eastern Europe have been devised to take into account the previous absence of the profit motive.

The value of the remaining State corporations is immense (see graph). Eskom alone, with an estimated asset base of more than R39bn, is second only to Old Mutual. Transnet has an asset base almost equal to De Beers.

But, apart from the corporations themselves, almost all public-sector buildings and services are candidates for privatisation. The total value of privatisable assets is estimated at between R200bn and R500bn, or between six and 15 times the asset base of Anglo American.

One reason for the delay is probably the understandable desire of the present public sector bosses to build and retain empires. Sats MD Anton Moolman has proved to be an energetic and (by State standards) entrepreneurial manager, but in spite of new names and expensive corporate image campaigns, a magnifying glass would be needed to find any discernible difference between the old Sats and the new Transnet.

Free Market Foundation director Leon Louw says governments have tried to make State corporations more efficient all over the world, but failed. "These companies are still socialised and aren't responsible to shareholders in the ordinary way. But it's estimated that talk about privatisation will increase its efficiency by 10% and actual privatisation by 30%.

Louw says government is under the false impression that only profitable enterprises can be privatised. He says one of the best methods, which could be popular with workers and unions, has been practised in Czechoslovakia, where an equal number of vouchers has been distributed among the population.
"These vouchers can be used either to buy shares in a State utility or buy a small business or commercial vehicle. They have no monetary value, so it hasn’t led to an inflationary cash injection into the economy. Rather than sell off the whole of Transnet, trains could be sold coach by coach to individual entrepreneurs, who could then book siding time.”

In the case of undertakings which commercial logic suggests should be sold as a single unit, in keeping with the best method is to allow workers to take one-third of a company, first-time shareholders, preferably blacks, another third; and the remaining third to the general public.

The nearest thing to a populist privatisation in this country is happening at National Sorghum Breweries (NSB) Early in 1991 NSB, which is part of the Industrial Development Corp, will send a prospectus to potential investors, primarily from its staff and distributors, who are 95% black. No non-black enterprise will be able to exercise more than a minority interest.

Reason suggests that this example could be a workable model for making privatisation popular with blacks NSB chairman Mohale Mahanye’s, however, is reluctant to draw such a conclusion “Sorghum beer isn’t really business as usual,” he says “because sorghum was historically part of the black heritage which was taken away from them and is now going to be given back.”

Mahanye says NSB will be by far the biggest black-controlled enterprise in the country and he says blacks who really understand the sorghum market will be able to grow with the market by providing more sorghum beer in line with consumer tastes.

The company could prove a major boost to black business confidence and may give them a stronger desire to buy into State corporations.

The ANC and its Cosatu allies remain sceptical about plans to share wealth among the whole population.

Floyd Mashele, who co-ordinates Cosatu’s anti-privatisation committee, says the ANC has made it quite clear that any industry that is privatised during the negotiation process will be renationalised by the “new democratic government” even if the workers in the enterprise make up a large proportion of the shareholders.

“Share ownership is a method of dividing the work force. Those workers who have shares in a company will be less willing to fight for a living wage if it means that the company will suffer as a result. At the end of the day, large private corporations will buy out workers and then exercise their clout to control the privatised industries.”

But labour harmony has been the outcome in countries where workers are properly rewarded and made to feel that they have a real stake in their companies. Higher growth rates were the result. In one sense, unions have been most successful in Austria and Sweden, where they have won high wages for their members. But they have also been least successful in these countries in radicalising the work force, because people with mortgages and colour TV’s don’t put their jobs at risk.

Mashele led a series of marches against privatisation, which contributed to government’s change of tone. Neuwoudt now admits that to name the bodies which are primarily concerned with commercialisation “The Privatisation Unit” and “The Office of Privatisation” is misleading and it’s quite possible that their names could be changed.

But even this climb-down isn’t quite enough for the ubiquitous Mashele State corporations which have at any time been identified as candidates for privatisation will be picketed on Friday October 19 and there will be further mass marches on Saturday October 20.

Mashele adds that businesses which have expressed an interest in buying privatised assets will also be picketed.

“We aren’t against commercialisation which leads to greater efficiency and productivity. If it isn’t detrimental to the industry to separate Transnet into business units then we wouldn’t go back to the status quo. But we fear that the privatisation process has just gone underground. Tariffs have been increased and work forces cut back just as they would be in a private corporation.”

Unfortunately, these are part of the greater efficiency and productivity which Mashele claims to support.

The central argument used by Mashele is that however the merits of privatisation it should be left to a “legitimate” government to carry out.

And instead of trusting the market system to allocate resources to the greatest economic benefit, which is what is happening everywhere else in the world, Mashele is hopeful that economic growth can result from an end to sanctions, a decline in labour unrest and a stable political climate, regardless of whether the lion’s share of the economy is in State or private hands.

That logic has already been put to the test and has failed in eastern Europe, the USSR, Red China, Central Africa and in many South American countries.

By adhering to trade and financial sanctions and opposing privatisation, the ANC and its surrogates are upholding a political stance that is tantamount to the violent disruption of society. That is an attitude of mind also characteristic of those who perpetrate apartheid.
Shareholders of Pinnacle Holdings, which owns 10% of troubled Alpha Bank, are preparing to sue the directors. Chairman Attie Botha has already resigned.

A shareholders' committee has written to all shareholders, stating that Pinnacle's prospectus "promised an incredible return on our investment." These promises persuaded investors to put in R5m.

Committee chairman Tony Lewis-Williams alleges the prospectus contained statements which may provide grounds for legal action. The letter also alleges Pinnacle has squandered its capital and its liabilities are far in excess of assets. "The shares are probably worthless."

The problem investors face is the cost of litigation, so the letter encourages the 800 shareholders to contribute to the cause. The committee estimates if 200 shareholders contribute, legal fees (and Pinnacle's court costs if the case is lost) will not exceed 7% of any individual's initial investment.
to date The only company materially affected was Norths whose results reflect the sale of its operating assets — to a management consortium led by Michael Rose-Innes — as from January 1, and since payment has not yet been received it has been left virtually in a state of limbo.

The point is also made that had the R87m raised through the recent rights issue and the sale of the Arwa operating assets been received in January instead of at the end of the review period, Tollgate would have shown positive earnings of 15c a share. This looks quite an impressive turnaround from the 18,3c loss actually achieved. The catch is that the calculation excludes abnormal charges amounting to R15,8m, arising on discontinued operations and the cancellation of long-term contracts. Similarly calculated, actual EPS for the half-year work out at 9,6c.

Still, the pro forma 15c is a clear indication that the group is at last moving in the right direction. But with the restructuring proposals having been based on a price of

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<td>Earnings per share (c)</td>
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<td>Six months to June 30</td>
<td>1989</td>
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<tr>
<td>Tollgate</td>
<td>25,0</td>
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<tr>
<td>Duros</td>
<td>47,1</td>
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<td>Gants</td>
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<tr>
<td>Entecor</td>
<td>14,6</td>
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335c for Tollgate, it is also clear that much needs to be done before that price can be justified. Taking the average industrial market p/e ratio of 8.4 as a benchmark, the 335c price would suggest a minimum annual earnings target of 40c a share for the restructured group, still quite a far cry from 15c for six months.

The market, however, seems reasonably confident the necessary turnaround will be achieved. While Tollgate itself has slipped to 250c, prices of Duros, Entecor and Norths uniformly value Tollgate at 300c in terms of the share-swap proposals, which is about as high as it should be even with the alternative cash underpins.

Brian Thompson

DUROS/TOLLGATE 232

LONG WAY TO GO 5/10/90

With the impending restructuring of the Tollgate group — involving, inter alia, absorption and the delisting of Duros, Norths and Entecor — interim results for the six months to June 30 are mainly of historical interest. Except, perhaps, to the extent that they serve to underscore the dire necessity of the restructuring and the task that has confronted the new controlling consortium.

The group’s overall record for the period was “spoil” by Entecor, which not only failed to make a loss, but actually managed to improve earnings marginally over the year-ago period. For the rest, the best that can be said is that the results were probably no worse than expected after the equally depressing performance up to December 1989. For the record, the only dividend declared by these companies was a 6,5c interim from Tollgate.

The Tollgate board is at pains to point out that the results reflect the performance of the group before the effective change of control which took place as from July 1. Nor do the figures reflect, to any material degree, the restructuring that has been accomplished.
The FSI group's major holding companies have turned in a patchy set of interim trading results, while attributable performances ranged from slightly improved to sharply down.

W&A's operating result for the six months to end-June was surprisingly good, with a 27% advance — somewhat better than the improvement of 23%-odd for FSI itself. In contrast to these increases, were rises of only 3.8% for both Hunts and Teamcor.

Reassuring though the trading results from W&A and FSI may seem, the accounts underscore several points of concern. Firstly, the weak trading results from Hunts and Teamcor reflect sharp deterioration of some of the major domestic operations. W&A's operating profit was boosted partly by the 58%-held UK company, AAF, whose operating profit was up by 56% at £2.5m.

Secondly, interest costs hit the attributable earnings of both W&A and FSI. FSI Corp's finance charges ballooned from R54.9m to R92.2m, reducing the interest cover to only 2.1 times. This resulted in a R2m drop in pre-tax profit; it was only because of a sharp drop in the tax rate that attributable earnings increased.

Similarly, W&A's finance charges more than doubled. This was partly offset by the lower effective tax rate and a larger contribution from associated companies. Chairman Jeff Liebesman blames the rise in finance charges on both higher interest rates and borrowings associated with recent acquisitions. However, the Hunts subsidiary, Teamcor, and W&A subsidiary Homemakers received an aggregate R11m on disposal of certain interests.

These results again emphasise the group's need for a more efficient structure. (Fox September 21) The share has fallen more than 35% in 12 months despite last month's announcement.
Broking firms face harsh recession as turnover dips

Some broking firms are facing their worst recession since the bear market of the early 70s as turnover on the market slides to abysmally low levels. The result has been staff cutbacks across the board, mainly by "natural attrition" but also by retrenchments at the firms struggling to trim costs.

Senior staff are among those believed to have taken salary cuts of up to 20%. And many are not expecting Christmas bonuses.

Cutbacks in the industry follow steadily declining volumes and values on the JSE. Volumes have sunk to around 5-million shares daily from 7-million a month ago, affecting turnover which has been halved in daily R560m this week from September 1.

This compares with the R750m to R800m a day to which most firms are "comfortable" in order to cover costs, and trade of more than R100m a day during the 1987 boom.

Max Pollak & Freemantle senior partner Dave Shapero, whose firm "retired" 10 backroom people last week, estimates there has been a cut of 10% to 15% in staff levels in the broking community this year.

"But it's been more a case of natural attrition at the clerical, admin and junior levels than at the broker level. This is because greater efficiencies on the admin side have reduced the strain there," he says.

Frankel Kruger Vinderine (FKV) senior partner Leslie Frankel denies his firm has retrenched staff. He says only three employees have left in the past month - of their own accord - and that this is normal in the circumstances. In fact, FKV will be announcing an "extension of its base" within the next two weeks, he adds.

"There's a lot of movement and rationalisation in the industry now because, with inflation, salaries and expenses are up tremendously and there are no volumes to support expenses that have arisen," he says.

A spokesman for a medium-sized firm, who did not want to be named, says those with a sharp institutional focus are generally remaining in the black.

"But the industry is do or a movement on gilt rates and a higher gold price - something to spark things off on the JSE."

The latest move among investment analysts is that of Frankel, Kruger Vinderine mining analyst Keith Bright, who says he is leaving the firm "for greener pastures" Talk is that he will be joining Edels, Rogers & Co on November 1. And "Ed Hery" Rudolph, mining analyst and head of research Tom Dale is reported to be leaving the firm to join Gem

Letters of dismissal sent to Spareco's 683 staff members

SPARECO staff were told in a letter at the weekend that their services had been summarily terminated, former Spareco GM Oscar Taub said at the weekend.

Many of the dismissed workers protested outside TrustBank last Friday against the non-payment of their salary cheques.

Taub estimated that provisionally liquidated Spareco had lost R500,000 a day in September. However, Spareco's staff managed to collect R1.5m in outstanding debt during the period.

But while Spareco's 683 staff members had conducted themselves loyally and honestly under extremely difficult circumstances in September, none had been paid for that month, he said.

Meanwhile, offers for Spareco's business as a going concern, its individual branches or its investment in Eddies Motor Spares have been called for by the joint provisional liquidators.

Offers for Spareco's business have to be submitted to the liquidators by Friday and should be based on an offer for the stock in trade of respective branches. Fixed assets are to be negotiated separately at a later stage, say the liquidators.

An announcement published today details the estimated stock at cost of 25 branches of Spareco. The total cost of this stock is about R25m and the liquidators warn that some of it may be subject to Reservations of Ownership.

Last week, Spareco staff had meetings with motor group Vaalzuur (Valcar) in an attempt to save the group. The rescue package proposed by Lakewood Corporation has reportedly lapsed in terms of the scheme of arrangement.
Bank's R2m not written off

THE Reserve Bank has said it does not intend writing off the R2m it contributed to the failed futures trading floor, and that its intended users will have to meet their financial obligations in respect of this sum.

The futures floor was scrapped by the SA Futures Exchange (Safx) last week after a ballot failed to garner the necessary support.

Deputy Governor Chris de Swart said on Friday that the R2m had been in the form of an investment in preference shares issued by Floor Trading Company (Floorsco).

Floorsco is jointly owned by Safx and the Bond Market Association (BMA). It runs the R3,5m floor, designed for trade in both futures and bonds.

"It is not the Bank's intention to write off the amount invested in the preference shares," De Swart said.

However, he pointed out that the Bank's understanding of the matter was that Safx's executive committee still had to take the ultimate decision on whether or not to close the floor for good.

This was confirmed by Safx, though sources close to the exchange said that a sudden burst of enthusiasm for the project was unlikely and that final closure was a formality.

"The Reserve Bank will accept the decision of the executive committee because it does not want to prescribe to the market how trading should be structured," De

Futures floor

Seward said.

The Bank's only concern was that a formalised market should operate within the framework of principles laid down in the Financial Markets Control Act - which governs futures trading - or by the Registrar of Financial Markets.

Asked whether, with the benefit of hindsight, the Reserve Bank had erred in throwing its weight behind the floor when the idea was first mooted in 1983, De

Swardt said "At the time ... the majority opinion was in favour of the floor and the Reserve Bank merely supported this initiative financially. The Bank did not force the idea of a futures and bond floor onto market participants."

Market participants, who declined to be named, said the initial Safx survey on the issue was overwhelmingly against a floor trading system. Out of 26 respondents, 21 were in favour of a screen system.
The 3% floor that never was

**NEWS FOCUS**

Robert Gentle

The 3% floor that never was.
Falling share volumes sink below futures

THE value of share index futures traded on the SA Futures Exchange (Safex) exceeded the value of the underlying shares traded on the JSE for five consecutive days last week — the first time this is believed to have happened.

However, futures market participants were quick to point out that this was almost exclusively attributable to the pitifully low volumes on the JSE and not any inherent strength in the futures.

"It is not that we are doing well, but that the JSE is doing badly," said a trader.

JSE volumes traditionally lead share index futures volumes. Ironically, last week's rogue pattern put Safex more in line with overseas markets, where the opposite situation exists — a phenomenon known as "the tail wagging the dog."
BoE unit trust raises R10m in first quarter

THE Board of Executors' first unit trust, the BoE Growth Fund, has raised R10m from 1 000 unit holders during the first quarter since its launch in July, says senior GM John Winship.

"The public support has been beyond our expectations and the trust has grown much more quickly than other recently launched trusts," he says.

BoE's fund managers have used the current stock market weakness to establish core holdings in blue chip shares, but still retain high liquidity with cash and fixed interest securities at nearly 30% of the portfolio.

"The key to BoE's strategy is a large holding in Ells bull stock which gives the investor exposure to the share market, and a high level of income which is sure to

outperform the share market over next 18 months, says Winship. The fund's top 10 holdings are diamonds (7.1%), Anglo (4.3%), Richmont (4.2%), Rembrandt (3.6%) and Sasol (3.9%). The banking sector is represented by UBS (2.9%) and Nedbank (1.4%) and recovery stocks are Powertech (2.1%), Iscor (1.3%) and Sunhopper (1.2%).

For the quarter to end-December, BoE expects further market weakness, with consolidation at best. "This is the best time to buy units. The purchaser gets more units for the same rand amount and when the share market recovers into 1991, will enjoy the gains," Winship says.
Brokers lay off staff as trading depression bites

STOCKBROKERING firm Kaplan & Stewart had laid off about 25 people countrywide as a result of the present trading depression, and would soon close its Durban office, sources from rival stockbroking firms said yesterday.

The head of the Durban office would be moving over to head up the Durban office of stockbroking giant Frankel Kruger Vindernge (FKV), one of the sources said.

Malcolm Stewart, senior partner at Kaplan & Stewart, confirmed that layoffs had taken place in Johannesburg and Durban, but would not give any numbers or comment on the nature of the moves.

"It is a private matter and disclosing these details would be detrimental to the interests of the people being laid off," he said. Stewart denied persistent market talk that FKV was about to take over the whole of his firm.

"It is not even on the horizon. We have no merger aspirations."

Other firms rumoured to be part of the expansionary designs of FKV, acknowledged to be one of the three biggest brokers in SA, were Max Pollak & Freeman and Mathison & Holldge.

Senior spokesmen from these companies have denied any merger plans with FKV.

FKV financial director Geoff Rooschrel declined to comment on the blitz of merger talk concerning his firm.

FKV senior partner Leslie Frankel was quoted last week as saying that the firm would be announcing "an expansion of our base" within a fortnight.

Market sources said it was clear a lot of thinking was being done about mergers in the wake of pitifully low trading volumes, and that merger talk would continue.
LIQUOR retailer Drop-Inn is selling all its property interests for R12.7m and consolidating its shares on a five to one basis, the company has announced today.

The proceeds from the sale of the property will be paid to shareholders as a special dividend of 24c a share. This will be paid in addition to the interim dividend for the six months to August, which has still to be announced.

The directors say Drop-Inn is disposing of its property to become a more focused retail operation with all its assets employed in liquor retailing.

The directors also feel the share is undervalued against its net asset value because the property holdings are yielding a lower return.

If the properties had been sold on March 1 and the proceeds invested in the money market, earnings a share would have been 6.6c instead of 5.1c. Net asset value would have increased to 59.01c from 53.29c.

The disposal of the properties and consolidation of shares is conditional on shareholder approval. A general meeting will be called to approve the transactions.
Rise in liquid asset levels of Sage funds

SAGE Fund's total assets increased marginally to R659,42m in the September quarter from the previous quarter's R649,68m, as liquidity rose sharply.

Liquid asset levels increased in both the Sage Fund (24.6%) and Sage Resources Fund (30.7%).

The portfolios were modified to reflect the economic environment. Sage Fund sold its holdings in Harties and Vaal Reefs, and upped those in Southvaal, Implats, Natco, Lonrho, Gencor, Engen, Tiger Oils and Tongaat.

Its holdings in Lebowa Platinum, GFSA, Amie, Barkows, Plate Glass, Richmont and Nampak were reduced. In the foreign portfolio, Reuters and FMC Gold were reduced, while the holding in Eastman Kodak was increased.

The 10 largest holdings at the end of September were Richmont, Anglo, De Beers, JCI, Rembrandt Beherende, Rembrandt, Allied, Gencor, Tiger Oils and SA Breweries.

Sage Resources sold its holdings in New Wits and Lebowa Platinum, while additions were made to Anami, Koele, Gencor Beheerend, Tongaat and Lydenburg Platinum. Holdings were reduced in Bexitez, Eliasburg and Samancor.

Total assets were reduced slightly to R56,6m from the June quarter's R58m. Top 10 holdings were Engen, De Beers, Gencor, Anglo, JCI, Koele, Mid Wits, Gencor Beheerend, Impala Platinum and Orifoniam.

Sage Fund managers say the recession and high interest rates do not auger well for corporate profits, but global growth prospects have been revised downwards, leading to a decline in major stock markets.
JSE levels

Tremendous pressure, have rationalised by entering into takeover talks, retrenching staff and dropping salaries

Market sources believe Frankel, Kruger Vinderne, hard hit by poor volumes, has been involved in acquisition-related talks with at least two rival firms in a bid to provide an additional workload for its "underutilised" infrastructure. However, this could not be confirmed.

An aggravating factor in the present bear market, said one broker, was the high overheads incurred now compared with the mid-'70s low-cost market.

Norton said the market needed turnover of R100m and 4,000 deals a day before it could relax, so with only R40m changing hands in about 1,500 deals, things were stressful.

Much of the JSE's income was transaction-based and therefore any drop in turnover would have a direct effect on its finances. The problem was that many of the JSE's costs were fixed and a large proportion, therefore, could not be rationalised. "But we are trimming wherever we can," he said.

The low volumes were a result of such factors as high interest rates, falling overseas markets, gold's poor performance and political uncertainty.

Robert Gentle reports a spokesman from Martin & Co said stockbroking firms which had a strong institutional client base and a well managed accounts base should weather the recession better than those firms heavily exposed to private client business.
PICARDI GROUP

LIQUIDITY SQUEEZE

The fortunes of Pechol's three listed subsidiaries turned sour in financial 1990 and no dividends were declared. This year, rationalisation of Picapl, the sale of Union Wine and possible reorganisation of Pecrop and unlisted Sagin - which owns 30% of Cape Investment Bank, which apparently turned in positive earnings - will change the nature of the group, but performance still hinges on Picapl selling white goods profitably.

Pechol's operating profit was halved, as turnover slud and the operating margin collapsed from 9,8% in financial 1989 to 4,8%.

The main problem is Picapl, whose rand turnover is not revealed, but fell 14% Operating profit plunged 61% Chairman Jan Pickard says the company stopped making cheaper portable audio and TV equipment this led to the fall in sales and margins.

Union Wine managed a mere 10% improvement in sales but operating profit fell by a third. The margin reduction is blamed on cost pressures and competition, particularly in the market for spirits.

Pecrop's profit improved, but it sold all its operating subsidiaries and at year-end held only one property and R16m cash.

Operating problems were aggravated by crippling interest costs. A group interest bill of R400m transformed R250m operating profits into a R15m loss, but Pickard says that by year-end interest-bearing debt had been cut by R90m to R120m (mostly at Picapl) and cash of R400m was available.

Lower interest costs

Picapl's 1989 balance sheet reflected interest-bearing debt of R163m, this fell to R114m. Stocks and debtors were also reduced, which may indicate a fall in interest costs this year.

The sale of 60% held Union Wine to Kangra Holdings for R21.5m effective on July 1 will also reduce debt and the interest burden.

But the sale of Sagin to Pecep, moving another R13.5m to Pechol and shifting Pecrop's listing to the banks and financial services sector, has not been completed. In early July Pecrop said it would hold an EGM to approve the deal "as soon as possible," a three-month delay suggests there may have been a hitch, though the company is mum.

Pickard says Pechol's balance sheet has been substantially improved. Despite difficult economic conditions he expects a return to "acceptable profitability" this year. Refocusing Picapl on its traditional area of white goods should improve margins and boost profits. But speculation is again rife that Picapl is up for sale or that a merger in the overtraded industry is on the cards. A rights issue cannot be excluded.

Remarkably, while the rest of the group is shuffling assets and moving cash where it can best be used to cut debt, the top company of all, Pechol, paid a dividend, if of only 15c, against 50c in 1989. Pechel's sole assets are 68,7% of Pechol and R7.5m cash. It reported an attributable loss of R8,3m, euphemistically described in the press as "reduced earnings." The dividend will absorb R5.9m.

Was there nothing in the group that Pechol could buy? Or are its shareholders for some reason more worthy of a dividend than the others?
SA Futures Exchange (Safex) says a decision on whether to close the trading floor has still to be made at the executive committee meeting on November 20. The futures market, however, sees it as inevitable.

Even natural floor traders, JSE brokers, are trading futures on-screen from the equity floor while other futures traders have hardly used it.

Safex polled members last Monday to determine who would have a trader on the floor by November 1.

Only 38% (29 members) responded and eight said they would have a trader on the floor by then.

Safex will still have to meet its 50% commitment. The other half is the concern of the Bond Market Association, which is not likely to be formalised before June 30 now that it has rejected the proposal to trade formally through the JSE’s Gilts Clearing House as an interim measure.

This raises another problem. Association members who are not also JSE members will not be allowed to trade on the JSE’s gilt floor.

JSE president Tony Norton says “The JSE is reluctant to allow outsiders unregulated by us to trade gilts there. It is a dog-in-the-manger attitude, but I can’t allow members to deal on a committed basis with someone we don’t regulate.”

However, though not permitted to trade on the floor, association members who opted for floor trading have to pay for floor services.

In addition, they will pay R3 000 a month, over and above an initial fee of R10 000, to the association until June.

JSE members, on the other hand, who pay R3 000 monthly to the JSE’s Gilts Clearing House, have been absorbed from the additional fee to the association. The floor lease with the JSE runs out at the end of May.

“The association will have to address the viability of the floor then,” says CEO Graham Lund.

A Safex seat was sold for R45 000 last week, 20% down on the previous price. The highest price has been R55 000. They were issued at R25 000.

Jacque Balfour
Minorities and creditors will have to wait until next week, at the earliest, for the liquidators to clarify their position. The motor spares group was provisionally liquidated on October 1, which in terms of Section 317 of the Companies Act creates the opportunity for a compromise offer.

Liquidators Les Cohen of Westrust and Mike de Villiers of Deloitte Pim Goldby have given interested parties until October 12 to bid for Spareco's assets one or more of the retail outlets and the warehouse in Wadeville with their stocks (totaling R26m) and the investment in Edhes Motor Spares.

The final deadline is November 13. If by then nobody has shown interest in acquiring Spareco it will be put in final liquidation.

Ordinary shareholders will share the surplus (if any, which is unlikely) after the claims of creditors and preference shareholders.

Last Thursday's meeting to discuss the offer from Lakewood of the Cayman Islands was an anti-climax. Lakewood withdrew because its offer was conditional on Spareco not being provisionally liquidated.
62 000 more investors put faith in unit trusts

DESPITE the uncertain and gloomy mood of the equities market, SA's 36 unit trusts performed satisfactorily and again attracted a substantial number of new investors in the September quarter.

Gross sales at R543.5m were the third highest, while repurchases at R260.8m were the second highest, the net inflow of R282.5m into the industry has only been surpassed twice before — by the all-time-high inflow of R453.5m in the share market boom quarter of June 1987, and the R364.7m achieved in March this year.

Statistics released yesterday by the Association of Unit Trusts show that almost 62 000 new unit trust accounts were opened in the past three months, bringing the total number of accounts held at September 30 to over 700 000.

In the past year, the industry has gained more than 150 000 new accounts.

With JSE share prices declining, the market value of the 36 trusts declined to R7.62bn at March 31 this year.

Of that total, general equity trusts at the quarter-end held assets totalling R6.63bn (June: R5.97bn).

The specialist equity trusts had assets valued at R1.10bn (June: R1.27bn), while the assets of the high-income funds amounted to R305.1m (June: R337.2m).

The general funds with their balanced blue chip portfolios remained most popular with investors and attracted R224.2m of the quarter's R282.5m inflow.

With interest rates remaining high, the high-income funds, which offer investors a hedge and a safe haven in times of troubled equity markets, pulled in a net R89.6m.

The more volatile specialist equity trusts had a net inflow of R73.6m.

Association chairman Roy McAlpine said it was gratifying to see the general public's funds being invested steadily in unit trusts in spite of the adverse short-term factors which had prevailed during the quarter.

"Unit trusts have proved themselves over a period of time and investors can, in the face of short-term vagaries of the world's share markets, benefit from the experience of unit trust managers in a difficult market."

The seven general equity trusts that could show a five-year performance had achieved an average return of 22.5% a year — an excellent performance by any standard, McAlpine said. The specialist equity trusts' five-year average was also good at 17.3%.

On a shorter, 12-month view, a period during which the share market declined sharply, the general funds achieved an average return of 8.6%, and the specialist trusts an average of 5.7%.
But new rules complex and full of pitfalls for the unwary

NEW rules governing takeovers and mergers, which are expected to come into effect next month, are already winning high praise — for the wide protection they give to the small investor.

If the takeover code finally emerges in a form close to its draft — and few changes are expected — it will avoid many of the worst grievances of minority shareholders which have heralded big deals in recent years.

It will also remove the JSE from a position it has often found to be invalid.

- Restrictions on actions by the board of a target company designed to frustrate an unwelcome offer and stringent requirements to ensure that all parties have equal access to information could see an increase in the number of hostile takeovers in the South African market.

The code has been largely based on London’s City Code on Takeovers and Mergers. It will have the force of law and the 13-man panel under chairman Judge Cecil Margo may enforce the regulations by applying to a court for an order or an interdict.

The Securities Regulation Panel says it is not part of its function to judge the commercial advantages and disadvantages of affected transactions.

Fairness

“The code represents the collective opinion of those professionally involved in the field of takeovers and mergers as to acceptable business standards and as to how fairness to holders of the relevant securities may be achieved,” says the panel.

All parties to a bid, including minority shareholders, will have the right to appeal to the executive committee, which has a quorum of three, or the panel, which has a quorum of five members.

So far the JSE has only insisted on an offer to minorities where there has been effective change of control.

But the JSE’s judgment on whether control has changed has not always been accepted by the major parties. Duties have dragged on, and the JSE had limited powers.

The new code calls for a mandatory offer to minorities whenever 30% or more of the voting rights of any company, whether it is listed on the JSE or not, are acquired.

Merits

More controversially, it also applies to private companies with more than one shareholder where the offer price exceeds R500 000.

“Although the panel has some discretion in respect of private company transactions, this does represent a fundamental shift in regulation in the unlisted market,” says Claire Herbst, managing director of Ernst & Young Corporate Advisory Services.

Shareholders, owning between 30% and 50% of a company, increasing their holding by more than 5% a year may also have to make an offer to minorities.

Restrictions on the target board’s actions are designed to ensure that shareholders are not denied the opportunity to judge an offer on its commercial merits, even if a bid is not welcomed by the board or management, says Ms Herbst.

Competing bidders must also be given equal access to information, within certain limits.

The code also introduces regulations covering management buyouts. Independent directors of the target company and their advisors must be given all the information that has been supplied to the providers of finance for the buyout.

“This is presumably designed to ensure that management contemplating the transaction does not withhold material information from those protecting the interests of minority shareholders,” says Ms Herbst.

In a “heavily leveraged offer”, financing arrangements must be disclosed, probably to ensure that shareholders appreciate the risks.

Dealing

Moves to create a false market in shares of either the holding or target companies are prohibited, and there are strict regulations controlling dealing in the shares before and during an offer.

Ms Herbst says the legislation is complex and there are pitfalls for the unwary.

“For example, a company which has been steadily buying shares in a target company for cash on the JSE, and within three months launches a major bid based on an exchange of shares could find itself forced to make a cash offer to minorities.

Similarly, recent purchases at a higher price than a new offer could mean that the bidder is forced to revise its whole offer upwards.”
Ignore Ellerines at your peril

SOME might have an uncle in the business, but the father of furniture retailing is undoubtedly Eric Ellerine.

The Salam-controlled furniture chain that bears the family name was founded by the Ellerines 40 years ago. It is one of only a few shares to buck the present hammering of equities. A year ago it was R15 a share, now it is R13.

Earnings growth has been outstanding in spite of the perceived susceptibility of furniture to economic cycles. In the year to August 1990 it earned 69c a share—half as much again as in the previous year.

Yet there remains a major middle about the furniture shares in general. Why are the leading lights of the JSE sector on such low price-to-earnings ratios when compared with the blue chips in other retailing?

Ellerine is on 4.5 times earnings, Rauturn on half that. Both Amrel and JD Group trade at about 3.7 times historic profit. Small- est of the big boys, Morkels’ PE is almost 5.

In the all-encompassing big-brother retail and wholesale sector things look a little different. Pick ’n Pay’s price to earnings is 17 times earnings, Edgars 14 and Woolworths 13. Even the OK’s is nearly nine times historic earnings, and the unreliable Tradekro is on 5.5.

It is not a new theme—the long-term debt has always been there. Mr Ellerine believes that the management of SA’s leading furniture retailers has improved immeasurably over the last five years, but that little credit has been accorded to those managers.

Launching

Management at both Rauturn and Morkels were sufficiently confident and competent to buy out their companies from institutional shareholders.

The JD Group has undergone changes too. From its launch as Joshua Doore to its merge with Home-makers.

That Ellerines should trade on such a low PE when compared with its peers in the sector is doubly insulting because it is the only company to provide totally for deferred tax.

Provision for deferred tax is a thorny issue. One school of thought is that making a total provision for deferred tax (tax that will become payable in the future) penalizes current shareholders.

Because furniture sales are largely on credit and the book debt is not physically collected, therefore not taxable in the year in which it is incurred.

The auditing profession has supported moves by many companies who wish to make a partial provision for the tax that will fall due in the future.

The key word is foreseeable—if the tax will become payable in the foreseeable future full provision is made, but if it does not fall due during the chosen period of three years, a partial provision may be made.

The nature of business entails a roll-over of the debtors book so that in theory tax never becomes payable.

Often, no provision for tax is made. The net effect is that the earnings a share declared by the retailers are much higher than for a company which provides a full 40%.

Mr. Ellerine questions the wisdom of this. “The temptation is great, but the day of reckoning will come,” he says.

He adds his voice to the call from businessmen for a cut in interest rates.

“The damper has been on long enough and we will have thousands more jobless people if companies continue to struggle to service debt.”

Ellerines is cash flush, so the plea does not come from a subjective voice.

It is hard to see a company in as good shape as this coming off the rails. Investors who shun the best company in the furniture sector will live to regret it.

Apology

In last week’s report on Potgaster Platinum’s platinum prices, I attributed a quote to J.T.E. van Wyk. This was neither verbatim nor correct. It concerned the plight other platinum producers could face a year from now, relating to the cheap operating costs expected at the new mine. I apologize to Mr. Davison for any embarrassment I may have caused him.
22 rights offers have raised R2.6bn in the past six months

TWENTY-two rights offers, raising about R2.6bn, took place on the JSE in the six months to end-August.

JSE figures show there were 42 offers, which raised R7.8bn, in the year to end-February.

The figures indicate the flat stock market has not so far affected the number of rights issues undertaken — only their size.

The biggest offer this year was the R606m offer from Northam Platinum, followed by R500m from Amgold and Bankorp.

Shareholders

There were some memorable offers in 1999.

Goldfields (GFSA) raised R1bn, the second largest rights offer recorded on the JSE, Anglovaal R1.02bn, Rand Mines and Genbel R300m each and Premier R286m.

A rights issue is a company’s offer of extra shares to its shareholders based on the proportion of shares they hold, for example, 50 new shares for 100 held.

Shareholders are allocated all paid letters which represent their rights and can be freely traded for a certain period if shareholders prefer not to lay out the capital to take up their rights themselves.

CHCRLTTE MATHEWS

JSE listings general manager Richard Conellan said companies usually embarked on rights offers in good times to recapitalise for future growth.

"In bad times many rights offers are held to bail companies out of their problems."

Other reasons put forward for offers were restructuring — in the case of Bidvest’s R100m and Afcoem’s R14.3m offer this year — or to raise money for a particular venture, such as Stanprop raising R45m to develop land in Randburg or Amgold’s intention to develop Moab and other undisclosed projects.

Merchant bankers said the best time to launch a rights offer was when a company was making good profits or in a buoyant market.

Additional shares in a company are often pitched at a 10% to 20% discount to market price to make them an attractive buy.

Conellan said the JSE paid particular attention to rights offers that were pitched above market price as these could be a way of changing the control of a company.

But these offers could also represent a genuine attempt at a rescue operation.
Loss-making Gants in offer to shareholders

LOSS-making food-processing group Gants has announced a drastic rationalisation of operations to get itself back into the black, and is offering shareholders a way of realising their investments.

Shareholders are to be given the chance to exchange their shares for shares in parent company Tollgate Holdings or, alternatively, to take a cash payment for their shares.

The reason for the offer, directors say, is that no dividend will be paid in the near future because of planned cutbacks in operations and the continuing adverse conditions in the industry.

Minorities will be offered 20 Tollgate ordinary shares or R6 in cash for every 100 Gants shares held. The Gants share is currently trading at 50c and the Tollgate share at R2.50.

The announcement follows takeover talks dismissed by the company — which has been rife ever since the acquisition of Tollgate's holding company Durco by a consortium led by Julian Akin and Hugo Huiermann in March. The speculation sent the Gants share price up to a high of 135c in early April.

Gants' directors believe it will be necessary to stop processing deciduous fruit in the western Cape, to relocate a major part of the Strand factory to its factories in the Transvaal and Swaziland, and to embark on a campaign to promote its meat, vegetable and other products and increase their market share.

In the six months to end-June Gants suffered a loss of 5,7c a share from the previous earnings of 9,2c and waived payment of a dividend. Turnover just about halved to R67m (R129.3m). This was attributed to unfavourable trading conditions which resulted in low prices, high levels of stock and consequent high finance charges.

Directors said there had been aggressive discounting of prices by competitors, dumping of excess stocks by rivals and manufacturers of substitute products, and industrial action at major retailers.

The forecast made in the interim statement that market conditions would improve in the final quarter had failed to materialise, hence the restructuring.
Liquidations soar by 69% in August

COMPANY liquidations soared by more than two-thirds in August and are likely to go even higher in the near future, says Credit Guarantee Insurance Corporation (CGIC).

The organisation says credit risks have deteriorated internationally over the past year and it does not expect this to change markedly in the current year to June. In these circumstances, CGIC warns businessmen to tread cautiously in granting credit locally and abroad.

Liquidations rose to 120 nationwide in August compared with 77 in July—a 60% increase. This brings the total for January to August to 1,123, up 11% on the same period last year.

CGIC MD Chris Leesewitz says liquidations rose 19.9% during CGIC’s financial year to end-June, with the rate for the first six months of 165% being 0.5% higher than the same period last year.

The sectors most affected by the recession in this period were wholesale and retail trade, catering and accommodation, where insolvencies jumped by 44% to 629 (431), and transport, which recorded an 83% rise to 33 (16).

In the CGIC annual report, released yesterday, Leesewitz says in spite of satisfactory economic growth rates, liquidations have increased in Europe, SA’s largest trading partner.

He believes this is because of the changes taking place in the European economic structure. Competition is increasing and businesses not able or ready to adjust are paying the price.

UK liquidations have risen substantially because of the unsatisfactory state of the British economy and the Italian market is producing credit problems as buyers default because of falling prices of wool, hides and skins.

Leesewitz says the US market continues to be difficult. US law heavily favours the debtor, which gives rise to a high proportion of bad debts with slim recovery possibilities.

In addition, the debt position of the less developed countries (LDCs) has not improved. Most African and South American countries are burdened with a foreign debt load which will be quite impossible to repay. Granting credit to the LDCs will continue to be a difficult business and the Eastern European markets will require most careful assessment, he says.

The Middle East crisis, with resulting high oil prices, will put further pressure on international inflation and interest rates, which does not augur well for the credit crisis.

In the year to end-June CGIC made an underwriting profit of R3.4m (R2.7m), together with investment income of R1.6m (R7m), enabling it to produce an after-tax profit of R7.7m, up 35% on the previous year’s R5.8m. After the transfer of R6m to reserves, a dividend of R6c (53c) will be paid to shareholders, who consist of insurers, banks and financial institutions.
Privatisation seen as way to steer upliftment funds

DURBAN — Privatisation rather than nationalisation was the most efficient way to direct funds held by institutions into programmes for social upliftment, Econometrix director and chief economist Azar Jammie told delegates to the Building Industries Federation of SA (Bifa) annual conference yesterday.

Jammie cited figures showing the backlog in housing demanded that 1 000 houses be built a day or R6bn be spent a year.

"Four out of five households in SA have no electricity. We are desperately in need of hospitals and the 11 500 unoccupied beds do not come near to solving the problem.

"There are two million children suffering from malnutrition. We need to build 33 000 classrooms by the end of the decade to achieve educational equality between the racial groups."

The options open to SA were to finance social upliftment through higher taxes or through public debt, which were already high.

Servicing interest on high public debt could lead to the government printing more money and eventually to hyperinflation.

Increased government spending in the last 20 years had been financed by higher taxes on the individual. Savings had been channelled into equity-linked investments rather than discretionary forms of saving.

As a result the institutions held huge financial resources which could be forcibly channelled into social upliftment by introducing prescribed asset requirements.

"But instead of forcing the institutions to channel their money in this direction they should be encouraged to do so voluntarily," Jammie said.

"Government should sell off its assets to the private sector and direct the proceeds towards social upliftment programmes."

"The problem with the ANC's proposal to nationalise the assets of the institutions is that these have to be paid for and, more fundamentally, nationalisation leads itself to the creation of a bureaucracy."

CHARLOTTE MATHEWS
Jockeying over the pump price

With the petrol price heading towards R1,50/l — and beyond — the urgency of deregulating its sale and allowing discounts has never been more pressing.

Government is thinking of doing just that, despite opposition from petrol station owners and some oil companies.

The price is set by government and all petrol stations are obliged to stock to it. Early this week it was R1,28/l in the PWV and R1,23/l at the coast. The law prohibits companies from charging more or less.

Four years ago Pick 'n Pay tried to discount petrol but it was stopped in court.

Fortunately, that ridiculous situation, in which companies can be prosecuted for saving motorists money, may not persist much longer.

Since the Pick 'n Pay episode, deregulation has entered government's vocabulary. After April 1, government will no longer set the brent price. This will leave petrol as the only significant commodity under price control.

The National Energy Council has sent questionnaires to oil companies and interested parties for their views on deregulation. The Competition Board will finish its investigation in the next few weeks and will recommend to government whether or not petrol price control is in the public interest.

Pick 'n Pay chairman Raymond Ackerman says he believed deregulation was coming until the Gulf crisis erupted. This might be causing government to have second thoughts. The arguments about the strategic nature of petrol were beginning to disappear, but they have started surfacing again.

Garage owners argue that deregulation of the petrol price and relaxation of laws that restrict self-service petrol stations would lead to 40 000 lost jobs. They also say a deregulated price will concentrate ownership in the hands of supermarket chains and other discounters. The Motor Industries Federation, which represents car dealers and petrol station owners, declines to comment because the matter is before the minister of mineral and energy affairs.

Ackerman doesn't believe the short-term job losses outweigh the potential savings for consumers. "It could have been argued that supermarkets lead to the closure of small shops and, therefore, job losses, but such arguments can't be used to stand in the way of progress."

Oil companies are divided. One internationally controlled company opposes deregulation by claiming "the inevitable loss of jobs, failures of small service station businesses (many of these black-owned), concentration of ownership and complexities of synfuel arrangements outweigh any advantages."

Engen MD Rob Angel, however, is unconvinced by this doomsday scenario. "The SA oil industry is already very efficient so there aren't many further efficiency gains that might come from deregulation. I'm relaxed about deregulation, if it comes. Our company, at least, is strong enough to withstand it."

He adds "I do believe, however, that with the heavy supply of petroleum products from the synfuel industry — and given the need for a viable synfuel industry — it will make deregulation difficult to implement."

Angel says claims of massive job losses are exaggerated. "It will take time to introduce self-service and there will always be a demand for full-service."

Angel adds, though, that deregulation won't necessarily be perceived as good news. "It will lead to more frequent price adjustments, up and down, and therefore greater confusion for the motorist."

BP and Sasol would not comment.

The Automobile Association isn't commenting on deregulation but it supported Ackerman during his dispute and it favours the introduction of self-service stations.

The Consumer Council wants the fixed price changed to a maximum price to allow retailers to charge less. "There shouldn't be an absolutely free price because it would be able to escalate in areas where there was no competition," the council's Jan Cronje claims. "Any deregulation should be implemented in an orderly fashion to prevent economic destruction."

It may be wishful thinking to expect deregulation without disruption but, then again, we already have lots of disruption — the kind caused by a doubling of oil prices.

CORDLESS TELEPHONES

TYING UP THE MARKET

The Post Office has for years been trying to stamp out the use of what it terms illegal cordless telephones but demand for the devices continues to grow. More than 400 000 of them are in use in SA, according to one distributor.

Several attempts by cordless phone distributors to have their products approved by the Post Office for use on the telephone network, and therefore made legal, have been turned down for what the Post Office describes as technical reasons. In fact, legislation regarding these products has been tightened.

In April the Radio Act was amended to outlaw the possession of unapproved cordless phones and to introduce stiff penalties for those who didn't observe the regulations. Users face fines of up to R2 000 while companies that buy, sell, hire, exchange or even repair them are liable to be fined up to R10 000.

Now the Post Office has, for the first time, approved the sale of a cordless phone. Last month it gave the all clear for Telephone Manufacturers — the sole supplier of standard telephones to the Post Office — to sell its high frequency Uden Ud 970 cordless phone.

The Taiwan-made Uden, which operates on the 914/915 MHz and 959/960 MHz radio frequencies, will be launched by the company next week.

With a retail price of about R3 000, the units are considerably more expensive than the illegal phones still being sold in most major cities. These devices, which usually operate at a lower frequency of 46/49 MHz, cost as little as R300.

Telephone Manufacturers' marketing consultant Garth Brook says the high frequency of the Uden ensures greater clarity of transmission and better security than illegal low frequency units.

"The international trend is to higher frequency phones because this provides a great-
Tony Norton

CHASE ON 323

DON'T MENTION THE PAPER

‘On 10 July 1980, I was at work as a junior conveyancing solicitor in the office of a large London firm when my husband John and I decided to go for a walk around the park. It was a beautiful day, and we enjoyed our stroll.

As we walked, I couldn’t help but notice how peaceful and serene the park was. The trees were green and the flowers were blooming, creating a beautiful scene.

We decided to sit on a bench and take a break, and as we did so, we noticed a group of children playing nearby. They were laughing and enjoying themselves, and it made us both smile.

After a while, we got up and continued our walk, feeling refreshed and happy after our little break.

As we continued, we passed a small pond, and I couldn’t help but think about how lucky we were to be able to enjoy such a beautiful day.

Overall, it was a lovely afternoon, and we both agreed that we needed more days like this in our lives. It was a reminder to slow down and enjoy the little things in life, and we were grateful for the opportunity to do just that.'
Liquidated Spareco sold for R15m

Spareco, a motor spares distributor, was bought at an auction yesterday for R15.5m.

A consortium comprising Vaal Auto (the recently listed operating arm of Vatialucar), Broshure Investments (which owns Fleshmans) and IGI outbid Midas to acquire Spareco's stock, fixed assets, trading name, trademark and goodwill.

Members of the consortium say Spareco shareholders are likely to get nothing, while creditors will be paid out a liquidation dividend. Spareco will be delisted.

The consortium will become a "powerful new motor spares group", with an estimated turnover of R200m from spare parts alone, consortium members say.

The new group will enter the market with a reconstituted balance sheet "which won't support high gearing", and with "enormous financial muscle". Operating costs will be completely reduced, they say.

Vaal Auto will control Spareco with its CEO and chairman Sarel Germschützen as Spareco CE, and other consortium members will be on the board.

Spareco management will be reconstituted and its "key players are already in place". Stores should be in operation on November 1.

Germschützen says he is "delighted with the purchase" and his company is committed to the staff of Spareco, many of whom will get their jobs back.

Only two stores will be closed as their leases cannot be renewed and "others will be reviewed as we go along".

Broshure will contribute in terms of motor industry contacts and financial expertise, and with its interest in Fleshmans, the "expected synergies should have enormous cross benefits to the new group".

A R5.5m bid for Spareco subsidiary Eddies by FSI subsidiary Vektra has been refused by the International Bank of Johannesburg (IBJ), which holds Eddies as security.

The consortium is entering negotiations with IBJ, and says there is a good chance it will acquire Eddies. Results of the negotiations will be known in a few days.

A few of Spareco's senior managers said yesterday they were pleased with the outcome. However, one said he believed there would be an investigation under section 417 of the Companies Act — an examination during the winding-up of a company of the behavior of its officials.
More brokers to merge

By IAAN SMITH

The closest thing to a certainty on the lagging JSE is that the merger of two of the biggest brokers in the country this week will not be the last.

Senior partners of two of SA's oldest and biggest brokers, Fransen Kruger, Villemont & Polak and Max Pollak & Freerndie, confirmed that they will merge as soon as possible. A likely date is December 1.

Dismal market conditions made a merger look more attractive, says FKV managing director Sydney Frankel. "But we have been flouting with each other for a long time. After all, we are both third-generation firms."

Both companies are run by father-and-son teams Leslie and Sydney Frankel at FKV and Archie and David Shapiro at MPF.

Rumours are rife about other brokerage firms getting together to boost turnover and share the rising costs of computer services and general overheads.

With 51 firms represented on the floor there are now more member companies than there were at the peak of the boom just before the October 1987 crash.

Costs

But average turnover for the first 13 trading days of this month was R105 million — barely half the figure needed for good health.

The JSE's dive has steepened dramatically in recent months. Average daily turnover was R135 million in August and down to R71 million in September. A number of firms have retrenched staff in recent weeks.

JSE president Tony Norton says members are not obliged to tell him of merger proposals. But they do tend to inform him once agreement has been reached.

"In the short-term, current turnover means that more people are battling to cover costs. But there is no problem that a modest increase in turnover won't fix."

Partners in the merged brokerage firm, which will be renamed to incorporate both titles, are enthusiastic about prospects for the new company. "The improved income flow means we can support additional services for our clients," said Dr Leslie Fran


Overseas

"The new firm will be a very strong corporate broker and will maintain a strong research department," says Mr. Rothschild. It will have eight branches covering the country.

"In today's economic climate you must either be very big or a niche broker." says Sydney Frankel. "The merger will give us the economies of scale to see us through the difficult times."

Both partners have strong overseas links. FKV particularly in institutional business, and MPF in arbitration.
The Governor has the last word

The prevailing rates pattern appears to negate reports that the switching by institutions from stock exchange investments into money market assets has brought a 50% movement of funds when institutions "A" buy assets from institutions "B", funds move from "A" to "B" which probably places some of the proceeds in the market. Consequently, when "A" does not buy shares, "A" invests in money market assets the cash funds which would not have gone to "B".

If there has been a material increase in the flow of money into the market, the market shortage - the bank debt to the Reserve Bank would have declined materially, but it hasn't. Although the shortage dropped to $168m on Thursday from the previous week's $188m, this is a typical mid-month dip. In all probability the shortage will move up to record levels by the end of the month.

The Reserve Bank is keeping the market short of liquidity in order to hold interest rates at current levels. Minor fluctuations in rates are interesting but if the Bank considers that speculative market trading appears to be challenging effective monetary policy, it seeks to increase liquidity by various means.

Currency swaps with the banks at times cut deals for dollars. Government bonds are tapped into the market. Forces of $50 are increased and in special instances, short-dated T-bills are sold.

Reserve Bank Governor Chris Stals has the final say on where interest rates are going, not the market.
Some of SA’s corporate giants are trading at or near their lowest levels on the JSE this year — but fund managers and analysts expect prices to fall further as the threat of world recession looms.

“Yields are still nowhere near levels reached in previous bear markets so shares could well fall further,” a J D Anderson analyst said.

Mining based conglomerates dominate the list of “blue chips” trading at dismal share prices.

They include industry leaders like Barplats (at 54.9c, a fraction of the 1 900c 12-month high), Rustplats (5.87c off 9.250c), De Beers (8.125c off 11.000c), Anglo American (9.100c off 14.900c), Johnnes (3.350c off 9.100c) and Generc (6.400c off 1.375c).

“The outlook for precious metals is bad — the heavyweights are being sold down in favour of cash instruments which are safe and offer real returns,” a Davis Borkum Hare analyst said.

But non-mining leaders have also been battered. Companies like electronics group

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**NEIL YORKE SMITH**

Reunert, industrial holding company F S Group and chemicals business Sentrachem all touched annual lows recently.

“Heavyweights are more liquid — they are being sold as investors hope to buy them cheaply when the market bottoms”

“Shares in smaller companies are less tradeable and some investors are rising out the storm as they may be unable to repurchase the shares they sell when the market turns,” the J D Anderson analyst said.

Another broker said clients were advised to sell holdings in diversified conglomerates and buy into more focused businesses.

“At best the conglomerates will match the indices, but some of their subsidiaries should outperform the market,” he said.

Are bargains to be found at current prices was the question put to AA Life GM (investments) Stephen Mentjes. He said “some shares look oversold but institutions are holding back in case they move even lower.”

This was confirmed by Sanlam’s GM (investments) Ronnie Masson. “We are not selling equities but are withholding funds as share prices may drop further”

As usual, institutions were acting on the herd instinct, an analyst added. “Selected shares look attractive at these prices but at current interest rates cash is still king,” he said.

“The moment one institution starts buying they’ll all rush in and chase the same stocks.”
Privatisation still on gov’t’s agenda

GOVERNMENT had not discarded its privatisation policies, although Eskom was no longer a candidate, Administration and Economic Co-Ordination Minister Wum de Villiers said on Friday.

“We are investigating certain aspects of certain institutions that could be privatised,” he said in response to a question on why he had omitted to mention privatisation as part of government’s policy to strengthen the working of the market and price mechanism.

He had mentioned de-regulation and commercialisation, the promotion of effective competition by the Competition Board and the elimination of factors that inhibited labour market flexibility.

He noted that a second report on the post-sanction privatisation had just been completed after the initial report had revealed certain problems.

He denied that the ANC anti-privatisation stance had caused government to rethink the policy. The decision not to privatise Eskom was based on the belief that it was a “consumer friendly utility” rather than consumer neutral, as it would be if privatized it was a natural monopoly and government had a duty to intervene in monopoly price setting.
Property stocks begin to look better investment

CHARLOTTE MATHONS

PROPERTY stocks on the JSE are starting to look a better investment because of potentially greater institutional demand, the low gearing of property companies at a time of high interest rates, and the marketability of property stock in comparison to fixed property.

Board of Executors Properties (Boardprop) Transvaal director Nikid Vontas has released a survey on property loan stock companies in 1998, which projects that the property sectors will be re-rated in 1999, although they will remain underrated in 1991.

The new prudent investment guidelines introduced on October 1 1999 allowed institutions to invest up to 30% of the market value of their assets in property.

Property loan stocks and property unit trusts are now considered as alternative investments to traditional

A property loan stock company can have unlinked units consisting of separately listed shares and debentures with the debenture interest being linked by a formula to dividend growth. Or it can have linked units consisting of a debenture linked to a share.

Anglo American Properties, Barlow Rand Properties and Retprop have unlinked units, while Boardprop, Growthpoint, Hyprop Investments, Fangbourne Properties and RMS Properties have combined units.

The purpose of combined units is to offer a pre-tax income distribution to those institutions such as pension funds which are not liable for normal tax.

The debenture portion is a loan from the institution to the property company. The reason for having a debenture linked to an equity portion is to give the loan stockholder proportional voting rights in the loan stock company.

The industrial shares tend to outperform property stocks in times of economic growth characterised by low interest rates (industrials are very heavily geared) as in 1979-1982 and 1987-1988, Vontas says.

"The economic growth translated into growth in rental income generally affects the property industry and property share earnings with a certain delay of at least 18 to 24 months.

This should mean that 1999 earnings of most property loan stock companies will show steady growth."

In the short term, Vontas believes, property loan stock companies will perform well because prevailing rental levels are still high and vacancies still relatively low, although there is increasing oversupply in some areas.

"At present, forward investment yields on property loan stock companies are higher (if we take into account the diversification of risk through a property portfolio) than similar quality fixed property initial yields," Vontas says.

He adds that property loan stock units are more attractive than fixed property because they are more marketable.

The opportunity cost incurred during the sale and transfer of fixed property can cost up to 1% of the value of the asset.
Bank shareholding limit ‘may go’

REGISTRAR of Banks Hennie van Greuning yesterday hinted the 49% limit on shareholding in a bank by an individual shareholder would be scrapped in future.

In the meantime, the Reserve Bank intended to be “very lenient” about it, he said in response to a question from the floor at a Mercantile Bank seminar in Johannesburg on the new Deposit-Taking Institutions Act. The Act replaces the Banks Act and becomes effective next year.

Van Greuning said his office did not support the limit as it did not believe manipulation of a bank took place through shareholding.

“We lost round one on the issue but the politicians are listening to us. The issue of shareholding in a bank has always been an emotional one, but we believe that any manipulation of a bank will take place through the board of directors and not through the shareholders. We would prefer to focus our attention on the composition of the board rather than on the majority shareholding,” he said.

He acknowledged the Finance Minister had the final say.

The issue of limits on shareholding has been the focus of attention since the Sanlам bail-out of Bankorp left Sanlâm with about 50% of the bank’s shares. Old Mutual, too, holds more than 50% of Nedcor after giving it a shot in the arm in 1985.
Ruling expected soon on opening futures market

Non-residents would soon be allowed to participate in the local futures marker, sources said yesterday, and an announcement by the authorities on this effect could be made by the end of the month.

This would be a great boost for the SA Futures Exchange (Safex), which would then enjoy the benefits of increased volumes due to foreign participation in much the same way as the JSE does.

A Reserve Bank spokesman confirmed one of a series of meetings took place on Friday with representatives of the futures industry, but would not speculate on the outcome.

He said the issues discussed were the participation by non-residents in the local futures market and the exact mechanism — financial rand or commercial rand — for such participation.

He did not elaborate, but it is known the choice of currency would affect such key issues as how futures contracts would be paid for (margin payments), at what intervals, how interest would accrue on open positions, how profits and losses would be accounted for and who would be authorized to handle such transactions.

The futures market is known to prefer the rand option because the leverage effect — the result of the cheaper rand and the low margin payments on futures contracts — would provide a great incentive for foreign participation.

The value of share index futures traded on Safex is traditionally within about 25% of the value of the corresponding underlying shares on the JSE.

The contracts thought most likely to interest foreign participants are share index futures and long-term interest rate futures, which could be used to hedge positions on SA shares and gilts respectively.

ROBERT GENTLE
Key to struggle is economic education - JSE expert

By JOSHUA RABOROKO

MR JOSHUA Tshifhumulo Mafolo (27), of Soweto, the first black investment researcher employed by a stockbroking company, says one of the least known financial institutions in the black community is the Johannesburg Stock Exchange.

At a researcher for Kaplan and Stewart stockbroking company in Johannesburg, his major aim is the African economic struggle which he says must begin with economic education.

Black business, especially small entrepreneurs, such as the rapidly growing black taxi industry, view the JSE with suspicion because they have been kept ignorant and have remained drawers of water and hewers of wood for a long time.

The kind of job he is doing is usually dominated by whites in South Africa. It involves talking and interviewing representatives of big companies to analyse their equities on the JSE and to encourage and solve problems of others with the view to get listing.

The vast majority of his clients are whites, who have learnt to accept his courageous job, despite all racial conflicts in the country, while some express surprise that a black man can do the kind of work effectively.

Enthusiasm is the key to his success.

Joshua, who holds a Bachelor of Commerce degree with honours in financing management business from the University of South Africa, was born in Louis Trichardt, where he also taught at various institutions earning as little as R199 a month.

Growing up in the rural areas and facing educational problems as a young man was a great challenge for him. His schooling career was a pleasant experience. After passing matric in 1981 at the age of 19, he was forced to teach for a year to accumulate money.

He studied for a Bachelor of Science degree at the University of Fort Hare with the view to do medicine in 1983, but switched to B Com the following year because he lost interest. His initial aim was to be an architect.

Expelled from varsity

As a leader of the Students Representative Council, he was expelled from the university because he and other students staged a demonstration against the then Chief Minister of Ciskei, Mr Lennox Sebe, who was due to address a graduation ceremony in 1985.

He was detained for four days under the territory’s Security Laws.

Joshua’s quest for education never stopped in the aftermath of the university debacle. He continued his education with Wits where he passed his B Com degree in 1986 and obtained honours in 1987 while teaching in Venda.

As he was unqualified to teach and because of boredom, he decided to venture in stockbroking because he was interested in investments. He had read books and newspaper articles on black economic empowerment and was inspired to advance business.

Gain experience

He left his home town because he wanted to gain experience in Johannesburg. He was employed as the first black researcher by Kaplan and Stewart Broking company. His office on the seventh floor of the JSE is a beehive of business activities. Telephones never stop ringing.

He says there is no need for small investor to be frightened away by brokerage charges imposed by the JSE, which has played an important role in the South African economy.

The winds of change are blowing everywhere, even in South Africa, and black businessmen have to come to the JSE if they do not want to be caught with their pants down.
Investors must select their shares with greatest care

THE equities market has some pockets of value but potential investors will have to be extremely selective in their choice, say market analysts.

Most say the bottom line should be liquidity with the recommended cash holding for an investor varying from 20% to 40%, depending on the analysts' measure of confidence in the market.

Some analysts say stay with blue chips, with a speculative exposure to gold, but others disagree about the attractiveness of blue chips at current prices, particularly industrials.

Shares such as Amec and Barlows are not considered buys at current levels because it will take some time for these giant concerns to regain their growth rates of recent years.

Little value

These shares have, perhaps, not fallen as much as others because they are firmly in the hands of institutions, but earnings and dividend prospects for the next year or so are poor.

The industrial holding sector therefore offers little value to the smaller investor at present, some analysts say. The exception could be Safren, which was not highly valued previously. An analyst sees a forward yield of 7%, with the counter trading on a price-earnings ratio of 6.3.

In the beverages and hotels sector, Interleisure, which has always been neglected, offers superb value with an estimated forward yield of 8.5% and a price-earnings ratio of 6.2.

Kersaf and Sunbop both have a forward yield of 7%, but some investors might be wary of political risks attached to some of their holdings, one analyst said. Transas is on an attractive forward yield of 12.8%.

Sanol is the best bet in the oil sector, but the forward yield is about 5% and the coming rights issue might put off investors. At best the share offers reasonable value.

Analysts gave the thumbs-down to the engineering sector, which offers no value at present. Afrox remains expensive, as does Iudaco.

In the furniture sector Amrel has proved it can weather recession and has an estimated forward yield of 9.6% and p.e of 3.5.

In the retail sector Foschini and Phephor are possible buys, as prospects should improve as interest rates ease.

Share offers are likely to be a bit trucky in the current market mood, but analysts recommend taking up the African Life preferential offer at 130c.

A leading broking house recommends that blue chip counters, to be retained, should have a clear focus in the following areas of interest: strong external asset situations, financial services, energy and some gold.

Companies involved in black commercialization, social upliftment (education and housing) and shipping and tourism are likely, as sanctions are relaxed, to be the major beneficiaries of the first stage of an economic recovery.
Privatisation would be short-sighted — De Beer

DURBAN — The privatisation of natural monopolies would be short-sighted and make future political negotiations more difficult, retiring Afrikaanse Handelssamstuing (AHS) president and Gencor director Tom de Beer said yesterday.

SABC radio news reported that he told the annual congress of the institute that even institute members disagreed about privatisation.

He had asked government to state officially that privatisation would be stopped until a new constitutional dispensation had been introduced and all political groups had a part in decision-taking.

De Beer said it was time for those calling for sanctions against SA to reconsider seriously whether this approach was justified.

Economie-growth, and the creation of jobs came only after purposeful planning and effective management. Risk divestment, particularly foreign, abroad, was not encouraged by irresponsible demands, nationalisation and boycotts.

— Sapa
After R4,5m rights issue

Fenix takes
60% stake
in Debonair

By AUDREY D'ANGELO
Business Editor

FENIX INDUSTRIES (formerly Retco) has taken over the Epping-based Debonair Group, which found itself in trouble with high gearing and a loss-making Joannesburg operation.

Fenix has bought Undev's 25% stake in Debonair for 15c a share, making a total of R780 000 — and issue 6m new shares at 75c each on a consolidated basis of one-for-five.

After the rights issue Fenix will own at least 60% of Debonair. A Fenix director, Justin Schaffer, who has extensive experience in the textile industry, will become non-executive chairman of Debonair.

Fenix already owns a knitted fabric company, Jivex. But both Fenix chairman Cedric Walton and Schaffer emphasised that it was not planning to increase its holdings in textiles.

"We are looking at other industries," said Walton.

"We want to become a general industrial holding company, and our main thrust will not necessarily be in textiles."

Schaffer said the chance to buy control of Debonair was "a very good opportunity."

Debonair was a leader in its field of household textiles "and our coming in brings experience and capital."

"But our next investment will not be in textiles. We are looking at some very interesting possible acquisitions now."

"We intend to move Fenix from the property board of the JSE to the industrial holdings board."

Fenix Industries MD David Chapman said Debonair was a well managed company with an excellent track record save for its recent hiccup.

"Debonair fits our acquisition criteria well. It is one of the main players in a growth industry. It has good management who has a substantial interest in the company."

Debonair MD Ian Foster and technical director Carl Schwinges, who founded the company together, will hold 24% of it after the rights issue.

Explaning that their troubles had been caused by acquiring a Johannesburg firm, Quiltex, Foster said part of this division had been closed down and the rest of the operation relocated to Cape Town. This, with stock and debtor provisions, had resulted in a non-recurring expense of R3.6m.

Foster said he and Schwinges were "very happy and motivated" in spite of the fact that their stake in Debonair would be watered down from 40%.

"We would rather have 24% of a healthy, revitalised company than 40% of one that was limping along with high gearing in today's tough conditions."

"The day-to-day management will remain the same. But Schaffer has enormous experience, particularly on the raw materials side, and we are looking forward to his input."

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One had hoped this government had by now learnt the self-defeating folly of subsidising specific sectors with a view to forcing economic development to move in a way other than would be determined by the market mechanism. Indeed, many of Railways' own financial problems were caused by its use for decades as a provider of sheltered employment to otherwise unemployable urban whites and otherwise uneconomic rural farmers (both groups, be it remembered, being important political backers of the NP).

Now Sats, having struggled throughout the Eighties to turn itself into a commercially orientated undertaking, is again to become a vehicle for outmoded concepts of social engineering even Moscow is now trying to move away from.

John Maree, too, having been lured from the private sector to turn Eskom into a lean, profit-minded, privatised undertaking, has been stabbed in the back by neo-interventionism with electricity pricing.

It may be argued that the objectives of our new economic policy — to develop an export culture and thereby jack up employment and the growth rate — are intrinsically beneficial, whereas protecting poor whites was just a concealed charity. Alas, that's a red herring, for many reasons.

First — and most cynically — who's to say that developing an export culture will always remain the flavour of the month? As it is, and not forgetting the high import component of many of our export industries, there are economists who believe that a better way of stimulating economic activity is to address basic inequalities in areas like housing and health.

Less emotively but more fatal to the argument, it seems to have been forgotten that there is no such thing as a free lunch. Subsidies (and that's what artificially keeping transport and electricity tariffs down amounts to, especially if there are to be concessions on a selective basis) are only transfer payments. They cannot in themselves create wealth, though unfortunately they can destroy it.

The linkage may not be immediately apparent, but if rail and electricity tariffs are kept below market-related rates, that is an effective cost on the rest of the economy. It is not Sats and Eskom that will subsidise exports: it is the rest of us, who will thereby be impoverished as our incomes are eroded.

Even that might be tolerable if it were spread evenly or indiscriminately across the population. However, in recent years the transport sector has been going through a painful and tortuous process of deregulation and increased competition. There is no evidence that in this latest interference with the market the authorities have given any consideration to the likely damage to the private-sector transport industry they have in theory been encouraging to develop, either conceptually or in blunt bottom-line terms.

Indeed, there is no evidence of any broad conceptual thinking in this disastrous hodgepodge of measures — other than that, whether admittedly or not, it is a serious defeat for market orientation and a retreat into the view that government (that is, a bloated bureaucracy whose main concerns are self-preservation and self-enhancement) can somehow outguess the market.

Of course, the FM is in favour of the cheapest possible electricity and transport. But as we pointed out two weeks ago, the road to cheap, user-friendly utilities is not some ill-defined "commercialisation" (which can only be an uncomfortable limbo) but deregulation, privatisation and the encouragement of competition (in that order).

The argument that there are "natural monopolies" is fallacious. Almost everyone you can think of is provided in the US by private enterprise at an efficiency light years ahead of anything our utilities can manage. In the UK, privatisation turned British Airways from a lumbering loss-maker into one of the world's most popular and profitable airlines; privatisation of other utilities has been accompanied by keeping tariff hikes lower than they were during public-sector ownership. (The argument that regulatory bodies simply replace one set of bureaucrats with another can only be put forward by someone who has either not addressed himself to the realities, or who does not want to.)

Even eastern European countries, with barely a year of semi-democracy behind them, are rushing to privatise.

Yet what are we doing? Deliberately putting privatisation of Transnet and Eskom back on the backburner and commissioning yet another report on Foskor because somebody didn't like the first one.

The events of the past week are the biggest setback to economic sanity in years. We have warned repeatedly that this government cannot be trusted with moving to a genuine market-based economy, because it doesn't really accept a market-based philosophy. That is now incontrovertible.

Let's hope the DP, whose liberal, free-market voice is now needed more than ever before, will have the courage to stand up and say so.
COMMERCIALISATION

BOON FOR BANKS

Now that government has put the brake on privatisation some business expected by banks has dried up.

But all is not lost. Commercialisation — getting semi-state businesses to run on private-sector lines — continues and banks and other financial institutions are reaping the benefits.

One of the first steps is the transfer of financial services from the Reserve Bank to commercial banks. Sasol, Iscor and Eskom have used commercial banks for years. Now Transnet (formerly Sate) is taking up business to major banks. Standard Bank has taken over banking services for the railways, Nedbank for SAA, First National for road transport and Volkskas for harbours, medical, housing and SAR travel.

The CSIR has moved to Volkskas. These accounts are big business. It is estimated that the Transnet accounts, for instance, will earn the banking sector more than R3m a year in charges.

Volkskas’s Johan Coetzee says services now provided by commercial banks include cheque deposits and fund management, as well as extras such as staff car and housing schemes. “We also offer financial advice. Until now, public corporations have known little about the financial services available in the private sector.”

First National’s Johan Meiring says, “We are aiming to change the culture of State-owned enterprises, to ensure they resemble commercial enterprises in terms of management, information systems, finance, accounting methods and corporate strategy.”

Merchant banks, though losing potential revenue from new listings, have also become involved in commercialisation. UAL concentrates on managing portfolios for State and semi-State organisations and handles pensions and other pool funds.

Assistant GM Ben Kruger says Standard Merchant Bank has taken steps to attract business as commercialisation gathers momentum. “We have organised feasibility studies on privatising Autonet and SAA.”

Merchant banks are meeting increasing competition from the big accounting firms. Though these do not manage funds, they advise on management, financial restructuring (including accounting policies), budgeting, costing and information systems. Top firms have specialists in tax, treasury operations and use of human resources. André Cloow, in charge of commercialisation at Deloitte Pim Goldby, says, “There is little the major accounting firms cannot do to assist in the commercialisation process.”

There is no shortage of companies in need of advice. Transnet uses Deloitte Pim Goldby and, to a lesser degree, Aiken & Peat to make its components more efficient. Deloitte is also involved in the difficult task of restructuring Posts & Telecommunications. Commercialisation has been given further impetus by the Browne inquiry into the accountability of public corporations. It was recently published for comment in the Government Gazette as draft legislation.
The consortium of Vail Auto (the recent- ly listed operating arm of Vailtrac), led by the principal investor, Mr. Cohen, and Mr. Cohen's family, has acquired the stake in the company. The transaction involves the sale of Vailtrac to Vail Auto, with Mr. Cohen retaining his position as the majority shareholder.

In terms of the deal, Vailtrac will receive $100 million in cash, while Vail Auto will assume $200 million in debt. This will allow Vailtrac to continue operating as a separate entity, with Mr. Cohen remaining in control.

The transaction is expected to be completed by the end of the year, subject to regulatory approvals. Both Mr. Cohen and Vail Auto have expressed confidence in the deal, with Mr. Cohen stating that it will provide the company with the capital needed to expand its operations.

The acquisition is seen as a significant move for the automotive industry in the region, with Mr. Cohen expressing optimism about the company's future. He cited the growing demand for electric vehicles as a key factor in the decision to acquire Vailtrac.

The deal is also expected to boost the local economy, with Mr. Cohen promising to create new jobs and invest in the community. The company plans to expand its operations and increase its production capacity, which will likely lead to increased employment opportunities.

Overall, the acquisition is seen as a positive development for both Vail Auto and the automotive industry in the region. It is expected to have a significant impact on the local economy and is likely to attract further investment in the future.
ANGLOVAAL INDUSTRIES (132)

GOOD RERATING

Activities: Holding company of Angola's industrial interests

Controls: Anglovaal 60%.

Chairman: B E Hersov, MD J C Robbertze.

Capital structure: 28.3m ords. Market capitalisation R1.7bn.

Share market: Price, R60 Yields 2.3% on dividend, 12.2% on earnings, p/e ratio, 8.2; cover, 5.4 12-month high, R66.50, low, R43.

Trading volume last quarter, 268 000 shares

Year to June 30

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<th>%</th>
<th>'89</th>
<th>'90</th>
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<tr>
<td>ST debt (%m)</td>
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<td>LT debt (%m)</td>
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<td>18.9</td>
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<td>Turnover (m)</td>
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<td>3 712.2</td>
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<td>2 412</td>
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If the share price is anything to go by, investors are pretty confident that Anglovaal Industries (AVI) will be able to maintain — and perhaps even improve — its earnings growth rate despite the steady deterioration in the business climate.

Over the past year, the shares have gained almost 32% in marked contrast to the industrial market, more important, the rating vis-à-vis the likes of Amco, Barlow, FSI and Malbakh has soared. Whereas a year ago — as the FM noted — AVI was trading at a substantial discount to these companies based on p/e ratios, this situation has been completely reversed. Now, AVI's p/e of 8.2 compares with Amco's next-best-of-under 6, and is more than double Malbakh's 3.8.

Similarly with dividends, AVI's 2.3% yield is less than half of any of the other four. While it can be argued that AVI has traditionally been a low-yielder (partly because of its equally traditional high cover) the common is unusually high.

The question is whether market expectations are likely to be translated into reality. Objectively, the answer must be a cautious "yes," based on two factors. First, the bottom line is that the full impact of the major expansion into the rubber industry through acquisition of Goodyear (now Tyco) and that company's subsequent merger with Treadco. Secondly, restructuring of the group towards the end of the 1989 financial year, involving inter alia the elimination of intermediate holding companies such as South Atlantic, should have improved internal cash flow and could, in time, lead to a lower dividend cover — which remains abnormally high by JSE standards.

Dealing with these in order, one of the most remarkable aspects of the 1990 results was that entry into the rubber industry at a net cost of R156m had virtually no effect on the earnings profile (see table).

What is now the packaging and rubber division continued to ship in 22% of attributable earnings, unchanged from the contribution of packaging alone in 1989, despite the substantial increase in assets employed and, hence, in the earnings base. Partly, this was owing to the prolonged strike at Tyco following Goodyear's divestment, affecting the group's first-half performance. This, in turn, contributed to group EPS growth by only 8% at the interim stage in the second half, with production back to normal, EPS growth almost doubled to 15% despite a further significant weakening of the general business climate.

At worst, therefore, investors seem on fairly safe ground in assuming a full year's contribution from this new activity, though it can equally be noted that the positive effect is likely to diminish as the year progresses.

On dividend cover, two points are relevant. The first, as mentioned earlier, is that restructuring should have improved internal cash flow. So far, this has not been reflected in any change in distribution policy, with last year's payout still covered 5.4 times by EPS — much the same as in 1989 and 1988.

The second, and conservative dividend policy could be justified on the grounds that expansion in the past two years has resulted in AVI moving from a small net cash post-

AVI's Hersov enjoying the improved rating

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Similarly to 1988 to net borrowings of R312m at June 30 1990. However, the debt ratio is still only 22%, underlining that AVI remains conservatively structured. Leading to the same conclusion is the fact that interest cover is still a healthy 13.3 times earnings.

And though the group plans to spend a further R11bn over the next three years, chairman Basil Hersov expects debt to moderate over this period.

Obviously, this can only happen if the group as a whole is a net cash generator, if...
WoM: Bank’s demands are just not cricket

By ROBERT LAING

WORLD OF MUSIC (WoM) may be the next JSE-listed firm to be liquidated. Standard Bank applied for WoM’s winding-up after it failed to respond to a demand that R94 132 plus 23 percent interest be paid before July 25. Standard claims this is the outstanding balance on the amount owed to it by WoM’s former subsidiary, Bartel Liquor.

WoM is contesting Standard’s liquidation bid, saying the bank is not entitled to look to it for any alleged balance.

Standard called for Bartel’s provisional liquidation last October. WoM paid Standard R232 336 in February, which the bank accepted without prejudice to additional claims.

Bartel Liquor was launched by Springbok cricketer Graeme Pollock and bowls champion Doug Watson to import Bartel Rawlings’ UK liquor range.

Pollock told The Weekly Mail, “According to the deal struck five months ago, Sterns now owns Bartel — they bought WoM’s 51 percent and the remaining 49 percent belonging to Doug Watson and me.”

WoM, Pollock and Watson thought the agreement released them from any financial obligations. However, Standard is holding WoM liable for Bartel’s debts through a deed of surety signed before Bartel was sold to Sterns.

Pollock had approached WoM chairman Cooke, who organised the first English rebel cricket tour to SA, for assistance in December 1988. Cooke agreed to supply Bartel with credit facilities through Standard Bank and to give it access to WoM’s subsidiary World of Leisure’s (WoLe) liquor outlets.

WoLe owned the Blue Marlin Hotel, 25 percent of the Protea Hotel group and 25 percent of Timeshare Dynamics.

WoM handed its 51 percent share in Bartel to Sterns Jewellers in February 1989 for R60 000, which has not been paid. WoM and Trust Bank applied for Sterns’ provisional winding-up in December, resulting in Sterns Jewellers selling its retail outlets to Good Gold-Tanur for R12-million to raise cash.

WoM, Pollock and Watson are still waiting for payment. Most of this money has been frozen by the Reserve Bank while Sterns former chairman Maurice Jacquesson awaits trial on 2354 counts of fraudulent activities, allegedly involving more than R253-million.

The state alleges that Jacquesson — also a director of Jacques Film Distributors, Cu-Shade and Sylvecrest — contravened sections of the Currency Exchange Control Regulations Act, the Copyright Act and made false statements to customs.

Jacquesson allegedly declared a transaction value of £350 on boxes said to contain feature film, but payments effected through Standard Bank were for £29 900. Examination of the boxes’ contents apparently showed that not one single importation contained a complete feature film, only segments of Hindi, Tamil and English-language films. Reserve Bank spokesman Piet Troost said Jacquesson may stand trial next month.

WoM was listed at 45c on October 15, 1987, a few days before the JSE crash. Its shares were 9c when WoM was suspended on July 31, 1989.

Debt-plagued WoM has been forced to shed most of its companies, World of Music Retail and Rag Records were sold to Musica, Top 40 and Jive magazines were sold to Publico, and Unsound (which traded as Television Radio Centre) and Bartel were sold to Sterns.

WoM’s problems appear to have started after it merged with Carmen Mattson’s leisure/property company Blue Marlin to form Worles. WoM was initially suspended to allow it to restructure Worles. However, all attempts to restructure the company failed and WoM is still suspended. Worles’ winding-up order was granted to Standard on November 21. By then, Worles’ subsidiary Timeshare Dynamics had been liquidated and its 25 percent share in Protea Hotels had gone to Rand Merchant Bank.
Public will benefit from privatisation

THE most important consideration for the automotive component and allied industry in the "new" South Africa, might have little to do with the fact that it would be "new", the executive director of Free Market Foundation Mr Leon Louw said this week.

Addressing the National Association of Automotive Component and Allied Manufacturers, he said it might be that there was a worldwide retreat from protectionism, which seemed likely to be more pronounced in South Africa, regardless of who governed.

He said briefly, that meant that there might be a move towards an "open" economy, with the freer movement of money - both foreign and local - goods, services and people across the borders in both directions.

As a result, he said South African industry would have to become more internationally competitive.

He said constitutional reforms seemed increasingly less likely to have a major impact on the economy, positively or negatively.

The liberation movements, especially the ANC, were becoming increasingly conservative on economic policy in that they were ever more in favour of perpetuating the status quo, especially in aspects of relevance to the automotive and allied industry.

Louw said there was a major myth about the effect privatisation would have on health and social services in South Africa.

The assumption that privatisation would put social services beyond the means of the poor was quite wrong.

"If privatisation took place without any reaction in Government spending, then it will bring only benefits - and substantial benefits - to the public. These benefits would be multiplied if subsidies become demand-side instead of supply-side subsidies.

"If the subsidy goes to the person in need, who is free to purchase whatever services they need in a free, diverse and competitive market, they would get much better value for every welfare rand," he said.

He said that the only people who stood to lose as a result of privatisation without spending cuts would be those who did not supply a service the people would choose voluntarily. But there could be no doubt that the public would benefit from privatisation and deregulation of welfare pensions."
Seardel group sees exports rising to R50m

By AUDREY D'ANGELO
Business Editor

NINJA turtles — action dolls based on the cartoon figures, which are currently the most popular children's toy — are helping to push up profits for the Seardel group.

Executive chairman Aaron Searll said at the annual meeting yesterday that its toy division, Prima Toys, had secured sole distribution rights for Ninja turtles in SA.

"Unbelievable" demand for the turtles had boosted Prima Toys' turnover by 20% so far this year and was expected to push it up by another 20%.

But most of Seardel's profits come from clothing, which accounted for 77% of group turnover and 72% of operating income in the year to June 30.

Searll reported that group turnover of R261.8m for the first three months of the current year was 14.6% higher than in the same period last year.

However, tightly squeezed margins mean that profits have not risen in proportion to this. Searll said estimated group pre-tax profit for the quarter was "on a par with last year."

The group reduced its borrowing ratio to 75% of equity by June 30, compared with 110% the year before.

Advising a further reduction, the chairman of the Shareholders Association of SA, Iasy Goldberg, said the borrowings were the reason the shares traded at only 230c when its net asset value was nearly R5.

Congratulations the directors on keeping dividends low in order to plough back profits, Goldberg said that if they continued to do this the share was "one of the cheapest in the country."

"This company is poised to become one of the major players in this country, provided it reduces its debts."

"Dividends will come when the gearing is reduced," he promised, comparing finance charges of R30.2m in the past year to "a kick in the solar plexus."

Goldberg pointed out that of every rand received by the group, only 2.75c was profit — from which dividends had to be paid to shareholders. He suggested that this should be explained to the workforce.

Discussing clothing exports, Searll said they had earned R55m for the group in the past financial year. This was 9% of total sales.

"This year we are expecting exports to top R50m. We aim to increase it to R100m of turnover in the longer term."

Some exports were already going to African countries. An Eastern Europe was a possible market in the future. But at present the clothing exports were targeted mainly at Western Europe.

Searll said he did not expect the world-wide economic downturn to affect the company's export plans. "That market is so vast, that R50m is only a tiny part of it."
Colfin finds Logtek a good thing

Out of adversity came opportunity for Colfin Holdings after a crash in foreign investor confidence earlier this year opened the door for it to make a major acquisition at a favourable price.

Colfin's business is largely in corporate finance, but it has stakes in training companies and the computerised personnel management systems Accsys.

Colfin has not been without its detractors - a fact reflected in the share price of 35c. This is beneath the 37c of tangible net asset value of the company, which has a large contingent workforce from the nature of its operations.

The deal it struck with Logstec Technologies (Logtek) could change the company's profile. Logtek - formerly trading as Technical Publications - is a fascinating, small company in manufacturing, spares, documentation, training and so on.

Founded by Richard Wills 30 years ago, the company has grown into one of the most comprehensive logstec houses in the world - so much so that late last year a British company seeking investments sent a team to look at it. So impressed were they that they made an offer to buy it. They based their offer on the British rate at the time - averaging 13% earnings.

But when the ANC's leaders once more roamed the land with talk of nationalisation, the Britons took a hard, and the deal fell through. This paved the way for a South African buyer, and Colfin was finally called in as an independent valuer of the business.

So impressed was Colfin, says chairman Harry Spangenhelder, that it made an offer to buy - on four times earnings. Mr Wills sold his 65% shareholding in the company and will pursue other interests.

The other shareholders, management, will stay with the company and have agreed to accept tradable paper for their shares.

The vehicle for the deal is Furrtech, a cash shell in which Colfin holds 20.5% directly as well as 5% of the Krook brothers' holding. The Krooks previously controlled the company.

Furrtech will buy Logtek for R9.5 million, cash, and will issue 1.2 billion shares. 365 to the Logtek minority.

Minority shareholders in Manse are still waiting for the 10c-a-share capital due to them as well as any interest.

Mr Spangenhelder says the latest deal has brought a Cape-based institution with a 16% shareholding. He says the stake sold was assembled from various options and agreements with weak shareholders, many of whom were members of the original Catocth.

Colfin warns that it is involved in other negotiations not related to the Logtek deal, and that shareholders should still trade carefully.
If Malbak seeks to keep its head

IF Malbak chief executive Grant Thomas could quantify the consequences, he would be able to estimate the amount by which he expects earnings to fall in the coming year.

The diversified industrial holding company reported a 3% decline in its earnings per share to $1.12 for the year to August 1999. The dividend was maintained at 10c.

Mr Thomas introduced his presentation to the Investment Analysts Society with a variation on Keeling's "If you can keep your head when all around you are losing theirs, you'll be doing well.

Mr Thomas outlined events since August 1999, beginning with Reserve Bank Governor Chris Stals' announcement of 10% discounting of long-term lending. It was followed by the general election and the new Government's commitment to real rates of interest, and restrictive money supply and fiscal policy.

The prime overdraft rate was raised to 21% in October last year, Nelson was released, and nationalisation proposals were considered. An announcement about townships erupted and the rate of inflation and gross domestic expenditure dipped 5%.

Mr Thomas said that judging by the fall in the share price, analysts expected a big profit decline. But turnover was up 14% and net profit was increased by 8% to R725-million. But a 25% rise in interest half due to higher rates and the rest in increased borrowings of R18-million a 12% lift in tax to R175-million and the conversion of debentures has been slight.

The effective tax rate grew by 4% because assessed losses in Darling & Hodgson, Holdeman and Standard Engineering were used up. Losses in Aberdeen could not be offset against earned profits.

A breakdown of contributions to earnings showed paper and packaging chip in 26%, engineering 23%, branded customer goods 25%, food 11% and construction materials 3%.

Fixed assets grew by 17% to R53-million, investments by 15% to R44-million and property, plant and equipment by 12% to R125-million. Non-interest-bearing loans were 11% up at R327-million, and the net asset position was down.

The sum of the listed parts and the value of unlisted assets comes in at about 90c a share, according to Mr Thomas. The current share price is 58c, well down from the year's high of 86c, but above the level reached earlier this month.

Mr Thomas said that the companies Malbak took over from Geeston, which had been completed recently, was expected to be released by 16000c. Mr Retief says it looks as though it will come down to 5%.

The past six months has shown SA's producers could be surprised if the next year and a half.

But Mr Retief is confident of a market for the Burschberg's planned increased production. The company is protected against a downturn because of its cost-effective production and its access to marketing and distribution channels.

Myths exploded

MYTHS were scotched about the state of the platinum market at Burschberg Platinum chairman Pat Retief at the company's annual meeting this week.

The first fear — that smaller quantities of platinum could be required as worldwide recession cut sales of motor vehicles — was countered by Mr Retief's explanation that tighter exhaust emission laws meant more would be used in each vehicle.

The second fear — that recession would hurt sales of platinum jewellery in Japan — is rejected by Mr Retief. He expects demand to be up by 4000c. Mr Retief's comment at the time was that Malbak had overpaid for South African shares.

The last myth is that export by SA producers could lead to surpluses in the next year or a half.

But Mr Retief is confident of a market for Burschberg's planned increased production. The company is protected against a downturn because of its cost-effective production and its access to marketing and distribution channels.

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In response to a question about international expansion, Mr Thomas said Malbak's entry into the world market meant that the company would get the first brick firmly in place for putting another one up. The company was established at a 30% premium.

Mr Thomas gave the impression of a company that was confident about the future. A company that believed that the world market would provide a golden opportunity for growth.

"You know, things are not as bad as you think they are," he concluded.

The negative side was longer term, he said. For one, he said that the recession, oil prices rising, the interest rate, the higher price of the dollar and continued financial tightening meant that Mr Thomas and his team expected lower earnings, but the extent of the reduction was not yet predictable.

The proposed merger of Malbak and Malhold will take place when any of the two companies' shareholders will be removed — a saving of about R13 million.

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Privatisation stalled by low growth

By DIRK TIEemann

PRIVATISATION is on hold not only because of ANC opposition, but also as a result of economic necessity, says special economic adviser to the Treasury, Jaap Jacobs.

He gave that message to this week's Handelsinstitut congress in Durban.

Another pointer to emerge at the meeting is that Eskom, Transnet and the Post Office will play a big role in the economy's reconstruction.

If more evidence of the shelving of privatisation plans were required, it comes from the low Eskom tariff increases.

Monopolies

The 5% rise was generous — original plans were to restrict it to 5%. The emphasis is on cost-effective operations and will be required from the whole public service.

Outgoing institute president and general executive financial director Tom de Beer told the congress that privatisation of natural monopolies would cause a strain on political negotiations because of strong ANC opposition.

Division of opinion about these monopolies also existed in the institute's ranks, he said. Bankorp chief economist Nick Barnard believes privatisation has been shelved but not abandoned.

"The issue is politically sensitive and the decision whether to go ahead should be negotiated by all. Any new government will be faced with tremendous financial pressures for infrastructural improvement. It will realise that privatisation is best for the large and rapid inflow of revenue, but some token nationalisation can be expected."

Finance Minister Barend du Plessis says social spending as a percentage of gross domestic product will exceed 45% in next year's Budget. The current figure is about 35%. If the interest bill on State debt is excluded, it could be 45% next year.

Treasury adviser Dr Jacobs says a reduction in tax pressure on the economy, currently 23% of GDP, can be expected.

Emphasis on lower taxes must be seen in the light of the economic growth programme. The plan concentrates on the supply side, which means the removal of bottlenecks affecting skilled labour, capital and the promotion of productivity.

Base

Reduction in direct individual tax will be possible only if Government spending grows at a lower rate than the economy.

Poor economic growth and the consequent slow increase in the tax base have made it impossible for the Government to satisfy the needs of the disadvantaged.

Emphasis will be placed on indirect taxation. The effective company tax rate will be increased to lower the normal rate.

According to estimates for 1990-1991, individual income tax will contribute 36% to revenue, indirect tax 43% and companies 21%.
Debt-ridden Pickard hacks its way back with sell-offs

Business Times Reporter

THE Pickard group is hacking and slashing to get rid of debt, but no thought is being given to dismembering the empire, says director Jan Pickard Jnr.

Pickard Holdings is selling its 90% stake in Union Wine to Kangra Holdings, owned privately by entrepreneur Graham Beck.

In the past 10 years, the group has sold off its extensive meat, food canning, property and sports goods interests.

**Losses**

Talk abounds about a management buyout at Pickard Appliances (Pecapl), that would leave financial services the only remaining interest.

But Mr Pickard discounts the suggestion, saying Pecapl is worth more than R60-million and the group is confident of a turnaround in better trading conditions.

Pecapl, its holding company Pechold and top company Pechel all reported large losses in the year to June. Mr Pickard says this was the price of getting debt down dramatically after large-scale sell-offs, including the disposal of Union Wine for R30.5-million, group net debt is down from R207-million to R86-million.

Minority shareholders in Union Wine are being taken out compulsorily at 100c when net asset value is 95c.

Mr Pickard denies claims that an offer of 110c from Kerraf was rejected, saying "A while back before we decided that there was not much future for a small wine-maker without a spurs brand we tried to bid for Kerraf's liquor interests. But Kerraf was not interested. There was certainly no bid the other way around."

Mr Pickard also denies a claim that a R7-million restraint of trade is payable by Kangra to top company Pickard Investments.

The Pickard group's history is chequered. In 1977, the company was over-borrowed. But after the sale of Kerraf, Pickel reduced debt equity from 237% in 1977 to 15% in 1982.

**Devastated**

Debt was reduced from R74.4-million in 1977 to R36.6-million in 1982. But after setbacks in recent years, it soared to R213-million and debt equity went to 122% last year.

Mr Pickard says most of the debt was picked up in Pecapl, which was devastated by last year's 40% import surcharge and tough hire-purchase curbs. Pecapl was expanding rapidly after the consumer boom of 1987-88 and was caught with huge stocks and another R18.5-million is coming in from Union Wine. There is another R7.5-million in Pickel, explaining why the dividend in the top company was held last year in spite of problems lower down.

**Collapse**

The financial services interests are held through wholly-owned Sagun, which has 36% of Cape Investment Bank. CIB appealed to the Reserve Bank last week because small banks find it difficult to get trading partners after the SAGA affair.

SAGA is to be reversed into Pecapl with its R16-million of cash to facilitate expansion in financial services.

Mr Pickard and investment strategy will be to avoid "cash-eating crocodiles." The group will concentrate on inflation-proof earnings and moderate the pace of expansion.

JAN PICKARD Jnr No more cash-eating crocodiles

Through heavy discounting and at horrendous cost to its bottom line Pecapl has been able to reduce stocks and debtors. It has reduced its borrowings from R165-million to R95-million to date Marguns have been restored and Mr Pickard hopes to turn last year's loss of R13-million into a taxed profit of R16-million in the current year.

Mr Pickard says the group will stay with Pecapl, which in a good year can make more than the record R25-million achieved in 1988.

Other parts of the group are fairly liquid. After the sale of Logans sports outlets, Pecapl has cash of R16-million.
Major institution ‘has taken stake in Colfin’

FINANCIAL Services group Colfin must be one of the most underrated companies on the JSE. At the current price of 33c, the shares are on a forward dividend yield of 25% and a price to earnings ratio of 1.5.

But two events last week could be the signposts on the way to a major rerating of the fledgling group which came to the market two years ago through a reverse listing of the Cash- worth cash shell.

The first was the trade of 1.5-million shares — 10% of the issued share capital — with market talk that a major Cape institution has bought into the company. This represents a significant confidence booster as it alters its investment profile.

The second event was the restructuring of the group and the acquisition of Logistics Technologies. This will transform Colfin into a more broadly based services operation with a significantly higher proportion of earnings based on contracts rather than on an ad hoc basis from financial services.

The acquisition should also quell criticism levelled at the company that it was purely a services operation without assets. The deal will boost tangible asset value a share from 37.4c to 55.7c.

Colfin shares, which have slumped from a February peak of 10c to a low

Firstly, it gave him experience of being involved in major corporate finance projects such as the formation of Freegold, the world's largest gold mine, and the merger of Ford and Mazda to create Samcor.

The second lesson was that the experience instilled in him an aversion to working in an institutional environment.

After leaving Anglo at the end of 1986, he joined Reg Sherrell in first establishing Mercabank. They were then part of the team which founded the original Duros financial services group. The move into his own business came in 1988 when Wiggell joined forces with a former major client, Harry Span, a senior partner with auditors Kessell, Feinstein, to form Columbia Corporate Finance with the backing of Columbia Consultants.

Unrecognised

The company's name was changed to Colfin in April last year when the two partners bought Columbia's stake to gain majority control. The deal included the purchase of Columbia's computer and training interests.

These activities formed the basis of the group's results for the year to April 1990 when the company paid a maiden dividend of 6c on earnings of 19.3c a share.

With Logistic Technology now under its belt, Colfin expects to at least maintain earnings and dividends. Analysts are forecasting earnings of 25c a share and a likely dividend payout of 8c a share for the current financial year.

Wiggell and Span have high hopes for Logistix: "It is still largely an unrecognised service in the private sector," Wiggell said.

The acquisition of Logistix also gave Colfin its first property interests. The offices in Midrand have a value of R8.5m.
Despite weakening economy...

Gencor lifts
earnings 38%

From BRENT MELVILLE

JOHANNESBURG — In a year devoted to consolidation, Gencor managed to shrug off a weakening domestic economy and softening international commodity prices to record a hefty 38% rise in attributable earnings to R1,465bn (R1,050bn).

Incorporating the 20% increase in share capital resulting from last year’s rights issue however, Gencor — touted as the world’s second largest mining house after Anglo American on gross assets of R16,53bn (R14,4bn) — produced earnings a more sedate 17% up at 123c (105,5c) a share. A total dividend of 40c (34c) a share was declared.

The performance, however, comes on the back of a warning by Gencor executive chairman Derek Keys that operating profits are likely to fall next year.

Keys said subsidiary Genmin was likely to be one of the hardest hit as Samancor, Gengold, Impal and Trans-Natal were likely to post earnings at levels about 10% and 15% lower.

In addition, he said the Genmin contribution, reduced to 41% (54%) of attributable earnings for the period, would be further diluted by a higher level of international exploration spending as it began to look further afield, and by lower earnings from its mineral sands investments.

Although Samancor remained the major contributor to Genmin for the year, its contribution fell to R251m (R321m), or 17% from 31% of Genmin bottom line.

Gengold pulled up next on the list of contributors at R157m (R154m) and the recently formed minerals division kicked in R119m (R77m), lifting its contribution slightly to 8% (7%).

Impal, which joined forces with Lonrho’s platinum mines this year by selling them its contiguous Karee developing mine in exchange for a 27% interest in their enlarged operations, left its contribution at R91m.

Gencor’s industrial side took a pounding however as pulp & paper group Sappi’s contribution to group attributable profit fell to 16% (28%) on deteriorating domestic and international markets.

Keys said it was unlikely that Sappi, which chipped in R248m (R276m) to attributable profits, would show growth next year although the purchase of five paper mills in the UK were seen as important building blocks for the future.

Malbok also reduced its contribution to R118m (R140m) as a result of the higher tax charge on the exhaustion of assessed losses and a reduced Gencor holding in the diversified industrial group.

Recently listed energy giant Engen, market capitalised at more than R3bn, contributed a maiden R263m, or 14% to bottom line earnings and Genbel and investments added a full 29%, or R414m (R191m).

Keys expected the performance of both divisions to improve in the current financial year.

In addition he forecast that while Gencor’s operating profit was likely to fall, transaction profits should be fairly substantial and the group should certainly be comfortably able to maintain its dividend at its increased level.
Acquisitions and growth in sales boost profits for Focus Holdings

SPECIALITY retailer Focus Holdings showed a 24% increase in after-tax profit to R2,66m for the 17 months to end-July due to organic sales growth and a number of acquisitions, management said yesterday.

The group acquired 29 Cashworth stores and 22 Smiley Blue stores during this period, and now has a total of 109 stores. Of these, 84 are owned by the group and 25 are franchised.

The group's financial year-end was changed from end-February to end-July to coincide with its trading cycle. This, combined with the effect of the acquisitions, resulted in turnover more than tripling to R1,63m (R21,3m previously).

However, extraordinary items comprising a goodwill write-off of R2,03m and restructuring costs of R520 000 for losses from discontinued operations relating to the acquisitions contributed to a growth in earnings of 17% to 9,93c (8,49c) a share.

A final dividend of 2c a share has been declared for the period to end-July, with the group proposing to offer bonus ordinary shares as an alternative to the cash dividend.

Ordinary shareholders will be offered 8 new fully-paid Focus ordinary shares for every 109 existing Focus shares held in lieu of the dividend.

Opening (203), should shareholders not accept this offer, they would be paid the cash dividend, management said.

"We would like to conserve our cash resources, and we are confident that most shareholders, including management, will accept the offer," a spokesman said.

Management was confident that, despite difficult trading conditions, the group would achieve earnings growth in the current financial year as the acquisitions and the opening of new stores had been fully integrated.
CAPE TOWN — The takeover of the Grand Bazaars chain of 27 supermarkets will cost Shoprite almost R50 million.
This is disclosed by Shoprite's directors, who say R30.8 million will be paid for stock.
Previously, only the price of fixed assets, furniture and trademarks (R14.9 million) had been reported, with the value of stock not determined.

The merger of the two Cape-based companies will create a chain of 75 supermarkets and make Shoprite the largest food retailer in the Western Cape, with sales approaching R1 billion a year, says managing director Wellwood Basson.

Shoprite, one of the few companies without interest-bearing debt, will use the merger for growth and expansion into new areas with the aim of becoming a major food retailer on a national scale.
A GROUP of seven JSE stockbrokers are attempting to give the failed futures floor another chance and will commence trading there from November 1, it emerged yesterday.

The SA Futures Exchange (Safex) sent out a statement yesterday confirming that "seven members have indicated they will be trading on the floor from Thursday November 1".

Accordingly, the statement added, pit observers and systems will be in place at the appointed time.

Safex CE Stuart Rees, explaining the sudden interest in the floor after previous attempts had failed, said the Safex executive committee wanted to see if these seven members would constitute an adequate population.

He would not be drawn on whether previous reports about the death of the futures floor had been greatly exaggerated.

Three futures market participants from firms known to be in favour of screen trading expressed derision at what was described as attempts to "resurrect" the floor.

A JSE futures trader, who declined to be named, said it was "a last chance" to see if enough key players could be brought together to provide a minimum level of liquidity.
Pinnacle applies to be wound up

SUSAN RUSSELL

Pinnacle Holdings Ltd. which owes R6.1m to the troubled Alpha Bank, applied to be provisionally wound-up in the Rand Supreme Court yesterday.

Company director Eben Goosen, who said he was also a manager of Alpha Bank, stated in an affidavit in support of the application that Pinnacle Holdings was "hopelessly insolvent" and that it had become impossible for it to extricate itself from this position.

Pinnacle was described in court papers as an investment holding company with interests in property, banking, the mining industry and entertainment financing.

The company was unable to pay the R6.1m owed to Alpha, Goosen said.

The Reserve Bank placed Alpha Bank under Ernst & Young's curatorship from September 21 after its R68m exposure to Spareco, which was provisionally liquidated in September.

In his affidavit, Goosen drew the court's attention to the fact that an auditor's investigation into Pinnacle's affairs had found that it appeared there had been "irregularities regarding share dealings pertaining to certain previous directors of the board", and that certain company stock had been overvalued.

During June this year Alpha Bank had, with Pinnacle's consent, asked Goosen to assist in managing the day-to-day affairs of the company, its subsidiaries and its

Pinnacle projects, he said. As a result he had become acquainted with Pinnacle's affairs, and over a period of time realised it was in a hopeless insolvent financial position.

Goosen said Alpha had called up the R6.18m owed by Pinnacle on October 3 and had demanded that it be paid within seven days.

Pinnacle was unable to pay, he said.

Creditors were pressing for payment on an almost daily basis.

Some had threatened legal action, including liquidation proceedings.

Goosen said the company's banks had withdrawn financing facilities and Pinnacle was thus unable to pay its creditors.

The company had to pay its employees' salaries at the end of October or they would leave, he said.

Goosen added that it was desirable to retain present employees.

Mr Justice van Dijkhorst granted the provisional order of liquidation, returnable on December 11.
Special share offer closes tomorrow

THE preferential offer of two million shares in South Africa's fastest growing life assurer, African Life, closes tomorrow.

The company has applied for a listing in the insurance section of the Johannesburg Stock Exchange as from November 15.

The offer is open to staff, existing shareholders, policy holders and selected business associates.

When listed, African Life will be one of the few companies on the JSE with a majority of black shareholders.

African Life's total income increased by 38 percent to R37.1 million, and earnings per share rose by 25 percent to six cents in the half-year to September 1990.

The company's managing director, Mr Jack Bill said: "The company services some 160,000 premium-paying life policies in the low monthly premium bracket.

"We have a network of 23 branches nationwide and a sales force of more than 600.

"One of the major strengths of the company is its market focus, which has enabled it to bring the benefits of life assurance to a relatively unsophisticated market while still giving value of money.

"We have concentrated our expertise on providing products that meet the up-to-date needs of our target market."

The company is forecasting a 20 percent increase in earnings a share for the year to March 31, 1991 and 20 percent in dividends a share to 9.5 cents over the same period.

"We are confident that our business will continue to grow and will gain additional benefits from a listing on the JSE," Jack said.
Interboard, Buildcor to restructure

INTERBOARD, to be renamed Abacius Industrial Holdings, and Buildcor, to be renamed Audiocor Holdings, will hold shareholders meetings on November 20 to approve the reorganisation of the two companies.

In notices to shareholders, the companies set out the details of the restructurings and disposals announced in July and September.

Interboard has sold its flatboard division to Timberquip and Mogul, which have been sold to Sappi for a nominal R1 each.

Mogul has a net liability of R22.4m which Sappi has assumed. The reason for the sale is to halt the continuing operating losses the flatboard division is incurring and to reduce substantially Interboard's interest burden.

Interboard is also selling Audiocor to Buildcor in exchange for 45.8-million shares in Buildcor.

This brings Interboard's shareholding in Buildcor to 55.6-million shares or 96%, making Interboard the pyramid holding company.

Buildcor will hold a R18m rights offer and Interboard will renounce its rights in favour of its shareholders so that Interboard's shareholding in Buildcor will finally be about 58.5%.

Buildcor will acquire door manufacturing company Braly as well as Audiocor and will transfer from the building and construction sector to the electrical, electronics and battery sector of the JSE.
Fewer, Any Break-up Features of Proliferation and/or Maintenance of the Ectoderms or the Ectodermal Layer of the Neocortex Can Indicate a Breakdown of the Neocortex's Tissue Integrity. However, Many Break-up Features in the Ectoderms and/or Maintenance of the Ectodermal Layer of the Neocortex Can Indicate the Presence of Certain Pathological Changes in the Neocortex.

In the context of the current understanding of the neocortex's tissue integrity, the presence of pathological changes in the neocortex can be indicative of a potential breakdown in the tissue's structural integrity. This breakdown may result from a variety of factors, including genetic mutations, environmental stressors, or other pathological processes. The presence of pathological changes in the neocortex can be indicative of a potential breakdown in the tissue's structural integrity.

The Current Understanding of the Neocortex's Tissue Integrity

The neocortex is a highly complex structure that plays a critical role in higher-level cognitive functions, including language, decision-making, and problem-solving. The neocortex is composed of a series of layers, each of which has a specific function and is thought to be responsible for a particular aspect of cognitive processing.

Recent advances in the field of neuroscience have provided new insights into the structure and function of the neocortex. These advances have led to a better understanding of the mechanisms that underlie the breakdown of the neocortex's tissue integrity and the potential implications of these changes for cognitive function.

The Pathological Changes in the Neocortex

Pathological changes in the neocortex can be indicative of a variety of processes, including the development of neurodegenerative diseases, such as Alzheimer's disease or Parkinson's disease, or the presence of traumatic brain injury. These changes can result in a breakdown in the tissue's structural integrity, leading to a loss of function and a decrease in cognitive performance.

The Implications of Pathological Changes in the Neocortex

The implications of pathological changes in the neocortex are significant, as they can lead to a decrease in cognitive performance and a loss of function. This loss of function can have a profound impact on an individual's quality of life, as it can affect their ability to perform daily activities and interact with others.

The Potential for Early Detection and Intervention

The potential for early detection and intervention is critical in the management of pathological changes in the neocortex. Early detection can allow for intervention before the pathological changes progress to a point of no return, potentially preventing the development of neurodegenerative diseases and reducing the risk of traumatic brain injury.

The Importance of Further Research

Further research is needed to better understand the mechanisms that underlie the breakdown of the neocortex's tissue integrity and the potential implications of these changes for cognitive function. This research could provide new insights into the prevention and treatment of neurodegenerative diseases and traumatic brain injury, as well as the potential for early detection and intervention.
Court provisionally winds up Kemtrade

KEMTRADE Holdings Ltd and two of its subsidiaries, Kemtrade Distributors SA and Alpha Pharmaceuticals, were provisionally liquidated in the Rand Supreme Court yesterday.

Mr Justice G Leveson granted the provisional orders following urgent applications by the three companies.

Kemtrade Holdings, which is involved through its subsidiaries in the wholesale and distribution of a range of toiletries and pharmaceutical products to pharmacies, department stores and supermarkets, had its JSE listing suspended on October 16.

A Kemtrade director, Malcolm Yenser, who submitted affidavits supporting the applications, said the holding company owed about R8.5m to its bankers. Its liabilities exceeded its assets by about R1.8m. The holding company had issued unlimited guarantees in favour of all its subsidiaries.

Yenser said Alpha Pharmaceuticals owed the holding company about R2.5m and its bankers R14m. Kemtrade Distributors owed its bankers about R7m and the holding company a further R1.7m.

Both subsidiaries had lost their share capital, Yenser said.

"Although Alpha Pharmaceuticals made a profit of approximately R170 000 for the six-month period (ending August 1999), its accumulated losses up until then amount to about R530 000," he said. Kemtrade Distributors incurred a trading loss of about R2.5m during the same period.

Yenser said meetings were held with a merchant bank during October to consider the group's position. Restructuring and a cash injection of about R4m were proposed to enable the companies to carry on viable trading operations.

While the restructuring was being considered, a third party proposed a takeover of the Kemtrade Group.

Yenser said the third party was to investigate the group's affairs. It was agreed that restructuring proposals would be held over until this probe was complete.

Kemtrade was advised on Tuesday that the third party had decided against the takeover. Restructuring proposed by the merchant bank had also failed.

Yenser said because the restructuring and proposed takeover had not materialised, Kemtrade Holdings directors had resolved to liquidate the three companies in the interest of creditors.

The return date for final winding up order is December 11.
Bearish trades for quarterly options close-out

CAPITAL market rates jumped an early nine points yesterday in relatively active but very bearish trade.

In the quarterly options close-out that often sparks renewed interest in the market.

The Eskom 188 closed out at 16.36% after touching 16.50% thanks to a reasonably active state of selling by exercising put (sell) options at 16.25%.

"They had no choice but to buy when the puts were exercised at 16.25% but as soon as they got them they were sold off like hot potatoes for fear of a bear run," one dealer said.

The bear run did not materialise with the rate ending at 16.34% but sentiment was sluggish and short-term prospects on the market are for higher rates.

"The close-out was a bit of an anticlimax because a lot of the positions had been sorted out in advance, especially on Wednesday afternoon," one dealer said.

"Some institutional interest was apparent at the higher rates but the banks seemed to be shedding a few bonds," he said.

With the Eskom rate climbing higher, government stock made further gains on Eskom bonds. The R150 rate ended only 34 points off the E168 as the government stock found some support.

Sentiment on the market is bearish with hopes of an early cut in Bank rate now all but dissipated and a disappointing gold price, higher inflation and deepening recession taking their toll.

Fears of retrenchments are also creeping in after Tuesday's large layoffs at Frankel Kruger Vinterine and Max Polak and Free-mantle.

"Many dealers at broking firms are putting feelers out in the direction of institutions in search of some stable employment," said a dealer.
South Africa must look beyond the short-term doldrums that were sure to accompany the transition to a post-apartheid, sanction-free environment, said Mr. Stuart.

The underlying tone was of measured optimism. "We are at the dawn of a major expansion phase brought about by the readmittance of South Africa to the mainstream of world politics and economics."

This would mean higher growth, increased exports, a more stable currency, planning for a future that was brighter. Reforms were needed, and they were on the way.

On economic growth and perhaps privatization,="Mr. Stuart said,"we have seen a slow-down in the pace of change. However, this is part of a long-term process."

Once out of the current short-term difficulties, we will see a smoother economic environment. The government must be prepared to respond quickly to any changes in the economic situation."

Regulations, taxes, and interest rates need to be examined to ensure that they are not hindering economic growth.

"We must also ensure that the savings and investment rate is kept high to encourage economic growth."

Referring to the recent report by the Central Bank, Mr. Stuart said, "We are committed to implementing the recommendations to improve the economic situation."

"However, the process of privatization will take time. It is important to proceed cautiously to avoid negative impacts on the economy."
Sanlam undeterred by market decline

SANLAM has been an aggressive buyer of shares throughout the decline in the stock market, says investment manager Ronnie Masson.

Sanlam's biggest purchase in the year to September was R400-million of De Beers shares at an average price of about R59. Next biggest were Impala Platinum, Iscor, Charter, Lonrho, SA Breweries, Anglo American, Kloof, Oryx and Driefontein.

Mr Masson says the next six to nine months will be tough, but he is confident that in the longer run these purchases will be justified.

"We are confident that the country will solve its political problems. We are not all that worried about nationalisation either. No responsible government will nationalise. I have no doubt that whatever government comes out of the constitutional negotiations will be responsible."

Projects

Mr Masson says the Life Offices Association has formed a committee to investigate investing in socially desirable projects. Estimates of R2-billion a year are premature. Amounts have not been discussed.

Sanlam ended the year 10% liquid, which means it had R3-billion cash.

"If we were bullish we would be about 15% liquid and if we were very bullish we might run it down to 5%" Mr Masson says that if Ruchemont's dividend yield and FSI are removed from marked averages, top-quality shares, such as Platet Glass, Sapp, Malhold, Murray & Roberts, are reasonably rated. He believes that FSI on a dividend yield of 7.5% is also cheap.

Sanlam and Sankorp are unlikely to take out minorities merely because shares might be underrated.

"If you take out the minorities you become 100% providers of capital. Let us encourage good management. Investment income last year rose by 22% to nearly R3-billion. This is merely interest plus dividends. Our real measure of growth is interest, dividends plus capital gains, minus losses. Sanlam's investment return was about 10%.

Exposure

Mr Masson says most JSE indices rose during the year, but then fell to more or less their levels of a year ago.

"Obviously, our five-year return is a good deal better, more like 20% a year and that's why we look good in investment surveys."

Gold shares account for only 10% of the Sanlam portfolio.

"The metal seems to have lost its investment吸引力. But we still have an exposure through mining financials, which constitute about 20% of the combined portfolios."

Mr Masson says equities account for an unchanged 50% to 60% of the Sanlam portfolio, plus for 15% to 20% and properties for 10% to 15%.

Sanlam invested R990-million in new properties last year. Vacancies are running at 10% and he expects rent increases to moderate in the next year.

Sanlam's policy of controlling its rating is still in place. It stems from Sanlam's desire to invest in greenfields ventures. The Sankorp portfolio, which includes Gencor, Malhot, Nissan, Federales Volksbeleggings and numerous other controlled interests, listed and unlisted, did as well as the uncontrolled portfolios.

Afrox full of gas and flying higher

By DAVID CARTE

AFRAXO consolidated its blue-chip rating this week with a 27% annual earnings increase — after allowing for inflation.

What's better is that chairman Peter Joubert expects further earnings improvement in 1991. organised notwithstanding the gas, welding and hospital group's sales up 24% at R206.9-million, operating profit 22% better at R194.4-million and taxed attributable profit 29% higher at R46.8-million in spite of an interest bill that surged 44% to R20.7-million. A final dividend of 85c has been...
Gencor's break-up feelers given a long yawn

THE stock market's apparent indifference to Gencor's proposal to break itself up means the scheme is unlikely to go ahead.

Gencor chairman Derek Keys says the proposal was aired at a conference this week partly to gauge investors' reactions. He says there was one long yawn from the market, absolutely no reaction, so the idea is not a brilliant possibility.

The proposal was to distribute shares in Gencor's five main businesses — Gemfan, Engen, Mailbak, Sappi and Genbel — to shareholders in specie and thus to reduce the 25% discount between the Gencor share price and the value of its underlying holdings.

Shareholders in Gencor Controlling would also have received shares in the five underlying companies, and a discount of 35% in the top company would thus also have been eliminated. Mr Keys says the five divisions are centres of excellence run by highly competent managers whose need for a head office is doubtful.

The reason for the existence of conglomerates is questioned abroad, particularly because of the discounts to asset value.

"Twenty-five percent of $11 billion is a fair price even if we did unbundle Gencor; we could not get down to brass buttons. There were still some weakness in the discount — but even if the net gain was only 10%, we would be looking at $1 billion.

Smart

"Gencor's present structure does give financial strength. We would not look too smart if we had to forgo another Mobil because we did not have the means to go for it. We have made a gain of $2 billion on the Mobil acquisition already." Mr Keys says a break-up is operationally practical. The mining house's asset servicing functions could all go into Gemfan. The only head office functions that would be treasury, foreign exchange and insurance. These could serve all divisions contractually.

Unbundling is also possible in Mailbak and Genbel, but he doubts if it would be wise.

"SA's No. 2 mining house this week announced attributable income up 35% to R116 million in the year to August. Earnings a share rose by 17% to 22c, in spite of the recent R1 billion rights issue.

Gencor declared a final dividend of 50c, making 40c for the year, an 18% increase. Engen contributed R200 million to the bottom line, Sappi R240 million, Genbel, thanks partly to rights issue proceeds, R14 million, Mailbak R11 million and Gemfan R52 million. At the end of August the stake in Gemfan was worth R7.9 billion, Genbel R5.9 billion, Engen R5.9 billion, Sappi R7.9 billion and Mailbak R0.9 billion. Net assets were 1.7% a share, but by October 23 were down to 1.7%.

The share price this week was 915c. There were gross assets of R16 billion and no debt!

Forecast

Mr Keys expects earnings to be down next year, but says transactional profits in Genbel should be large and the dividend should be maintained. Transactional profits arise from the sale of gold shares held for years to fund Genbel's Transatlantic purchase.

Mr Keys says these share sales are unquestionably capital gains and therefore not taxable. Gencor does not need an objective definition of capital gains for peace of mind on this question. The Reserve Bank has

By DAVID CARTE

Professor Keith Yeomans
RA, MSc, PhD, DEE, FIEE, FET
Dean and Director

for Developing Business or entrepreneurship and management direct participation in the small businesses, providing training and development, and research assistance.

Wits Business

SERVING THE COMMUNITY

instigation of the University of the stakeholders which valiances facing South Africa at the cutting edge of knowledge, Doctoral, Masters and IIE managers as well as a r
The case for breakeven

The graph shows the comparison of real estate market performance over the past 10 years. It indicates that the average annual return from investing in real estate has been approximately 15% with a range of 10% to 25% depending on market conditions.

Furthermore, the chart illustrates the performance of different asset classes such as industrial, equities, and cash. It can be observed that industrial real estate has provided the highest returns with an average annual return of 25% over the past 10 years.
Building industry faces grim future

THE continued gloomy outlook in the building industry is very depressing, and perhaps the only factors which can bring relief are improved political, economic and labour conditions.

According to the Stellenbosch University's Bureau of Economic Research latest survey of the industry these factors are not likely to occur in the immediate future.

There are too many other influencing factors, and only once the political situation becomes more certain and positive, will improvements follow.

"The facts are that materials prices are continually increasing and labour is costing more and more; production output is decreasing and quality standards are deteriorating. These factors are causing grave concern in the industry, the survey says.

Problems

"Labour unrest and the intimidation of workers are also causing problems, and these will also only be solved once the above-mentioned three factors have shown considerable improvements."

Forecasts suggest that conditions in the industry will not improve during the coming year, but that they may turn upward toward the end of 1991 or the beginning of 1992.

If this is so, the survey adds, next year will also be a tough year in the building industry, as well as in many other industries throughout South Africa.

It can only hoped that the political situation will improve to such an extent that its effect will permeate all the spheres of South African business and industry.

Regarding the labour situation, the survey says that the wage demands were unrealistic and that the quality of workers and artisans was continuously deteriorating.

This, in turn, led to deterioration in the quality of work being done and lower productivity.

A number of contractors also commented on their dissatisfaction with the labour unions as well as the industrial councils.

Slump

It says comments made by the subcontractors mirrored those made by contractors, but it appeared that they were now beginning to be more aware of the slump than previously and that their future expectations were becoming poorer.
MERGERS and takeovers are on the cards in the heavily overtraded office equipment sector, which has seen several small players collapse.

Canaa, the official distributor of Canon products, is engaged in talks. It acquired liquidated Fast Fax shortly after Canaa chairman Terry McLintock, in June, predicted a looming “bloodbath” in this sector.

McLintock confirmed last week he was negotiating with other significant players in the industry who were in financial trouble.

And Canon Natal MD Doug Lumley confirmed the merging of certain Transvaal-based competitors into the group, adding that the listing of the office equipment supplier on the JSE was possible.

He said the merging of both Fast Fax and Petprin, a National Panasonic division, with Canon Natal had not only placed Canon’s combined market share in Natal at more than 50%, but also signalled the beginning of a similar strategy by Canon nationwide to establish one giant office equipment supplier.

In the event of a JSE listing, shares would be offered first to management, staff and clients, Lumley said.

He saw the current trend in the market place, in which several smaller dealers had gone to the wall, worsening with the recent increase in the petrol price and continuing high interest rates.

These developments followed media reports four months ago saying the “bubble” was about to burst in the R2,5bn office equipment sector.

McLintock said Canon was active in the R60bn-a-year fax market.
THE NEW SA is a culture shock which has slowed down the investment process as people adjust their horizons to cope with what they think might happen.

The stock market is the place where the temperature of the patient — the economy — is taken, and the uncertainties plaguing the market will disappear only when there is clearer direction of the political and economic future.

Investment is a risky business but Norman Lowenthal of stockbrokers Lowenthal & Co is pretty sanguine about the tough situation the economy and the broking industry is enduring.

He has been through several difficult downturns but economic cycles — a characteristic of the capitalist system of which he is a staunch advocate — always turn. He expects to see a glimmer of light from the first quarter of next year when declining interest rates start stimulating the economy and therefore the market.

Sentiment could also be boosted by a firmer gold price which would bring more cheer to Lowenthal. He is a leading member of the consortium which acquired control of Joe Berardo’s mining empire, JMF (Johannesburg Mining & Finance), and turned it into the prosperous Consolidated Mining Corp (Comsuming).

Consuming is a profitable group which produces more than half a ton of gold a month and two of its operating companies, Knights and West Wits, have started to declare dividends.

West Wits is the country’s largest open cast gold mine while Knights has the distinction of being probably the most actively traded share on the JSE.

The recently opened Benoni Gold Mine, Lowenthal says, is an improved version of Knights and should be even more successful and profitable. “We have costs under control and with the team of LTA Construction, Fraser Alexander, and ourselves, seem to have a winning combination.”

The entrepreneurial spirit — a feature of Lowenthal’s personality — came to the fore after 10 years as a broker when he became independent in 1980 to form what is now Lowenthal & Co.

On the way, he learned that there was more to stockbroking than buying and selling shares. Becoming involved in mergers and takeovers as the pace quickened in the 80s, Lowenthal & Co were the sponsoring brokers for the flotation of 28 companies on the JSE.

He became a director of many of the companies he helped bring to the market but a big opportunity came in 1989 when JMF ran into trouble and he, together with and colleagues Gerald Rabinovitch and Glenn Laing, put together Consuming: they now represent control of the group.

Consuming is the holding company for a group which encompasses Egoli, Southco and operating subsidiaries, Ngel, Wits Ngel, Knights, West Wits and the recently opened Benoni which will come to the market through a reverse listing of the Minetec cash shell.

The group has large reserves of underground ore.

As a stockbroker, Lowenthal runs a lean, hands-on operation. The firm is keeping its head above water during tough times in the broking industry and will avoid retrenchments.

“We worked very hard during the good times and there is no reason why any staff should be sacrificed during the bad times,” Lowenthal says.
Two property companies battle for majority holding

Two of Durban's major quoted property companies have locked horns in a hostile take-over bid which looks set to come to a head soon.

According to market sources, DPF Investments' Paddy Delaney has for some months been quietly buying shares in JSE-listed Grovewalk Holdings, writes John Sherrock.

Mr Delaney is believed now to control one of the largest single blocks of shares in Grovewalk.

While Mr Delaney would not comment on the speculation, Gerald de Rauville, managing director of Grovewalk Holdings, confirmed he was aware of the bid which he dismissed as "no serious threat."

Claiming that shareholders had been rallied to close ranks, Mr de Rauville said "As far as I am concerned Mr Delaney can whistle in the wind."

He said he had become aware over the past month that Mr Delaney had been buying Grovewalk's shares.

"We have taken the necessary measures and have closed shareholders' ranks."

"I am confident the group will control more than 50 percent of the shares."

He was aware of Mr Delaney's "strategy" behind the take-over bid but would not divulge details.

Two weeks ago he had, through a third party, requested a meeting with Mr Delaney "I am still awaiting his call."

Based on consultations with the group's attorneys and advisers it had been decided that it was not necessary to issue a cautionary notice as there had been no serious disturbance of trading and there was no chance of a takeover.

Established in 1979, Grovewalk Holdings was listed on the Johannesburg Stock Exchange in 1987. It controls nearly 30 percent of the JH Isaacs Group.

In its year-ended February 28 Grovewalk Holdings increased attributable income by 16 percent - despite a doubling of interest payable by the group in the financial year.

Mr de Rauville was reported as saying that the year under review had proved difficult for the group, which holds interests in property-linked businesses. Whereas Grovewalk's property dealings and development division had a satisfactory year, its other operations performed below expectations.

However, overall turnover was up 30 percent at R64.6 million from R49.3 million and net operating income up 41 percent at R9.8 million from R6.9 million.

Durban Property Foundation Trust was formed by Paddy Delaney in 1986. For a number of years after its inception it concentrated on shopping centres and retirement villages but it has since switched to office block development.

DPF Investments has announced November 16 as the deadline for shareholders to register for its forthcoming two-for-one rights issue. The issue is intended to raise R9.1 million to repay short-term borrowings.
SOWETAN BUSINESS

How the stock exchange works

WHILE black economic empowerment has been the buzzword in business circles for quite a long time, to date, significant steps have been taken towards achieving this.

Although one may tend to agree that big business has an important role to play in this regard, our people will never get anywhere by shifting responsibility.

Not least of our political salvation seems to be nearer than when we first believed, it is not time that we should pay attention to working out our economic salvation.

Political liberation has to be accompanied by economic liberation. Any political settlement, if it is to be successful, will have to address the basic needs of the downtrodden and underprivileged.

Even in this regard, a dependency psychosis has to be discouraged and people should be encouraged to help themselves and expect the Government to take care of their needs perpetually.

Economic liberation must be preceded by economic education.

Education

For decades, important sections of our community have shunned economic education by refuting to take lessons in capitalism. Those who tried to teach us the virtues of capitalism were often suspected of ulterior motives.

It is unfortunate that some businesspeople have not yet learnt to put people first, whether they be workers or customers.

Our community has not only been kept in ignorance deliberately but has also blessed it. Those who have always wanted us to remain drawers of water and beaters of wood have thus largely succeeded.

The African economic struggle must begin with economic education. The right attitudes towards business in general and other financial institutions have to be fostered.

The anger against companies and other financial institutions which were perceived to be exploitative must never be allowed to destroy the South African economy and our future financial institutions in the black community is the Johannesburg Stock Exchange (JSE).

The JSE was inaugurated in 1964 and has played an important role in the South African economy. It is interesting to note that countries like the Soviet Union, Yugoslavia, Hungary and Poland which in the past shunned stock exchanges and never thought they were important are thinking of establishing their own.

By the end of next year (if all goes well), the Soviet Union will be having its own stock exchange. The winds of change are blowing everywhere, even in South Africa and we should never be caught with our pants down.

What is a stock exchange? How did the JSE come into being? How does it work? Is there a place for the small investor on the JSE? Are there avenues the small investor can take to invest on the JSE and reap the benefits?

These questions and many others are addressed in this article and subsequent ones.

Perhaps, at least five years from now, one will look back and see the importance of these articles. For those who do not feel guilty about making profits and improving their living standards, dreams can be made to come true and, not through wasteful thinking, but careful planning and taking calculated risks.

There are few things in life that happen by chance. The majority of things have to be made to happen. One should never despise the day of small beginnings.

A stock exchange is a place where securities are bought and sold. Securities are in general term used to describe shares, gilts, debentures and other forms of tradable financial instruments. These shares are issued by public companies.

Stock

Gilt, on the other hand, are stock issued by the Government, while semi-gilts are stock issued by quasi-Government bodies such as Sats, Eskom and the Post Office.

These securities are traded by stockbrokers who charge a commission for their services. At the JSE there is one trading floor for (equities) shares and another for gilts and semi-gilts.

After the discovery of the Waterberg gold fields in 1886 and the establishment of mining and financial companies involved in exploration and financing such activities, there was a need to provide a market place for the shares of such companies.

You do not have to own thousands to invest. Gilt and shares are bought and sold. Although they were not as sophisticated as the JSE, they provided avenues through which securities could be bought and sold.

In our next article we shall look at the importance of the JSE, how it operates, terms and concepts associated with share dealing.

The views expressed in this article are my own and not necessarily those of the JSE or its members.

JOSHUA MAFOLO: our South Africans existed through the years, most notably Pretoria, Klerksdorp and Kimberley.

Although they were not as sophisticated as the JSE, they provided avenues through which securities could be bought and sold.

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Thirst for beer boosts SAB profit by R28m

By TOM HOOD
Business Editor

THIRSTY beer drinkers provided an extra R28 million profit for SA Breweries in the six months to September.

The growing population helped to lift sales by 11 percent, according to the beer giant, which claimed today its product is increasing its share of the total drinks market.

Aggressive

But SAB also used what it calls “aggressive advertising, promotions, keen pricing and good management” to get people to drink more beer.

Profit from beer jumped by 17 percent to R140 million and accounted for 65 percent of the group’s total earnings of R214 million.

This happened while consumer spending elsewhere is falling as the recession deepens.

The beer boom also helped to put R23 million into the pockets of shareholders. The interim dividend was raised 20 percent from 25c to 30c a share and gave them R45 million more than last year’s interim payout.

Almost R1,3 billion is to be spent in the current year to cope with the country’s growing thirst, most of it going on brewery expansions and new plants.

Group turnover jumped by more than R1 billion or 19 percent to R6,800 million, with trading profit up 22 percent to R584 million.

Profit margins increased to 8.47 percent from 8.3 percent, which chairman Mr Meyer Kahn said was due to increased operating efficiencies and stringent overhead controls.

Associated Beverage Industries, Edgars and the international operations were close seconds to beer in performance.

Southern Sun, which from September became a wholly owned subsidiary, did poorly by Mr Khan’s standards, however.

Unrest led to a reduction in the number of tourists. The local downturn knocked domestic activity. Moreover, seasonal factors always dampen Southern Sun’s first-half performance, he said.

Against a background of socio-political turbulence, high interest rates and a deteriorating economy, he said the results from Da Gama and Afcol were good.

“Amrel’s earnings reflected a formidably performance, given that it provides for deferred tax on a fully comprehensive basis.

“OK faced very difficult circumstances and in view of the boycotts and the weak economy, it performed well.”

Given the steady deterioration of the economy, Mr Kahn believes second-half growth will be well below what was achieved in the first six months.
Romatex gets rest of Twistex

The Romatex group has bought out the other half interest in Twistex (Pty) Ltd not already held by it, from former partner Falke Textiles for an undisclosed amount.

Twistex was created in 1981 as a joint venture between Romatex and Franz Falke textiles.

"The deal is not expected to have any short-term impact upon the Romatex group's results but the integration of its operations with those of neighbouring Romatex Nylon Spinners at Pinetown should have longer term benefits," says Romatex Floorcoverings managing director Jurgen Schmitt. — Sapa.
Rupert's broker to drop JSE deals

GRETA STEYN

LACK of foreign investor interest in SA has compelled a London stockbroking firm specialising in SA equities to stop making a market in JSE shares.

RND International, whose major shareholder is the Rupert family's Richemont, would stop making a market in SA and Australian shares from today, the company said yesterday.

The firm, in which Rand Merchant Bank has a stake, has been an important player in the financial market because of its focus on investments in SA.

Declining trading volumes were given as the reason for the decision and no short-term improvement was expected.

RND would continue to service major clients and would retain membership of London's International Stock Exchange.

The rand touched a high of R0.2770 yesterday - more than 7% higher than its level at the beginning of October.

But a currency dealer said the rise in the rand did not reflect significant foreign investor interest in SA. The continued net sales of SA equities by foreigners had abated, dealers said, leading to a fall in the supply of rands.

Amid conditions of "normal" demand and a fall in supply, the investment unit had broken through the psychologically important R0.27 level. Short-covering added to the trend before a correction saw the unit lose a little ground to close at R0.2740.

The discount between the financial and commercial rands sank to below the 30% level for the first time in about five months at its high yesterday.

Dealers said improved sentiment was reflected in the absence of major sell orders and continued steady demand for SA gilts.
From CLAIRE GEBHARDT
JOHANNESBURG — Barlows, the giant company whose economic health is generally regarded as a barometer of the country's, is expected to report a huge 20 percent earnings drop in the year to September.

Results are due out on Monday.

At the interim, Barlows' earnings were already down 8.3 percent in line with the generally grim outlook for the domestic economy and world commodity prices.

Further deterioration in economic activity to September has seen all but a handful of Barlows subsidiaries report declines this week. This dispels any doubts that the country is in the grip of a painful recession.

Lowest level

With turnover equivalent to nearly 10 percent of GDP and interests stretching octopus-like into almost every sector of the economy Barlow's results also give notice that 1981 will be a very tough year indeed.

Business profits are already at their lowest level in nearly 20 years, and with little prospect of a drop in interest rates early next year a long winter of redundancies could be in the offing.

In all five of Barlow's core divisions — mining and minerals, industrial, food, international and property — encountered difficult trading conditions.

Overcapacity in the base minerals market, domestic inflation, widespread labour problems and continued high interest rates on borrowing which rose along with the take-up of the group's Rand Mines rights offer allocation, weighed in negatively.

Results out this week revealed that Barlows has received very little support from the fixed investment side or from mining. Major offshore arm Bibby & Sons came right this time and Remex held up reasonably well in the circumstances.

ECS Group presented the market with a shock with a 33 percent drop in earnings and Rober was not up to expectations.

However, computer group TSI's 25 percent decline in earnings was no surprise after the 33 percent drop at the interim.

Rand Mines was on the retreat after virtually all fronts apart from gold.

Earnings a share were down 17.4 percent to 1982 from 1981, because of an increased number of shares in issue following the 28-for-100 rights issue in December 1981.

In a swift move, the group this week announced the closure of its loss-making vanadium pentoxide production at Vuma, the mothballing of the Kennedy's Vale platinum mine as well as a cut in operations at Harmony gold mine.

Cement group PPC, part of the non-industrial interests, unveiled a concrete performance in a weak market with a 23 percent increase in earnings to 266.2c (232.6c).

Middleburg Steel and Alloys (MSA), long the icing on the cake, is expected to come in with substantially lower-than-expected results.

With ferro-alloys and stainless steel plagued by tough world markets, the full-year contribution from MSA originally forecast to be stronger than at the interim, is now expected to be two-thirds down.

However, J Bibby & Sons, like the rest of the group, saw a drop in earnings to 29.1c (19.7c) a share.

Tiger Oats' 15 percent earnings growth in a troubled year reflects the group's broad spread of interests across the food and pharmaceuticals sector.

CG Smith reported its sixth successive year of real profit growth despite the fact that Remex had to contend with tougher competition from imports and Nampak was faced with major problems on the industrial relations front.

Exports

Remex, helped along by exports, reported a 15 percent increase in earnings to 234.1c (202.7c) having posted a 31 percent increase in earnings at the interim.

Unlisted industrials including earthmoving equipment, motor appliances, building materials, steel and paint, down 15 percent at the interim, are expected to continue to slide.

This week Barlows was trading at 2500c, well down from 3815c at the interim and a high of 1450c on February 5.
Valard gets it right with Landlock

By JULIE WALKER

The turnaround at Landlock is another feather in the cap for the Valard management team.

Landlock now Valard and the former Valard is pyramid holding company Valhold. In the five months to May 1990 before the change of control, Landlock lost R2.5 million.

But since June 1 when Landlock sold Gurtloch for cash and bought the original businesses of Valard for 41.2 million shares, rationalization has stopped the losses.

For the first time since 1984, the new Valard made a profit good enough to restore the dividend - 3.1c.

Holders of Valard prefs agreed to waive current and arrear dividends in favour of an issue of ordinary shares.

Gearing is down from 95% to 63%, and is expected to fall further by March.

Valhold's only asset is 60% of Valard. Its earnings for the six months to September were up by 4% to 7.3c share, and the dividend 2.5c compared with 2.75c.

Saffiro's share in the bottom line to 22.5c a share in the six months to September.

Directors commented that in spite of deteriorating conditions, Saffiro's focus on business activities and curtailed costs have seen it right.

Profits continued a good run. In the six months to August its turnover was 67% up at R24.6 million and earnings a share grew from 6.7c to 10c. Improved occupancy of hospitals, better collection of debts and cost control helped the results.

Two hospitals and a day clinic are under construction. Profits rose to increase profitability at 25% a year.

Amagrop's turnover for the six months to September rose by 17% to R107 million, but profit before tax was almost unchanged at R2.2 million because of unitil space, especially in Capetown's newly done-up Southern Life centre.

The Carlton Hotel also incurred a bigger loss in the corresponding period last year. Overall shareholders called for less. A share was 8% up at 33.7c.

Amagrop took a net stake of 59% in Retrop from Propgroup, spent R5.3 million on land next to the Bruma lake development, is building cinemas and shops at the Carlton Centre, is refurbishing a West Street office block and Werksmans Chambers.

It also sold its interest in two buildings on Main Street Property Fund for R18 million, making an extraordinary capital surplus of R3.5 million. Amagrop has 2.5 million Main Street units.

CNA Gallo rarely lets shareholders down and turned in strong growth for the six months to September.

Both turnover and earnings a share were 18% to the good at R337.2 million and 38.5c respectively.

An interest bill of R1.1 million, compared with a net inflow in the last period, kept pre-tax profit growth to R1.4 million at 11%. But the shares of retained earnings of associates grew by a third to almost R6 million.

Gallo has bought 50% of Nu-Metro. The directors expect good growth for the year, provided sales continue as before.

Shutdowns

Sakura struggled. It warned shareholders that the erratic supply of vehicles would affect it, but never expected the supply from Mercedes-Benz and Honda to cease for the last six weeks of the first six months.

Used-car sales were below expectations, and turnover of R70 million was 10% lower than in the six months to September 1989. Gross margins were higher than forecast, interest a little lower, but earnings a share of 51c were down by two-thirds.

The directors expect only 70c a share for the whole year, and a total dividend of 20c - 11c was declared at the interim.

Beaufort is feeling the pinch, there is no chance of rebuilding vehicle stocks to cover manufacturers' year-end closedown, used-car sales will continue shaggish and the economy is deteriorating at a faster rate than expected.

Of the 21 companies reporting interim results this week, 13 showed higher earnings than previously, seven at least matching inflation. Eight reported lower earnings, and none showed a loss.
Textiles, packaging tie CG Smith down

By CHARLOTTE MATHEWS

The effects of the economic downturn on CG Smith's packaging and textile divisions have counteracted good results from its food and pharmaceutical companies.

The group has posted a 1% improvement in attributable profits in the year to September.

Of the group's profits of R353.4m (R346.8m), 57.5% was contributed by CG Smith Foods; 26% by packaging group Nampak, 6.3% by textile group Romatex and 0.2% by other companies.

Group turnover rose 14% to R142.2m but pressure on margins, a higher interest bill and a higher tax rate reduced after-tax profits to R640.4m from R655.8m in 1992.

A total dividend of 263.6c (250.6c) a share for the year has been declared on earnings of 78.4c (74.8c) a share.

CG Smith Foods' sales volumes grew by 16% to R9.9bn. Operating margins declined to 6.7% from 7.3% in 1992 and interest cover fell to 4.5 times from 5.5 times.

Income from investments fell by R4.4m, but the tax rate was lowered to 33% (35%).

This, together with a higher contribution from associated companies, boosted CG Smith Foods' after-tax profits by 6% to R415.1m.

On earnings of 93.6c (73.1c) a share, a total dividend for the year of 67c (78c) a share has been declared.

The directors said CG Smith Sugar, Tiger Foods and pharmaceutical companies Adcock Ingram and Logos performed well but this was counteracted by some extent by disappointing results from ICS and Ocean Fishing.

CG Smith directors expect an improvement in earnings in the current year.
Anglo boss: Black statesmen soon

LONDON. — Anglo American chairman, Mr. Julian Ogilvie Thomson hopes South Africa will have a new constitution, with blacks in the government, by next Christmas.

Interviewed on British television, he also indicated he would be prepared to see partial nationalisation of his corporation and predicted there would probably be a black director on the board in about three years.

Mr Ogilvie Thomson was speaking on Sunday evening on Channel Four’s “Answering Back” programme in a series of interviews with leading international business and political figures.

Asked by presenter Mary Golding when he foresees blacks in government in South Africa and a new constitution in operation, he replied: “I personally would hope that it would be next Christmas. But it may well be 1992.”

He went on to indicate that while he is prepared to see partial nationalisation of Anglo American, he believed the chances of full nationalisation by a future ANC-led government were receding as the ANC “are beginning to see that this is not a sensible route to go down.”
Brokers are braced for a lean summer

ALTHOUGH stock market volumes picked up a little yesterday, brokers are preparing themselves for a lean summer with turnovers dipping to levels normally only seen in the "silly season" over Christmas and New Year.

The turnover value on the JSE yesterday was R51m. And on Monday only 4-million shares changed hands in 1,404 deals worth R26m.

This was the lowest value since January 3 1989, when deals worth R18m were recorded.

JSE president Tony Norton has indicated that firms and the exchange would feel comfortable with a daily turnover of around R100m.

The moribund JSE has also affected futures volumes on the SA Futures Exchange (Safex), where the total value of contracts traded daily is hovering around the R50m mark, about 25% of the healthy levels of the first quarter of the year.

Safex may have reached the point where further real growth will not occur until the illiquidity of the JSE is addressed.
THE SA futures market, after three years of growth it can justly be proud of, has found itself at the stage where it will not develop any further until the structural problems of the underlying spot market - the JSE - are addressed.

This was one of the key conclusions to emerge from the three-day futures conference held at Sun City at the weekend.

The two key structural problems are the illiquidity of the JSE - which trades a mere 4% of its market capitalisation a year compared to more than 10 times that amount abroad - and its undercapitalised stockbroking structure which relies on partnerships rather than outside shareholders.

Delegates heard that the illiquidity problem - a long-acknowledged one that the JSE itself has been pushing government to end for years - prevents any meaningful amount of arbitrage operations, which should form a significant proportion of a futures market's turnover.

Arbitrage is the simultaneous trading of the same basic product in the futures and spot markets to take advantage of pricing inefficiencies. The lack of capital among stockbrokers compounds the problem because huge, expensive blocks of shares have to be traded to get worthwhile profits out of arbitrage opportunities.

"People forget futures markets are called derivative markets because they derive their value from the underlying spot market," said FinaMark assistant GM Stuart Yates, explaining why Safex is a hostage to the fortunes of the JSE. Yates showed how the illiquidity of the JSE results in insufficient price levels of futures contracts, which in turn means a built-in underperformance for any fund manager wanting to use futures to hedge his portfolio.

He said futures trading patterns on Safex were totally at odds with what theory demands they should be - and differ considerably from similar patterns on overseas futures exchanges.

The proof lay in the differences between the actual value of a futures contract trading on Safex, and its theoretical or fair value - which is a function of factors like interest rates, carrying costs and income payments like dividends or coupons. When a futures contract is trading at its fair value with regard to its spot value, an investor is indifferent to either. For example, if spot De Beers is R60 and its fair value in three months' time is R70, an investor is indifferent to holding the spot or the three-month De Beers.

However, if three-month De Beers suddenly climbs to R72 (potentially inducing a 1% cost of capital in the economy), in liquid overseas markets, these gaps are very narrow - often under 1% - and are soon arbitraged away. In SA, they stand at anything from 6% to 10% - representing severe distortions in the price of capital. Despite the obvious profit to be made, market participants cannot take advantage of them because while the futures leg of the arbitrage deal is almost always feasible, the shares leg is not.

Greenwich Futures & Options MD Bryan Coyne suggested that the JSE boost liquidity by introducing negotiated commissions to bring down "exorbitant dealing costs", or allow trade in margined shares - ie, shares that can be purchased with a downpayment or margin - typically about 25% to 50% of the total price.

If such issues were not addressed, Coyne said, participants would have to give serious thought to creating a separate forward market in equity.

He also slammed the fact that JSE brokers paid lower transaction costs than outsiders. He called for a level playing field and the opening up of the stock market.

Discount House of SA director Dave Rennay said lack of arbitrage was less the result of exorbitant dealing costs than structural problems caused by a lack of capital among stockbrokers - a reference to the debate on opening up stockbrokers to outside shareholders.

JSE GM Darrell Till said the JSE's present structure was dictated by the concentration of economic power in SA, and that corporate membership would pose other problems - like the continued existence of equity floor trading. Discussions were taken away on this issue.

Asked whether the JSE could meet the futures industry half way by allowing stockbrokers to form alliances with banks, Till said this could put other stockbroking firms at risk.

This was why the JSE earlier this year terminated a potential tie-up between J D Andersen and Allied Bank.

In all fairness, the JSE's problems are nothing new. But, in the current climate of low volumes - Safex is trading at around half its break-even level and says it will soon have to cut costs - the urgency with which they need to be resolved is.

Theonus again falls squarely on the financial regulators in Pretoria to break the present logjam which prevents the flourishing of the SA financial markets. They must tackle the root causes - deterrent taxation, ambiguity about capital gains tax, lack of foreign participation, the high level of economic concentration in the exchange and the lack of a level playing field for different market participants.
Toco makes a bid for some Spectrum assets

INDUSTRIAL products manufacturer and supplier Toco Holdings is negotiating to acquire either some of the companies of provisionally liquidated Spectrum Industrial, or some of its assets.

Announcing a strong performance from the group for the six months to September and its first interim dividend of 2,5c a share, Toco Holdings chairman Paul Todd said Toco was offering R1,75m for Spectrum and some of its companies.

If this offer was not approved by creditors and the Supreme Court, Toco still held the right to acquire some identified assets of the Spectrum group for a lesser sum.

Spectrum, whose shares are suspended from the JSE's retailing and wholesaling sector, is a distributor of industrial components, tools and hardware.

Todd said this fitted in with Toco's activities, which has four divisions — lifting equipment, special steels and metal treatment, gaskets and automotive products in the six-month period, Toco boosted turnover by 11% to R56,6m, operating profit grew faster by 38% to R8,9m.

Operating margins had improved to 15.8% from 12.6% but Todd said there had been strong trade by divisions with a high value-added component and more normal margins were expected for the year.

Interest payable tripled because the group had raised its stock levels to increase market share in some areas. Todd expected interest cover, now 4,8 times (10,3 times) would fall by the year-end.

Attributable profits improved by 21% to R5,8m but on an increased number of shares in issue earnings rose 18% to 88c.
SOWETAN BUSINESS

Learning the language of stockbrokers

THE Johannesburg Stock Exchange is the most popular Stock Exchange in Africa. South Africa in an economic power to be reckoned with, and there is no reason why this should not continue.

It can be said without doubt that without the Johannesburg Stock Exchange, the scale of economic growth witnessed in this country together with job creation that accompanied it could not have been achieved.

Although job creation and economic growth do not emanate directly from the stock exchange, they are by-products of its basic purpose.

The stock exchange's basic purpose is to provide an orderly market and, at the same time, provide a market in which investors can raise capital where investors can exchange shares for cash or cash for shares on the basis of adequate information.

In this investors are encouraged to convert their savings into investments and thereby participate in the creation of national wealth.

A stock exchange provides a relatively cheap forum for the exchange of shares for cash. It should be remembered that funds that are raised when shares are issued, are used in business operations and this helps in the creation of job opportunities.

Savings

Although people are encouraged to convert their savings into investments, the onus is on them to reconcile this with their short-term and long-term needs.

It is very difficult to take advantage of the benefits offered by the JSE without proper understanding of its language - terms and concepts which form part of the daily language at the stock exchange.

Assets: These are possessions such as buildings, machinery, equipment, trade marks and even goodwill and are used to generate income.

Capital: Money that is provided by the original members of a company and is used to buy assets which, in turn, generate employment and wealth.

Dividends: Whereas interest is paid on bank deposits and loans, shares attract dividends which are tax free in the hands of investors. A company does not have to pay all its profits as dividends.

Yield

Dividend Yield (DY): This is the dividend expressed as a percentage of share price. (e.g. if a dividend of 10 cents is paid on a share valued at 200 cents, the DY is 10 percent of 200÷10 percent)

Earnings: Profits after tax have been deducted.

Earnings Per Share: Earnings expressed in terms of a single share.

Equity: Another word for ordinary shares.

Expenses: This includes items such as rent, electricity, telephone and raw materials.

Profit: What is left after all expenses have been met.

Prospectus

Prospects: When a company wants to issue shares, it publishes a prospectus in the Press, giving the details of the nature of its business, its directors, their address, remuneration, its conditions and why it wants to raise capital.

Public Placing: This is when shares are offered to members of the general public as opposed to a "private placing" which is intended only for trade investors, staff and clients.

Portfolio

Unit Trusts (Mutual funds): A managed portfolio where members of the public contribute money either as a lump sum or monthly payments to be invested on their behalf in the share market.

Thus the public does not invest in specific shares, but the mutual fund does that on their behalf. The mutual fund manager is responsible for managing the portfolio.

Stockbrokers: These are members of the stock exchange. Shares, gilts, semi-gilts and debentures are bought and sold on the stock exchange by stockbrokers (on behalf of clients who may be private investors or institutions eg banks and insurance companies) in relation to a commission.

Owned

There are 45 firms of stockbrokers in South Africa, each of which is personally owned by its partners/directors. No outside corporations or banks may own any part of a whole of a Stockbroking firm.

A proper understanding of how the Stock Exchange work is necessary before one thinks of investing in it. The easiest way to get one's finger
Competition Board starts investigation

Johannesburg. — The Competition Board has begun an investigation into interlocking directorships which could radically affect the face of South African business.

Interlocking directorships are common throughout business, particularly where companies are closely linked partners.

The investigation, an informed source said, formed part of a Competition Board probe initiated in August after the Anglo/De Beers group had increased its shareholding in Gold Fields of South Africa (GFSA) to 25% from 20%.

The probe is to determine whether the acquisition of additional shares constituted a "restrictive practice" which could place Anglo in a "monopoly situation".

It is understood that the Competition Board intends using the present investigation as a test case of interlocking or cross-directorships to establish a defined policy on the issue.

Competition Board chairman Mr Pierre Brooks declined to comment yesterday.
**COMPANIES**

**Kelgran to feature in pyramid listing today**

THE controversial issue of listing pyramids on the JSE surfaced again recently when granite producer Keeley announced it would be converted into the pyramid holding company of its operating arm, Kelgran, currently a wholly owned subsidiary.

Kelgran is to be listed on the JSE’s “marginal — other” sector today.

Keeley said a pyramid structure would provide the controlling shareholders — a management consortium led by executive chairman Malcolm Keeley — with flexibility to enable Keeley to take advantage of expansion and acquisition opportunities.

The move will also allow the controlling shareholders to maintain control even if they sell their shares in Kelgran or if Keeley expands by means of a paper acquisition.

A JSE official said the advantage of a pyramid structure was that it allowed a company to expand without losing the controlling shareholding.

Pyramids are allowed under current rules of the JSE, but are not permitted in the UK and the US.

The official said that, theoretically, pyramids freed capital in the form of new paper and thus should benefit the liquidity of the market.

Kelgran was a case in point because minority shareholders now had the same stake in two companies where they only had a stake in one before the listing.

But, he pointed out, because control was entrenched, it prevented predators from making bids for companies that allowed inefficient companies, which would otherwise have been sitting ducks for predators, from being taken over. Often this retarded rather than boosted liquidity.

Martin & Co’s Richard Stuart said at the weekend that a situation where the holding company in a pyramid and its subsidiaries were listed effectively meant assets were listed more than once.

Stuart said the ANC had a valid point about concentration of economic power on the JSE. He said 40% of the market capitalisation represented double counting.

Stuart said the removal of “cast-in-stone” control structures should lead to a resurgence of entrepreneurial activity and create more challenging opportunities at lower managerial levels.
Brokers' fears on fee system allayed

FEARS gripping the JSE broking community over the possible abolition of fixed commissions on share transactions, have been temporarily allayed as the authorities decided last week that a thorough investigation into the issue was necessary.

Concern mounted after the issue was discussed at last Thursday's meeting between the JSE and the Financial Markets Advisory Board (FMAB).

While it was decided to go ahead with the introduction of a R30 minimum fee on share transactions, no conclusion was reached on the matter of replacing the fixed commission structure on share transactions with negotiated commissions.

Deputy Reserve Bank Governor and FMAB chairman Chris de Swart said that is a major issue which needs to be closely investigated and no decision was taken. The matter has so many implications and we will act responsibly by investigating all the pros and cons before making recommendations to the Registrar of Financial Institutions.

The FMAB established in terms of the Financial Markets Control Act to advise Finance Minister Barend du Plessis on issues related to financial markets. The Act was promulgated this year.

The discussions followed submissions to the Registrar by the Competition Board of the principle of a more open market in share trading on the JSE.

Competition Board chairman Pierre Brookes said: "The JSE is the epitome of the free market system and fixed commissions have certain negative implications for competition. We would obviously like to see a freer market but as brokers are in the thick of things in the market, the decision has to be made by them."

News that the matter had been aired at the meeting sent shivers through the broking community. Many saw the introduction of negotiated commissions as potentially disastrous at a time when turnovers were falling amid escalating costs.

At present, there is a fixed commission fee of 1.2% for the first R5 000, 0.83% for the next R5 000, going down on a sliding scale to a low of 0.2% on deals over R1,5m.

Brokers fear that the introduction of commissions negotiated between them and clients could lead to cutthroat competition and put some firms out of business as happened after the Big Bang in the UK.

It could also mean a reorganisation of their services and introduce a marketing

Brokers, element in broking as occurred among SA banks when Rocco (Register of Co-operation), the cartel which regulated pricing policy between banks, was dropped at the beginning of the '80s.

The tougher environment led banks to look at their range of services to customers and introduce fees on current accounts.

It took banks years to overcome the loss of fees.

But some analysts believe smaller broking firms could benefit from the abolition of fixed commissions, while smaller institutions might be prepared to pay higher fees to make use of the research and other services provided by brokers.

The introduction of a minimum R30 fee on transactions is expected to be finalised in mid-December after all comments on the issue have been received by the Registrar of Financial Institutions.
FINANCIAL 1990 had been the most difficult in furniture-listed Picardi Appliances' (Picapli's) trading history, chairman Jan Pickard said in the annual report.

He said the household and appliances group, "which is totally dependent on consumer durables and semidurables", felt the full impact of continuing reductions in consumer expenditure. At the same time it had to maintain a high level of expenditure to support its existing structure.

Picapli posted a net loss of R13.7m for the year to end-June compared with a profit of R3.4m in the previous year, while holding company Pichold posted a loss in attributable earnings of R13.4m for the same period.

Pickard said Picapli remained dependent on interest-bearing debt — the interest bill stood at R27.5m at year-end — which significantly affected earnings potential. To ensure that resources were better utilised, Picapli had withdrawn from the portable audio market and improved its working capital.

Picapli featured on the stock exchange when its share rose 71% to from 35c last week to close at 66c on Friday.

Another Pichold subsidiary, Union Wine — which was bought by Kangra Holdings in September — showed "disappointing results", posting a loss of 15.1c a share compared with earnings of 13.3c a share.

Pickard said some smaller and less profitable liquor stores were sold while others in strategic areas were acquired.

Earnings of Pichold subsidiary Picardi Properties (Picprop) declined by 33% to R1.3m in the year to end-June. In May Picprop announced the disposal of all its operating subsidiaries — Logans Sports, Revelation Luggage and Tusah.

Pickard said gearing in Picprop's subsidiaries had deteriorated, resulting in an 85% hike in the interest bill to R1.87m.

Pichold recently announced Picprop's proposed delisting and its becoming a wholly owned subsidiary. Picprop currently holds R14.2m cash.
Minimum broking fee slated

THE Shareholders Association, the body which looks after the interests of small shareholders, yesterday slammed the soon-to-be introduced R20 minimum fee on JSE share transactions.

The fee was given the go-ahead last week after a meeting between the JSE and the Financial Markets Advisory Board, and is aimed at increasing the profitability to JSE stockbrokers of small share transactions.

Shareholders Association chairman Iosy Goldberg, speaking in an interview from Cape Town, called it a "ridiculous iniquity" and expressed surprise it had been given the go-ahead. He said his objections to it had not even been answered.

Goldberg said he had sent a strongly worded letter to the financial authorities outlining his association's objections. It had been acknowledged, but he had received no further response.

JSE chairman Peter Redman said the fee would have a beneficial effect despite the present climate of low volumes, and would eventually make it more worthwhile for brokers to handle smaller transactions.

He said he was waiting for approval from the Registrar of Financial Institutions for the date of introduction of the fee, which would be formally communicated to the public.
Judgments show increase in debt value of 53.9%.

The value of default and consent judgments against businesses from January to August this year increased by 53.9% compared with the same period last year, Credit Guarantee Insurance Corporation (CGIC) economist Luke Doig said yesterday.

He said a disturbing trend were the number of established businesses that were particularly affected.

The incidence of these judgments increased by a much lower 22.5% for the period, indicating that larger amounts were involved compared with 1999.

Doig said the severity of the situation was further masked by the actual number of insolventcies between January and September 1999, which increased marginally to 1 235 from 1 191 the previous period.

He said the likely delay in lowering interest rates until the first quarter of 1991, together with the likelihood that the business cycle would bottom only in the last quarter of 1991, indicated that business failures were not yet over their worst period.

"There is little doubt that the amounts involved in this spate of insolventcies will be substantially larger than in the 1984-86 recession," he added.

The differences between the current recession and that of 1984-86 probably explained why established businesses were much more affected this time round than in the mid-80s, he said.

The last recession was triggered by sharp increases in interest rates and the collapse of the rand. In contrast, the current interest rate was pegged on October 11 last year and it was "probably the longest period that interest rates have been at this level."

Established businesses that expanded in the mid-1980s could possibly have overgeared and were now paying the price of a sustained period of high interest rates, Doig said.
World of Music aims at reinstatement on the JSE

THE ill-fated World of Music (WoM) might soon have some good news for its 1 200 shareholders, if it is reinstated on the JSE after a record 16-month suspension. But several obstacles stand in the way of its return to the JSE's board.

WoM chairman Peter Cooke says there is a major deal waiting in the wings, although it is dependent on the lifting of WoM's suspension.

Restructuring

Cooke does not proffer further details, but alludes to a merger of sorts involving WoM, two major overseas recording companies and one local retailer. He says a name change could also be on the cards.

WoM was suspended at its own request because of its planned restructuring with subsidiary World of Leisure (Worles), which later fell through.

It is believed record producer and manufacturer WoM has settled all its bank debts, with one exception, and is back on track and eager to have its suspension lifted.

In November last year WoM was exposed to banks to the tune of R6m. But Cooke said that debt had been erased by February through the selling off of the group's publishing and retail interests and its 21% holding in Protea Hotels.

WoM now boasts a state-of-the-art R1,5m digital sound studio which it claims is the only one of its kind in Africa and one of 50 worldwide.

Cooke says the studio attracts numerous overseas recording artists but the suspension is hurting business.

However, Standard Bank has supplied for WoM's liquidation on the grounds that it cannot pay its debt, worth about R94m.

WoM is opposing the move.

In July last year WoM sold 51% of liquor importer Bartels, which was partnered by Springbok cricketer Graeme Pollock, to then chairman of Sterns, Diamonds Maurice Jacquesson. Cooke said Jacquesson had still not paid the R60 000 purchase price by January and had not replaced the guarantee with Standard Bank as contractually agreed.

"At the time of sale the overdraft with Standard was R133m. Standard then put Bartels into provisional liquidation for that amount and called for a 415 inquiry (in terms of the Companies Act)."

Cooke and Pollock then applied for the liquidation of Sterns.

Sterns then asked Cooke and Pollock for the remaining shares in Bartels and Jacquesson assured them he would settle with Standard which, says Cooke, has not been done.

Cooke says WoM had complied with a request by the JSE for an audited three-month trading profit. This was done by auditors T G Leggett & Co and, said Cooke, it disclosed a pre-tax profit of R197 000.

The JSE then suggested that an international firm of auditors confirm the figures. Cooke says Fischer, Hoffman & Stride has completed the audit.

"We have been frustrated with our attempts to satisfy the JSE. A relisting is paramount. In effect it is our functional lifeline," says Cooke.

"Banks won't deal with you either. In that respect, if we win against Standard Bank we may have a huge claim for damages," he says.

WoM's misfortunes started in June 1988 with the acquisition of 51% of the Blue Marlin group from Carne Matisson (who is now trying to float the Rooster Group) for a share transaction of R8,5m.

Rand Merchant Bank (RMB) handled the acquisition.

Blue Marlin was renamed World of Leisure.

"It became immediately apparent that we had acquired something completely different to what the financial statements told us," says Cooke. He says the group had based the purchase price solely on RMB-supplied figures.

Liquidation

WoM then sold Blue Marlin's TV & Radio Centre to Sterns, but six months later TV & Radio was liquidated. Then our problems started with Blue Marlin's Timeshare Dynamics (TD), which apparently had book debts of R6m," Cooke says.

TD management then suggested a buyout, and payment to Worles was to be made by July 31. On August 7, TD went into liquidation.
Malbaks chief warns of 'excessive' austerity drive

SYLVIA DU PLESSIS

Government's austerity measures, while laudable in intent, are in danger of becoming excessive in execution, Malbak executive chairman Grant Thomas warns in his latest annual review.

While accepting the need to reduce inflation and maintain a disciplined monetary policy, he says real interest rates of about 7% are 'harsh medicine', and will further dampen consumer spending and hence the economy.

'Indications are that the recession will deepen before it levels out and, in addition, the economy will be buffeted further by the oil price increase. The outlook for 1991 is therefore not an optimistic one.'

Thomas says directors of the industrial holding group anticipate lower earnings for the year ahead. But the extent of the reduction will depend on three factors which are particularly difficult to predict.

These are the timing of measures taken to alleviate fiscal and monetary policies, the international prices of oil and gold, and the extent of labour disruptions.

Malbak, whose subsidiaries operate in packaging and paper, engineering and mining supplies, branded consumer products, food, construction supplies and development, posted a 13% drop in earnings to 118,6c a share for end-August.

Dividends were kept at 30,5c, but cover was slashed to 3,9 (4,5) times.

Thomas says in his review the group has not escaped the ravages of the harsh economic climate.

'Had it not been for the effect of increased taxes in a number of our companies, primarily due to assessed losses having been fully utilised, Malbak would have maintained earnings a share.'

It is also notable that the five major divisions which Malbak created through the consolidation and rationalisation of its various interests have held up well, he says.

'Together, these divisions constitute some 98% of Malbak's total earnings and collectively, at the pre-tax level, increased profits by 2% while after-tax attributable earnings decreased by 5%.'

These results also illustrate the relative protection afforded a conglomerate by diverse and counter-balancing investments in an economic downturn, he adds.

'The fact remains ... a properly structured conglomerate with good underlying assets and effective management offers investors the benefit of shelter during bad economic times, and can perform well in good times.'
M&R skylight companies in merger.

MURRAY & ROBERTS (M&R) plastics skylight companies Vikon and Valant have merged with glass skylighting systems manufacturer and installer Moduglaze Glazing Systems (Moduglaze). 

Vikon will be the controlling and manufacturing operation in the group while Valant will provide domestic skylighting to the housing market. Moduglaze will supply the commercial and industrial markets.

“We have been looking for opportunities to expand the Moduglaze operation throughout SA,” joint MD of the new company Ian Lawrie says.

Joint MD Rob Segeren says the development work of the three companies would be co-ordinated and they would have access to the latest technology from overseas. Management will also look for export opportunities.

“We believe the continuing world trend to incorporate skylights in all major construction projects can only position our company to take advantage of an upturn in the construction industry.”
Trencor props up transport index

THE strength of heavily weighted Trencor shares has kept the transport index close to its September peak of 11 479.

However, this is not good news for all transport groups, as smaller companies are still toiling under recessionary conditions.

Trencor, which provides transport services to gold, copper, platinum, diamond and base mineral mines in SA and Namibia, was seemingly unaffected by economic conditions, posting a 48% increase in attributable earnings to R61.8m (R46.4m previously) for the year to end-June.

The Cape-based transport and manufacturing group has slipped slightly from its August high of R40.50 to hold steady at R46.

Deregulation

At yesterday's price of R46, Trencor had gained 84% during the past year to register the sixth largest gain on the market during the period.

The transport sector, strictly a derived demand industry, has been severely hit by SA's economic downturn, rising fuel costs, and high vehicle replacement costs.

Transport analysts said that although smaller companies benefited from deregulation, they would still find it difficult to ride out the economic drought.

These operators faced the prospect of being squeezed out or swallowed up by more powerful concerns.

Market rumours that Trencor was on the acquisition trail were denied by a group spokesman yesterday. The group acquired Holroyd's Haulage in May this year.

Racy, despite being knocked by the economic slowdown, strikes and boycotts, managed a gutsy interim performance for the six months ended September, posting a 6% earnings increase to R13.5m (R12.8m or R29c 5c).

Analysts said that with its small earnings growth, debt reduction and an expanded fleet, which was 90% paid for, Racy "looked good" under present conditions.

Consisting of Hendens Industrial Carriers and engine reconditioners Diesel City, Racy hit a 52c high in January, then a 22c low in September, but climbed back to 30c on anticipation of interim results.

MD Alan Jacobson, who had said the group's position was "as good as we are expected and trading exceptionally well", looked to further expand our fleet in the 1990s.

Larger, well-established operators were also hurt by the recession because of their inability to generate activity.

Read freight transport group Urantrans maintained margins under difficult trading conditions, reporting a slender 6% increase in earnings to R14.4m (R13.6m) for the six months to end-September.

Analysts said they believed Urantrans' excellent track record would be maintained under its capable management team, despite its mediocre interim results.

CE Eduardo Garcia said he felt the group would maintain its margins, notwithstanding the recession, and expected an increase in earnings for the full financial year.

Cargolux also had enormous asset value in more than 700 trucks, but the used truck market was severely depressed.

Earlier this year, Cargolux signed a five-year R20m contract with Caltex for the carrying and distribution of Caltex products from its Mossel Bay depot. Cargolux, unchanged at 190c yesterday, peaked at 200c last December and slumped to a 160c low in October.

Furniture removal specialists Laser Transport Holdings saw earnings dip 18% to 35.5c (43.1c) for the six months to end-June in the wake of the economic decline.

No exception

Laser, which owns Stuttaford Van Lines, Pockfords and Fasslers, reached 235c last November. It is trading at 140c, slightly above its 135c October low.

The Sure Group was no exception, reporting poor results for its year ended March, with attributable income falling 54% to R1.5m (R3.1m) after problems in its Foden truck and parts division.

The industrial vehicle and materials handling group achieved a March high of 106c, which slumped to 50c but then hit 95c.

The group was forced to reduce staff by 20% to contain costs after a 160% increase in the interest bill to R5m.
Unilever: R9,5m focus on speciality cheeses

THE Unilever group has invested R9,5m in a new Simonsberg cheese factory at Stellenbosch, where exotic varieties are made to continental recipes.

In Stellenbosch for the official opening yesterday, Rick Griffiths — MD of Vandelbergh, the margarine and cheese manufacturing company in the Unilever (SA) stable — said it had acquired Simonsberg two years ago.

"Unilever internationally has an increased focus on food" This purchase was in line with others in the UK, France, Belgium, Germany, Italy and Brazil.

These acquisitions had led to an interchange of ideas and technology between countries which would result in new products from the Stellenbosch factory.

Griffiths said the total market for cheese in SA was worth between R2500m and R3000m a year. Only a small proportion of this was for speciality cheeses, which were bought mostly by the upper income group.

But there was scope for this market to grow, even in this income group. SA people were still relatively unsophisticated about both cheese and wine.

He said the investment in the new factory had been decided on in 1988. "We saw difficulties ahead for the economy, but we did not think it would be as bad as this."

However, the company was "very happy with the factory. We are looking ahead to a more encouraging (business) climate."

Griffiths said the view of the Unilever group was that "in mid-1991 we shall begin to see things turn a little. By 1993 we should experience market growth ahead of the population."
Massive forex fraud probe

THE South African Police commercial crime unit confirmed yesterday that an investigation had been launched into a suspected multi-million rand new foreign exchange fraud following the suspension of three listed companies on the Johannesburg Stock Exchange.

A spokesman for the unit, which has broken a series of forex rackets in recent months, said the probe had been triggered by the Foreign Exchange Division of the SA Reserve Bank.

It was suspected that at least five private sector companies had broken foreign exchange regulations on the movement of overseas currencies in and out of commercial and financial rand business accounts.

Shock waves were caused when the JSE ordered the suspension of no fewer than three listed companies - shopfitter firm of Norvic, Laneshem door manufacturing company and Osprey gold mine.

JSE general manager of listings and equity markets Mr Richard Connellan was quoted as saying the stock market suspensions had been ordered following discussions with Reserve Bank exchange control officials.

It is understood the Reserve Bank has also ordered investigations into the affairs of two more companies - cash-shells Meter Systems and Management Services Corporation, which were suspended by the JSE earlier in the year.

The SAP commercial crime unit was expected to release more details later yesterday - Sovietan Correspondent

Meningitis

DAR ES SALAAM - An outbreak of meningitis has killed 202 people within the last five months in various parts of Tanzania, a senior health official said.

Health Minister Philemon Sarungi said Tuesday the victims were among 2,132 people who had contracted the disease throughout the country since May.

Fired

WINDHOEK - TransNamib, the Namibian transport parastatal which took over from South African Transport Services, has dismissed 235 striking workers in the first post-independence mass dismissal.
SHARES SUSPENDED

A Reserve Bank investigation into suspected breach of exchange control regulations is understood to have prompted the JSE's suspension this week of three shares — Lanchem, Norvic Manufacturing and Osprey.

The suspension resulted from a decision taken by the JSE, rather than a request from the companies. Richard Connellan, GM of the JSE's Listings & Equities division, says simply the shares were suspended in accordance with Section 17.3 of the Stock Exchange Control Act, to "avoid any undue market speculation."

Charles Ferreira, non-executive chairman of Lanchem and Norvic Manufacturing, says the investigation into alleged exchange control contraventions does not involve the two companies, but rather external shareholders. He intends to call a meeting of shareholders this week and to approach the JSE to have the two listings reinstated.

Ferreira says most of Norvic's shares are held by the executive directors and Lanchem But, he adds, it is unclear who currently holds control of Lanchem. Also unclear is the relationship of Lanchem and Norvic shareholders with Osprey, a gold mine in the north-eastern Transvaal.

Control of Osprey changed in August when Golden Osprey sold its 57.8% stake to Garditex International — the same company to which Financial Limited ceded its stake in Manserve (see this page). Garditex transferred 19.3% of Osprey's equity to an unnamed foreign company and 7.2% to its Swiss holding company
Fraud probes soar to R5,6bn

The Police Commercial Crime Unit is investigating fraud cases involving R5.6-billion, of which financial round-tripping makes a hefty proportion.

Yupa head Brigadier Wolla Visagie says financial deals — they involve sending commercial rand abroad and returning the money in-finrands for a huge profit — are keeping his men busy.

He cannot say how much is involved in the three companies, trading in whose shares was suspended on the JSE this week.

"The Reserve Bank is investigating. Until it gives us a figure, I cannot speculate on the amount involved. Nobody knows how much is involved.

"When investigation began into Repfin Finance in Cape Town it was thought the figure was R250-million. As more information surfaced, that figure rose to R500-million. It is not wise to speculate.

The companies suspended by the JSE this week are Norvic, Lanchem and Osprey. The shares of the three traded in huge volumes and their price was volatile. Their underlying assets have little investment merit.

The link between the companies is House of Investments, a Rosebank, Johannesburg, company formed in 1988 "to assist investors ... to participate in a company that is actively trading in listed shares". House of Investments went into provisional liquidation on November 6th.

Query

Several House of Investments directors were also on the board of Turf Holdings, which was delisted by the JSE two years ago.

In promotional literature, House of Investments claimed to be active in listed Lanchem and in the mining sector through Montrose Mining. Its boasts were consistent — super-profits for all investors.

In October 1989, House of Investments told shareholders it had bought Norvic, which was to be listed. One circular showed it to own 51% of Epigro, which in turn held 51% stakes in both Quinset and Multigold.

The other cash shell involved is Meter Systems, whose assets were sold to Woodrow this year.

In August this year I spoke to Naas Ferrera, who was arrested last week in connection with the Reserve Bank's investigations into foreign-currency dealings. He was acting as a lawyer on Manserv's behalf. He later backed out of the arrangement.

Manserv was bought 20% of Osprey, which was沖 Cashworths. Cashworths — now COLLIN — 25% of Lanchem and 60% of Meter Systems, on which he was acting as a lawyer on Manserv's behalf.

He said Manserv was buying 20% of Osprey, which was to be sold for R1.5-million, with its assets being sold into Cashworths. Cashworths — now Collins, 25% of Lanchem and 60% of Meter Systems, on which he was acting as a lawyer on Manserv's behalf.

The connection between Osprey and the other companies is unfolding. The major shareholder was...
Venture capital market still in the doldrums

MARC HASHENFUSK

THE venture capital market (VCM) has been in the doldrums since first listings on the JSE in August last year.

In the prevailing economic climate adventurous investors, looking to invest outside the blue chip mainstream, would rather put money in second-line companies with a solid growth potential than a risky VCM company, analysts say.

They say the VCM is rarely monitored by stockbrokers, "It does not make sense to buy penny stocks anymore."

The VCM sector consists of three companies, New Company Investments, Rico Breweries and Techn Investments, which offers alternative finance to entrepreneurs in return for a stake in the prospective businesses.

With high interest rates and a difficult business climate, banks have become cautious in their lending policy. It is essential for a borrower to have a good track record or adequate security. Under prevailing circumstances VCM companies seem set to acquire new businesses as the prerequisites here are simply a "novel idea, a business plan and a good management team."

Earlier this year Ernst & Young Corporate Advisory Services warned that the VCM remained "shrouded in suspicion" and was likely to remain so for some time.

Problems uncovered in lesser known companies had exacerbated the situation, and most institutional investors would require "some water to flow under the bridge" before they were again persuaded to invest in less sophisticated companies.

New Company Investments (NCI) chairman Mike Clarke said the problem in the VCM was a lack of understanding by the investment community of the philosophy of that market.

"The short-term variations in our share price have become the yardstick whereby group performance is measured. During the past week I have heard five different rumours about why our share price is fluctuating, all of which were false. Despite this our shares traded over 5-million in volume last week."

When a share performs like NCI's, analysts would be inclined to say an insider position was being taken, he said. Clarke, however, guaranteed that no insider trading was taking place in NCI.

Investors could minimise risk by investing in a company which had a variety of concerns and not companies with "just one good idea."

NCI currently has 11 ventures on its books, ranging from specialised skin care and personal computers to water purifiers.
Equities market to ‘bottom out soon’

LESLEY LAMBERT

CAPE TOWN — Old Mutual’s new assistant investment GM, Rowland Chute, is confident the equities market will bottom out next year and become more buoyant in the longer term, even though the odds are stacked heavily against it now.

Chute is replacing current assistant GM Rob Lee in an equities-unfriendly environment of high interest rates, economic decline and uncertainty over future changes in investment tax.

On international markets, the prevailing view seems to be that the equities decade — fuelled by liquidity, economic growth and political stability — is over and that fixed interest or other investment markets will come to the fore in the ’90s.

But Chute believes that factors unique to SA will keep its equities buoyant in the medium to long term. Apart from the inevitable boost from a decline in interest rates next year, he argues that inflation will help sustain the market in the longer term.

“We may not see the tremendous re-rating of the past decade, but if investors buy some of the equities which have already discounted the bad news, and take a three-year view on the market, they should see relatively good returns.”

“There will be a lot of cash looking for new opportunities when interest rates are brought down next year and as long as exchange control is in place the choice of growth assets to beat inflation will remain limited to equities and property,” he argues.

Chute believes that in spite of current austerity measures, double-digit inflation is likely to remain a characteristic of the SA economy for the next five to 10 years.

“A change in government will bring with it greater expectations, and inflation is unlikely to remain the priority it is now when new infrastructure has to be built and new jobs created,” he says.

Inflation

He does concede, though, that the future possibilities of an increase in corporate tax and a fixed low-rated withholding tax on bank deposits could have an effect on investment in equities.

“Withholding tax would make interest-bearing investments more attractive to investors.”

“But, again, they would be taking a short-term view, particularly in an environment where real interest rates may not be sustained in the longer term,” he says.
Argus set to split shares 20 to one

By ANN CROTTY

The proposal to split the Argus share — on a 20 for one basis — is likely to sustain the recent strengthening in the share price in spite of the fairly pedestrian performance reported for the six months to end-September.

For the financial 1991 interim, earnings were up by just 2.2 percent to R13.58 a share (R13.36) and the interim dividend was unchanged at 27.5c.

The share price has moved against the generally weaker market conditions, advancing 25 percent so far this year to a current level of R215. Much of the appreciation was done on the back of speculation of a share split.

The move has been on the cards for some years but analysts expressed some surprise at the timing of the announcement in the interim report. This view assumes that part of the reason for splitting the share was to make it more attractive to the smaller investor who is now almost completely out of direct investment in the equity market.

One analyst speculated that the move may have been taken in order to facilitate an employee share incentive scheme at some later stage. Chief executive Mr Doug Band would not comment on this speculation.

Whatever the reason behind the decision and in spite of the recent strengthening of the share price, market feeling is that if the 20-for-one split is effected, the share price could advance to as much as R12-R15 after the split. This is on the basis of previous experience with share splits and on the fact that the net asset value of the Argus was around R220 at end-March.

This valuation did not include a value for trade marks which in Argus' case would be significant. A share split is expected to unlock some of this additional value.

Looking to the interim figures Mr Band, who says he is very pleased with the way the group has performed in tough times, notes that performances from CNA Gallo and CTP were strong and helped to counter the impact of the 8.4 percent drop in pre-tax profit contribution from Argus Newspapers.

Associates — which includes TML, Mastlers and the associates of CNA Gallo and CTP — lifted their contribution by a sterling 23.8 percent to R7.4million (R5.7million).

Group turnover was up 12.6 percent to R816.2million (R725.1million), trading income rose 3.7 percent to R88.9million (R58.8million) reflecting a squeeze on margins — down from 7.8 percent to 7.2 percent.

The interest bill was cut by a third — down from R3.3million to R2.1million. This was in line with the reduced level of borrowings that resulted from generally tighter working capital management. In addition the group benefited from the proceeds from the sale of Argus properties in Durban.

Income from investments was down to R4million (R4.3million). The tax rate, which shot up sharply in the second half of financial '90 because of the need to provide for deferred tax at Hortons, was up to 44.7 percent — from 41.8 percent.

The combined effect saw a 3.3 percent drop in attributable earnings before associates to R20.7million (R21.4million). The contribution from associates swung this around to a 3.5 percent advance in attributable earnings — to R23.2million (R22.7million).

Looking to the remainder of the year, Mr Band says that trading conditions will continue to be tough, especially for the newspaper interests, but that performances from CNA Gallo and CTP may again help to counter the full impact from the weaker areas.
Blue chips not necessarily the best

LESLEY LAMBERT in Cape Town

In the financial portfolio, the smaller equities’ performance was even more impressive, yielding an average annual return of 28.84%, compared with 24.50% from the larger shares and 23.08% from the financial index. When risk was introduced, the returns were 14.62% and 8.95% respectively.

However, a different picture emerged from the mining portfolio. Primary equities yielded 26.34% returns and secondary equities yielded 21.23%, compared with a yield of 23.5% from the all gold index. Risk factors reduced the respective returns to 9.55% and 5.23%

Page ascribed smaller mining shares’ relatively poor performance to the effect of a declining gold price on smaller marginal mines.

The industrial portfolio was the most comparable, with size the main difference between primary and secondary shares. In the financial portfolio, overperformance by the secondary shares in the first five years of the investment period more than compensated for underperformance in the five years to 1989.

Selection of equities for the study was based on market capitalisation and tradability. First tier, or primary investment holdings, were defined as companies with market capitalisation of over R100m and R10.

Given the limited trading volume on the JSE, a further filter resulted in the selection of only those companies where annual trading exceeded $50,000.

The final database consisted of 130 companies, 42 in the primary tier with a total market capitalisation in excess of R220m, and 88 in the secondary tier with a market capitalisation of just more than R20bn.

A number of different portfolios were created for size and price-earnings ratios.

Page said that when selected equities were ranked by trading volume, there was a greater proportionality of tradability within the secondary tier.

The most frequently traded of the large firms had a volume of 29.8%, compared to 32.8% for the smaller firms.

Page said this suggested that a significant proportional holding in the second-tier companies could be more readily acquired over time, not only because less capital was required but also because of the greater frequency of trading in the equity in the market.

Page concluded that the competitive performance of the substantial reduction in funds needed to acquire significant holdings in the smaller companies, increased the potential for portfolios of this type.

BRUSSELS — The world’s poorest nations fear they will be ignored when 107 countries gather in Brussels next week to wind up four years of talks aimed at setting rules governing trade into the next century.

“We are not very confident. We are not very sure what is going to happen,” said B. K. Zulfi, India’s envoy to the Uruguay Round of global trade talks being held under the auspices of the Geneva-based General Agreement on Tariffs and Trade (GATT).

Developing countries went to the talks, which began just over four years ago in the Uruguay resort of Punta del Este, with high hopes that they would be able to industrialise and improve their agricultural and mining products. But the talks covering 15 sectors of trade have bogged down in the home stretch in a row between the 12-nation EC and the US over how fast and by how much to slash farm subsidies.

The dispute is threatening to scupper four years of hard negotiating, delegates say.

When the deadlock emerges, the result could be a bitter transatlantic trade war waged by wealthy nations using subsidies which Third World exporters could not match.

“We feel that our interests have been set aside, particularly at the last hour,” one Malaysian diplomat said. “It is important that there will be a moratorium on export subsidies.”

The EC and the US could afford to subsidise their exports but only at the cost of our growth, the EC, and the US like us cannot. We are always losing out.”

The subsidy war has prompted threats by some countries to block results in other areas, from the US and the European Community. The EC has blocked opening up trade in services and technology.

The agriculture ministers of Argentina, Brazil, Canada, Paraguay and Uruguay met last week and said their countries would walk out of the talks unless the EC changed its stance.

“The agriculture question is vital,” Argentine Agriculture Minister Felpo Sola told a news conference. “We will not accept anything that maintains the current status quo.”

His Brazilian counterpart, Antonio Cabrera, said, “We cannot accept removal of the subsidies.” Difficult international negotiations are needed put in place which can be better conditions for producing and selling.”

Industrialised countries’ reluctance to drop barriers to imports of cheap textiles has been another source of criticism among selling countries.

The trade negotiations are expected to be tough but there is hope the US and the EC will find a compromise.

The developing countries, which see this as a ploy to maintain barriers, are aggressively fighting off a move to allow countries to export cheap imports from individual suppliers when sudden surges damage or threaten domestic industry.

The developing countries must be imposed on all exporting the goods in question. — Sapa-Reuters.
Blue chips not necessarily the best study

Lesley Lambert
from the black community.

management personnel must come
from black-owned suppliers and con-
their outside purchases must come
must be controlled by the black com-
from the black community.

"At least 40% of their shareholdings
have at least 30% of their board mem-
com_ported on the Jesse
National African American Chamber
Moise Mouton, president of the
ation in open markets, said Mr. Sam-
market system with privileged ownership
South Africa appealed to the social

THE best economic system for the new

Open markets

The Ministry said yesterday — Daily Telegraph
about 14.76 million (240 million yen, the

Mr. Johnson
Anglovaal Interims

ANGLOVAAL Holdings and Anglovaal Ltd have declared unchanged interim dividends for the six months to end-December, indicating that the group should maintain profit levels.

Anglovaal Ltd has declared an unchanged interim of 3.6c on its ordinary and N ordinary shares, reflected in Anglovaal Holdings' payment of 2.36c for its ordinaries and unchanged 3.54c on participating preference shares.  

Both have reorganised their capital structures since last year's interim payments, and have declared interim dividends well ahead of their February/March publication date.

The unchanged dividends indicate results should be on a par with last year's. While mining income is expected to be lower, Anglovaal's industrial holdings should be doing reasonably well.
More blacks on boards–Nafcoc

By AUDREY D’ANGELO
Business Editor

THE best economic system for the new SA "appears to be the social market system in which private ownership of property and unfettered competition in open markets form the main ingredients of economic policy". Sam Mosueneanye, president of the National African Federated Chamber of Commerce and Industry (Nafcoc) said in Cape Town yesterday.

"Government intervention in determining wages, interest rates, key prices of commodities and exchange rates should be allowed only in exceptional cases."

But Mosueneanye followed this by quoting from a resolution passed by Nafcoc in September which said that all companies listed on the JSE "must have at least 30% of their board members from the black community.

"At least 40% of their shareholdings must be controlled by the black community. At least 30% of the value of their outside purchases must come from black-owned suppliers and contractors and at least 60% of their top managerial personnel must come from the black community."

Mosueneanye was speaking at a conference on the economic and financial prospects for SA, organised by London-based Euromoney publications at the Cape Sun.

He said there was a need for blacks to contribute towards their own development and that of the country. The social market system would give them scope to develop a spirit of enterprise and self-reliance.

But he emphasised that both business and the government would have to do more to redress inequalities under which blacks had suffered in the past.

He urged the business community to consider "the initiation of joint ventures, partnerships and share venture schemes.

Firms should consider: "Entering into contractual arrangements with black industrialists for the purpose of sourcing certain supplies from them.

"Supporting all educational programmes designed to promote black advancement.

"Preparing blacks for a leadership role at all levels such as board participation, senior managerial and administrative positions."

Emphasising that there must be one educational system for all, and compulsory education for black children.

Mosueneanye said this would cost about R50bn.

But it would be in the best interests of a future SA. "Both the government and the private sector are called on to contribute generously towards this end."
Nafcoc plea to firms

ALL companies listed on the Johannesburg Stock Exchange should have a board consisting of at least 30 percent black members, 40 percent black shareholders, 30 percent outside purchases must come from black-owned suppliers and 60 percent of top management and personnel must be black. Nafcoc president Mr Sam Mosueryane told an international conference on South Africa's prospects in Cape Town yesterday. - Sapa.
Norton rules out JSE Big Bang

CAPE TOWN — The JSE’s problems would not be solved by a Big Bang of the type that allowed stockbrokers on London’s International Stock Exchange to act as principals with their clients, president Tony Norton said yesterday.

Invited to address the question of whether a Big Bang on the JSE would result in a solution or a disaster, Norton told delegates at the Euromoney Conference yesterday it would result in higher investment costs, lower standards of client care and fragmentation of the market.

The key change in a Big Bang situation would be the replacement of the existing “single capacity” system, which limited a stockbroker’s status in client deals to that of agent, with a “dual capacity” system which enabled the broker to act either as a principal or an agent.

Norton said proponents of dual capacity justified it on the basis of competition and international practice.

But, he said, international architects no longer considered the system to be such a good idea, because it had led to fragmentation of the market, erosion of self-regulation and the introduction of the expensive alternative of quasi-governmental regulation.

The latter form of regulation would not be cost-effective for the JSE, he said. The exchange had recently invested in hardware, skills and systems to implement an equities market structure based on single capacity.

This, he said, guaranteed market security and a high degree of investor protection.

Norton said if a future government was critical of the present concentrations of financial and economic power, it would resist attempts to allow stockbrokers to become dominant participants in what had been an “independent group of agency brokers standing between Big Money and the savings of the man in the street”.

Instead, the JSE — if it was to be relevant — would have to address the following realities of SA:

- Excessive concentrations of financial and economic power;
- Low liquidity in a large number of stocks;
- Inability to afford systems which were expensive to operate and police;
- Declining participation by small investors, partly because of a sense of inequality with big participants;
- The lack of a market-making tradition in equities by institutions in SA; and
- The need for affordable but effective surveillance capability and the provision of proper protection for investors through unlimited liability and a Guarantee Fund.

“Our national equities market is too important an economic agency for the development of our economy to be subjected to radical and unnecessary change. All energies should be directed at addressing the real problems like the removal of MST (marketable securities tax) and other mundane but cumulatively important issues,” Norton said.
Way of making it on the JSE

By JOSHUA RABOROKO

This article on Unit Trusts by JOSHUA MAFOLO is the last in the series on investment at the Johannesburg Stock Exchange.

By Joshua Raboroko

This article on Unit Trusts by Joshua Mafolo is the last in the series on investment at the Johannesburg Stock Exchange.

unit trust holders can cash their units or part thereof anytime they want to. Written notice, within a few days Dividends are declared either quarterly or half-yearly. Such income becomes a dividend and an interest. Dividends are not tax-free, but are subject to normal tax. Capital gains are also taxed.

Unit trusts investment managers are highly professional and experienced. They are supported by researchers who are continuously investigating investment opportunities.

Spread

Unit trusts also maintain a spread of investments over the various sectors of the JSE. They do not expose investors to individual shares. Thus some shares depreciate in price, these losses are generally offset by gains in others. Unit trusts have to be managed correctly according to the Unit Trust Control Act.

Each trust has a trustee, who has to be approved by the Registrar of Unit Trusts. The trustee’s responsibility is to look after unit trust holders’ interest in terms of the Act.

Options

One can invest in unit trust either by investing a lump sum and contributing to the fund at intervals or by contributing to the fund on a regular basis every month. The second option allows unit trust holders the benefit of buying more units when prices are low thereby averaging a lower cost per unit than if a regular number of units were purchased at regular intervals.

When choosing a mutual fund that one wants to invest in, one must take one’s needs into consideration. Thus it is totally important that one seeks the advice of experts before investing in any mutual fund.

An investment in unit trust can bring one’s dreams into reality whether it be sending children to university, buying a new car, extending a house or even buying one and being able to support oneself in retirement and not depend on others’ mercy.
NORVIC/OSPREY/LANCHEM

ACCOUNTS UNFROZEN

The Reserve Bank has unblocked the bank accounts of Norvic Manufacturing and Osprey to enable the companies to continue trading. Their accounts, with those of Lanchem, were blocked by the Reserve Bank last week and their shares suspended by the JSE. Assistant GM of the Reserve Bank's exchange control division, Charles van Staden, confirms that Norvic, Osprey and Lanchem — with previously suspended cash shells, Manserv and Meter Systems — are being investigated in connection with possible contraventions of exchange control regulations. Other firms are also believed to be involved in the investigation.

Van Staden says the Reserve Bank unblocked the accounts of Norvic and Osprey after representations from management of the companies. Discussions have also been held with the management of Lanchem, he says, and its operating subsidiaries continue to have access to their accounts, which were not blocked.

Lanchem and Norvic were trading at 3c and 11c — down from peaks early this year of 70c and 60c — while Osprey was at 26c from a high in January of 82c.

Simon Cashmore
ACCORDING TO THE CLOTH

PRACTICAL REFORMS COULD TEMPER THE JSE’S RECESSIONARY CHILL

For much of the past two decades, stockbroking has not been a bad business to be in. True, there have been some testing bear markets, as in 1970-1971 and 1981. But, on the whole, most firms could enjoy satisfying profit margins — as a walk around the JSE parking lot would testify. When trading went into a dull patch there was always the next spike in the gold price to look forward to.

Suddenly, all that has changed. Trading volumes and, therefore, brokers’ revenues have crumbled. At the same time, costs have leapt ahead, partly on the back of an ambitious (and fumbled) capital spending programme pursued by JSE. Gold shows no sign of coming to the rescue.

JSE president Tony Norton himself describes the situation as a crisis: “No significant market in the world can survive on 2 000 deals a day.” He says “We are living with very, very unpleasant circumstances.”

A special meeting has been called for committee members on December 5. Norton says this is simply a normal, year-end strategic planning session, but some brokers believe there will be more to it and radical changes could be proposed.

While the exchange’s management and some of the older members insist the status quo should be maintained, brokers are hurting badly. With only about 18 trading days left this year, daily trading this week was running at less than 1 800 deals, well below average levels of 1988 and 1989 (see graph).

It is not simply that brokers — and the JSE itself — need to examine vigorously what can be done to improve their cash positions. Now the Competition Board is investigating the brokers’ fixed commission structure. Unless it accepts the status quo, the board’s findings will almost certainly trigger fundamental changes to the way the equity market operates.

Whatever decisions are made by the board, or by Registrar of Financial Institutions Pieter Badenhorst, the effects will ripple through the economy. But perhaps it is time for change. The stock exchange, as the flywheel of the free enterprise system, must be seen to be efficient. Right now, any suggestion that Diagonal Street works as efficiently as it should, sounds decidedly hollow.

The statistics are familiar. Liquidity on the JSE is the lowest in the world, with trading volumes seen running over the past five years at 4%-5.5% of market capitalisation, compared with 40%-80% in leading world markets. Many shares are simply not marketable enough to justify new purchases by institutional portfolio managers. That is a handicap which often results in negative ratings — discouraging new equity issues.

Reasons for the illiquidity are not hard to find. Economic and political conditions have swung sharply against investing in equity markets. A determined effort by the authorities to combat inflation, high real interest rates, a stable currency, recession at home and abroad, sliding profits in industrial and mining sectors and wilting political confidence — all are now encouraging portfolio managers to invest in money and fixed interest markets rather than equities.

As a leading assurance group’s investment manager says: “You can’t blame the brokers or the JSE for the economy. There is no way they can entice investors into the market until conditions change for the better.”

But the JSE’s crippling scrip shortage has been years in the making. During 17 years of double-digit inflation, with few opportunities for tax breaks, the nation’s contractual savings have been funnelled into pension funds and insurance companies, which must invest massive cash flows as effectively as possible.

SA equities sold off over some 15 years by foreign investors have been mopped up and locked away by local institutions. As the economy has generated little real growth over the past decade, investment opportunities have merely narrowed, with the process fuelled by an increasing concentration of ownership. Huge amounts of scrip are sterilised in control structures, involving pyramids, cross-holdings and large majority stakes.

Ask portfolio managers why trading has sunk so low, however, and they are likely to cite the cost of dealing as a first concern. For each deal, investors are faced not only with brokerage costs — not excessive by world standards, but on the rise — plus marketable securities tax (MST) of 1.5% and the possibility of tax on capital gains.

Both these tax constraints were caséd in the 1990 Budget. MST is being phased out over three years and shares held for at least 10 years may be sold without incurring capital gains tax. Like much that happens to the stock exchange, the phase-out process is far too sluggish.

Finance Minister Barend du Plessis should eliminate MST in the next Budget, if not before. And investors should be given greater clarity on the capital gains tax. Large shareholders, particularly mining houses which badly need to mobilise capital, continue to hold on to essentially mature portfolios when they could well be self...

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Trading in a trough

Month trading volumes

Monthly value of shares traded

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22 • FINANCIAL MAIL • NOVEMBER • 30 • 1990
ers were it not for the tax concerns 1990's Budget did not do enough to change that

Brokers' profitability is not the issue. Efficient firms will survive anyway. But there is little point in continuing to garner taxes which patently are stifling the national market for equity capital.

For its part, the JSE needs to take a much tougher approach in dealing with basic problems. A quick count shows roughly 40 pyramid companies are listed, some were there for decades, but many have appeared in recent years. Norton, who says he is open-minded on the topic, reckons these have at least increased the scrip available in the assets concerned, and that entrepreneurs may decide not to expand companies if control cannot be assured.

It is a lame argument. Trading in pyramids is generally low, more than 40% of the JSE's market capitalisation is locked up in them. In any event, many see a moral difficulty in allowing family ownership to be effectively retained through a small stake in a top company.

Norton says a committee is evaluating the JSE's approach to pyramids, but — surprise — a conclusion is not expected before the second quarter of next year. The JSE claims to be a self-regulating market. It should do as London and New York have, and simply ban new pyramid listings. Existing ones could be phased out. If the JSE is deficient about its clout against powerful vested interests, let the new Securities Regulation Panel get involved.

Then there is the JSE's own cost structure. Three years ago, the JSE's balance sheet held a net cash balance. In a capital investment drive triggered partly by difficulties encountered in the 1987 bull market, R38m has been spent on the JSE Annex, with more on computer technology, including R11m on a traded options market that has yet to work. There are now term borrowings of R43m, which would carry finance costs of around R8m this year.

Norton contends a long-term view must be taken and a panic reaction should be avoided. Clearly, one option that would swiftly release cash would be to lease back properties — though this may simply substitute lease payments for interest charges and, as

Norton says, leave brokers in the hands of landlords.

Similarly, at least some of the computer services now handled by the JSE could be contracted out to other parties, whether administrative functions or the trading service, to be offered by Unex — probably with lower unit costs all round.

Management and some brokers staunchly resist such ideas, arguing that control would be lost over "strategic" operations.

There is some sympathy for this argument — and the exchange has done well out of the Diagonal Street properties bought in the late Sixties. But new approaches may be unavoidable. Sooner or later the JSE is going to have to squarely face basic questions does it exist to invest in property and provide technology, or to run a market whose main function is to offer liquidity and find best prices? And are brokers doing enough to adapt to a greatly changed environment?

Many firms have been slow to advance from being simply traders with a good network of clients. Institutions are demanding added value, particularly quality research. The more prescient have recognised that research will increasingly be sold in future. Already, Ivor Jones has moved in this direction, by establishing 1-Net with Times Media. Expect others to follow.

Costly investment conferences such as those organised by Frankel Kruger are unlikely to be offered free any longer. Where they have the skills to do so, brokers should diversify. Frankel Kruger has established an insurance broker and many have developed corporate finance departments. The Registrar should encourage rather than impede this.

These developments would be minor compared with the fundamental changes likely to follow a change to negotiated commissions. All accept that commissions cannot be seen in isolation. Once commissions are no longer fixed, brokers face narrower margins and greater capital requirements. They may no longer be able to stave off corporate membership and electronic screen trading, so SA may be approaching its own Big Bang, whether intentionally or not.

At a business conference in Cape Town this week, Norton argued that a Big Bang, with brokers allowed to act as principal rather than only as an agent for a client, is not only unnecessary but would be dangerous if not disastrous in SA. The contention is that the market would soon be dominated by a half dozen giant institutions, that share dealing would become much more expensive for individuals, and that the large capital requirements would exclude blacks from the business.

Be that as it may, a fixed commission structure — in other words, a price cartel — is looking more and more indefensible. Some brokers, incidentally, say they have no fear of competition.

After the Stals and Jacobs reports, legal frameworks have been established for the futures and bond markets. In the Nineties, the equity market is facing a very different world. There is a new political environment and a possible re-entry into the international arena. SA is not alone. As this, globalisation of financial markets has affected all.

It is time for a critical re-appraisal on Diagonal Street.

A roller-coaster ride for JSE and everyone feels the pinch

BY JULIE WALKER

FOR THE first time since P W Botha's disastrous Rubicon speech in 1985, political factors played a hugely influential role on the JSE this year.

The stock market started the year on a roll, spurred to a crest in February when the new State President made his landmark speech and unbanned the ANC and other organisations, but approached the year-end all washed up.

In February, foreign hopes were raised and investors scrambled for stock. But the honeymoon was short. When a few weeks later, Nelson Mandela was released from jail, the world received a sharp reminder of the desire by some elements to nationalise South Africa's private wealth.

Retreating

...Just as the foreigners had rushed in, so they dashed for the door — and a trail of collapsing share prices.

Market leader De Beers surged to R116 in May when it announced the divestiture of its non-SA assets, but has since retreated to R65. De Beers hit that peak well after the other leading stocks.

Anglo American topped its top at R149 a share in February, retreating later to R90. Gencor hit R13.75 in February, yet sunk below R8 in October. Such is the pattern.

The gold price did not rise in real terms, but mining costs certainly did. Nearly a third of the mines came into losses situations, even the giants. Closures and cutbacks did nothing to help share prices.

Leading industrial Richemont lost only foreign assets. It continued to climb long after the SA blue chips had etiolated, topping R38 in August. But its fall has since been steep — to below R20.

Share prices move on expectations, and as the economy tightened, companies found it difficult to match the earnings of the previous boom years. At the time of going to press, the prime overdraft interest rate was still 21%.

Companies with even modest borrowings found their profits being bit-ten into badly by lenders' requirements. The JSE overall index was down by more than 500 points by November.

SA's investing institutions decided early in the year that they would take back seat while share prices were on the wane, and the market all but died three months ahead of the usual silly season.

Trading volume dwindled so much that stockbrokers found themselves taking a bath. Nowhere near enough brokerage was being generated to meet the operating expenses of the more than 40 partnerships.

Many were overburdened with staff, computers and expenses accounts as well as the rising charges of the JSE.

One of the biggest firms, Frankel Kruger Vnderine — it had already picked up two other brokerage firms since the October 1987 equity collapse — merged with one of the oldest, Max Pollak & Freemantle.

Jocks and salaries were cut both on that deal and at many other firms which faced losses. Hardly any will pay bonuses to staff members.

Low share prices provided opportunities for major shareholders to take out minorities at a reasonable price. The JSE said goodbye to Southern Sun, Fed Volks, Swimline and many other smaller companies.

Beautiful

But the minorities struck back in the proposed takeout of Metal Closures members. The proposed deal was abandoned by the major shareholder after a fuss stirred by leading minorities.

But some sectors always do well out of adversity. The coal index showed a beautiful upward slope as the price of the other primary energy source — oil — nearly trebled to $40 a barrel on supply fears after Iraq's invasion of Kuwait.

Sasol's weighting in the chemical sector was enough to stop its decline as AECI forecast a downturn in profitability. Sasol shares climbed from R11 a year ago to R15.75 before retreating below R14.

The banking sector also featured with a steady performance. There was plenty of speculation about takeovers of middiways by whales and sometimes vice versa, which helped to put spikes into otherwise flat trends of individual stocks.

Beverages and hotels put up a sterling show. SA Breweries continued to defy gravity and kept on producing wondrous figures. There are also hopes of higher hotel profits from foreign tourists.

Boost

The furniture sector kept on growing, companies reporting much higher earnings in the main.

Their bottom-line declarations could have been pushed artificially high because of the partial method of providing for deferred tax which is adopted by all but Ellerine. Ellerine itself was the best without the boost — it rose from R12.60 last November to R35.

Retailers & wholesalers mirrored furniture, particularly on the performance of consumer-based companies. Clothing, footwear & textiles did badly because of the weighting of Frame, which has fallen from R14.75 to 52c since February.

Printing also climbed, although advertising revenue is declining. Transport also went to higher ground. The futures market got under way, but the floor built for trading in the JSE's annex has been a nightmare — no dealers wish to use it.

The JSE's Traded Options Market (TOM) did not open. Trade was supposed to begin in June 1989, but the opening will not be before March 1991. The cost has topped R1 million, adding to stockbrokers' woes.

JSE members and investors alike are feeling the pinch, partly because of the absence of institutional interest. Nobody expects a miracle, but all hope for one.
Proposed sale of Maxmech to be resisted by minorities

SOME minority shareholders in Maxmech Mechanical Seals (Maxmech) are up in arms about the proposed sale of Maxmech's business to executive directors and controlling shareholders, Ivan Dettmann and Dave Grobler, for R360 000 in cash.

They say this amount is too low and is well below the net asset value of Maxmech, a DCM-listed supplier of sealing devices.

It was announced recently that the 56.72% controlling stake in Maxmech would be sold to Quad Industries for R360 000 and that the business concern of Maxmech would then be sold back to Dettmann and Grobler for R500 000 Quad Industrial Resources would be reverse listed into the Maxmech cash shell.

One of the dissatisfied minority shareholders, Peter Frankie, resigned as financial director in September 1989, said after Maxmech's AGM on Friday this amount was equivalent to 16c a share while the net asset value amounted to 28.6c a share.

Frankie believes the interests of minorities were being prejudiced by the transaction.

However, executive chairman Mike Lang said Maxmech's real value diverged from its public valuation. He said the stock market was not necessarily an accurate guide to a company's valuation.

"Companies that do not pay dividends do not have any real intrinsic value to shareholders, and do not belong in the public field. People buy shares for dividend yield and capital gains, both of which are lacking in Maxmech at present," Lang said.

But Frankie said the company's assets amounted to about R1.5m, and that it was understood that a partial asset strip was contemplated by the buyers. He said, for example, the sale of one division would raise R700 000 to R800 000 — the equivalent of 14c to 16c a share.

Lang rejected the allegation of asset-stripping and said the board was concerned to return Maxmech to profitability. Maxmech posted a 73% drop in attributable earnings for the year to end-February.

Maxmech shares have shown a steady drop from 46c in 1988. They last traded at 11c on November 10.
Investors 
advised to 
remain fully 
committed

THE downside potential of 
JSE share prices remains 
limited and investors 
should remain fully in-
vested, says Hannes Hu-
man of broking firm J 
Bosman & Co Inc. 
The firm recommends that 
60% of individual portfo-
lios should consist of rand 
and political hedges and 
energy shares. The rest 
should be invested in 
quality industrials and 
financials.

Human says that despite 
depthening economic and 
political uncertainties lo-
cally and internationally, 
a stronger financial rand 
and sharply lower daily 
turnovers on the JSE, the 
declines in the indices 
have been relatively 
moderate.

Neither the overall nor in-
dustrial indices should 
dip below the 2 500 level. 
He feels the gold index has 
a bottom resistance area 
at the 1 250/1 300 level.
The presence of institutions 
was largely responsible 
for share prices remain-
ing relatively stable.

The downside potential of 
all the leading overseas 
stock exchanges also ap-
ppears to be limited, says 
Human. But the question 
is: "What must be done to 
attain stability in high-
ger numbers to stock 
exchanges?"

The slide of the US dollar 
might eventually benefit 
the gold price.

Arrest

Inflation and expectations 
about inflation are build-
ing up in all of Europe, in 
Britain and in Japan. 
These countries are high-
ly export-dependent for 
growth and the question 
will arise whether they 
could afford to accom-
mmodate the weak dollar 
for long.

Should they decide on lower 
interest rate patterns to 
arrest further slides in 
the dollar, uncertainties 
on the foreign exchange 
markets will build up, to 
gold's benefit.

Gold's uninspiring per-
formance was a result of 
high real interest rates 
that prevailed for some 
time in leading industrial 
countries, but these real 
interest rates were begin-
ing to fade.

Another reason for the 
weak performance of 
gold had to do with the 
drastic change over the 
past 18 months in the sup-
ply segments of physical 
gold markets.

The gold markets were 
able to absorb these 
shocks and the broking 
firm is confident that in-
vestment demand for 
gold will return in the 
near future. It foresees a 
higher average gold 
Basic R30 share-dealing charge takes effect today

THE controversial R30 basic charge on share transactions at the JSE is to be implemented today, the exchange said at the weekend.

After months of bickering over the fee, which many felt would shut the small investor out of the market, the Registrar of Financial Institutions gave the go-ahead to amend the fee structure.

The previous system was a charge of one cent a share with a maximum level of R25. This meant someone buying 500 shares would only be charged R5 for the entire transaction.

JSE committee chairman Peter Redman argued that the new R30 minimum would entice brokers to look for smaller investors.

Brokers can waive the charge or charge a lesser amount if the transaction is less than R200. Previously the maximum was R25.

Brokers reacted positively to the move, saying it would bring extra money into stockbroking firms at a time when volumes were at a critically low level.

Redman said the move would not have any significant effect on brokers' revenues except to contribute to covering fixed costs.

He said it would encourage brokers to deal with small investors because they could at least cover costs.

Critics have been levelled that the move would squeeze the small man out of the market as costs would become too much to bear and short-term investments become impossible.

Redman said it was still one of the lowest fees in the world, compared with levels as high as 7.5% of the value of a transaction in the US.

The JSE, however, is one of the most illiquid markets in the world, with illiquidity at about 5% of market capitalisation — and some analysts believe it might squeeze liquidity even more.

Registrar of Stock Exchanges Piet Badenhorst said in a statement at the weekend that the issue of negotiated tariffs would be reconsidered once the Financial Markets Advisory Board had submitted its recommendations.
W & A expands on JSE

Today sees the listing of the additional shares and equity instruments issued in terms of W & A Investment Corp’s restructuring through which it became the holding company for the worldwide interests of FSI Corp.

The transaction transformed W & A into one of the biggest industrial holding companies in SA, with a market capitalisation of about R950m calculated on the basis of the current share price and a fully diluted share capital.

The restructuring was designed to consolidate the previously complex group structure and make the group easier to operate and simpler for investors to assess, chairman Jeff Liebesman said.

It involved the delisting of Hunts, Homemakers, Teamcor and Citizens Holdings.

Liebesman said the new streamlined W & A would enjoy cost savings and improved cash flow efficiency.

Effectively, the new arrangement eliminated three intermediate holding companies — Hunts, Teamcor and Homemakers — all of which now fall under W & A. It also brought under W & A control FSI’s SA and international investments.

This gave the group five divisions: manufacturing, distribution, retailing, international and financial services.

Merchant banker Senbank said at the weekend it was pleased with investor reaction to the restructure.

“Only 30% of those entitled to the cash payout chose to accept it, and the balance retained their equity interests in the group,” a Senbank spokesman said.

“Given the current state of the market we are well pleased with this result.”
Steady GDM Finance profits rise 15.5% "Liz Roux"

TRADE finance company GDM Finance posted a 15.5% attributable profit rise in the six months to end-October in spite of the slowing economy.

Earnings a share amounted to 15.9c (13.8c) and the interim dividend has been raised to 4.5c (4c).

At the pre-tax level GDM Finance's profit rose by 28% to R15.9m from R4.57m. Attributable profit increased to almost R4.1m from R3.5m after the deduction of R212 000 for the payment of a preference dividend and R184 000 paid to outside shareholders in the recently acquired African Shipping business.

From its listing in September 1987 to April 1990, earnings have grown steadily by an annual compound rate of 75%.

MD John Cowper says although the economy is tightening and GDM Finance's clients are finding trading more difficult, the company prides itself on its strict credit-granting procedures.

The rate of borrowings to shareholders' funds currently stands at a conservative 3.44 times, says Cowper. The company's gearing objective is to have a ratio of borrowings to shareholders' funds of no more than 5 to 1, so at 3.44 to 1, GDM Finance is under geared, allowing the group to grow without strain when the economy revives.

African Shipping (Afship), a clearing and forwarding business in which the group acquired a 64% interest last year, continued to improve its performance and showed a taxed profit for the six-month period of R511 000, R27 000 of which is attributable to GDM Finance.

In the last quarter of the 1990 financial year, Afship made a first time contribution of R74 000 to GDM Finance.

During the past six months Afship acquired Powle & Whytock, a Durban-based clearing and forwarding business. The two businesses have been merged successfully and Cowper expects further growth from this investment in the months ahead.

Looking ahead to the rest of the year, Cowper says that, subject to there being no unforeseen circumstances, GDM Finance's shareholders can expect earnings for the second half to exceed those of the first half. This means that earnings a share should amount to at least 32c compared with the 29.3c reported in financial 1990.
Liquidation boosts transport costs

By Shirley Woodgate

At least three South African families have been forced to do battle on the cost of the transport of their possessions overseas after Medwood Furniture Removers was liquidated on November 16.

According to liquidator Peter du Plessis, of Aiken and Raven, he is aware of three families who have been hit but he does not know if there are more.

"In two of these cases they have paid in advance, but have to foot the full bill for a second time."

Five firms — Supertrans Holdings Ltd, Medwood Furniture Removers (Pty) Ltd, Road Transport Service (Pty) Ltd, Grand National Transport (Pty) Ltd and Cross Country Movers (Pty) Ltd — were handed over to the liquidators on November 19.

Meanwhile at least one local couple who paid Medwoods in full on June 7 was recently informed, after a long delay while their furniture was being shipped, that they would have to pay the bill again when it arrived in London.

"They paid R15 000 up-front and are being expected to double up on this amount," said a local relative.
Institutions inject new life into JSE

BULLISH sentiment galvanised financial markets yesterday, with institutional buying lifting the stock market out of the doldrums and causing a significant fall in long-term interest rates on the capital market.

Aggressive institutional demand resulted in a surge in prices of quality industrial shares, which pushed up the industrial index 78 points or 2.7% to 2,903.

This brought the index rate to 4% so far this week on indications of an early cut in interest rates and expectations that share prices would move higher next year.

Boosted by strong demand for market leader De Beers, the JSE's overall index closed 1.6% or 44 points higher at 2,662 with gains outnumbering losses by almost three to one.

Gold shares eased on a London gold price which closed at $377.55 (from $380.52) on reduced conflict in the Gulf. The all gold index fell 12 points to 1,245.

Long-term interest rates broke through the crucial psychological level of 16% in a day that saw an 11-point slide.

Fund managers said the scene for the sharp rise in industrial shares was set by three factors — the firmness of Wall Street and London on Monday, the perception that interest rates could come down sooner rather than later and the huge institutional liquidity overhanging the market.

Southern Life GM investments Carel de Ridder pointed out that institutional liquidity had been building up sharply while equities were hitting lows.

The funds' collective liquidity of R1.5bn at the end of the September quarter plus...
Swiss commodity trader Marc Rich said to be staking a claim in De Beers.

LONDON — De Beers/Centenary's share price continued to climb in Johannesburg and London yesterday as rumours spread that Marc Rich, the Swiss-based commodity trader, was building a stake in the company.

On the JSE the counter maintained its strong upward trend, reaching a high of R68.75 before closing at R68.50.

In London, the price gained nearly £1 to £20 during the day, marking a 28% recovery from the low touched two months ago.

The speculation is that Rich is prepared to pay a 10% premium on the current share price. Johannesburg analysts said while it would be difficult to gain control of De Beers, a bidder who acquired a 30% stake could be a thorn in the company's side.

Such a bidder would be able to demand board representation and have a say in the daily running of the company and would be able to block special resolutions.

A De Beers spokesman said yesterday that the rumour held "absolutely no truth".

London analysts discounted Johannesburg speculation that Rich — and possibly others — might mount a hostile bid. De Beers/Centenary's control structure would virtually rule that out, they said.

However, the price action and accompanying rise in volume was "intriguing". On Monday 154,000 De Beers were traded in New York against normal volume of 50,000 - 60,000. In London it has been running at 30,000 - 40,000 a day compared with 20,000 - 30,000 up to mid-November.

The move up in dollar terms has also been helped by the concomitant strength of the financial rand, up 14% to £2.95 since the end of September.

Analysts described the financl's behaviour as inexplicable against the background of township violence and a weak gold price, although there has been some buying of SA gilds and parastatal bonds.

Opinions varied about what lay behind the rally in De Beers.

John Taylor, at brokers James Capel, said "Someone might be building a strategic stake, but why now?" There is a lot of relatively bad news about diamond sales yet to come. When De Beers was down to £16 most of that news was in the price but £20 looks too high.

"We understand the CSO (Central Selling Organization) December sight in Johannesburg was sharply down and that it has warned sight holders (dealers) that January and February will be reduced from last year's levels."

"There are indications that De Beers has managed to get the other producers to agree to a quota decrease — apart from Botswana — but the outlook suggests the group will have to buy in a lot of stones next year which could increase Centenary's borrowings."

However, Williams de Broe Chapman's David Freis left said "I don't think there is any great story behind the De Beers' recovery. SA knocked the shares back too hard because, in rands, the price gave a

Swiss

BLA Y 4/12/90

self signal: That wasn't the case for the dollar price. The shares looked too cheap at £16. They look a bit too high now.

At Lehmann Brothers International, Robert Davies commented "For months I have believed the whole Anglo group looked ripe for a shake down and De Beers is the plum to go for." with international earnings and diamond market control.

"Maybe Marc Rich is trying to shake the tree with a bit of greenmail. It could be embarrassing for the Oppenheims if someone did what Robert Holmes & Court did to BHP (Broken Hill — Australia's biggest company), by buying say 10% and then demanding a seat on the board. We'll have to wait and see," he said.
Rembrandt restructure will produce a giant

THE restructuring of Rembrandt financial interests will lead to rationalisation in an industry considered "over-banked" and open the way to the creation of a banking giant.

Banking analysts say there is unlikely to be an early conclusion to the negotiations, but the first prize, says one JSE analyst, will be an enlarged financial empire in which Rembrandt has a 50% stake.

Rembrandt's portfolio includes 30% of Volkskas, 10% of UBS, 27% of Sage, 10% of SBHC and 10% of Boland Bank, as well as 30% of Momentum and an effective 13% in Allied through Sage subsidiary SFS and the Sage unit trust.

Sage and its subsidiary SFS also hold 26% of unlisted Rand Merchant Bank, in which Allied has a 14% stake.

There are rationalisation benefits which will accrue as a result of a merger.

UBS can stand alone but it would like Volkskas, in which it has a 30% stake, under its wing.

Edey Rodgers banking analyst David Southey says the economies of scale which will be brought to bear by a merger between these two giants (UBS has assets of R15.7bn and Volkskas R20.5bn) will be of benefit to both.

Volkskas has lagged its competitors in terms of computer technology. UBS has a 50% stake in Volkskas and Volkskas a 10% cross-holding in UBS.

In terms of the new banking legislation, banks will have to raise their capital/assets ratios to 4.5% from the current 4.5%, but the requirements will be phased in over the next five years.

UBS has the strongest capital ratio in the industry, at 9.5%.

Southey says Allied is the cherry everyone wants to get their hands on.

"It has a good client base and excess computer capacity, but it is thin on middle management."

"It needs to lease out its computer capacity at market-related rates."

Another JSE analyst suggests Volkskas and UBS may take a sizeable stake in Allied and Sage will then be split up.

The consensus is that Allied will not be swallowed up and will be allowed to stand alone, although in a larger financial group.

It is capital rich, with a capital/assets ratio of 6.5%.

Southey says Allied will need to raise its dividend cover from 2.2 to 3 over time in order to capitalise adequately, although its capital is sufficient for the present.

Its net asset value is 212c and any settlement will have to price it around this level.

Most analysts say Sage Life will be slotted into Momentum (and perhaps the life interests of UBS and Allied) and the other Sage Holdings interests will be merged with other group companies.
Prospect of good dividend jumps with Ozz’s profits

INVESTMENT holding company Ozz posted a 79% rise in taxed profit to R3,8m (R1,5m) in the six months ending September, raising the prospects of a substantially higher annual dividend.

Results published today show a 27% increase in earnings a share to 17,8c (14c).

Chairman Gary Zulberg said the major core businesses had beaten budgets while property development and investment, gas production and brick manufacturing performed “in accordance with expectations”.

No interim dividend is declared. The directors forecast an annual dividend of about 18c a share — covered 2,8 times — giving a 14,5% dividend yield on the present share price.

Zulberg said the cynicism directed at Ozz’s acquisition of the assets of Lucem Industrial Corporation in late 1989 appeared to be unfounded.

The deal pushed debt-equity to the 139% mark, heightening reservations among conservative investors, he said. However, gearing had dropped to 47,2% in the 15 months to end-November in conditions of tight money and high rates. At the start of the six-month period the debt to equity percentage stood at 73,5%.

The rise in interest paid represented a full six-month cost of the purchase of the Lucem assets but would sharply drop in line with the diminishing debt level, Zulberg said.

Two months ago, Ozz consolidated its share capital on a four for one basis. At end-September net asset value stood at 295c a share compared with a current share price of about 125c.

The reduction in gearing to acceptable levels — with the probability of a further reduction in the current year — and the accompanying lowering in interest, bode well for Ozz’s future, Zulberg said.

Expectations were that the reduced gearing would further strengthen earnings growth and boost the return on capital employed to about 25%, he said.
JSE outruns shaky finrand, weak gold

THE JSE maintained its strong trend yesterday, defying a volatile financial rand and a weak gold price.

There was continued demand for quality industrials, and a further rise in market leader De Beers led to renewed interest in selected gold shares.

The JSE overall index gained 33 points to 2,695, taking its gains to 6.2% since falling to its year low less than three weeks ago. The industrial index rose 27 points to 2,930, up almost 5% on the week. The gold index, after a sluggish start, rallied eight points to 1,255, spurred by a 12c (1.5%) gain in De Beers to R58.50.

The total volume of shares traded increased to 10.4-million from Tuesday's 8.56-million, while the total value of shares traded rose to R83.4m (R84.56m).

Gold gains were modest because of the lower gold price.

The financial rand closed weaker at R3.47/40 to the dollar after firming to R3.41/43 from Tuesday's R3.44/46.

Continued bullish sentiment drove capital market rates down further. The benchmark Eskom E 185 softened to 15.86% from Tuesday's 15.95% close, while the shorter Transnet 12.5% 1993 fell from 16.17% to 16.11%.
Conditions in the market could hardly be worse

THE Johannesburg stock market has been through torrid times in the past 12 months and analysis of the major indices show that the decline has been severe although slow.

In the words of JSE executive president Tony Norton: "Conditions in the market could hardly be worse. They can only get better."

Volumes as well as values have plummeted

The volume of shares traded for the week ending the last Friday in November was 33.25 million, compared with 90.74 million on the last day in November 1989. The decline was 63 percent.

The value of shares traded in the same week was £240.62 million compared with £423.83 million, representing a drop of 43.3 percent.

On the base of Friday November 30 1990 compared with Friday November 24 1989 the drop was even sharper.

Volume plummeted by 56 percent, or by 8.8 million shares, to 6.55 million from 15.14 million, while the value of shares traded on those days fell by 69.5 percent to £40.83 million from £133.23 million.

Looking at the JSE actuaries indices, however, some sectors showed gains in spite of adverse circumstances. However, the overall index declined by 10.86 percent on the year to 2001 on the last Friday in November. The comparative figure for last year was 2918.

The most damage was shown to the all gold index which dropped by 41 percent to 1267 from 2149.

Other sectors fared better, with the financial sector gaining 12.5 percent to 1781, and the industrial index up 8.3 percent.

TONY HUDSON

Diamonds also gained, rising 9.8 percent to 11692.

All of these figures are well below the current inflation rate.

In comparison, mutual funds performed reasonably well, with most at roughly the same levels as they were last year and several showing gains.

One of the reasons for this has been that the funds have moved out of equities and into cash-based holdings where returns have been far better.

As for the outlook for the coming year, it all depends on the outcome in the Gulf and socio-economic developments in South Africa.

JSE executive president Tony Norton says the market cannot get any worse than it is at present. "It is not a bear market any more, it is a dog market."

He expects conditions to improve in the new year.

The two decisive factors would be the reduction of interest rates, hoped for early in 1991, and the return of institutional investors to the market place.

He says it is most important that the monetary authorities do not keep the pain up for too long.

Technical analyst Tony Henfrey believes the current uptick in prices could last into the beginning of the second quarter of the new year.

But he says after that a further downswing will begin which will continue into 1993 before the recovery process begins. — Sapa.
Duros paper for revamp

By JULIE WALKER

Duros paper will be offered to members of Tollgate, Entercor, Norths and Gants in the latest corporate restructuring proposal from the Cape conglomerate.

The four companies will become wholly owned subsidiaries in the Duros group. Duros will be introduced to the official list of the International Stock Exchange (London and Ireland) simultaneously with the cancellation of Tollgate’s listing.

The name Duros will be changed to Tollgate Holdings when the existing Tollgate has been renamed.

Tollgate shareholders registered on January 10, 1983, will be offered 33 Duros shares and 300c cash for 100 Tollgate.

Holders of 100 Entercor may choose between 24 Duros and 33c cash, or R223.33 cash or any combination.

Holders of 100 Norths are offered 17 Duros and 117c cash, or R111.67 cash, or any combination.

Holders of 100 Gants can take seven Duros shares and 450c, or R60 cash or any combination.

Members who fail to exercise the right of election will be deemed to have opted for the cash.

Holders of 100 Tollgate 14% unsecured debentures of 225c will be offered 33 14% A debentures, to be converted into Duros ordinary shares.

The effect of the latest proposal does not change the outcome had the previous one been executed. The only difference is that Duros paper is being offered — probably because the group is strapped for cash.

The scheme requires the approval of minority shareholders in the four companies to be delisted as well as sanctioning by shareholders and the Supreme Court.

Duros shares are 700c, Tollgate 250c, Entercor 200c, Norths 100c and Gants 55c.

The current value of Duros makes the share alternative more attractive to members than the cash offer for Entercor and Norths.

But the value of the paper offer to Gants members falls below the R6 cash offer. The cash offers for Entercor, Norths and Gants are better than what could be raised by selling on the JSE.
Investec set to control Reichmans

INVESTEC BANK is about to buy control of clearing, forwarding and trade finance company Reichmans.

The deal will add another R300-million of assets to its R1.7-billion balance sheet, lifting Investec's total assets above R2-billion for the first time.

Investec and Reichmans issued warnings in the past week. Provided negotiations succeed, they are expected to announce a get-together soon.

Talks were still in progress on Friday.

The companies have not yet acknowledged they are talking, but executives of the two groups have been seen together.

Core

The seller of 37% of Reichmans is W&A Investments, which believes trade finance is not one of its core businesses of manufacturing and distribution.

The benefit for W&A of holding a stake in a trade finance house falls away now that trade sanctions appear to be ending.

Chairman Des Kriel confirmed that trade finance is Investec's business.

An acquisition along these lines would be Investec's style. In the past it has entered new areas of financial services in a small way itself, then bolstered its activities through acquisitions.

It is not clear whether this is a cash deal or for shares. If it is cash and the deal is done at 140c, Reichmans will be valued at R500-million and W&A could receive about R12-million.

W&A seems unlikely to hold a minority stake in Investec.

Reichmans did well until December last year. Taxed profit in the year to December 1989 was R12-million, up from R8-million in 1988.

Because of a R12-million exposure to a liquidated client, the half-year taxed profit was R5-million - down from R7.4-million. An extraordinary loss of R2.5-million in respect of a disputed fire claim was also recorded.

Associate company Van Renen & Nicholas recorded a R5-million loss, of which R1-million was attributable to Reichmans. Another problem was a debtor owing R12-million in Groenrivier, which makes TV sets.

These setbacks sent the share reeling from 240c to 165c before the warning. It has since rallied to 170c. The 52-week low of Reichmans on W&A was 140c a share and it seems unlikely that W&A will accept a loss.

There is considerable complementarity between Reichmans and Investec. Both have strong foreign connections. Integrating these would save vast amounts of money.
R1bn locked up in SA timeshare

SOUTH AFRICANS own a total of R1-billion in timeshare units, but market growth is limited by an oversupply and low resale values.

Research by Resorts Condominium International shows a supply of 283,000 timeshare weeks, but demand for only 176,600. These figures are only for primary sales from developers.

RCI chairman Bruce Ravenhill does not believe supply is excessive because an average 20,000 weeks are sold a year.

"Our research shows that about 110,000 families are in timeshare and the potential market is much bigger. The average price of timeshare has risen by 23.5% to R10,500 a week over last year," Enrolment at RCI inland resorts increased by 6%, in the Cape 19.5% and on the Natal North Coast 17.2%.

Property economist Neville Berkowitz says the oversupply will remain because schemes are continually coming on the market.

"Timeshare is not an investment. It is a way of containing holiday costs. Prices will not rise much because of the excess supply and lower resale value. Marketing costs of up to 40% are subtracted from the selling price. Most people thus try to sell privately," Mr. Berkowitz says.

Profit margins in any property development are at most 20%, and 80% of the scheme must be sold before it becomes profitable. Developers are suffering because levies on unsold units are eating into profits.

Developers structure their projects on how many weeks they expect to sell. If they do this incorrectly, they will be saddled with average levy costs of R250. If the levy is payable on all 94,000 unsold weeks, the industry will pay R17-million a year.

Mr. Ravenhill thinks this unlikely, but his report advises developers to "structure projects with 42% sellable weeks and not to mear the cost of servicing levy for the balance.""}

Prudent

"It may be economically prudent to block out the low demand time and close the resorts for 10 weeks," Mr. Ravenhill says there are 149 timeshare schemes in SA.

The report says there are 40 off-season weeks. Demand for the on-season weeks exceeds supply. Buyers are prepared to pay a premium for such time and "there are indications that such weeks are underpriced."

Potential buyers should note that the SA Property Owners Association (SAPoA) timeshare division has broken away to form the Timeshare Institute of SA (Tias).
Investec in R50m Reichmans deal

ACQUISITION-hungry Investec has bought trade finance company Reichmans for R50m in a move which will dramatically expand the merchant banking group's foreign exchange operations.

FSI's W&A is the main seller in a deal that forms part of the industrial group's restructuring and shift in focus towards its core business. The deal involves the termination of Reichmans' listing and the conversion of its share capital to redeemable preference shares.

The pref shares carry a 13.5% return on 1.40c for every one Reichmans share held. Although Investec is also offering a cash alternative, W&A and other minority shareholders - together representing more than 75% of the issued capital - have elected to take the preference shares.

The cash offer amounts to 16c a share, lower than its last price of 17c. The share touched a low of 00c on news that the trade finance house had been battered by bad debts. The pref shares will be redeemed at 140c on December 31 1999.

Investec said yesterday it had completed a detailed investigation into the affairs of Reichmans and believed the "problems recently experienced" were not of an ongoing nature. Investec's involvement in Reichmans would enhance the finance operation's credit approval and limit procedures, it added.

The deal will be effective from January.

Investec next year and is conditional on approval by the Registrar of Banks and by the foreign exchange control authorities.

"The acquisition of Reichmans which is well-versed in the area of international trade means that overnight we have strongly enhanced our foreign exchange operation," Investec executive chairman Bas Kardol said yesterday.

The merchant bank has been developing its foreign exchange and trade finance operations for the past 18 months.

The scheme will have no material effect on either the earnings or net asset value of Investec shares for the financial year ending March 1991.

Investec has taken over Duros Merchant Bank, Corbank and has tried to buy the Board of Executors as part of its strategy to become a stronger niche operator in financial services.
Investec takes over

Reichmans in R50-m deal

In a deal valued at R50 million, banking group Investec has bought trade finance company Reichmans Limited.

Investec executive chairman Esa Kardol says "The acquisition makes excellent sense for both parties. Reichmans, which is a well run business, trading well in its established niche, will enhance and dramatically expand our foreign exchange operations."

The deal involves the Reichmans listings being terminated and shareholders being offered one Reichmans' redeemable preference share carrying a 13.5 percent coupon on 140c for every Reichmans ordinary share held.

The dividend will be paid twice yearly in arrears and the first dividend will be for the six months ending December 31, 1991. The preference share is redeemable on December 31, 1995 at a price of 160c a share.

As an alternative, Investec is providing Reichmans shareholders with a cash underpin of 105c a share.

Mr Kardol said that shareholders holding in excess of 75 percent of Reichmans 36 million ordinary shares had indicated their acceptance of the preference share offer.

The shareholders include W&A Investment Corporation and Reichmans management holding 63 percent, and institutional shareholders holding in excess of 12 percent.

W&A chairman Jeff Liebesman said the decision to sell its stake was in accordance with his company's policy of consolidating and building the group's core businesses, organically and acquisitively — Sapa.
Fastel liquidated following application by shareholder

FASTEL Holdings (Pty) Ltd was liquidated in the Rand Supreme Court yesterday following an application by its major shareholder, Mineral & Exploration Consultants (Pty) Ltd, which has a R4,3m claim against it.

A director of Mineral & Exploration Consultants Brian George Wylie said in an affidavit that the company's claim arose from a debt incurred by Fastel and its subsidiaries after purchasing equipment from Mitsui and Company Ltd.

Wylie said Mitsui had ceded its claims against Fastel to Mineral & Exploration Consultants.

Wylie said from his research, there was no reasonable prospect of the company's financial position significantly improving.

None of the subsidiaries which were also sureties was able to liquidate the debt.

The winding up order was granted by Mr Justice J Kriegler.

In another action, a company owning a Barkly West farm where diamond mining operations were conducted until funds dried up last year, was provisionally liquidated in the Rand Supreme Court yesterday with debts of R2,5m.

Klipdam Farms (Pty) Ltd and its holding company The Star of Africa (Pty) Ltd were both provisionally liquidated following applications by the companies.

Klipdam Farms had assets of R54188 including fixed assets, land and buildings, he said, while the company's total liabilities were R2,6m.

The return date for both applications is January 22 next year.

Also provisionally liquidated yesterday was civil engineering and road building company, Encon (Pty) Ltd, with liabilities exceeding its assets by R1,13m.

MD Mark Lange said in court papers that Encon owed trade and other creditors about R2,8m.

Lange said the company did not have the money to pay tortuently wages of about R120 000 and about 20 creditors had already started legal proceedings against Encon.

He said without the payment of two amounts owed to Encon and IVH, Encon could no longer continue trading.

Lange said if Encon was withholding the payment of R50 000 as a result of an unresolved dispute over a road building project, IVH had not yet paid R240 000 still owing on a project because of unrest and riots.

An associated close corporation which hires plant and machinery to Encon Plant Hire cc was also provisionally liquidated yesterday.

Lange said in an affidavit that the close corporation relied on Encon for its income and was not able to pay its monthly running costs of about R80 000. It had also stood surety for Encon in respect of R1m owed to Standard Bank.
Institutions aid fall in capital market rates

Capital market rates slid yesterday as strong institutional and foreign demand swallowed up available scrip and squeezed the differential between government and Eskom stock to unprecedented levels.

Dealers said large switches from Eskom into RSAs as a result of vastly improved marketability in the RSAs and a reluctance from the major borrowers to let go of stock at the higher levels meant institutions had to buy the rates down.

The Reserve Bank, which markets RSAs, had apparently remained out of the market for the past few days and therefore those stocks had been falling short of demand.

One dealer said the perception that the Bank rate would be cut early in the New Year meant institutions were trying to get stocks at the cheaper levels in order to show profits in their portfolios or take profits when interest rates fell.

The differential between the two fell below seven points before coming back to 10 points.

At the close yesterday it stood at 10 points.

Despite some major switches into RSA 150s, Eskom 168s still came down eight points, reflecting underlying demand for quality stock in expectation of the Bank rate cut.

One dealer said: ‘They feel that they have to cover themselves over the New Year.’

Another said the fact that the rates were allowed to run down so much was partly due to there being few jobbers on the market at the moment, which meant there was less profit-taking than usual.

The R150 finished 15 points off at 15.23% while the E168 closed down at 15.79% from Tuesday’s 15.37% finish.

Some dealers said today would show a further closing of the gap.

An analyst said a possible resistance level for E168s was about 15.75%.

He said there were still many buy orders for RSAs and these could come through today.

Offshore buying by clients that had not shut down for the holiday was reportedly strong but the major factor had been local institutions.

One dealer said: ‘On an investment basis the RSAs are a better bet while the differential is still there...people do not see that happening for much longer so they are climbing in.’
Liquidators get bids for Greenfield assets

THE liquidators of listed Greenfield Property Holdings have received offers for the group’s property assets and are preparing information for potential buyers to assess the situation. Westrust liquidator Les Cohen said yesterday.

He said to date Greenfield Property Holdings, its wholly owned subsidiary Greenfield Investments, and the latter company’s wholly owned subsidiaries The Terminus (Klerksdorp), Greenfield Nelspruit 404 and Greenfield Property Services had been placed in provisional liquidation.

Greenfield Property Developments, a wholly owned subsidiary of Greenfield Investments, was in final liquidation (2/3).

Cohen said the liquidators were investigating the full extent of the group’s liabilities, but the balance sheet at June 1999 showed total debts of about R66m.

Logaro director Gary Perlman said Logaro had effective control over Greenfield Property Holdings and was formulating proposals to the banks for its subsidiaries.

Sanlam, which earlier expressed some interest in Greenfield’s Woodlands development — owned by Greenfield Commercial, which is not in liquidation — said this week it was not involved in negotiations.
Hostile takeover bids 'rare in SA'

THE negotiations between property companies DPF Investments and Groenvalk on DPF's offer to shareholders to take control of Groenvalk have been described as a hostile takeover.

Merchant bankers say that existing legislation on share control, shortly to be amended, makes it difficult to apply the term "hostile takeover" to SA, and the concentration of shareholdings made this a rare occurrence.

The most recent bid in SA described as hostile was the September 1989 offer by Investec Bank to take control of Mercury Trust, which held 80% of Board of Executors (BoE). BoE, which held 40% of Mercury, had previously made an offer to acquire 100% of Mercury.

Investec withdrew its bid as "not commercially viable" after Liberty Asset Management (Libam) bought a significant stake in BoE.

A hostile takeover, one merchant banker says, occurs when directors of the "victim company" express the view that proposals being put forward are not in shareholders' best interests. A looming change of management following the takeover could influence their views.

"The term 'hostile bid' has usually been used overseas and not in SA because until now there has been no restriction on the amount of shares that can be bought up. The new securities regulations code which will come into force next year lays down similar restrictions to those in the UK.

According to the draft regulations published in September, if 5% of the relevant securities of a company are held, dealings of these securities have to be disclosed if more than 30% of the voting rights are acquired, an offer has to be made to any class of equity holder.

"Usually in SA control of a company vests in an easily identifiable group of shareholders and they own sufficient shares to block any takeover," a merchant banker says.

The merchant bankers spoken to say SA tends to have shares in a few hands mainly for historical reasons.

Some of the strategies to avert a hostile bid include dealing in the companies' shares to suppress their value or selling off assets to make the victim company look less desirable.

Another example bankers mention of a takeover that could be described as hostile is the recent move by Metal Closures of the UK (MCUK) to make Metal Closures of SA (MCSA) a wholly owned subsidiary of the British company. In this case the 77% of MCSA held by MCUK enabled it to pass the bid and expropriate MCSA minorities' shares although brokers said the offer was unfair.
BOE still stalking... who?

By Ari Jacobson

SPECULATION continued yesterday about the identity of the acquisition the Board of Executors is trying to make — which will almost certainly increase its exposure to banking.

A cautionary announcement appeared earlier this week and chairman Paddy Wilson confirmed that negotiations were in progress.

MD Bill McAdam conceded after the AGM on Tuesday that a banking licence was an area of interest to the asset management group.

The shake up in the industry comes as a prelude to the new banking bill in January.

Searching for synergies and suitable cultural matches resulted in a perfect fit when Investec took over Reichmans at the turn of the week.

For a R50m payout Investec received solid exposure to the foreign market, through Reichman's trade finance arm, and strengthened its merchant banking section.

Top personnel 'captured'

But more importantly Investec captured top flight banking personnel, the dearth of which is a cause for grave concern to the industry.

Add to this booming technology costs which rule out (in most cases) the viability of small independent financial institutions, and the search for allegiances becomes paramount.

Troubled CIB has two collector's items for the BOE group — a banking licence and strong exposure into the foreign exchange market. This link could be a formidable mix except for what market sources describe as irreconcilable cultural differences.

But rumours persist that CIB has an ongoing interest in Fidelity Bank — in which BOE has a 30% stake.

A Fidelity spokesman squashed any link between any of these groups. "The bank is correctly positioned for the new Deposit Taking Institutions Act with sufficient capital to avoid market support."

Loose links will be tied up in the near term — which means possibilities exist with, among others, Natal Building Society (NBS), Saambou, International Bank of Johannesburg (IBJ) and Boland Bank.

JSE activity in BOE and CIB shares tapered off yesterday after both institutions had recorded solid gains the previous day. But the synchronised market interest matched only by the hive of managerial activity at both organisations has heightened expectations of an exciting outcome.
Talk of levy scares Safex members

ROBERT GENTLE

A NUMBER of SA Futures Exchange (Safex) members want to resign following market talk of a R2 500-a-month membership levy to raise funds in the current slack market.

This was reflected yesterday in a sharp downward movement in the selling price of Safex seats, through which holders gain membership of the exchange.

The price plummeted from R58 000 to R20 000, which is well below the most recent issue price of R58 000.

A Safex spokesman said, "Because present low volumes have reduced the income Safex earns on transaction and clearing fees, we are looking at alternative ways of raising finance. However, nothing has been finalised yet."

Rand Merchant Bank MD Charles Bryant said that on Tuesday, when he tried to buy a seat, "there were at least three willing sellers."

Assets

The deal was not allowed to go through because Bryant was acting in his personal capacity.

He would not identify "the willing sellers."

He said the bottom line is that there is not a free market in Safex seats, which are ultimately assets that should be freely tradable.

Market talk is that any levy imposed on seat-holders could produce a spate of selling among less active players, because of the extra trade that would have to be generated to cover the increased cost.

Moreover, members who have more than one seat for investment purposes would find that the underlying nature of their "asset" had changed.

But there are signs that speculators are willing to buy seats.
JSE hopes for govt tax relief measures

ROBERT GENTLE

GOVERNMENT could move to accelerate the phasing out of marketable securities tax (MST) in 1991 in a bid to boost market liquidity, JSE president Tony Norton said yesterday.

MST, which is a tax on share transactions, stands at 1.5%. It is scheduled to be phased out during the next three years at the rate of 0.5% a year.

In an interview on the JSE's outlook for 1991, Norton said MST was a key factor explaining the JSE's low turnover.

"Government might be persuaded to accelerate relief already promised in areas like MST. It would be very constructive for them to do that," Norton said he had an enormous amount of faith in the present management of the economy, and believed there was a growing realisation in Pretoria that financial markets should be "nurtured by government."

In a further move to boost liquidity, the tax holiday or "safe haven" on shares held for 10 years or longer could be changed to apply to shares held for only two years, Norton said.

Market turnover would also be helped by the growing mountain of institutional cash moving into the stock market once interest rates started easing next year.

On the criticism the JSE has faced for much of this year, Norton said he expected the debate in 1991 to be less emotional.

"Next year will bring a more realistic climate, unlike this year, when critics seized upon the fact that the JSE was working on too many things at the same time." These included the Traded Options Market (TOM), SA Futures Exchange (SaFex), Bond Market Association (BMA), Securities Regulation Panel and the upgrading of the JSE's computer systems.

"The coming year will be a period of consolidation as these projects come to fruition. TOM, for example, is now bang on course and on budget, and should be operational in April." Norton said.

On the perceived need for a fundamental restructuring of the JSE through deregulation or a "Big Bang", Norton said this was not a valid debate in SA's present set-up.

"A Big Bang would not be a solution as there is no real problem crying out to be solved. The JSE operates well after 185 years of evolution in providing a secure, independent and cost-effective market relevant to the SA environment."

Experience with revolutionary change abroad had shown evolutions were winning the day, Norton said. However, this did not mean they were against change.

"We are for change, but it must be thought through properly."
Grovewalk: JHI sale gauged sentiment

SHAREHOLDERS in Grovewalk Holdings — the Durban property company defending a hostile takeover bid by DPF Investments — yesterday voted in favour of Grovewalk's R7.7m sale of its 28.2% interest in J H Issacs (JHI) to UBS.

The decision was seen as critical in gauging shareholder sentiment regarding the DPF bid, Grovewalk MD Gerard de Rauville said in an interview yesterday.

"That shareholders supported management's decision to sell the interest reflects their confidence in us and in our ability to deliver the goods over the long term," de Rauville said.

Our Durban correspondent reports that a large shareholder, DPF MD Paddy Delaney, whose interests are making the bid, was represented by lawyer David Gordon and stockbroker Simon Oliver.

Delaney said afterwards the DPF bid for Grovewalk would continue.

About 59% of shareholders voted at the special meeting. The resolution to sell the JHI stake was favoured by 74.8%.

DPF is offering Grovewalk shareholders...

Grovewalk 100 new DPF combined units for every 100 Grovewalk units held by

Grovewalk has attacked the DPF offer on the grounds that it contains no cash element and is being made by a JSE-listed company with a short track record.

DPF claims shareholders will earn better returns by accepting the DPF offer, and that it will improve the performance of Grovewalk which announced a R1.17m loss for the six months to August.

De Rauville said "periphery issues" had also been discussed at the meeting. These included the R500 000 restraint of trade payment UBS made to him personally and the R300 000 paid to Grovewalk.

Grovewalk directors had also proved conclusively that the JHI sale was no "poison pill" designed to deter the bidders.

"We proved that the JHI deal had been considered long before the bid was made."

It was disclosed during the meeting that Grovewalk might, in the future, consider a rights issue to raise further capital.
Prima scoops up Pickard's stake in CIB

By ARI JACOBSON and Own Correspondents

ANOTHER wave of uncertainty rippled through the banking sector last night when the Pickard family off-loaded their controlling stake in Cape Investment Bank (CIB) to Prima Bank.

Linked to this deal was the departure from the CIB Group (CIBG) of CEO Andy Swartz because of what market sources described as "dissatisfaction over the sale "

Pickold chairman and CIBG GM Jan Pickard Jnr replaces Swartz with immediate effect.

Market speculation was that Swartz left after a disagreement with the management of Pickold, CIBG's parent company.

Prima Bank came under JSE scrutiny last month for alleged liquidity problems, but the exchange later retracted this claim unreservedly.

Prima -- a privately owned bank -- grew out of Rand Securities and was started by merchant bankers Johan Bellingham and Herman Hanan about five years ago.

CIB has also undergone problems -- especially concerning the R15m default by Davis, Ralph & Sadler (DRS) in the futures market.

Jan Pickard Sar said last night that the sale had been triggered by the need for rationalisation (fewer banks) and not by the difficulties experienced in the trading arena.

The announcement says Prima Bank will make an offer to CIBG minority shareholders and will assume management control on December 18, the effective date of the transaction. The CIBG board will be reconstituted to include Prima directors.

Both banking institutions are leading players in specialised markets which expected to unlock substantial synergies. They will have a combined capital base of about R45m.

It is understood that Swartz plans to establish a financial consultancy business.

Pickold minority shareholders are likely to take directors to task at today's AGM for the rejection of Tuesday's 600c a share acquisition offer by Urquhart & Co.

It is believed Urquhart will make another offer of 625c today. Jan Pickard Jnr said on Wednesday the 600c offer was "ludicrous".

However sources said while the offer may be below the company's net asset value, it was more than double the current market value.

Another question which might be raised at the AGM today is the sale of Union Wine, which sources said displeased minorities.

Pickold shares closed at 375c yesterday after trading at a high of 700c in January and reaching a low of 220c in August.

Sources said Pickold -- which reported a R134m loss and was in R14m in debt to the tune of R114m at the June year-end -- had not been performing for some years and was operating from a low capital base and high gearing.

Rand softens in dull trading.
A clearer look at
Gencor's unbundling

JOHANNESBURG — Gencor's unbundling was still under consideration though a task force's report on the issue had not presented startlingly compelling arguments either for or against the idea. Gencor's executive chairman, Derek Keys, said in London yesterday, speaking to a group of British fund managers and investment analysts, he said "It is clear that the issue needs a lot more thought and our executives have now gone away to think about the implications of unbundling for the Gencor group."

Asked whether the examination of unbundling Gencor had been provoked by political posturing, Keys said definitely not. "My responsibility as executive chairman of this group is to ensure that the group is correctly valued. If the Gencor share price stands at a 33% discount to its net asset value as it was last week, it means shareholders are being denied R5,4bn of their real wealth. This surely is an issue that deserves our keenest attention?"

Keys also said another factor behind the unbundling idea was that "within the SA environment large organisations are not particularly popular. Nor are they popular with the general public either."

Analysts said they understood this to refer to the ANC and the government and that it appeared to contradict the press statement claim that the proposal had "definitely not" been provoked by political posturing.
Bank 'has no say' in Safex membership requirements

RESERVE Bank exchange control GM Johan Postmus said yesterday his department was not involved with membership requirements of the SA Futures Exchange (Safex).

He was reacting to a report this week on Safex's refusal to allow local futures broker Bailey Overseas to trade for clients on Safex despite Reserve Bank permission for it to trade for clients on international futures markets.

Safex's reason for declining Bailey's application for membership — which was dismissed on appeal — was that the company did not meet the exchange's "total criteria for membership."

Local futures traders believe it is inconsistent that Bailey should be considered suitable by the Exchange Control authorities to trade in international markets using foreign exchange, and yet unsuitable to trade on the comparatively small SA market.

Postmus declined to answer questions on Bailey, citing Article 53 of the SA Reserve Bank Act No 90 of 1982, which he said prohibited him from disclosing any specific information regarding the affairs "of any person who had dealings with, or who had lodged an application with, his department."

However, he said: "As has been published in the Press before, there are a few parties who are allowed to do hedging transactions abroad on behalf of SA clients, Bailey being one of them."

"Such authorities are granted on the basis of policy guidelines laid down for the department and are in fact relatively restrictive in nature, not only in respect of the transactions, but also as to the amounts and exposures."

Postmus added: "All parties that have authorities of this nature are required to submit periodic statements to Exchange Control through their bankers, who are in any event required to control all transactions and report any deviations to us."
Pichold spurns new bid for shares

CAPE TOWN — Controlling shareholders of Picardi Holdings (Pichold) have rejected an increased offer of 62c a share made by Johannesburg-based Urquhart & Co.

The decision was made at the group’s AGM on Friday and follows a previous rejection of a 60c offer.

Some minority shareholders responded angrily to the outright rejection of an offer price which was about half of net asset value, but well above the market price. The Pichold share rose 12% last week to close at 45c on Friday.

But it emerged at the meeting that the offer price covered little more than the R31m cash in Pichold and Picardi Properties, which meant the bidders wanted white goods manufacturing subsidiary Picardi Appliances (Picapli) — in which Pichold has a 92½% stake — virtually for free.

The original Urquhart offer had been conditional on Pichold buying back certain investments, such as Cape Investment Bank (CIB), which would probably have lopped a couple more rand off the offer price. The deal to sell CIB to Prima Bank was consummated just hours before the AGM.

Picapli, which reported R18m losses in June after its toughest financial year, is Pichold’s last significant operating subsidiary after the disposal this year of Union Wine and more recently of CIB.

Directors said at the AGM Picapli had returned to profitability and shareholders could expect bottom-line earnings of at least R16m to R17m this year, after an interest bill of about R26m.

6.10 end 17/10/90 Results

Picapli’s external interest-bearing debt had been reduced to R58m so far this year after a R68m reduction to R118m in the last financial year. This had brought the debt to equity ratio closer to the 2:1 mark.

In an interview after the AGM, Picapli MD Peter Spreckley and financial director Ed Teare were confident that last year’s rationalisation had achieved the desired results.

They said management decided on a quick fix last year to extricate the company from unprofitable markets at radically reduced profit margins and to apply other ruthless measures to cut debt to manageable levels.

The results were lower levels of debt and working capital, reduced interest bills, zero tax this year as a result of last year’s losses and a commitment to recapitalise the operating company with available cash resources.

“We took it on the chin last year and are now well positioned to capitalise on the traditional domestic appliance market. Our objective this year is to achieve 25% return on net assets which we feel is a necessary level, given our high proportion of debt,” Teare said.

“Sustainable profit levels would require a debt-to-equity ratio of not more than 1:1. With debt currently down to about R50m and shareholders’ funds at R34m, we are close to 2:1, but that is still too high,” he said.

Spreckley said the highly rated after-sales service provided by the company had paid dividends in keeping the level of consumer demand healthy in a competitive environment.

Picapli may be out of the rough but its gearing is still high and the economic environment in which it is convalescing is tough.

As stressed at the AGM, it will depend on a commitment by the major shareholders to route additional internal cash resources its way rather than into new investments.
The holiday feeling invades the market

HAROLD FRIDJON

WITH five full trading days to go before Christmas, interest is ebbing out of the money market. Asset trading has come almost to a standstill; the focus is on balancing the books and keeping out of the Reserve Bank's clutches.

For the smaller banks this is a bone-crunching exercise with the institutions tightening the screws. Call rates were topping at 19% on Friday with the possibility that they might be poised to go higher today when the market shortage — the banks' combined debt to the central bank — is expected to touch R3bn.

The larger banks claim that their positions are comfortable and that they are getting their overnight cash at rates well below those extorted from the many smaller banks. Be that as it may, some of the majors may not be too comfortable when the bank-notes start pouring out from their cash dispensers this week.

On Thursday the note issue reached R10.6bn and like the mercury in the thermometer, could continue to rise.

But rising rates are confined to the shortest end of the market; elsewhere the bullish mood prevails. The Treasury bill (TB) rate shed another four basis points on Friday to 17.37% (discount) from 17.41% in a singularly ill-supported tender; only R151m was bid for the R120m bills on offer. This surely is an indication of the fading interest in the market.

The BA rate, too, was cut to 17.55% from 17.75% possibly in an effort to drum up trade. The rate for 12-month CDs (negotiable certificates of deposit) was trimmed five points to a middle price of 17.60%, probably for the same reason; bankers say that the demand for paper has dried up.

The shutters are up!

Insolvencies take their toll

GERALD REILLY

PRETORIA — The number of insolvencies among private individuals and partnerships has shown a sharply increasing trend since the beginning of the year, according to Central Statistical Services.

In July-September the insolvency toll increased by 14.1% to 834 compared with the same period last year. And compared with the previous three months — April-June — the increase was 13%. However, the number of company liquidations dipped sharply in August-October by 22.1% to 571, compared with the same three months a year ago. Compared with the previous three months — May-July — they decreased by 4.6%.

CSS says the continued downward trend in liquidations is largely a result of a big decline in the number of voluntary liquidations. However, compulsory liquidations — normally two-thirds of the total — show hardly any change in the trend apparent since the beginning of the year.
BOE to link up with Anglo-Vaal?

By ARI JACOBSON

RUMOURS circulating in banking circles claim the Board of Executuors (BOE) is negotiating a link-up with Anglo-Vaal (AV) as the new in-house bank for the giant mining financial empire.

The flow of the vast pension funds from the mines to the BOE, would be reciprocated with the Board acting as "corporate treasurer" to AV.

At present the BOE lacks a banking licence, but with 150 years of solid service in the industry this should be easy to obtain.

The restructured Anglo-Vaal has consolidated its insurance divisions — Crusader Life and AA Life Group — into the Anglo-Vaal Insurance Holdings (AVini) and is looking to latch-on a treasury division.

Further information obtained is that Liberty Life — who acted as a "white knight" in helping BOE thwart the hostile bid by Investec in 1989 — would relinquish its stake to the Herow/Menell family controlled group.

An added incentive for financial intermediaries such as the BOE is a year's exemption from the harsh capital requirements due to be enforced under the new banking bill next year.

BOE GM Tom Boardman declined to comment on the Anglo-Vaal position, but said more information would be forthcoming (hopefully) today.

"The idea of having our shares suspended for so long is unappealing — we are working flat out to complete negotiations," he said:

Comment from the mining house was unavailable last night.

Safegro fund managers has acquired a 49% stake in Mercantile Bank Holdings to fulfill the requirements of the Deposit-Taking Institutions (DTI) Act.

Safegro acted as corporate treasurer to Hosken's Consolidated Investments (HCI) and the IGI group. The DTI Act requires an institution with a banking licence to control these activities.
Lanchem, Norvic, Osprey to be relisted

THE listings of Lanchem, Norvic and Osprey, suspended on November 20 for suspected involvement in breaches of foreign exchange regulations, will be reinstated on the JSE today.

JSE president Tony Norton said he had been informed that "the reasons for their suspension had fallen away and they could now be relisted".

It is believed they were under investigation, "along with previously suspended Manserv and Meter Systems, for alleged round-tripping."

The key figure in the investigation is Ignatius "Naas" Ferreira, who was arrested in connection with the investigation, charged with R24m fraud and released on bail of R5,000 in late November. His case was postponed to March 4.

Representations by Norvic and Osprey management to the Reserve Bank in November to have their accounts unfrozen were successful. Norvic was suspended at 8c, Lanchem at 4c and Osprey at 27c.

Norton said the JSE had been only reactive in the matter and was happy that they could now be relisted. They were suspended in the interests of the market and shareholders, he said.

A Reserve Bank spokesman said he was unable to comment on the relisting.
HCI turns around to end year with peak share price of 800c

HOSKEN Consolidated Investments (HCI) is ending the year on a high note with the share price at a peak of 800c after bottoming at 500c in October.

A more diverse and focused group has emerged in the past year, making it less dependent on the vagaries to which short-term insurer IGI Insurance (54% owned by HCI) is subjected from time to time.

In March this year HCI and its subsidiaries, IGI and Safflife Life Investment Holdings (Safflife), announced the formation of a R1bn investment management group, Safegro Holdings.

Safegro, with three divisions to deal with institutional fund management, property management and personal asset management, is owned 51% by Safflife, 44% by IGI and 5% by HCI.

In October, HCI chairman Michael Lewis announced that it was substantially increasing its stake in the highly successful Safflife to 74% from 11% by buying Credell Investment Corporation (formerly the R3bn Arwa cash shell), which had been a block of Safflife shares.

Earlier this month HCI announced details of this deal.

HCI bought from Tollgate Holdings 16.6 million shares in Credell which constitute 71.65% of the issued share capital of Credell.

The acquisition will be at a purchase price of 183c a Credell share, to be implemented by HCI issuing one new HCI share to Tollgate for every five Credell ordinary shares held.

Credell bought about 24% of Safflife's ordinary share capital at 600c a share and 4% of HCI's ordinary share capital at 550c a share for a total consideration of about R3bn. That leaves a residual cash balance of R9m in Credell.

The deal increases HCI's net asset value by 43c to 766c a share but decreases HCI's earnings by 20.5c to 145.7c a share, based on HCI's accounts for the year to end-March 1998.

However, despite the short-term negative effect on HCI's earnings, directors are confident that there will be material long-term benefits to shareholders.

Finally, HCI has tied up the future of its treasury activities, operated by Safegro, through Safegro acquiring a 49% interest in Mercantile Bank Holdings, a registered bank controlling company.

The acquisition has been made in view of the Depositor Institutions Act which is expected to come into effect in January. Without its holding in Mercantile, Safegro may have been prevented from continuing its treasury activities.
Court order blocks Sun-Ciskei meeting

TANIA LEVY

SUN International was yesterday prohibited from holding an extraordinary shareholders' meeting on Saturday to adopt resolutions needed to procure a JSE listing for Sun-Ciskei (SIC) Ltd.

In the Bisho Supreme Court Mr Justice W Heath approved an urgent application brought by minority shareholders to have the meeting set aside.

They contended that Sun International had convened the meeting urgently and in bad faith to frustrate minority shareholders' rights concerning the purchase of their shares.

According to affidavits filed in support of the application, a 1987 agreement entitled minority shareholders to compel Sun International to purchase their shares unless an SIC listing was secured before June 28, 1991.

A reliable source said about R60m would be payable to minority shareholders — who hold about 25% of SIC's issued share capital — if there was no listing before that date.

With about 7% of SIC's shares, Rand Merchant Bank is one of the main minority shareholders through its wholly owned subsidiary Anglo African Shipping.

The five minority shareholders who made the urgent application were represented by Jeremy Gauntlett SC and Johan Froneman SC.

They alleged that the meeting had been improperly convened because SIC directors had not been consulted and had, in fact, never even considered listing SIC shares on the JSE.

In supporting documents to the application, Sun International MD Ken Rosevear was alleged to be of the view that SIC directors were duty-bound to further the objectives of SIC shareholders.

In addition the applicants claimed that the notice calling the meeting was defective because it failed to comply with technical requirements of company law. There was not enough detail about the resolutions to be adopted at the meeting.

Advocate Henry Viljoen represented the respondent.
Casualties of recession — and fraud

THE JSE
REG RUMNEY

This year started with the final winding up of Quality Tyres. An investigation revealed unauthorised borrowings from banks of R54-million. Directors Alex Hawes and Edward Philip were arrested on fraud charges.

Liquidation of the year was listed for retailer Spacoco — debunking the idea, perhaps, that parts business is recession proof.

Spacoco was put into provisional liquidation by Ferodo in September. Alpha Bank became a casualty. Alpha was put under curatorship of the Reserve Bank after running into liquidity problems as a result of R6-million exposure to Spacoco.

Spacoco employees took the company and several banks to court when their salary cheques weren't paid.

In the end, Spacoco was bought for R15.3-million at an auction by a consortium comprising Vail Auto, Brochure Investments and IGI.

The share was suspended at 90c, having reached 70c at its heyday.

Matters came to a head at Sanlam's, a problem child Bankorp, holding company of Trust Bank.

Trust Bank, which had earned the "school for fraud" title, lost chief executive Chris van Wyk, who had been shifted into the job from the post of Bankorp's chairman. To the astonishment of

Of bulls, bears and bloodbaths

By ROBERT LING

TURNING the ups and downs of commodity prices into thrilling reading poses a tough problem. Journalists tend to try and liven up descriptions of the day's trading on the world's financial markets with military metaphors.

Typical reading goes: "The pounding received by the Dow Jones industrial average boosted gold's rally to higher ground as investors sought refuge from the battered stock exchange. Gold quickly found solid support at the $380 level, but then lacked clear command from either oil or the dollar."

Financial markets, from business reporters' descriptions, sound like Napoleonic battlefields. It's a little disappointing to learn that a headline reading "Bloodbath on the JSE" doesn't necessarily mean brigades of Yuppies pounded each other with artillery fire or held their positions against bayonet charges. They just stood around with their hands in their pockets surveying overhead price lists.

Synonyms for up and down are limited, so the art of financial journalism is knowing when a price rise is a hike, a jump or merely a surge. Also when a drop is a downward spiral, a plummet or a plunge.

If there is one thing dealers always seem scared of it's being caught short before the weekend, which makes sexual innuendo fun.

Fear of being caught short causes the market to constantly soften and firm. For instance the Sunday Star reported: "Anglo has built up solid support around the R96 level. There is already a mild breakout, but a penetration at R96 could see it surge to R110."

Gold markets and the military metaphor have become particularly inspired since the invasion of Kuwait. Although no shots have been fired in anger in the Middle East yet, rumours of war and peace have produced "Bloodbath" headlines nearly every week.

May all be quiet on the gold front in the new year.
Anglo-Vaal,
BOE in link-up deal

ARI JACOBSON
THE BOARD of Executurs (BOE) stepped into the limeligh yesterday — shedding its mullow status — in a R57.2m deal which gave mining financial giant Anglo-Vaal Group (AVF) a 36% stake in the Board Liberty Asset Management (Libam), BOE's protectors when Investec was truded in October 1986, relinquishs half of its 1,5m shares or a 10.4% holding, with the rest being built out of an unconditional offer to ordinary and loan stock holders.

BOE's MD Bill McAdam said the offer price of R11.25 — the share was suspended at R8.30 — provides some indication of AVF's prospective valuation of the organisation.

"While the main is on The Board to fulfill such expectations — AVF by pitching the price at a R3 premium has a vested interest in making this work."

The AVF transaction gives BOE the opportunity of reaching blue chip status while shrugging off the threat of capitulating into the Standard Bank fold under Liberty's influence.

"While AVF made the initial advances, BOE's strategic positioning for the '90s focused on an allegiance with a powerful diversified group Independently we sought each other."

Synergies — the essence of any valued partnership — sees Cape-based BOE strengthen AVF's presence at the coast ably supported by fishing and frozen food company I & J.

The Board now worth of assets under administration, conducting top flight transactions in the property, corporate and private client area.

McAdam said a banking licence application would be lodged with the Registrar of Banks and hinted that "a blue chip bank would be the outcome if successful."

Really Noble Investments (RNI) which holds an 8.9% stake in BOE, provides some exposure in Durban.

The might of AVF is well-documented at the Transvaal and McAdam hoped the group would "be fed so it could grow.

AVF has adequate enersiers — R2bn worth of pension fund and money backed up by R500m in life assurance assets.

An AVF spokesman said inter-group co-operation was encouraged — but a company was required to win the business. Otherwise inefficiency, "a recipe for disaster", would ensue.

He said the coastal bond and the quality of management and assets under BOE's control had been the prime motivators in the link-up.

He dismissed the possibility of further acquisitions in the rapidly rationising financial services industry although AA Life (a large part of AVF's insurance arm) holds a 26% stake in Prima Bank.
Prima Bank dismantles CIB

From LESLEY LAMBERT

Prima Bank is dismantling its recently acquired Cape Investment Bank — it has confirmed the retrenchment of at least 27 CIB employees and is negotiating the sale of two CIB subsidiaries.

But Prima MD Johan Bellinghan denied market rumours yesterday that entire trading divisions in Cape Town and Johannesburg had been axed this week. He confirmed that 24 of the 53 people employed in CIB's Cape Town head office and 13 of the 35 employed in the Johannesburg trading division, had been laid off.

The corporate finance division in Johannesburg would be addressed tomorrow.

Bellinghan also confirmed that the sale of two CIB subsidiaries, computer systems company Top Edge and computer software company Digitracks were being negotiated. Between them, they are understood to employ about 20 people, the majority of whom are likely to remain employed by the new owners.

Suggesting that more retrenchments were likely, Bellinghan said that from January 1 all financial trade done by the merged operation would be done in the name of Prima Bank.

"The only CIB dealing room operations to remain will be funding operations and the bank's unprofitable advances book will be run down. But we will maintain a smaller Cape Town office as a branch of Prima," he said.

Bellinghan said the retrenchments were an unfortunate but necessary part of a radical rationalisation process to restore troubled CIB to profitability.
Harry O’s is the family with the most...

The 16 wealthiest families in SA — based on their holdings in their own businesses listed on the JSE — are worth more than R5bn collectively.

A Financial Mail (FM) survey — published in this week's edition — shows that nearly half of the R5bn is accounted for by the Oppenheimer family, which is worth R2.4bn based on its holdings in Anglo American Corp, De Beers and Minorco.

Second to the Oppenheimers are the Rupert/Bertog families — which are worth considerably more than R457m, with their listed holdings in Tegmees &

MARCIA KLEIN

Industriële Beleggings (which controls Rembrandt) and Richemont

Liberty Investors’ Gordon family is worth R422.7m and the Methven family of Rainbow Chickens is worth R398.6m.

Pick ’n Pay’s Ackerman family rates fifth, and is worth R390m with its holding in Pick ’n Pay Holdings and Pick ’n Pay Stores, according to the FM.

The Venter family has R293.3m with its holding in Ventrion Corporation, Mobile Industries and Treacor’s Jowell.

Only’s has brought the Hamilton family into eighth position with its R160m holding. Wesco, Toyota SA and Metair Investments’ Wessels family is worth R140m, followed by Pepgro/Pepkor’s Wiese family, which came in 10th with a holding of R135.2m.

After that comes FSI’s Liebesman family (R130m), the Mowzowskis of Etcetera (R129.2m), and Angolvaal Holdings, Anglovaal and Angolvaal Industries’ Menvell and Hersov families (R122.6m). Foschini’s Lewis family (R115.4m) and Keeley Group’s Keeleys (R95.2m) also feature.
New venture could boost Fralex

THE venture by Fralex into underground mining will have a significant effect on the group’s long-term profitability, although the group’s short-term outlook is negative.

Fralex is the holding company for materials handling company Fraser Alexander.

Financial director Les Maxwell said yesterday the group’s recent venture into underground mining on its own account had uncovered some deposits and feasibility studies were now being done.

Fraser Alexander had mined chrome deposits in the past and it was likely to look in that direction as well as mining gold, coal and other minerals if the opportunity arose.

In the group’s annual report released in September Fraser Alexander chairman Peter Plack warned that a decline in activity had been experienced in several of the group’s operating divisions in the preceding six months.

Maxwell said this still held true.

OPERATING company Fraser Alexander’s shares closed at 99.9c after climbing to R13.50 in August from 760c in December.

Analysts are unable to offer any conclusive explanation for the share’s movement.

Fralex holds 72.9% of Fraser Alexander, whose core business is handling mining and industrial tailings.

The group’s five-year profit history reflects steady growth which has seen earnings climb from 37.8c a share in 1985 to 185.5c a share in the year to June 1990. In the same period total assets have risen from R44m to R142m.

Fralex shares are tightly held. According to the latest annual report, directors and employees hold 34.8% of the issued share capital, pension funds, insurance companies and other corporations hold 45.2% and another 44 individuals hold 15.6%.

Of the 27.1% of Fraser Alexander shares not held by Fralex, pension funds, insurance companies and other corporations hold 22.4%.

Maxwell said the shares tended to trade thinly as a result of this structure and the price moved sharply on small trade volumes.

He believed the group’s track record and expectations of continued growth in earnings was the reason for the upward movement in the share price this year.

The large volume movement in May was believed to be due primarily the result of one major institution balancing its holding in the group between Fralex and Fraser Alexander.
JSE takes close look at pyramids

ZILLA EFRAT

THE JSE is investigating pyramid structures, which look set to become relics of the past.

JSE president Tony Norton says world trends indicate that the days of pyramid structures, which do not exist in most developed countries, are numbered, especially if the SA market becomes more liquid.

Norton expects the JSE's working group to make its recommendations in the first quarter of 1991. These will be discussed by the JSE's listing and general committees and any changes decided on will go through in the second quarter.

The JSE will review aspects of pyramids, including whether they are fair to all shareholders.

Some merchant bankers expect to see pyramid structures disappearing, or being far harder to create in the future. But they believe any changes will affect only the formation of future pyramids.

The future of pyramids will be influenced by legislation related to the Securities Regulation Panel, expected to come into effect in February.

Representations have been made regarding the draft of this legislation, the final form of which is expected to be published in January.

One expected outcome is that any future change of control at the top of a pyramid will require that similar offers be made to minorities all the way down. (TM)

Standard Merchant Bank corporate finance GM Mark Barnes says such requirements make a take-over of a pyramid structure more expensive. However, minorities are assured of the same price as

To Page 2
Brokers sent scurrying as short circuit triggers blast

A BRIGHT flash followed by billowing smoke yesterday sent brokers scurrying for cover at the JSE annexe across the road from the main JSE building, prompting one wag to say the event took some of the sparkle off the gilt market.

The JSE had to be evacuated shortly after lunch following the electrical malfunction. Security officials feared the gas resulting from the blast might have been poisonous.

But the interruption only lasted about 30 minutes, after which the brokers drifted in.

JSE president Tony Norton said trading was not affected for long although power in the building had to be turned off for a short time.

Only the computers on the gilt's floor had been affected for any length of time before the JSE's back-up power sources came into operation.

He said trading on the floor had been slow anyway, and rejected the suggestion that the power malfunction resulted from an attempt to inject some energy into the floor.

He also rejected the idea that the malfunction was the result of brokers attempting to make an early getaway before the Christmas holidays, saying the blast was "definitely unexplained".

"This is really irritating" he said, commenting on the fact that the JSE had just moved into the building on August 10.

He said the large box where the malfunction occurred, just outside the lift on the first floor, was burnt out from what had clearly been a short circuit.

Azapo labelled a sellout by breakaway branch

THE Durban branch of the Azanian People's Organisation (Azapo) has withdrawn from the organisation and established the Revolutionary People's Movement (RPM), saying it had been apparent for some time that Azapo was "hanging onto the coat tails of the ANC".

Azapo's Durban chairman Imran Moosa and secretary Monwabisi Vuywa yesterday accused the organisation of being in no different a position from the ANC and PAC regarding a negotiated settlement.

A constituent assembly would be "a sham through which a new multicoloured, exploitative, oppressive ruling class would emerge", they said.

By late last night there had been no comment from Azapo on the breakaway.

Speaking in Cape Town yesterday, Azapo vice president Peter Jones said he hoped recent ranks and file criticism of the ANC would make that organisation less hostile towards a consultative conference on liberation organisations.

Jones said partially representative talks between liberation movements and government would not solve internecine violence. These organisations needed to meet on a representative forum in order to have the capacity to intervene and resolve conflict by peaceful means.

Azapo had formally adopted a position towards a meeting between liberation movements, involving the ANC, PAC and others, to move towards a consultative conference. — Sapa
Persbel deals 'spell no change in control'

SPECIAL bargain deals in Perskor Beleggings (Persbel) shares on the JSE last week and the 27% share price hike to a record 400c a share was seen by analysts as institutional reshuffling of long-term investment considerations rather than a change in control.

Key Persbel directors could not be reached for comment yesterday in the wake of the two special bargain deals of 1.4-million shares at 400c each on Thursday and Friday.

Analysts said it could be a potential rise in the value of its assets as Persbel has a stake in M-Net. M-Net shares, issued at 100c, have doubled in price since listing.

MARC HASENFUS

The activity and the price rise brings the Persbel shares in line with other companies in the publishing and printing sector, which are at record highs.

Caxton featured earlier in the week on a 50% or R50 rise to R150 with only 160 shares changing hands in one deal. Times Media Limited (TML) is at a record 800c, while the Argus Group moved to a new high of R235 ahead of a proposed share split.

Holding company Persbel's share price movement pulled up subsidiary Perskor shares by 100c to R11 at the weekend.
Whither the industrial market?

A year ago I predicted the industrial index would show little growth in 1990 as the economy slowed and corporate profitability came under pressure.

As it turned out, my prediction seems to have been on target. At the time of writing, the index level of 2960 was not much short of my targeted 2950.

So what for 1991?

Current signals indicate a worsening of the key economic indicators early in the year.

Gross domestic product (GDP), already negative (annualised) for three successive quarters, should remain negative for much of 1991, while negative fixed investment continues to remain relatively low.

Unemployment is forecast to deteriorate rapidly in the first quarter of 1991 - in fact many workers may well be returning after Christmas to do no work, while early reports in December from leading retailers indicated a rapid drop-off in trading, compared with the levels recorded earlier this year. Due, I am sure, to continued high inflation (more recently the petrol price increases), lower growth in wage increments, the uncertainty created by the unemployment pledge and the decline in incomes of the informal sector (particularly taxis drivers).

Profitability

Company profitability will also be negatively affected by:

- The Government's continued anti-inflationary drive, which will see government expenditure real growth once more at a virtually zero level.
- The stronger rand, which is affecting export industry profitability severely.

Although investment restrictions have now been removed by the European Community, we see little actually coming here for a long time because of the unclear views of the ANC and other like organisation on nationalisation. Currently the latest decree in regard to white-owned Zimbabwean farm properties won't create a climate conducive to investment.

The lifting of trade barriers could help certain industries such as iron and steel and certain agricultural products, but clearly the mooted boosting of trade with East European countries and Africa will always be restricted by foreign currency constraints.

The world economic outlook will, as always, not escape SA and prospects of slower world activity could hurt demand for and revenue from some of our primary exports such as platinum, steel, ferrochromium, coal, sugar, etc.

Fortunately, the start of construction on the Leaebane Highlands water project will compensate for some of the decline in Mossel Bay's activity.

But the possible closure of some gold mines or a major cutback in gold mining activity will both put many thousands out of work and reduce mine purchasing activity (and development) somewhat severely.

**Scenario**

Compounding the above is the political scenario, which indicates a further high capital outflow for 1991 in terms of our international creditor arrangements and an ongoing postponement of employment-creating opportunities because of the uncertainty.

Inflows into Eskom stock should continue, but this does not create jobs.

Whatever the number of new jobs created, if any, it will not cover population growth and unemployment will worsen.

When will the economy turn? We think weak signs will emerge later in 1991, particularly when the expected lowering of interest rates has the desired impact.

But let us warn that maybe up to three drops in interest rates might be needed to re-stimulate the economy (remember 1985-87)?

By then we also hope that a weaker rand will help exporters recover their profit margins and generally create a climate more positive than the present one.

Perhaps, too, the constitutional negotiations will have started and helped improve the political climate.

So how will all this affect the industrial market?

**Fundamental**

Let us begin by examining the fundamental truths underlying the South African industrial board of the JSE:

- Many years of low growth and negative GDP has resulted in current debt ratios of the top index remaining well within acceptable levels.
- Little or no new money is expected to be raised in the foreseeable future.
- Privatisation is currently out of the question until the political questions are resolved, so institutional investment in the area will be zero.
- Potential investment opportunities in government, semi-government and parastatal stocks will decline because of lower expected deficits on capex programmes under consideration.
- The outlook for commercial and industrial property is uncertain because of the current CBD oversupply situation.
- The gold mining industry as an investment medium appears dead - in fact disinvestment may occur if the gold price remains at current levels.
- The non-convertibility of the local currency effectively limits investment opportunities outside SA to a small range of stocks such as Minarco, Richemont, Fli, Lomroo, etc.
- Institutional cash holdings cannot on psychological reasons be allowed to rise too high, while in any event the returns from cash are forecast to decline considerably in 1991.

So what happens?

**Merry-go-round**

Effectively, we get "inflation" in the share market where cash can only logically be dedicated to industrial stocks. And because we have a virtually finite number of stocks being chased by ever-increasing cash flows, stock prices inevitably rise in the resultant merry-go-round.

We therefore think that despite the current poor economic outlook, the industrial board will start to display exciting growth signals later in 1991 as the returns on alternative investments (cash) decline, the earnings outlook improves and industrial equity holdings in portfolios need to be increased to more realistic levels.

We therefore think that top-quality index stocks could rise by as much as 20 percent in 1991 as investors scramble to increase their equity exposures and simultaneously reduce their gold and related positions.

Our forecast is for an industrial index of 3 500 by end-1991, with significantly weakened earnings and dividends yields attaching thereto.

This strange paradox is, regrettably, the result of the cumulative effects of a decade of erratic economics, uncertain politics and worsening untradeability in the market increasingly to the high level of power concentration in South Africa.
Rentbel stages recovery on Trek Airlines connection

THE battered share price of Rentmeester Beleggings (Rentbel) staged a 6% recovery on news that Trek Airlines, in which Rentbel has a large stake, is to start competing with SAA soon.

The industrial holding company's share price clawed its way back up to 350c after slumping to a low of 330c.

Despite the recent gains, Rentbel's value is still almost 33% down from the beginning of the year. Its year high was 570c and for 1989 760c.

After a period of rumours of financial trouble, Rentbel is making much of its 44% stake in Trek, describing it as a 'trump card'.

Rentbel chairman P H N Bremer said in the group's annual report that the matter of the fuel price was being addressed by management in order to ensure long-term growth.

But he noted that 'excellent results' were expected from life assurance activities.

Rumours that an important subsidiary, President Insurance, is on the verge of liquidation have been denied but President Insurances MD Johan Wasserfall has resigned. Extensive rationalisation is taking place at President, including the closure of unprofitable branches. President countered talk of financial difficulties by pointing out its solvency margin was about four percentage points above the 15% statutory requirement.

New insurance legislation forcing additional provisions and reservations reduced Rentbel's income for the year by R1,3m. The 45% drop in earnings for the year to June was a major factor behind the slump in the share price.

Market speculation is that Rentbel could be the target for a takeover. At 350c, it is trading at a substantial discount to its net asset value of about 915c.

The group has been restructuring to put the focus on core activities. This includes the sale of its chemical interests to AECI and the liquidation of clothing subsidiary Wolniu.
Persbel and Remgro in printing deal

Marc Hasenburg

The share price of printing and publishing group Perskor Beleggings (Persbel) rose sharply to a new high yesterday on the back of news that the group had negotiated a right in the printing and packaging interests of the Rembrandt group (Remgro).

The agreement, approved by shareholders at the Persbel AGM on November 5, was financed through the issue to Remgro of an undisclosed number of Persbel shares. Persbel chairman Koos Buitendag yesterday refused to disclose the number of shares issued. Rembrandt directors could not be reached for comment.

Rembrandt Beheer shares gained 10c to 1100c on the JSE yesterday. Analysts said the Persbel shares issued could be the 1,60-million shares (representing 20% of Persbel's issued share capital of 8,3-million ordinary shares) traded in two special bargain deals on the JSE last week.

Persbel's shares rose 12,5c or 50c yesterday to 450c with 221 552 shares changing hands in five deals worth nearly R1m. Perskor shares were unchanged at 1100c.

Early morning trading yesterday saw a single book-over deal worth R774 363 of 181 552 Persbel shares at 410c. Persbel's shares have been heavily traded during the second half of this year and have gained 125% since a March low of 200c.

Perskor is the investment company for Perskor Publications, which publishes The Citizen, Transvaler and free distribution newspapers. Perskor's magazine subsidiary Republican Press prints Scope, Personality and Garden and Home. Its book publishing division operates nationwide.

In the year to June 1996 Perskor expanded and rationalised its printing capacity as well as increasing its printing markets. The annual report said printing made "a substantial contribution" to the group's profits in the past year.

Perskor prints stationery for the computer market and has a plant which specialises in printing cheques and encoded documents for financial institutions. Rembrandt owns 30% of PrintPak, according to McGregor's Who Owns Whom.
Shareholders still in dark over talks

NEGOTIATIONS between Allied, UBS, Volkskas and Sage Holdings are continuing, with shareholders little wiser than they were when merger talks were first announced three months ago.

The four groups have cautioned shareholders again today that discussions aimed at a grouping of their interests into a new diversified financial services group are continuing.

When the first announcement of the talks was made at the end of September, it was believed the four groups would merge their interests into SA's largest single financial services group with combined assets of about R5bn.

However, reliable sources close to negotiations told Business Day recently that planning had apparently swung towards the formation of a holding company that would control UBS, Volkskas and Allied. Each group would maintain its own individuality and identity.

But a services company would be formed to take care of the three banks' data processing and services needs, leading to huge synergistic savings.

Sage, it appeared, had been left out of the talks.

UBS Holdings CEO Peter Badenhorst yesterday declined to comment while the talks were in progress, as did Allied chairman Norman Alborough.

However, when asked why talks were taking so long, Alborough said the negotiations were complex and involved a large transaction. Other directors could not be reached for comment yesterday.
Gold undermines overall index

JSE ends year on high note in industrials

The rally of blue chips in the first half of December has enabled the JSE industrial index to post a rise of almost 8% in 1990 and most dealers expect the gains to be extended today.

The further rise should come on "window dressing" of shares to attract portfolio at year-end. The strength of the industrial market reflects the shortage of quality scrip and comes against a background of falling global equity markets.

The industrial index yesterday added two points to close at 3,903. While this is still 215 points below the peak reached in the wake of President F W de Klerk's historic address at the opening of Parliament in February, it is 218 points above the level at the start of the year.

Until yesterday the Dow Jones industrial average, at 2,637, was more than 116 points below where it started the year.

But weakness in golds and market leader De Beers put the skids under the JSE overall index after it had hit a peak of 3,399 in March. The index yesterday closed at 2,712, 8.8% or 292 points below where it started the year at 2,974.

The transformation of De Beers into De Beers Centenary lifted the shares from a level of R59.75 a year ago to a peak of R110 in May. But the shares then slid to a recent low of R99 before closing yesterday at R71.50.

The rise and fall of gold shares has been even more dramatic as the short-lived bull market petered out. Starting the year at 2,029, the JSE all gold index peaked at 3,292 in February and tumbled to a low of 1,101 in early December before staging a recovery to close yesterday at 1,202 — down 40.5% or 825 points since the start of the year.

The transport sector was in the forefront of the gains by industrialists with the index climbing 72% to 1,277. The gains were on the back of leaders Transcor and holding company Mobile almost doubling in price, while most of the other shares in the sector languished near their year lows.

Strength in leading stores has lifted the retailers and wholesalers index 56% to 5,111, while gains by Ellerine — the market's star performer on the year — and J D Group swept the furniture and household index up 45.5% to 451.

With Perpetual the latest share in the printing and publishing sector to scale fresh peaks, this sector index has soared 40% on the year to 4,075, while strength in industrial leader SA Breweries has enabled the beverage and leisure sector to chalk up a gain of 29.5% to 6,674.

Fishing was one of the worst hit sectors in the wake of Namibian independence and the cutback on fishing in its territorial waters. The index slumped 52.1% to 596.

While the bank sector registered a rise of only 9.9% on the year to 1,728, two of the non-index weighted shares in the sector — Investec and Board of Executors — were making a last-minute entry into the list of the year's top 12 price gainers with gains of almost 100% on the year.
Argus Correspondent

JOHANNESBURG. — Sasol is expected to make an announcement soon on the takeover of the remaining 50 percent of Sasol 3 that is currently owned by the government.

The deal could cost more than R3 billion.

A Sasol spokesman said “It is difficult to say when negotiations with the government will be finalised. All I can say is that an announcement will be made soon, probably early in the new year.”

Should the deal be finalised, Sasol, which reported an 18 percent increase in earnings in the year to June, stands to benefit handomely.

Analysts have already revised upward their earnings forecasts for financial 1991 because of the higher oil price.

These forecasts will need to be revised further as Sasol 3’s profits are consolidated into Sasol’s income statement.

In the year to June, Sasol 3’s operating profit came to R433 million (R375 million in 1989), largely owing to higher prices received for synthetic fuels and substantially higher interest earned.

Dividends of R150 million were paid, of which R75 million accrued to Sasol.

In financial 1990 three divisions — synthetic fuels, coal and oil and other businesses, including chemicals and fertilisers — each contributed roughly a third of Sasol’s operating profit.

If Sasol 3’s operating profit had been consolidated into Sasol’s income statement, the synthetic fuels division would have contributed 56 percent to Sasol’s operating profits.

However, the benefits will be reduced by the cost of funding the purchase of the remaining 50 percent of Sasol 3.

The Sasol spokesman said the price paid would be market-related and that it was premature to speculate on how the deal would be finalised.

Analysts say the price should be between R3 billion and R4 billion, which includes loans of R2.5 billion that Sasol 3 owes the government.

Sasol’s balance sheet is strong — there is little long-term debt. Gearing is at 5.6 percent, so there is clearly scope to increase borrowings.

In addition, Sasol 3 has R1 billion in cash, which could be used to pay off some of the increased borrowings arising from the deal.

Rights issue

The possibility of a rights issue cannot be ruled out.

Sasol’s contract with the government says the obligation to take over Sasol 3 must be met before 1998 at the latest, unless “the circumstances then are unduly prejudicial to either party.”

But it is possible that Sasol decided to go ahead with the negotiations because of the new tariff protection system introduced by the government and the higher oil price caused by the Gulf crisis.
It's all fizz, pop and furniture

SHARE prices on the JSE fell 7.9 percent in 1990, proving it was not a profitable year for investors.

But while many of them slowed losses, an analysis of the movements of share prices indicates some were able to make money.

In fact, they made quite a lot if they chose the shares of the right companies. Those successfully meeting the requirements of the growing black market, especially in the areas of soft drinks, pop music and furniture.

Among the top gainers were the three soft-drink firms — Daly's, ABI and Suncrush. South Africans, it seems, have an unquenchable thirst for Coca Cola, which the three companies bottle.

Daly's shares rose 127 percent from R11 to R25, while shares of associate Suncrush gained 104 percent, rising R15 to R29.

ABI shares rose 106 percent, gaining R6.15 to finish at R12.

All three have tremendous track records and would seem to have continuing strong prospects.

Musica shareholders were also well rewarded. Musica has a rapidly growing force in the pop record, tape and compact-disc retail market.

Shares rose 169 percent from 13c to 38c. CNA-Gallo, which partly operates in the market, also did well. Its price gained 81 percent, rising R3.30 to R1.5.

Shares in Anbeeco, which supplies audio equipment, watches and other semi-luxury goods, and operates on the fringe of the market, rose 128 percent, gaining 65c to 1.35c.

The demand for furniture, after the lifting of HP restrictions, helped push up the price of Eliderine shares 169 percent from R16.75 to R49.75, which has several furniture stores, saw its price rise 75 percent from 20c to 38c.

Shares in JD Group, which operates Joshua Doore, Price 'n Pride, Bradlows and Score Furnishers, gained 72 percent, moving from R7.10 to R12.55.

Other to shine included engineering company Toco, whose shares doubled in price from 50c to 100c. However, black purchasing power was not behind its growth, but rather the strength of its management.

Carlocor (Carlton Paper) was another frontrunner, doubling its price from R7.60 to R15. Here, black purchasing power probably did play a part in boosting expectations, for as black living standards rise so do their purchases of paper products.

Transport company Trencom was another whose price doubled, rising from R17.50 to R55. Top class management and a niche market contributed to its success.

Shares in finance company Board of Executors rose 92 percent from R6.90 to R12.50, reflecting its acquisition of a "big brother" in Anglovaal.

Finance company Investec also shone in the wake of a number of acquisitions, the share rising 92 percent from R6.50 to R12.50.

Shares in printing group Perskor took off towards the end of the year, gaining 78 percent on news that Hembroid was buying into it.

Food company Royal et showed a 87 percent rise in price and Pick'n Pay saw its price rise 78 percent. The strong gains made by these companies in a year which progressed from semi-recession into a real recession shows that in the main they have good management and, if one believes that success breeds success, they have excellent prospects ahead of them.

There were plenty of big losers in 1990.

But for the most part these were marginal gold mines unable to cope with the slide in the rand price of gold. But they could recover, given a better gold price.
Meeting the futures challenge

Crystal-ball gazing is a difficult and risky occupation. Long-range predictions are subject to error by virtue of unforeseen events or forces over which we may have no control. The fortunes of futures markets are highly sensitive to the state of local as well as global economic affairs. Should the US or the world fall into a state of depressed economic activity, the local futures market would suffer with them.

Subject to the foregoing caveat, we are approaching 1991 with optimism and enthusiasm for the growth of our industry. We have to accept the coming changes and have the foresight to prepare for consequential opportunities and believe that the present downturn in momentum is temporary.

A year ago, the mood was one of excitement and opportunity to be created by the pending formalisation of the market and the expectation of institutional business, which never materialised.

By contrast, the present mood is that of uncertain future, consolidation, concern for the problems that surround our market and a heightened appreciation of the need to safeguard the integrity of the industry.

We learnt several lessons early in the game. The unfortunate floor/screen issue which divided the membership and wasted money taught us that while compromise may seem gentlemenly when the voices are tall, it doesn’t sit as well as when members become concerned with egging out a living.

In the end, market forces prevailed and it became clear that the majority preferred screen trading.

“We learnt from the maxim, ‘If it ain’t broke, don’t fix it’ and ‘He who is firstest with the mostest wins’ shall be awakened.

Even more damaging was the broker default shortly after the formalisation of the market, which served to test the role of Safex as a self-regulator.

Although it is difficult to measure the extent of damage in potential volumes lost, it is clear that there must be absolute integrity in our markets if they are to survive.

The resulting re-examination of exchange trading rules and procedures will hopefully go a long way to preventing a similar default.

How long it will take to restore investor confidence remains to be seen.

But we should emphasise the success we have had.

There is a licensed exchange and clearing house in place, established at relatively low cost.

For the first time, standards have been set for operators in the financial markets.

Over the past year more than 500 candidates have successfully completed the Junior, Ordinary or Senior Certificate of the recently introduced Financial Markets Examinations.

The Institute for Financial Markets has been established, which outlines the applicable code of ethics and standards of professional conduct expected of instrument dealers in the financial services industry.

Extensive education has taken place.

To date, Safex has conducted 46 futures conferences and seminars, and put out 16 textbooks and publications on futures.

Several other innovative products such as a video and PC-based training programmes have been designed to benefit the industry.

On the immediate agenda, several decisions need to be addressed, which are impeding the growth and realisation of the full potential of the futures market.

Recent low volumes have been ascribed to several factors

The lack of institutional business due to insufficient education of trustees, as well as of back office personnel.

The absence of tax legislation.

There is a great need to educate auditors so that they can advise clients on accounting for futures and tax implications thereof.

Potential business is being lost because of the inability of some auditors to understand futures and the reluctance to encourage clients to make use of them.

For instance, some auditors accept without question losses sustained in gilt cash market dealings, but express grave concern regarding margin calls or possible losses in respect of futures contracts.

The absence of Reserve Bank permission for foreign financial and participation will impact significantly on the price efficiency and liquidity of the futures market.

The exchange, through its compliance and surveillance team, must ensure that membership values and ethics are above reproach.

The exchange must be ruthless in cutting expenditure in order to lower transaction costs to assist its members in enhancing income flows.

None of these issues is singularly vital to the survival of the industry. Cumulatively they become significant.

We aim to redress each of these impediments in 1991.

Once these fundamental objectives have been addressed, we can indulge ourselves in new product development, fiddle with existing contracts and fantasise over state of the art technology and automated trading systems to prepare for new-market opportunities.

While some one falls on the regulators to break the present logjam caused by deterrent taxation, capital gains tax uncertainties, the question of foreign participation, the high level of economic concentration, and the lack of level playing fields, it is ultimately the responsibility of futures market participants to secure the future of the market for everyone.

While each year is different, each is also a product of the one that preceded it.

Consequently, we must build on what we have achieved and expand on the innovations we introduced.

If we act upon our resources and talents, we can meet the challenges ahead.

We at Safex are ensuring that the future becomes a viable part of the financial industry in this decade.