CONTROL & OWNERSHIP

1991

JANUARY — MARCH.
Equities fail to deliver the goods

By Ann Crotty

At this stage the best that most JSE players will be hoping for from this year is that it won't be a repeat of the grim pattern of trade that made 1990 one that many will want quickly to forget.

It was a year that was dominated by an underperforming gold price which led to massive cut backs and retrenchments in the gold mining industry with the inevitable spillover into other sectors of the economy.

Its impact on the JSE was severely damaging, sending the the All Gold index tumbling 40.7 percent over the year.

Political developments highlighted by the release of Nelson Mandela and the unbanning of the ANC and others led to widespread nervousness in the market as township violence, boycotts and talk of nationalisation made investors wary of equity participation.

Brokers

For the brokers the worry wasn't so much the wider price levels that prevailed resulting in an 8.5 percent drop in the Overall Index between January 2, 1990 and January 2, 1991) but the weak volumes that were traded.

Most private investors moved out of the market and those that remained apparently made little or no changes to their portfolios.

Institutions were topping up on blue chips but otherwise were taking a very cautious view of equities.

This all resulted in very tough times for brokers as the volumes needed to support expensive overheads were not realised.

As the year progressed volumes became thinner. By September there was talk of retrenchments. By October these retrenchments were being effectuated.

Two of the JSE's largest broking firms, Franklin Kruger Vundervine and Max Pollack Fremantle, announced plans to merge in October.

By year-end most of the broking community still in employment were looking at a bonus-less Christmas and no new year salary increases.

For the investors Mr Mandela's calls for nationalisation made sure that it was the year to pick out "nationalisation-hedge" stocks just as 1989 had been the year of the "rands-hedge" stock.

Diamonds

Richemont scored wonderfully on this sentiment. And De Beers almost did. The fact that it didn't probably produced the biggest losses suffered by private investors during 1990.

In March, not long after Mr Mandela's release, De Beers announced that it was putting all its non-SA assets into a Swiss-based company to be called De Beers Centenary AG.

The company was emphatic that there was no connection between ANC calls for nationalisation and the move offshore, stressing that it was a logical development in line with the growth of the group's asset base.

The plan involved the creation of a stapled share comprising an "SA-unit" and a "non-SA-unit". Investors quickly saw the possibility for the de-stapling of the share and the consequent ability for SA shareholders to buy into an overseas asset that was safe from any developments that might threaten the SA investment environment.

This sparked much talk of De Beers going well over R100 during 1990. Shortly after the initial announcement the share moved to R80 - from a January '90 level of R60. Many local investors bought at heady levels in anticipation of the share moving to R150.

It was not to be.

The share price briefly passed R100 but quickly scuttled back and for most of the year remained huddled around the R55 level - even there it occasionally looked under threat.

News of De Beers plans to lend $1 billion to the Soviet Union's diamond industry to return for the right to market that country's diamond production over the next 5 years had little impact on the share price.

Banking

It was a tough year for Sanlam/Sankorp investments. BankCorp had to be bailed out again in September the giant banking group announced a massive R682.3 million write-off and on top of that an attributable loss of R378.5 million for the 12 months to end-June.

There was to be a one-for-one rights issue at 280c a share to raise R550 million.

The reasonable strength of the share price was attributed to the appointment of Mr Piet Liebenberg (who had come over from Nedcor) as executive chairman as well as the presence of Sanlam as the major shareholder.

Also in the Sanlam stable, Fedvolkoms announced massive losses and the need to make an R85 million write-off. In June the share was suspended and in July the JSE saw its biggest ever delisting as Sankorp bought out minority shareholdings at 40c a share.

Elsewhere in the Sankorp stable, TradeGeco continued to suffer bad operating performances. In September, Sankorp and Pepgo announced that there were talks about a possible link-up between TradeGeco and Pepgo. But by the end of the month the negotiations had been terminated.

Although things were pretty bleak for Bankcorp, the rest of the banking sector enjoyed good support during 1990. This was not so much due to fundamental trading factors as to widespread speculation about a restructuring of the banking/building society sector.

But despite considerable speculation, fuelled by the approaching introduction of the new Deposit-Taking Institutions Act, little happened on this front until the end of September. Then Volkskas, UBS, Allied and Sage (all with Rembrandt connections) announced that they were involved in discussions about merging their interests into a new diversified financial services group.

By the close of the year there were still no details on these discussions.

It was also the year that Metal Closures' controlling shareholders were prevented from buying out their minority shareholders; that Issor disappointed all of its new shareholders, that ERPM was allowed to hold on to its government lifeline, that Southern Sun was delisted, the Edgars Glass began to emerge, scathed, from the wood and that PSI had yet another restructuring.
SAFEX OPTIONS

December All Share and All Gold Futures

<table>
<thead>
<tr>
<th>No of options registered (per co.)</th>
<th>No of futures contracts exercised*</th>
<th>No of options contracts exercised*</th>
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<td>3</td>
<td>80</td>
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364

17,195

4,185

19%

24%

* Those reported to Safex

Source: SA Futures Exchange

the huge number of options written as a hedge for March 1990 All Share futures. Because 1990 was so volatile, banks and insurance companies, still smarting from 1989’s whipsaws, were reluctant to write options. However, Howarth believes the market will grow this year because of the high cost of dealing in the underlying shares.

In last year’s bearish environment it was holders of put options who made profits.

OPTIONS ON FUTURES

GETTING THE MEASURE

Statistics on futures options have been released for the first time by the SA Futures Exchange, which is preparing to register these options formally in the second half of the year. Until then it does not guarantee them.

Safex started an informal register in August but the published figures, based on records of individual institutions, date back to May (see table).

Options enable an investor running a portfolio to hedge futures contracts. A fund manager will use a combination of futures, options and cash markets to maximise returns.

From May to December 13 companies wrote options on All Share and All Gold futures contracts. The number of contracts per option varies; large writers tend to use 50 per option as a minimum, the smaller start at 10.

The table shows 25% of options were exercised, the rest expired. This is in line with foreign trends, says a dealer.

Safex will publish options on futures figures after each expiry date from March 15.

Senior manager Patrick Bilby says: “Knowing how many options are out in the market will give Safex a level of comfort and help improve its risk management.”

Investec’s Gerry Howarth welcomes the idea as long as information remains confidential. Investec is among the larger options writers, along with Rand Merchant Bank, Securities Discount House and Finansbank.

Options on futures volumes have fallen sharply since last January. One leading trader says 85% of his gross income came from options on futures in 1989, that fell to zero in January 1990. One reason was the expiry of...
which explains the proposed share swap of seven Duros shares at 650c each and 450c in cash, or R60 cash for every 100 shares of Gants held. He notes that the scheme document lists tangible net worth as 114c, while the offer is pitched at 60c a share. Goldberg also wants to know what caused the slide in profitability at Gants. EPS were 24.8c in 1988, then fell to 2.2c in 1989 and interim figures for 1990 show a 5.7c per share loss. Askin cites an estimated loss for Gants of 25c-30c a share for the 1991 year. Debt stands at about R60m, and the company needs to be recapitalised. But what shareholder, he asks, will put up the cash when the company is making losses? With only 52% of the equity, Askin’s own group will not do so. When Gants is a wholly owned subsidiary it could be financed internally.

Askin emphasizes that profit was sliding long before he came on the scene. Thus, he says, is one reason for suing Gant. Askin claims the profit tabled by Gant when the company was sold to Tollgate was stated on a basis not consistent with the previous method of accounting.

The meeting on January 7 should at least be informative. Until then, shareholders should avoid hasty decisions.

Gerald Herbst

TOLLGATE/GANTS

QUESTION OF PRICE

Anyone 'expecting' a gunfight between the Gants minorities and Duros chairman Julian Askin around the Tollgate table at the scheme meeting on January 7 could be disappointed. But there may be more surprises to be revealed about Gants — an example is that Tollgate is suing David Gant for R6m. This relates to the amount of profit stated when he sold the company to the group.

Askin never thought the restructuring of Duros and Tollgate Holdings would be easy.

Remaining operations, including Gants, have either to be profitable, reconstructed or disposed of. Askin wants to retain Tollgate’s listing on London’s International Stock Exchange, which does not allow listings of pyramid companies. Any pyramids that are in the Duros/Tollgate group have to be disposed of.
WHAT ARE THE ASSETS WORTH?

Judging by the run-up in Perskor Beleggings’ share price to the current 500c, investors are taking the line that the Rembrandt/Persbel deal represents the start of a new era for this group. It might — but a lot more is going to have to happen to justify this optimism.

The simple fact is that the deal per se does not seem to add any value in terms of earnings nor dividends to Persbel. In the near-term, indications are that the earnings (being dividend income), on the additional shares it is issuing in exchange for a 49% investment in Rembrandt’s printing and packaging interests, will be the same as the earnings on its existing shares. And while one can accept that the directors’ forecast — that this year’s payout will not be less than 1989’s — is probably conservative, there is nothing to suggest the growth outlook is encouraging enough to warrant the present 2% dividend yield.

It is not even clear that any material synergistic benefits are likely to be achieved. For one thing, integrating the investment with the rest of the group’s business will be complicated by the fact that the investment is housed in Persbel, which is a sort of double-pyramid of the operating company, Perskor. For another, it has acquired only 49%, hardly sufficient to pursue the full integration programme necessary if significant cost benefits are to be achieved.

But the outlook could be different if Rembrandt intends taking an active interest in the management of the Perskor group, via its newly acquired 32% holding in Persbel, and in particular is able to unlock the considerable value inherent in Perskor’s under-utilised asset base.

The under-performance of the group was covered in some depth when the FM reviewed the annual report (Companies November 23). And while Perskor did not agree with this analysis, it is noteworthy that even the group seems to have some difficulty in deciding on a fair, or realistic, valuation for the underlying assets.

There is no clearer indication of this than in the Persbel financial statements. Net worth per Persbel share at June 30 1990 (the financial year-end), based on the then-market value of the company’s 42,2% holding in Perskor, was 226c — the figure used in the latest announcement to illustrate the effect of the Rembrandt deal on net worth.

However, if one values these two investments at their respective book values, Persbel’s net worth jumps to 476c, and if this is then adjusted for the directors’ valuation of Perskor’s investment in associates, it moves up further to 708c. The significance of this is that Perskor’s own directors value the investment in Perskor at a 43% discount to the underlying book value, and a 60% discount to the full value indicated by the Perskor balance sheet after adjusting for the directors’ valuation of investments.

This may explain Rembrandt’s decision to get involved. If the underlying value inherent in the group can be realised, the take-up price of 440c per Persbel share will prove a bargain.

But the fact remains that this value is not going to be realised while Perskor continues to earn only 9,3% gross on total funds employed. On the other hand, if the involvement of Rembrandt contributes to improving this situation, it could be the opportunity the market has been waiting for — not to mention those who have invested in the group over the years as an asset situation.

However, if the group continues to bumble along as it has in the past, it is hard to see the present enhanced share prices being maintained.

Bryan Thompson

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<th>PERSBEL’S VALUE</th>
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<td>Value (R’000)</td>
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<td>Market/Book/Final*</td>
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<td>17 449</td>
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<td>Perskor:</td>
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<td>Total invest</td>
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<td>Net curr assets</td>
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<td>81</td>
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<td>Net worth</td>
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<td>19 119</td>
</tr>
<tr>
<td>Per Persbel share</td>
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<td>226c</td>
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* Book value adjusted for directors’ valuation of investments † Cents per share ‡ Cents per share $ 45 267 shares
But these modest returns look handsome beside the unhappy experience of anybody who took shares in many of the placings and continue to hold them. On average they now stand at 93% of the issue price.

Of the 14, eight stand at or below the issue price. Only five still show a premium, with M-Net, now trading more than 95% above its issue price, easily the star listing of the year.

The poor performance of most of the listings can be seen as a reflection of the state of the economy — and, often, corporate profits — as well as generally bearish sentiment on the JSE.

What will 1991 bring for the stags? With few if any new issues in the pipeline, there may not be many opportunities for profits or losses. Even so, if the industrial board does recover this year, a listing of a good quality company with a proven track record should still do well. The scarcity of quality scrip is unlikely to ease much.

Gerhard Schäfer
Institutions stuck for investment opportunities

From ANDREW GILL

JOHANNESBURG. — Financial institutions have entered 1991 with a projected cash flow of about R35bn and no obvious vehicles in which to invest as the economy continues on its stagnant path, offering limited opportunities and poor returns.

A fundamentally weak equities market, declining returns in the money market, a limited gilt's market and an exhausted property market all contribute to the dilemma of life assurance and pension fund managers.

Based on the compounded annual growth of 15% in insurers' and pension funds' 1990 cash flow of R21.9bn, 1991 is estimated to yield a flow of R33.4bn.

Some analysts say the 15% growth estimate is conservative and the figure could well be more than R40bn. About R11bn will be paid out to policyholders, leaving R22.4bn which has to be invested somewhere.

Added to the R33.4bn is the projected R5.6bn funds of the Public Investment Commissioner (PIC) which will be channelled into government stock.

Investment switches could come into play as the money market becomes relatively less attractive because of expected rate cuts by the Reserve Bank. This may further increase potential cash flow.

However, demand in the money market is likely to remain strong and this could push rates down even further.

The gilt's market is unlikely to experience any major increase in borrowing from the major players because of rationalisation by the government and Eskom, and thus supply will be limited. This is likely to be exacerbated by the PIC's R5.6bn.

Equities, says Southern Life equity investments GM Paul Beachy Head, will be a major absorber of the capital.

An investment strategy of buying when the all share index is down 10% from 12 months previously and selling at growth of about 40% is sure to yield results, he says.

The index is at 2,710 points, 9.3% down from last January, and could mark a turnaround in fortunes for the struggling stock exchange.

Nedbank economist Edward Osborn says a lot of money is likely to find its way into equities and push share prices up "for no good reason" investors will be climbing into a market which is "really very dull" and offers poor growth prospects.

The PIC is likely to absorb all government issues in the gilt's market in the next few months and overall borrowing is unlikely to be that much higher.

The result would be "tremendous pressure" on money market rates, Osborn says. The 90-day liquid BA rate has already fallen to 17.65% - 35 points below Bank rate.

Property is unlikely to absorb much cash as CBD activity is depressed, and while housing ought to be attracting investment it has not been doing so because of poor returns and political unrest.
African Bank issues shares to other races

AFRICAN Bank is to issue ordinary shares to members of other race groups, within certain limitations, to position the bank for future growth and to ensure it meets the capitalisation requirements laid down in terms of the new Deposit-Taking Institutions Act.

Making this announcement in his annual review, chairman Sam Motsuenyane foresees continued growth and improved profitability for the bank in the new financial year.

The bank's total issued share capital consisted of 4165302 ordinary shares, 750000 16% and 3375-million 8% cumulative redeemable preference shares at the end of September 1999. The 16% redeemable preference shares will be redeemed in the 1999/2000 financial year.

The bank's authorised ordinary share capital is 625-million shares. There were 3757 shareholders at end-September.

African Bank performed well in the year to end-September, with assets up 20.8% to more than R213.6m (R168.57m). Taxed income increased 29.8% to more than R1m (R718,705), while retained income climbed to R310,186 from the previous year's R175,170. The dividend rose to 6c (5c).

Having surpassed the R1m net income mark for the first time since its humble beginning in 1975, and having had to contend with a R87m forex scandal in 1986, the bank has cleared the decks for expansion this year.

In the past year, the bank bought African Bank Centre in Johannesburg from French Bank, using its own resources. It opened branches in Tzaneen and Durban, which have shown good growth in deposits and new loans, says CEO Jack Theron.

Since the year-end Nelspruit and Queens-town mini-branches have been opened. Theron says negotiations with the Venda and Lobouw Development Corporations for the bank to take over their savings accounts outlets have reached an advanced stage.

This will increase the bank's network by 10 mini-branches with matched savings/loan books of about R18m, says Theron. The loan books will be taken over on a recourse and/or selective basis.

The agreement with the Venda Development Corporation envisages the opening of a branch in Thohoyandou this month. Negotiations for the opening of a mini-branch in Gokana are also in progress and Theron hopes these will be finalised this month.

The bank is investigating the implementation of an integrated computer system, which will enable it to offer additional services and products.

Computerisation will assist the operations of African Bank Insurance Brokers (Afribrokers). Its products include a family funeral scheme, which greatly enhanced the bank's savings account book. More recently it introduced a comprehensive policy for minibus taxi owners.
Gant’s votes for Duros buy-out deal

By PIETER COETZEE
Financial Editor

SHAREHOLDERS of Gant’s yesterday voted in favour of a proposal by Duros Group to buy out minorities for R60 in cash or R4,50 in cash and seven Duros shares for every 100 Gant’s shares held.

At a meeting in Cape Town which was attended by about 50 shareholders and lasted for more than three hours, shareholders holding 768,166 shares — or 5,7% of the shares entitled to a vote — cast their vote against the proposal while shareholders holding 3,3m shares abstained.

The proposal must now be ratified by the Cape Supreme Court on January 16.

This procedure is normally a formality but Issy Goldberg, chairman of the Shareholders’ Association of SA and authorised to speak on behalf of 7m shares, disputed the validity of notice given of the meeting. He said there was no clarity in the term “clear days” as opposed to “working days” in respect of the required 21-days notice.

He also said the relevant documents lacked full disclosure. Recent press reports contained valuable updated information on the financial position of the company as well as future prospects that do not appear in the documents, he pointed out.

Goldberg submitted that it was not the function of the court on sanction day to adjudicate on the merits or demerits of the price offered for the shares. It was, however, the court’s function to ensure that the scheme documents were accurate in all respects, in particular that of full disclosure.

The scheme of arrangement whereby Duros will acquire the shares of minority shareholders in TGH in exchange for 33 Duros shares and 300c in cash for every 100 TGH shares held — was also approved by shareholders with 14,2% of the shareholders voting against the proposal.

Duros’s acquisition of minority shares of Norths and Entercore for 17 Duros shares and 117c in cash or R111,67 in cash, and 34 Duros shares and 233c in cash or R223,33 in cash respectively was approved unanimously by shareholders.

From the answers given by Askin it appeared that Gant’s was in more serious trouble as far as its prospects were concerned than was revealed in the documents. Askin also said that certain of the remaining trading operations in Gant’s could be closed or sold off if they proved to be unprofitable.

He said he was not prepared to pump millions of rands into an operation which cannot produce earnings for the group.

Askin also revealed that he had offers from four interested parties, who wanted to take over Gant’s but that the highest offer was 48c a share. He was not prepared to sell at that price but confirmed that he would be happy to entertain a purchaser for Gant’s at a more realistic price.
McCarthy group sells off car hire interest for R195m

By Jabulani Sikhakhane

The McCarthy group has sold off McCarthy Transport Holdings — its truck and car hire interest — for R195 million with effect from July 1 1999.

The buyers are John Pearse, who has been managing director and 10 percent stakeholder in McCarthy Transport Holdings, and Nedfin.

McCarthy Transport Holdings traded under the names of Fleetrent, Perkins Truck Hire, Supreme Truck Hire and Fleet Rent Car Hire.

However, the deal excludes the full maintenance leasing division, McCarthy Leasing.

The joint managing director of the McCarthy group, Dudley Saville, says McCarthy Leasing will be retained because it is directly related to the core business of the group, which is finance, distribution and maintenance of motor vehicles.

"Full maintenance leasing fits synergistically with our motor dealerships," he said.

He added that the disposal of the truck and car hire business will have a positive impact on the group’s balance sheet and is not expected to impact on the projected earnings in the current financial year.
McCarthy sells truck and car hire business for R19m

610-5 3119

NEDFIN Bank and vehicle hire entrepreneur John Pearse have jointly acquired the truck and car hire interests of SA’s largest vehicle retailer, the McCarthy Group, in a R19m deal effective from July this year, says a statement released by McCarthy yesterday.

These interests include Fleetrent, Perkins Truck Hire, Supreme Truck Hire and Fleet Car Hire which operated under the umbrella of group vehicle hire subsidiary McCarthy Transport Holdings.

In terms of the agreement, McCarthy Transport Holdings will change its name and apply for a JSE listing.

The new company will maintain ties with the McCarthy Group, through which it will route future vehicle purchases under a preferential agreement.

McCarthy joint MD Dudley Saville said McCarthy Leasing, the group’s full maintenance leasing (FML) division, was excluded from the deal.

“We are retaining McCarthy Leasing because it is directly related to McCarthy’s core business, which is the finance, distribution and maintenance of motor vehicles, and FML fits in synergistically with our motor dealerships.”

While the disposal of interests would affect McCarthy’s balance sheet, it was not expected to have any impact on the projected small drop in earnings of the group in the current year, Saville said.

Pearse, formerly MD and minority shareholder in McCarthy Transport Holdings, said he looked forward to taking the company into an exciting future.

Motor sector analysts said car hire’s profitability lies in the residual value of second-hand vehicles. The low resale value of rental vehicles in the wake of the recessionary tide might have led to McCarthy’s disposal of its vehicle hire interests.

McCarthy shares were untraded yesterday at 330c, slightly above the October low of 293c.
JSE lobbies for immediate scrapping of securities tax

KEVIN DAVIE

THERE is a good chance marketbuilt securities tax (MST) will be scrapped in this year's Budget, well placed observers believe.

Government committed itself in the last Budget to phasing out the tax of 1.5% on the purchase of all classes of shares and options. The tax, which was budgeted to raise R223m in the current fiscal year, was to be phased out over three years, beginning this year.

But the financial crisis which has hit the JSE has led it to lobby government for the immediate abolition of MST in the coming Budget. Finance special advisor Japie Jacobs has confirmed that such a request has been received "in view of the low turnover on the JSE".

He said the matter was under consideration, and no decisions had been taken.

It is understood that the JSE also believed the 10-year safe haven — which allows the tax-free sale of shares which have been held for this period — should be reduced to two years.

Troublesome

The JSE's view is that while the 10-year safe haven was introduced in the last Budget to increase liquidity on the market, it has had the effect of creating the impression in many investors minds that shares have to be held for 10 years or else profits would be taxed at the full rate.

An Inland Revenue spokesman confirmed that decisions on tax profits from share sales was a troublesome matter. He said numerous cases had ended up in the tax court.

The spokesman said the 10-year rule applied an objective test. Sales made before this period were decided on an individual basis. Those who traded on a regular basis and who earned income from this trading could expect to be taxed.

The JSE, which is by far the most illiquid stock market in the world, estimated it needed a reasonable average turnover of about 4,000 deals a day with a value of R100m. Since the Gulf crisis it had been operating at less than half these levels.

Government's decision to phase out MST followed a recommendation by the Financial Markets Advisory Board. JSE sources said the abolition of the tax would bring it in line with trends in international markets.
Tollgate schemes draw big support

CAPE TOWN — Tollgate Holdings (TGH) cleared two hurdles yesterday as Gants and TGH shareholders approved separate schemes of arrangement which, subject to Supreme Court approval, will help facilitate the group's restructuring.

The majority of shareholders represented at special meetings yesterday voted in favour of the two schemes. If the Supreme Court sanctions the schemes next week, Gants will become a wholly owned subsidiary of TGH and will be delisted, while TGH will be absorbed into holding company Duros, which will be renamed TGH.

In terms of the Gants scheme of arrangement, TGH is offering minority shareholders 1½ shares for every 100 Gants scheme shares. The alternative offer pays a value of R9 a share on Duros shares, which are trading at R7.25.

The TGH scheme comprises an offer by holding company Duros of 38 new Duros shares and 300 for every 100 scheme shares, currently worth R2.50 each.

The Gants meeting was preceded by a flurry of opposition from minorities represented by Shareholders' Association chairman Issy Goldberg. They argued that the 60c offer represented a significant discount to the last reported net tangible asset value of 108c a share.

The Gants minorities were also concerned at the recent decline in the company's profitability, the escalation of debt since the December 1998 year end and the suddenness of the decision to close Gants' fruit canning operations in Somerset West last year.

But, of the 27-million Gants scheme shares, 12.4 million voted in favour of the scheme while only 757,000 voted against. The abstentions totalled 2.3 million.

TGH chairman Julian Askin told shareholders at the meeting that they had to close down the Somerset West operations and buy out Gants minority shareholders based on expectations of ongoing losses and the need for significant new capital inflows to stem the losses.

He said Gants' borrowings were at about R72m and that the company would have lost R18m during the current financial year as a result of high levels of stock which was difficult to control. Furthermore, up to R28m would have been required to bring the Somerset West factories up to standard to compete in foreign markets.

He disclosed that TGH, which paid 170c a share for Gants in 1989, was using the Gant family for portion of the purchase price, because, he claimed, profits declared at the time of the purchase were not consistent with perceived accounting methods.

Both the Gants and the TGH schemes facilitate plans to prepare the group for an international listing by dismantling the pyramid structure which is unacceptable to many foreign shareholders.

In the TGH meeting, Askin said he was happy with the progress of group restructuring plans although they had been delayed by the economic downturn which had affected the ability to dispose of some assets.

Nevertheless, he said rationalisation and debt reduction plans were succeeding and should yield profits this year.
Royal looking at further acquisition in chemical field

By Ann Crotty

Royal, which announced in December that it had acquired SA Preserving Company (Sapco) from Del Monte Foods International, issued a cautionary today that it is involved in negotiations with another company.

The company, described as "a significant manufacturer in the speciality chemical industry" is believed to be Ferro, which is American owned.

According to the cautionary, the acquisition of Sapco and the chemical company will "necessitate the restructuring of the Royal group, including the separate listings of Royal's food and chemical interests."

Royal would get a lot of support from the local institutions, which would be keen to get a stake in a group this size with quality investments.

The Sapco acquisition is expected to cost in the region of R100 million and is apparently to be paid through a mixture of commercial rands and financial rands.

Ferro, which is based in the Midrand, would, it is believed, cost Royal in the region of R35 million.

On the basis of Royal's previous acquisition strategy it is likely that the executives of its chemical subsidiary, Lovasz, are familiar with Ferro's operations.

That the two deals were announced so close together seems to be more of a coincidence than an indication that the Royal team have suddenly gone acquisition-mad.

Analysts believe that the executive teams at Royal's two subsidiaries RBN and Lovasz have been looking at both acquisitions separately for some time.
Unit trusts picking up gold bargains

By Derek Tommey

Just when you might have thought that gold shares — down 41 percent in price last year and 25 percent in the December quarter — had no friends left in the investment community, the unit trusts have started to buy them.

Progress reports issued today by the giant GuardBank Fund, the GuardBank Resources Fund and from two recent arrivals to the unit trust list — Norwich-NBS and Safegro — show that all four nibbled at gold shares in the past quarter.

GuardBank added to its portfolio 65,000 Western Deep Levels, 50,000 Winkelhacks and, in the mining-financial line, 19,000 Anglos, 30,000 Anglovaal N, 550,000 Charter Consolidated, 250,000 Gencor, and 25,000 GFSA.

However, GuardBank's new liking for gold shares did not stop it selling its entire holding of 30,000 Vaal Reefs.

GuardBank's sister unit trust, GuardBank Resources, added 50,000 Western Areas, 30,000 Gencor and 100,000 Middle Wits to its portfolio.

Safegro Unit Trust, which has been operating for only six months, bought Kloof shares for the first time and enlarged its holdings of Driefontein and Hartbeesfontein. Norwich-NBS also bought more Driefontein to make it the fund’s second largest investment. But it partly offset this purchase by selling its holdings in Angold.

Why is there a renewed interest in gold shares? Mr. Keith Cockcroft of Safegro says many have been oversold and purchases by Safegro reflected to a great extent a perception of price weakness. He also believes the Iraq-Kuwait crisis could lead to an improvement in the gold price.

Other investment analysts make the point that the South African gold mining industry is at last adjusting to the static gold price. Desperate efforts are being made to cut costs and to sell ore with a higher gold content. These measures are paying off at several mines which are showing increased profits despite the adverse conditions. Consequently, they say, a judicious investment in gold shares could be rewarding.

GuardBank reports that the ex-dividend value of its units rose by 3.57 percent in the 12 months ended December. This contrasts with a 8.6 percent decline in the same period in the All Share index.

On December 31 it distributed 0.2c a unit, an increase of 33.0 percent on the year ago figure of 0.23c. This brought the total payment to unit holders for the year ended December to 10.58c, which is an increase of 26.5 percent on the 77.3c paid in 1988. This gave unit holders a total return of 9.63 percent for the year.

Besides adding mining shares to its portfolio in the December quarter, GuardBank also acquired extra shares in USS Holdings, Liberty Life and FTT. On the other side of the coin it sold 290,000 Minarco, 250,000 Richemont, 250,000 Sappi and 5.8 million Isscor.

However, in spite of the sale of its shares, Richemont was still the biggest of GuardBank's investments at the end of December. The other "top 10" were Woolru A, SA Breweries, Liberty Holdings, De Beers/Centenary, Anglo American, Amamnt, Adcock, Gencor and Remgro. At December 31 its portfolio was 22.7 percent liquid.

GuardBank Resources, in contrast to the 38.75 percent drop in the JSE gold index and the 15.76 percent drop in the mining financial index (after both have been adjusted for re-investment of dividends), experienced a decline of only 19.2 percent in the value of its units in 1989. The fund distributed 9.3c (8.41c) a unit during 1989, reducing the loss to investors to 6.83 percent.

Shares sold during the quarter were Amcoral, Witbank, Colsa, Samancor, Anglovaal and JCI. The fund's "top 10" at December 31 were De Beers/Contemporary, Sasol, Amamnt, Kinross, Anglovaal N, Gencor, East Daggafontein, Anglo American, Northam Platinum and Witbank Colihy.

GuardBank Income Fund is paying out 9.74c a unit for the six months ended December, against 8.67c a unit a year ago, making a total of 19.19c (16.86c) for the year. The total return to unit holders, including both income reinvestment and capital appreciation for the 12 months ended December was 29.4 percent.

Safegro Unit Trust achieved a 5.13 percent rise in its unit price in the three months ended December. At December 31, its "top 10" were De Beers, Anglo American, USS, Duros, HLH, Richemont, SA Breweries, Consol, Woolru and Remgro. Mr. Cockcroft said the fund's substantial investment in Duros and HLH reflected its view that these were potential blue chips.

Norwich-NBS Unit Trust increased its liquidity to 38.6 percent in the December quarter, and had a further 8.3 percent of its portfolio in Eskom stock. This increased the historic yield on the fund's units to 9.07 percent.

The total return on the units, including income, equalled 5.4 percent in the December quarter, says Mr. John Bowman, MD of Norwich Management Company.

He says the fund continued to enjoy a handsome net cash inflow in the quarter, equal to some 19 percent of the value of its portfolio and increasing its size to R13 million.

Mr. Bowman says that the share market is probably close to its bottom, and is providing for the long-term, serious unit trust investor with a valuable opportunity to increase their holdings at subdued price levels.
Reconstructing Duros likely to cost millions

By Blaize Hopkinson

CAPE TOWN — The reconstruction of the troubled Duros group will cost millions, with professional fees alone topping the R6 million mark.

At a series of meetings Duros received the nod, subject to court approval, to take out minority shareholders in Tollgate Group Holdings, Gants and Enterco to make them wholly-owned subsidiaries.

Stated costs in the shareholders' circular were put at R6 million, which does not include the cash required to buy out minority shareholders. In the case of Gants alone this could amount to more than R16 million.

The Duros listed vehicle will be renamed Tollgate Holdings following the delisting of TGH, Enterco and Gants.

Chairman Julian Akin, former London-based entrepeneur, said the benefits of the restructuring would be immense and would far outweigh the cost of managing a series of listed vehicles.

Mr Akin said part of the rationale for taking out the minorities was to offer a clearer investment picture, particularly to the international investing community.

Duros's listing on the International Stock Exchange in London will end with the simultaneous listing of Tollgate Holdings.

He projected Tollgate's overall earnings would eventually be sourced as much as 50 percent from offshore following a planned acquisition thrust.

Overseas investment

This programme would begin only once the company's South African interests had been put in order.

"I believe we are going back to the days when you can build an international business out of this country," Mr Akin said.

Overseas investment was also back on the cards and already the group has several heavyweight London institutions as investors.

He said the downturn in the UK market could present buying opportunities to the restructured and refortified Tollgate.

The disposal of assets and general turnaround in operations meant the group had reduced borrowings while a further dip is on the cards this financial year.

In a marathon special meeting, which lasted more than three hours, the Duros board heard argument from representatives of Gants' minorities.

In reply to a question Mr Akin said "I see myself as tidying up a mess."

He was referring to the critical state in which Gants found itself.

Gants recently closed its entire deciduous fruit canning operation and is to concentrate its interests in meat, vegetable and fruit canning.

In spite of the slackening of the sanctions noose, Mr Akin said South Africa simply did not have the contacts in the UK and European markets who would seek to renew imports.

"We are not competitive," he said.

Referring to the closure of the Somerset West deciduous fruit canning operation, Mr Akin said the Duros group personnel office had found jobs for virtually all the 1,500 workers who lost their jobs.

He said people who had approached him about buying the factory had had the feeling they were "smirking around a carcass" as the plant had become so run down and was "held together by chewing gum" — it was in need of drastic capital inflows to save it.

The 60c a share offer to Gants minorities was, he said, fair in the light of the fact that potential buyers of the operation had mustered only a 48c a share offer.

He said the Somerset West plant would have required at least R20 million in capital spending to make it competitive. It would have lost upwards of R15 million in the next 12 months had it not been shut.

In answer to a question about the attractions of the 18 percent export allowance, Mr Akin said: "They could give me a 50 percent export allowance and I still wouldn't get back into deciduous fruit canning."

The group overall had turned the corner, he said, with all operations showing a positive return in the last three months.

He did warn that further offloading of non-performing assets would continue.
Industrial sector tipped to take the lead on JSE

This year has kicked off optimistically for the Johannesburg Stock Exchange, with the gold price close to $330 an ounce and the all-gold index closing 4.3 percent higher after the first week of trading.

Analysts are hopeful for 1991. A slow downward trend in interest rates, expected to start soon, should benefit companies and their share prices. Although all forecasts are subject to the unpredictable Gulf war, analysts favor the industrial sector to perform the best this year.

Another important factor is the huge overhang of institutions' investable surplus funds, calculated at R28 billion by Richard Martin of stockbrokers Stewart Martin and Company.

An average of 36 percent of the overhang has gone into equities over the past five years, he says, and about 16 percent normally finds its way into the industrial sector.

Although the Johannesburg Stock Exchange outperformed most other world bourses in 1990, it was a year of unfulfilled promise.

It began on a wave of political optimism, which was soon dashed, and was ultimately frustrated by the reduction of gold's traditional status as a safe haven for investors.

The overall index declined by 6.5 percent on the year, due mainly to the weak performance of gold shares, where the sub-group index dropped by nearly 40 percent.

De Beers

Industrials appreciated 8.3 percent, with consumer-based stocks doing particularly well.

De Beers, the diamond giant and bellwether stock, closed at R669.90, ahead 8 percent on the year, but nearly 40 percent off its May peak of R110.

The release from prison in February of Nelson Mandela and other political reform initiatives of the government were euphorically received by equity markets.

Early confidence, however, was soon badly knocked by loose talk about nationalisation from the African National Congress and the appalling township violence which blighted the political scene for the rest of the year.

The "commoditisation" of gold was the other dominant, and disturbing, feature of 1990 for the JSE. Pundits thought that the political turmoil in eastern Europe would lend support at stockbrokers George Huyser's comment: "There was a structural change in the way the gold price moves. Gold is not in gold shares any more."

"Gold has fallen out of favour and I do not think it is going to go back again."

The poor performance of gold shares reflects the industrial sector's straitened circumstances. Profits are sharply down, squeezed by declining revenues and rising costs.

The extent to which the market has lost confidence in gold's show by the decline in the gold shares index over the year, a move wildly out of proportion to any downward movement in the bullion price.

Mr. Clemow points out that it is not only gold that has suffered the price of virtually every commodity that South Africa exports, with rubber a notable exception, fell during the year. Much of this can be traced to fears of reduced demand in the wake of recessionary conditions in the leading Anglo-Saxon economies.

Platinum

The platinum share price index, for example, shed 30 percent over the year. A recession would lead to lower automobile sales and hence a reduced platinum requirement, as the metal's leading use is in the automotive industry. This reduction in demand would inflate the mine share price index.

The firm exchange rate of the rand against the US dollar, in which most of South Africa's exports are denominated, has been a contributing factor to weakness in the mining sector.

The rate was virtually unchanged at R2.34 over the year, whereas analysts had been projecting at least a 5 percent deterioration, to take account of the countries' inflation differential.

This reflects the hand of Dr. Chris Stals, governor of the Reserve Bank, who, in defending the value of the currency and making the fight against inflation his priority, has caused considerable pain in the real economy and equity markets.

The brighter industrial side of the JSE's performance particularly reflected the consumer sectors, and especially those companies with a high exposure to urban black consumers.

While the transport group showed strongest growth over the year, the overall results were solid.
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**De Beers**

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The “commoditisation” of gold was the other dominant, and disturbing, feature of 1990 for the JSE. Pundits thought that the political turmoil in eastern Europe would lend support to gold with its traditional safe haven status. This proved not to be the case.

Even more depressing for the gold bulls has been the weak performance of bullion since the start of the Gulf crisis. Expectations that the price would rise, as a hedge against higher inflation brought on by the increase in crude oil prices, have not been realised.

John Clemmow, mining analyst, stated in the Financial Times, "The platinum share price index, for example, shed 50 percent over the year. A recession would lead to lower automobile sales and hence a reduced platinum requirement, as the metal's leading use is in the auto-catalysts which reduce exhaust emissions.

The firm exchange rate of the rand against the US dollar, in which most of South Africa's exports are denominated, has been a contributing factor to weakness in the mining sector.

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The brighter industrial side of the JSE's performance particularly reflected the consumer sectors, and especially those companies with a high exposure to urban black consumers.

While the transport group showed strongest growth overall, it was followed by the retail and furniture sectors, both of which rose by more than 50 percent.

Some see this trend tailing off as recessionary conditions bite. Others, like David Sherman of stockbrokers Frankel, Max Polak, Vonderne, believe there is such a backlog in black spending that it will be years before black consumers start to save.

— Financial Times
attached to their shares when only a year ago the ruling market price was around 180c.
Shareholders Association chairman Issy Goldberg was vitriolic in his criticism of the scheme, which he said "had been done too precipitously and without too much thought." He took issue with the fact that the documents had been sent out "in the season of goodwill," that the 21 clear days requirement had been shortened by public holidays and that the documentation tabled was insufficient up-to-date information.
Goldberg called for a month's postponement of the meeting to give him time to find a buyer for Gants Julian Askim, chairman of the consortium and of Duros, rejected this out of hand.
In support, a minority shareholder holding a proxy for more than 2m shares pointed out that a party that had been interested in acquiring Gants had done a "due diligence" examination of the company and had advised that "it was tied up with chewing gum and string." Askim told the meeting a number of interested buyers had performed thorough investigations of Gants' worth, but the highest offer was 48c a share.
Only 5.7% of Gants' minority shares were voted against the proposed scheme. There was also discussion at the TGH meeting, but 86% of votes were cast in favour of the proposal.
Askim can now press ahead with his plans. The prime objective is to focus on development of an overseas asset and earnings base.
From this standpoint, opting for the offer of both Duros shares and cash could offer a sound long-term opportunity. 

Gerald Weisman
Anatomy of a killing on the JSE

SATURDAY JANUARY 12 1991

A cool R1.9 million return

From page 4

"Even Job eventually ran out of stamina. I'd been attending the group's annual meetings for the past 12 years. "Every year I'd tell the directors that their market image wasn't up to scratch that they had to do away with the seven times dividend cover that had deterred investors from buying the shares for so long. On 12 occasions the response was negative."

"So when Mannie Smichowitz negotiated an offer for my shares at 480 a share, I cashed in and sold."

"I don't have regrets. My clients have done well and those who haven't sold are still riding the shares higher."

"Besides, the stir that I've caused is bound to shake up the Persel management team which means I've done the minorities (of whom there are still 400 with holdings ranging from 100 to 10 000 shares) a good turn."

"I'm now ready to look for my next undervalued situation."

Mr Barclay believes that the Persel/Perskor control battle is far from over. "The Dagbreek Trust/Rembrandt alliance is clearly concerned - else they wouldn't be buying all the shares on which they can lay their hands. "They're not prepared to put Dagbreek's special voting rights to the test - which is why the Rembrandt share exchange deal was scaled down on Friday."

The original share exchange with Rembrandt would have required that Persel issue more than 30 percent of its issued share capital in which event shareholders would have had to approve the deal.

By reducing the figure to below 30 percent, the approval of shareholders is not necessary.

What will Mr Smichowitz do with his shares? "Mr Barclay won't speak for him. But if he gets a good offer, he might well be prepared to sell."
Rainbow buys 50% stake in Premier’s Epol

JOHANNESBURG — Rainbow Chicken has not only acquired Premier Group’s interests in its Bonny Bird broiler operations, it has also purchased a 50% stake in Premier’s Epol Animal Feeds.

Rainbow and Premier will participate in Rainbow’s R237m feed mill expansion, an announcement today says.

Rainbow is to acquire Premier’s 50% interest in Bonny Bird Farms, Bokomo and Saccas for an undisclosed amount. Premier was left with a 50% holding in Bonny Bird when it merged its broiler activities with those of Bokomo and Saccas.

The combined market share of Rainbow (about 36%) and Bonny Bird (about 18.6%) would leave Rainbow with over 50% of the chicken industry.

Analysts estimated Bonny Bird would be worth about R375m, including debt. However, the acquisition price was expected to exceed this amount.

It has also been agreed in principle that Rainbow will acquire 50% of the shareholders’ interest and management control in Premier’s Epol Animal Feeds.

Sources said the acquisition would have to be funded through a rights issue, and Rainbow might use the opportunity to take up more of the Methven family’s share if they did not follow their rights — Methven Holdings has a big holding in Rainbow.
Naspers-Persbel link 'may spark press shake-up'

Own Correspondent

JOHANNESBURG — Persbel’s competitor, Nasionale Pers (Naspers), now holds 25% of its equity — and at the weekend the two companies hinted at rationalisation and co-operation which could result in a major shake-up in the Afrikaans press.

On Friday Naspers bought 2.7m Persbel shares from Mannie Simchowitz, leaving it with 25% of Persbel’s equity. At Friday’s price of R5.95 the deal was worth R17.32m.

Naspers and Rembrandt now own about 43% of Persbel’s shares between them, with Rembrandt holding about 23.5% of Persbel’s enlarged share capital. Persbel and Naspers have various common interests, including Rapport Uitgewers, M-Net and Maister Directors.

Persbel chairman Koos Butendag was reported yesterday, as saying the control structure of the group would remain unchanged, and he believed Dagbreek Trust would retain control through its special voting rights.

He welcomed Naspers as a shareholder and said opportunities for co-operation and scope for rationalisation had been opened. In the process a hostile overseas consortium led by Simchowitz was cut out, he said.

Naspers MD Ton Vosloo could not be reached for comment yesterday, but he was reported as saying the move was a case of protecting communal interests, and an opportunity to strengthen both press groups.
A sound performance from CFM for lump sum investors

CONSOLIDATED Fund Managers' (CFM) decision to keep clients relatively liquid during 1990 has paid off with a recorded performance of 8.16% from March to December 1990 for lump sum investors. MD Clive Fox reported in the latest issue of CFM's Hotline.

This compares with the JSE Actuaries Overall Index which showed a negative return of 15.0% over the same period.

Apart from capital gains, the importance of achieving a growing income to overcome the inflationary environment is of major importance to Fox.

Inflation

"Many are not aware that unit trusts pay a regular income, which in the case of equity funds is split between dividend and interest income. It is also important for the investments in the unit trust portfolios to generate regular and growing dividend income," he said.

In the 10 years to end September 1990 general equity unit trust investments produced a compounded annual growth income of 15.02% a year, against the official average inflation rate of 14.6%.

"Where income growth is non-existent or does not match up to inflation, income-related investors will soon find that radical adjustments have to be made to their

standard of living," Fox explained.

Old Mutual Investors Fund recorded the largest compound growth in income over the 10 years to end September 1990 of 18.7% a year.

For the five years ended September 1990 the Standard Bank Mutual Fund topped the charts with an income growth at 21.29%.

"But over the long term, equity unit trusts have produced sound growth in income distributions which have ably counteracted the negative effects of inflation. For this profound reason, unit trusts should form part of any long-term investment plan," he said.

Looking ahead at buying opportunities in 1991, Fox suggested the continuing bear trend should be seen as an early buying opportunity for clients with high levels of liquidity.

"At present, both institutional and private investors have accumulated vast amounts of cash for deployment into the equity market. It is estimated that as much as R40bn could be held awaiting investment opportunities. With the shortage of quality scrip the aspect of too much money chasing too few shares will support share price advances even though fundamental wisdom could dictate to the contrary."
Outcry grows over proposed sale of hospital

By TOSH LEVETT-HARDING

THE proposal being considered by the Cape Provincial Administration to sell Somerset Hospital and build an 800-bed hospital on the Cape Flats for Khayelitsha residents has brought a storm of protest from Green Point and Sea Point residents. Elderly citizens are urging their local councillors to take action.

Chris Joubert, a city councillor and member of the Hospital Board at Somerset Hospital, said: “A strong delegation may be formed, led by the two local members of Parliament Mr Colin Eglin and Mr Tiaan van der Merwe, and with the six ward councillors, to seek an interview with the CPA authorities. I am quite prepared to organise this if any more pressure is brought to bear to close the hospital.”

‘On bread line’

Elderly folk bombarded councillors with complaints after a letter appeared in the Cape Times from Mr Alan Barnard of Plumstead, who wrote: “The senior citizens of Green Point and Sea Point using Somerset Hospital are mostly higher income, medical and patients who have access to other facilities — both private and state.

“The same cannot be said of the majority of residents of the Cape Flats where a CPA hospital is required to provide a service to people who cannot afford services, let alone expensive transport.”

Mr Norman Feitelberg, vice-chairman of the Green Point and Sea Point Traders Association, said “It is an illusion that only wealthy people live in Sea Point.”

Mr Feitelberg, a pharmacist, said he had many pensioners among his customers and he knew that they could not afford to go to expensive private hospitals but were utterly reliant on Somerset Hospital.

He added: “Let’s not lose sight of the fact that Somerset Hospital does a sterling job for the black and coloured people. There is a large number working in Green and Sea Point, in hotels and blocks of flats, and they are grateful for the help from the local hospital.”

Mr Joubert, supporting this view, went further by saying many elderly people in Sea Point were “living on the breadline”.

“Many sweated it out as workers and as ratepayers they helped to keep the Somerset Hospital alive. Today many of them do not have medical aid and are entirely reliant upon this hospital’s services.”

He stressed that Green and Sea Point consisted of people of all colours and creeds who used Somerset Hospital’s services.

‘Valuable asset’

He said “This hospital serves the whole of the Atlantic seaboard and the City Bowl and is such a valuable asset that we will fight tooth and nail to retain it.”

Dr W E Sutton of Sea Point felt that the hospital belonged to the local people. He asked in a letter “What is to happen to the 80,000 people the hospital serves at the moment, as many are senior citizens, the frail who can hardly walk?”

He pointed out that this generation of taxpayers had, during its productive years, helped to support the hospital.

“Where are they expected to go for medical treatment to which they are morally entitled to the Cape Flats perhaps?”

But Mr Alan Barnard maintained that Dr Sutton wanted merely to “maintain the status quo whereby the people of Green and Sea Point retain a facility for their benefit to the detriment of others who are in a greater need”.

Clearly the elderly in Green Point and Sea Point are going to put up stiff resistance to the closure of this facility.
Management buys out CIB corporate subsidiary

By Ann Crotty

Latest development in the CIB saga is the decision by the management of CIB's Corporate Finance subsidiary to effect a management buyout.

The decision apparently followed discussions between CIBCF's management and Pruma management (which now controls CIB). These discussions indicated that CIBCF's strategy was not complementary with that of Pruma.

CIBCF management has acquired the entire issued share capital of CIBCF for an undisclosed sum. In terms of the agreement the name of the company will be changed and management states that it is currently reviewing its strategic position and an announcement in this regard will soon be made.

It was also announced yesterday that CIB is no longer active as a market maker in Eskom ELCI stock.

CIB developed the ELCI stock in early 1989 and had been making a market in it since March 1989. Market sources indicate that the Cape bank suffered heavy losses on this front chiefly because the market conditions turned against them with interest rates increasing and liquidity drying up. Dealers point out that in this sort of environment ELCI proved to be too illiquid and too complex to be successful.
Royal announces two listings on JSE

By Ann Crotty

Royal has announced the details of the R173.9 million acquisition of Sapco and Ferro, which includes the creation of two new listings on the JSE — Roychem in the chemicals sector and Royfood in the food sector.

The restructuring and the rights issues involved (which have been underwritten by a major financial institution) will see Royal holding 65 percent of Royfood and 58 percent of Roychem.

Royfood will have 97.4 million shares in issue. Given the issue price of 33c a share, this attributes a total value to that company of R231.4 million.

Sapco represents approximately 25 percent of this value, equivalent to R113.6 million, which is the amount that minority shareholders are being asked to provide.

Royfood’s other major asset is RBN. It also has Kellog’s and Manhattan.

Roychem (which will comprise recently acquired Ferro and Holpro-Lovasz) will have 48.2 million shares in issue.

The issue price of 36c attributes a value of R170.3 million to this company. Minority shareholders will hold 42 percent in exchange for contributing R52.9 million by taking up the rights offer.

The R52.9 million will fund the R38 million acquisition of Ferro, plus R3 million transaction and holding costs.

In addition, there is an R11.9 million recapitalisation of Holpro-Lovasz, which is being funded through this rights issue.

On the basis of the issue prices of the Roychem and Royfood shares, the deal attributes a value of R446.7 million to Royal.

Royal chairman Vivian Immerman describes the transaction as an ideal opportunity to unlock the value in Royal and Royhold and to give our shareholders a direct participation in our operating activities at attractive returns.

Royal and Royhold, which holds 52 percent of Royal, and the controlling shareholders of these two companies have agreed to renounce their entitlements to subscribe for shares in Royfood and Roychem to the minority shareholders in Royal and Royhold.

This means that the holder of every 100 shares in Royal will be entitled to subscribe for 50 Royfood at 33c a share and 30 Roychem at 26c a share.

The holder of every 100 shares in Royhold has the same entitlement.

The decision to go for separate listings in the food and chemicals sector enables Royal management to access the much better ratings enjoyed by these sectors.

This means that the funding of the acquisitions can be done at a more attractive rating for Royal management, one that is more in line with the assets that have been acquired.

According to management, pro-forma earnings for the year to February 1991 are 24.9c for Royfood and 27.1c for Roychem.

The issue price for Royfood thus represents a prospective P/E rating of 13.4 times. And that for Roychem represents a prospective P/E rating of 9.6 times.

This is in line with the average P/E ratings for the two sectors.

The food sector is currently on an average (historic) P/E of 13.3 times. The chemicals sector is on an average (historic) P/E of 8.5 times.

If Royal management had decided against separate listings and issued additional Royal shares to fund the acquisitions, it would have had to consider a P/E rating of eight times, which is the average for the industrial holdings sector.

Sapco and Royfood are regarded as the more important leg of the deal and, according to analysts, the quality of Sapco and Royfood’s other assets would suggest a rating more in line with the P/E of 22 times that is enjoyed by Cadizweeps.

As the group becomes more familiar to the market, and presuming that it performs in line with current expectations, the share may move towards this sort of rating.

Although there will be 98.7 million Royfood shares in issue and 48.2 million Roychem, the market will not be awash with these shares as they are allightly held — with dominant controlling shareholders being supported by firm institutional holders.
Royal takes over Ferro for R38m

By BLAISE HOPKINSON, Business Staff

FERRO Industrial Products has been taken over by the Royal Corporation for about R38m. This follows the cautionary announcement last week that the takeover of an undisclosed company was about to take place.

In December the group announced it had taken over the SA Preserving Company (Sapco) from Del Monte Foods International for R113m. Ferro was bought from its US-based parent.

The acquisitions present the group with funding requirements of about R162m, plus R119m needed to recapitalise the existing chemical business of Helpro Lovax, bringing the total amount required to R173m.

Funding

The funding is to be by means of a combination of share issues of placement shares in Royfood and Roychem at issue prices of 335c and 286c respectively, by rights issues in Royfood and Roychem and through debt funding in Royfood.

The restructuring and the rights issues involved, which have been underwritten by a major financial institution, will see Royal holding 55 percent of Royfood and 58 percent of Roychem.

Royal will have 974m shares in issue. Given the issue price of 335c a share, this attributes a total value to that company of R321m.

Fedfood, through subsidiary Patoma Foods, has strengthened its sub-tropical fruit business with a R55m takeover of Mango Man.

The deal, announced yesterday, is set to make Fedfood SA’s largest processor and marketer of sub-tropical fruit products.

Fedfood made its first move into the fruit business when it acquired Patoma Foods, which processes, exports and markets sub-tropical fruits and vegetables, in a R9m deal last year.

The latest development in the CIB saga is the decision by the management of CIB’s Corporate Finance subsidiary to effect a management buyout.

This apparently followed discussions between CIBCF’s management and Prima, which now controls CIB. These discussions indicated CIBCF’s strategy was not complementary to that of Prima.

CIBCF has acquired the entire issued share capital of CIBCF for an undisclosed sum. In terms of the agreement, the name of the company will be changed and management states that it is currently reviewing its strategic position and an announcement in this regard will soon be made.

It was also announced yesterday that CIB is no longer active as a market maker in Eskom ELGI stock.

Anybody who thinks the Perskel saga ended with the sale of Mr Manny Simchowitz’s stake to National Pers for R18.5m won’t agree. Last Friday does not realise the significance of the deal.

In terms of the deal, unlisted Naspers bought a stake of 25 percent in Perskel, the controlling shareholder of Perskel.

The other major shareholder of Perskel is now Rembrandt with 24 percent, a shareholding it acquired for its role as white knight in the dawn raid on Perskel by Mr Simchowitz just before Christmas.

Developments yesterday on the JSE suggest that Perskel might not be taking the deal, which effectively gives a long-standing rival virtual control, lying down.
UAL facing JSE wrath

By Ann Cretty

It looks as though the JSE and UAL are lining up to do battle in an attempt to resolve the position of the long-suffering Manserv minorities.

In a move that could pitch two high-profile financial institutions against each other in a court battle, the JSE says it will instruct its attorney to draft the necessary papers and "to proceed to protect the rights of the minority shareholders in Manserv through the legal process".

At issue in a JSE/UAL battle is a letter sent by UAL to the JSE last April.

The letter was sent on behalf of Financial Ltd stating that R1.5 million had been deposited as security for the offer to the Manserv minorities.

On the basis of this letter the JSE agreed to release the shares that had been pledged with attorneys.

These shares represented the 89 percent Manserv stake that Naas Ferreira (acting on behalf of Financial Ltd) had bought in February '90 - they had been pledged with attorneys to ensure that an offer to minorities would be made.

They were to be held by the attorneys until such time as a suitable bank guarantee was lodged with the JSE.

What was not made clear in the UAL letter, and only became clear subsequently (after the shares were released), was that the funds with UAL were financial rands.

These could not be used to fund the offer to minorities without permission of the Reserve Bank.

The Bank did not grant the permission. According to Charles van Staden, assistant GM of the exchange control department at the Bank, in terms of exchange control regulations the use of financial rands in this context requires that Financial Ltd submit an application to the Bank.

"We have not received such an application," he says.

Mr Van Staden says the Bank is only involved in the issue because Financial Ltd was attempting to use financial and not commercial rands to effect the minority purchase.

Last November the issue became apparently even more hopeless for the Manserv minorities when the Bank blocked the R1.5 million on deposit at UAL.

This was part of a wider move aimed at establishing whether or not Naas Ferreira and other parties had been involved in a number of financial-related frauds.

Having been left out in the cold for the best part of a year, it seems that the Manserv minorities (led by Trevor Nel) have now persuaded the JSE to proceed against UAL.

What is at issue is the legal standing of the UAL letter.

Last year the JSE said it took the letter to represent an undertaking by UAL that an offer to minorities would be effected using the R1.5 million and therefore released the shares.

Mr Nel argues that this position obliges UAL to make good the offer to minorities.

For its part, UAL is emphatic that the letter was no more than a "banking letter" and that it was merely acting as a middleman for Financial Ltd without knowledge that the JSE was holding security.

UAL director Tim Sewell says the letter does not put any obligation on UAL and, given the Reserve Bank's attachment of the R1.5 million deposit, believes that UAL no longer has any ability to do anything to resolve the situation.

But he notes that with the Bank's permission the R1.5 million financial deposit could be converted into commercial rand (using the discount) and the minority offer then be effected. Mr Nel's view is that UAL should then make good the amount of the discount.
Uncertain market fails to halt unit trust growth

GILLIAN HAYNE

Investors continued to put money into unit trusts in 1990 despite uncertain share market conditions and, although the short-term outlook for 1991 was bleak, the trend seemed set to continue, Association of Unit Trusts chairman Roy McAlpine said yesterday.

Figures released by the association showed that in the past 12 months sales of unit trusts rose 53% to R2,11bn compared with R1,38bn for the same period in 1989, while repurchases amounted to R985m, 21% up from R811m. This resulted in a net inflow of business of R1,12bn, 98% up from the previous year’s R563m.

These figures were achieved on the back of 168,000 new accounts, which brought the total number of unit holder accounts to 729,000. The industry ended 1990 with 36 trusts having total assets of R7,6bn, 15% up from the R6,8bn recorded at the end of 1989, distributed between 31 trusts.

McAlpine stressed that unit trusts continued to be a good long-term investment.

"With the JSE All-Share Index declining by 8,8% over the year, the general equity funds did well to achieve an average total return (that is capital appreciation plus income distributed) of 7,8%," he added.

Of the 13 general equity funds, seven have been in existence for five years and achieved an average return of 21,6%. For the same period inflation averaged 15,05%.

McAlpine confirmed that although general equity trusts attracted most investor interest, high interest rates and an unsettled equity market had helped income funds enjoy a record inflow for the quarter.

The eight income trusts achieved a total return of 18,7% over the year.

By contrast, the specialist equity trusts recorded a negative 5% return for the year although for the five-year period they achieved an average total return of 15,2%.

McAlpine noted that investors could now participate in many different sectors of the equity market.

"For the investor wanting a balanced portfolio and spread of investments, general equity trusts are recommended while, for the investor who wants a more focused portfolio and who is prepared to accept a higher level of volatility, there are the specialist equity trusts," he said.
IDC ready to pump R10bn into new industry

By KEVIN DAVIE

JOHANNESBURG. — The Industrial Development Corporation (IDC) has billions of rands available to promote new industries, if the correct opportunities can be identified.

IDC MD Carel van der Merwe said in an interview yesterday that it could raise R10bn in the next five to six years on a range of new projects. Projects valued at R21bn were under investigation, but not all would get the go-ahead.

Of the R10bn, R2bn could be raised on foreign capital markets, R3.5bn from IDC profits and the remaining R4.5bn from the sale of assets such as the IDC's substantial shareholdings in Sasol and Foskor.

"Capital is not a limitation, if the opportunities are there," Van der Merwe said.

He said a valid criticism was that the IDC had too much tied up in mature investments such as Sasol and Foskor. But this shareholding could be sold as and when funds were required.

Planning for the privatisation of the phosphate manufacturer was proceeding, only requiring a more favourable market and the go-ahead from government.

Van der Merwe said this could take place later this year. Two possibilities were selling to a group or consortium, and/or listing part of Foskor on the JSE.

The IDC, which released its annual report yesterday, created 9,400 job opportunities last year by investing R358m in industrial financing under its special low financing scheme to replace imports. Van der Merwe said these figures showed the high cost of creating new jobs in SA, because typically the IDC only financed buildings and plant, the balance of the costs being financed by commercial banks and shareholders. Of total borrowings of R646m raised last year, R367m came from foreign sources. An after-tax profit of R437m (up 39%) was reported and a surplus of R53m realised on the sale of investments.

Total funds in this, its 50th year, are at R4,8bn (R4,2bn).
Merger to create banking colossus

JOHANNESBURG — UBS, Volkskas, Allied and Sage Financial Services have agreed in principle to merge their interests to create the largest financial institution in South Africa.

The mechanics of the agreement will be announced shortly, the companies promised yesterday.

Recent figures suggest that the new financial services giant will have combined assets of about R50bn, and after-tax earnings of about R400m.

By contrast, the present banking leader Standard Bank Investment Corporation has assets of about R32bn, and its last year's attributable earnings were R333m.

Ed Heri Rudolf, director Mr Alan McConnachie emphasised that Allied would probably retain its own identity, its own branch network, and its branch network for a "couple of years", but over time, with the formation of one computer system and one treasury, rationalisation would take place.

Allied chairman Mr. Norman Alborough is on record as saying Allied's separate identity was "not negotiable".

Analysts saw the rationalisation opportunities as the main benefit of the deal.

They said that the country was "over-banked", and would benefit from the economies of scale which would lower technological costs.

The merger would strengthen the equity base, and help defer the need to raise further capital.

Reserve Bank Governor Dr. Chris Stals gave tacit approval to the creation of a super bank last September saying "We have no objection, this is in line with our thinking on rationalisation in the sector."
GOVERNMENT will soon introduce a programme to privatise local government services in an attempt to stimulate small business opportunities and create a public culture favouring privatisation.

Office of Privatisation CEO Jasper Nieuwoudt yesterday refuted assumptions that government had put the privatisation of the "big names" — Eskom, Transnet and Foskor — on the back burner.

Nieuwoudt said Institute of Town Clerks president Raan Pienaar would be seconded from the Kimberley Town Council to the Department of Privatisation and Deregulation as chairman of a new local government privatisation unit from February.

Pienaar's brief was to help municipalities appoint management consultants to assess the cost effectiveness and efficiency of departments.

The Privatisation Unit would not interfere with autonomous local authorities, he said.

Nieuwoudt said efforts were continuing to prepare Eskom, Transnet and Foskor for privatisation for Stage Four of the Commercialisation Programme — the stage prior to privatisation.

The final decision would be up to government, he said.

While extra-parliamentary opposition to privatisation of government assets would have to be considered, Nieuwoudt said he doubted government would stall once at that stage.

The big challenge facing government was to show that free enterprise would benefit all South Africans.

The privatisation of Iscor had not sufficiently demonstrated to the man in the street that privatisation would change his day-to-day life. But the privatisation of municipal departments would change anti-privatisation attitudes, he predicted.

Nieuwoudt said opposition to privatisation could be expected as municipal officials' salaries were graded according to the city's budget, which would change with privatisation.

However, Pienaar would look into grading mechanisms.

There were a potential 83 local government services that could be privatised in a single municipality.
POWERTECH/YELLAND

FIRST STEP

**FOX** F/M 15/11/91.

POWERTECH's proposed acquisition of YELLAND Technology, through its 50%-owned Brown Boveri Technologies subsidiary, is not expected to have much effect on the group's earnings — at least in the short term.

However, the Yelland takeover will certainly expand Powertech's share of the electrical equipment market and improve its research and development capabilities in the sector. Further acquisitions in some of Powertech's traditional markets, such as electrical cabling, batteries, lighting and power equipment, are expected this year.

Powertech chairman Peter Watt says the company is looking at several other takeover candidates. With the slump in the economy, high interest rates and cutbacks in capital spending there should be some candidates around.

Certainly, the Yelland deal appears favourable to Powertech. The group, Altron's star performer, is offering Yelland shareholders 81.5c a share, valuing Yelland at R11.5m, which is just above net asset value. As part of the terms, the Yelland directors undertook to enter into three-year restraint-of-trade agreements.

Watt says that if the deal is successful most of Yelland's 200 staff, as well as most of its directors, will be retained in Brown Boveri Technologies, a joint venture between Powertech and Brown Boveri in Switzerland. He says opportunities for Powertech to rationalise involve reductions in R&D spending rather than cutting jobs and other overheads.

Listing to terminate

With Yelland's directors, who hold 69.4% of its shareholding, recommending that shareholders accept the offer, it is reasonable to assume that Powertech will secure the support needed to complete the acquisition. Powertech intends terminating Yelland's listing.

Yelland's share price languished at around 45c for most of last year — a far cry from the 140c when the company was listed in 1987 — and only started rising to the current 76c after the company announced in October that it was involved in discussions with Powertech.

Yelland announced disappointing results for the February 1990 year — with attributable income down nearly 30% — though EPS rose from 4.9c to 9.4c in the next two months owing to internal rationalisation. Chairman Jack Yelland warned at the midpoint that earnings would be lower in the second half.

The decision by the directors and majority shareholders to sell at this price suggests that Yelland's future is unlikely to be easy. Most shareholders will probably follow the line taken by Yelland's directors and accept the offer.

Simon Cashmore
JSE LISTINGS FM 18/1/91

END OF A TREND?

Growth in the number of companies listed on the JSE came to a standstill over the past two years. The result of last year's new listings and delistings was a net loss of eight companies. During the 1986-1988 listings boom a net 256 companies came to market.

Some of the anomalies in the 31 delistings in the accompanying table are Furniture Fair, converted into Marln by a reverse takeover, and Atkinson-Oates, where only pref shares were still listed, the ordinaries having been acquired by McCarthy Group a decade ago. Two others were liquidations and Sequel was delisted after failing to get assets in its cash shell. Five DCM listings were terminated but the sector gained Norvec Manufacturing and Environmental Resources.

Most delistings were schemes of arrangements, where minorities were taken out. A fair number also relate to groups cleaning up messy structures so that investors can clearly identify the best entry point. Fewer than half came to the JSE during 1986-1988.

The slowdown in net new listings – and several more delistings have already been announced this year – has triggered fears that a trend towards delistings has started. Arban and Spectrum were delisted this week.

Problems for JSE

Bank of Lisbon International says in its latest Economic Focus that deep-rooted problems facing the JSE, particularly illiquidity, are illustrated by the trend Delistings are threatening to diminish the function of the JSE in facilitating the raising of new equity.

However, the picture may not be that gloomy. The recent statement by mining house Gencor that it is investigating breaking itself up into separate companies could be the harbinger of new corporate structures. Market talk is that another Sanlam offshoot, industrial holding company Sankorp, is thinking along the same lines.

If the large mining house conglomerates are ever broken up by having off their separate companies, marketability on the JSE would be improved. This could also stimulate the return of the private investor whose average share of daily trade on the JSE has dwindled in the past three years from around 20% to 10%.
Rupert boosts JSE status

From page 1

Robin McGregor, chairman of McGregor's On Line Information, calculates that Rembrandt's sphere of influence on the JSE has soared from 7.9 percent 18 months ago to a current 14.3 percent as a result of its forays into the food, mining, printing and finance industries.

He adds: "Rembrandt strongly protests its partnership role in the majority of its investments. However, its 30 percent-plus holdings in major South African groups undoubtedly gives it - at the very least - a major influence.

"It is a strategy not unlike that of Anglo American and SA Mutual, which also have a number of major investments below 50 percent and which also claim to be passive partners."

Mr McGregor draws attention to the recent Margo recommendation whereby ownership of more than 30 percent of the equity of a company would require an offer to be made for the balance of the shares.

Such a requirement would have the effect of reducing the concentration of control so characteristic of the South African business scene.

"However, if the Margo recommendation is not made retrospective, the horse is already far away and will never be reined."

Mr McGregor is especially incensed that the Rainbow deal went through without any objections having been raised.

"In no other industrialised country can a producer hold more than 25 percent of a market unless that share is achieved by organic growth."

He urges that steps be taken to increase competition and thereby reduce inflation.
GDM Finance takes over Repfin Holdings

TRADE finance company GDM Finance has announced its acquisition — for no consideration — of troubled competitor Repfin Holdings.

This is GDM Finance's third acquisition in the past year.

It acquired clearing and forwarding group African Shipping in February 1990, which then acquired and merged its business with another clearing and forwarding group, Fowlie & Whylock in September 1990.

The deal, which takes effect from January 1, will see GDM Finance acquire the total shareholding of Repfin Holdings (formerly the Ewing McDonald group) and its subsidiaries from a group of Repfin's creditors.

GDM Finance MD John Cowper said at the weekend that "the move consolidates the group's position in the South African confirming market and boosts the number of clients on its books to over 200."

"As we collect Repfin's debts, the funds will be paid to the banks and utilised to reduce the company's loan account," he said. Cowper did not expect the acquisition to have any effect on GDM Finance's earnings for the year to April 1991, but he said the additional business should benefit the group in the long term.

GDM Finance has negotiated the disposal of Repfin's international procurement company and overseas commitments to UK procurement company Meridian Corporate Services.

Both the Repfin Holdings deal and the sale of Repfin's overseas subsidiaries have been approved by the Reserve Bank.

The name of Repfin Finance — the Repfin group's major operating company — has been changed to GDM International with effect from January 14.

Cowper said that GDM Finance had achieved a compound annual growth rate in earnings of 75% since its listing in 1987.
Privatisation a theme of session

CAPE TOWN — Privatisation and deregulation are themes of many of the Bills to be debated this parliamentary session as government continues its efforts to remove historic barriers to economic activity and reduce the state’s role in the economy.

Many of the measures do not represent new efforts at privatisation, which government relegated to a low profile after ANC and union opposition to the programme, but rather the endorsement of projects which started more than a year ago.

The Businesses Bill, which is before a joint committee of Parliament, is one of the most significant attempts at removing restrictions that have inhibited widespread economic development in the past.

Its objectives are broadly to deregulate the system of licensing and trading hours and it will replace the temporary measure proclaimed by former President PW Botha in 1989 to deregulate the system.

Privatisation

markets and to sell their rights on the free market rather than being forced to lease them to the state.

Other Bills remove race and gender restrictions from the mining industry.

The Mining Rights Amendment Bill scraps measures which restrict certain race groups from buying prospecting and mining rights, while the Mines and Works Amendment Bill eliminates discriminatory measures against female mine workers.

The Diamonds Amendment Bill proposes greater autonomy for the SA Diamond Board. It proposes that state funding of the board should end and state control of its funds be curtailed.

The Coal Amendment Bill proposes the scrapping of the state’s contribution to a levy paid by collieries on coal sold or used for industrial purposes.

LESLEY LAMBERT

The Bill repeals all restrictions on trading hours other than on Sundays and religious holidays. It proposes that a business licence should be refused only if an enterprise poses a threat to public health or safety, and that many businesses now subject to licensing should be exempt.

Privatisation and deregulation in the mining industry are a common theme in several Bills in the first batch tabled in Parliament.

The Minerals Bill consolidates and rationalises nine different mineral laws in one Act and aims to promote government’s policy of privatisation and deregulation in the mining industry.

It proposes to do so by gradually privatizing state mineral rights, allowing the holders of mineral rights to find their own

□ To Page 2

National Energy Council coal manager Jan Bredell says the proposed amendment is “part of a continuous effort by government to critically review state expenditure and to decrease the state’s involvement in private sector activities”.

The Petroleum Products Amendment Bill proposes that the authorities prescribe minimum and maximum, rather than fixed, fuel prices. The fixed pricing system does not respond quickly enough to price changes in crude oil, it is administratively burdensome and it inhibits competition, says a Department of Mineral and Energy Affairs spokesman.

The General Law Amendment Bill reinforces previous legislation which cancelled restrictions on the acquisition and ownership of property and is widely regarded as a precursor to the scrapping of the Group Areas and Land Acts.

□ From Page 1
Southern unit trusts raise cash holdings

After the poor performance of most sectors of the JSE and the disappointing gold price, Southern Unit Trusts increased liquidity in its two funds for the quarter to December 1993.

Portfolio manager Carel de Rudder said yesterday that the liquidity levels in Southern Equity Fund had risen from 22.2 percent to 27.1 percent, while liquid assets in Southern Mining Fund had risen from 16.5 percent to 18.2 percent.

Mr de Rudder said Southern had reluctantly decided to increase its liquidity levels.

"I would estimate the unit trust industry is holding R1.5 billion in cash at the moment. There will be a stampede back into shares if the market starts to rise again," he said.

He said although shares were not cheap, prices were good in relation to returns.

"Dividend returns are still low, but dividend cover has improved considerably since 1985 and most industrial companies will have no difficulty in maintaining dividends.

"Unlike the 1984 scenario, companies generally have less debt and fewer foreign loans and have also reduced their inventories considerably.

"This will make it easier to maintain profitability and investors can expect substantially improved profits by 1992," Mr de Rudder said.

Southern Equity Fund held seven percent of its assets in gold shares at the end of the quarter (down from 10 percent) and 19 percent in mining financials. Other mining-related holdings decreased from 13.5 percent to 12 percent, while industrials made up 34.9 percent of the portfolio.

The Mining Fund decreased holdings in gold shares to 21.4 percent, with mining financials increasing to 32.2 percent (30.7 percent).
Boldness pays off for Old Mutual funds

By Derek Tommey

Buying cheaply is held to be the key to investment success. But few investors actually have the nerve to buy when a market is depressed, with the frequent result that their successes are limited.

But this is not the case with the Old Mutual Investors Fund.

Figures issued yesterday show that in the past quarter, when most of the other unit trusts kept out of the market and built up their liquidity, Old Mutual had been a fairly strong buyer of both gold and industrial shares, particularly of Iscor.

Such boldness probably accounts for the fact that it has shown the highest growth of all the unit trust over the past five, seven, and 10-year periods, with average annual returns in these periods of 24.5 percent, 24.4 percent and 23.8 percent respectively.

Marco Colitti, senior portfolio manager, said all Old Mutual unit trusts had been following a cautious buying programme. Money was continuously flowing into them from investors and from dividends.

The aim was to keep their liquidity below 20 percent, so the money had to be invested at the end of December the liquidity levels of the four funds ranged from eight to 28 percent.

The funds bought shares they believed offered value at a reasonable price and were continuing to do so this quarter.

He added that even if the share market remained depressed, the fund would probably have to struggle in the next three or four months to get the shares they sought.

Old Mutual's policy of buying shares at times when the share market was low and looked likely to remain so for some time was explained by Rowland Chute, assistant general manager, investments.

He said: "The trusts rely on superior share selection to sustain long-term performance, rather than trying to guess short-term market trend reversals."

It is clear that by not going liquid at times of market weakness, the funds are not so well cushioned against a fall in share prices.

This is reflected in the limited growth in the unit price of the Investors' Fund, which ended the quarter virtually unchanged from the end of September.

On the other hand, the policy ought to lead to much stronger unit growth than that achieved by the excessively liquid funds when the market turns and rallies.

Among the shares the Investors Fund believed worth buying in the December quarter were those of mining holding company Amgold, investee holding companies Minanco, Amco, conglomerate Barlows, leisure share Kersaf, chemical share AEC, computer share TSI, food share ICS, and, last but not least, 10,700,000 shares in Iscor, increasing its holding to 38.8 million shares worth R70.3 million.

Rowland Chute said the Old Mutual expected a good medium-term performance from Iscor and was continuing to buy the share at current levels despite scepticism in the market.

The fund's 10 largest holdings at December 31 were Anamint, De Beers, Ruchemont, Rembrandt, Safren, Barlows, Iscor, Anglo, Barlows, JC and Gencor.

The Old Mutual Mining Fund had an active investment quarter, although the value of its units dipped by about 10 percent. It paid 7.89c a unit.

The mining fund trimmed its holdings of coal shares, and reduced its holdings of De Beers from 184,000 to 170,000 shares.

It sold all its Driefontein, Eldorado, Impala and Massina shares.

Purchases included more than 900,000 ET Cons, bringing the value of its stake in this mine to more than R4.3 million.

ET Cons is a gold mine in the Eastern Transvaal which said last October it was prospecting for platinum, nickel and copper on an adjacent farm.

The mining fund bought shares in Southvaal, Barplats, in granite producer Keeley, in Amgold, in Lonrho and 10,000 shares in Iscor.

Top 10 shares: at December 31 were Anamint/De Beers, Anglo, Assore, Sasol, JC, Gencor, Samancor, Lonrho, Amgold and ET Cons.

虽然的JSE gold index dropped 25 percent in the December quarter, the unit value of Old Mutual's Gold Fund dropped only 13.3 percent after paying a 3.7c dividend. This fund was also a heavy buyer of ET Cons.

It bought shares in WR Cons, Kross, Zandplan, Beatrix, Driefontein, Kloof, Lahaulan, WesWits, GFS, Amgold, East Dagga and New Central Wits.

The Industrial Fund weathered the quarter with a 6.8 percent drop in its unit price. Purchases included GDM Finance, FIT, Amco, Barlows, Malbak, Mallgold, Ruchemont, Toco Holdings, Uniserv, Inter Leisure, Sun International, Sasol, D'Aria, Dimension Data, McCarthy, Holdains, Synpak and Iscor. It sold its Premier shares.

The fund's top 10 were Sun International, RBC, Rembrandt Group, Pick 'n Pay, Iscor, Ruchemont, Waltons, Barlows, FIT, Toco Holdings and Amco.
Old Mutual trusts' assets dip

TOTAL assets of Old Mutual's unit trusts declined in the last quarter of 1990, reflecting the decline in equity markets.

Assets at end-December totalled R2,44bn, down from the R2,53bn at end-June.

The liquidity levels of the unit trusts were lower than other funds, apart from that of the Old Mutual Income Fund which invests in the money market. Its liquid assets represented 80,81% of its portfolio at the end of the quarter.

Liquidity of the Investors Fund was 17,59% (17,4% at the end of the June quarter) and for the Mining Fund 21,98% (15,63%), while liquidity of the Industrial Fund - launched in May last year - stood at 9,97% (14,9%).

The Gold Fund, which in the first half of 1990 adopted a policy of being almost fully invested, had a liquidity of 15,37% at the end of December.

Assistant GM, investments, Rowland Chute said the reason for the low liquidity was that the funds opted to select quality shares to sustain long-term performance rather than attempt to outguess short-term market-trend reversals.

More than 7,600 new accounts in the Investors Fund were opened during the quarter, and the fund grew by R91m.

With greater returns available for cash investments, the Old Mutual Income Fund was the best performer in the stable, ending the year to end-December with a return of 17,9% on its repurchase to repurchase price.

The quarterly distribution for the Income Fund was 5,57c a unit, bringing the total for the year to end-December to 16,79c.

The Mining Fund declared a quarterly distribution of 7,89c a unit, giving a total of 15,94c, while the Gold Fund declared a distribution of 3,79c, bringing its total for the year to 8,18c.

The Investors Fund declares distributions only at the end of the March and September quarters. The yield of the fund over the year to end-December was about 5,5%.

Chute said the Income Fund had not played the interest rate cycle. "Although the returns could be higher in the shorter term, the risk also increases."

A common favourite for all funds was Iscor, in which the Investors' Fund, Industrial Fund and Mining Fund held a combined R91m at quarter-end.

Chute said Old Mutual expected a good medium-term performance from Iscor and had continued to buy at current levels in spite of scepticism in the market.

The 10 largest holdings in the Investors Fund were Anamint/De Beers, Richmont, Rembrandt, Safren, Barlows, Sasol, Anglo American, Iscor, Johannesburg Consolidated Investments (JCI) and Gencor.

The Mining Fund's top 10 holdings were Anamint/De Beers, Anglo American, Associated Ore and Metal Corporation (Assore), Sasol, JCI, Gencor, Samancor, Lonrho Pte, Anglo American Gold (Angold) and Eastern Transvaal Consolidated (ET Cons).

The top 10 holdings of the Gold Fund were Anglo American, Winelands, Zandpan, Gold Fields of SA, ET Cons, Driefontein Consolidated, Kloof, Southvaal, Kinross and Western Deep.
Civil debt judgments on increase
By Damir Gubela

The average number of monthly summonses for debt, civil judgments for debt and sequestrations rose sharply in the 10 months to October last year, figures released by the Information Trust Corporation show.

In 1989, the average number of monthly summonses issued was 66,000. This figure rose to 73,000 in the ten months to October 1990 — an increase of 11.5 percent.

Civil judgments for debt were running at a monthly average of 32,700 in 1989. In the ten months to October 1990 the figure went up to 37,500 — an increase of 11.2 percent.

However, the picture is gloomier when looking at the average value of these judgments.

The average monthly value of civil judgments for debt soared to R16 million in the first ten months of 1990 from R9.3 million in 1989.

Sequestrations were running at an average of 250 a month in the first 10 months of 1990, compared with 218 per month in 1989.

Although the trend is upwards, as would be expected in a recession, the number of sequestrations is still far from reaching the peak of 359 a month in the 1986 recession.

ITC chairman Paul Edwards says the debt position of individuals is likely to improve only in mid-1992.

"An improvement in the debt position of individuals tends to follow an economic recovery by about six months," he says.
DIRECTORS’ FEES

WATCHING THE TOP LINE

QUALITY OF MANAGEMENT IS HARD TO MEASURE — AND REWARD

Are company directors inclined to feather their own nests at the expense of shareholders? Under normal conditions, nobody seems to bother much. But when, as now, profits are under pressure, there is a sudden reawakening of interest as to who gets precisely what out of the corporate profit cake — and sooner or later it gets asked why directors’ remuneration continues to increase when dividends have been pegged, or even passed.

The question may be logical, but the subject is complex, not least because there is no direct relationship between the respective amounts paid to directors and shareholders, except to the extent that dividends will obviously be influenced by the performance of those who manage the business.

Essentially, the distinction that needs to be drawn is that directors are rewarded for managing the business, while shareholders are rewarded for the provision of the risk capital that makes the business possible.

The least complicated situation is where the directors are, in effect, employees with a minimal direct stake in the ownership of the assets they manage. In such cases, their remuneration can be viewed in much the same way as the remuneration of any other category of employee and nobody (especially an employee) would seriously suggest that salaries and wages in general should fluctuate in line with corporate profits.

More complex is the situation where the directors also own the business. Here, they obviously have a right to structure their total income package — comprising a mix of directors’ fees and dividends — to suit their own requirements and the best minority shareholders can reasonably hope for is that policies will remain fairly constant from year to year. If they don’t, it becomes impossible for outside shareholders to assess the share in terms of their own needs (which may or may not coincide with those of the directors/ major shareholders), and the result in investment terms is more likely to be frustrating than rewarding.

But getting back to the main question of how directors are rewarded in relation to shareholders, the University of Pretoria’s Bureau of Financial Analysis (BFA) was asked to throw some light on the subject by producing four ratios relating directors’ remuneration to total assets, turnover, pre-interest profit and equity dividends respectively, for the entire industrial sector of the JSE since 1981.

The results are summarised in the accompanying table, which shows how these ratios changed between 1981 and 1989 (the last year for which sufficiently comprehensive data was available) for each sector and for the industrial market as a whole. Ratios are calculated on the basis of total directors’ remuneration (fees plus payments for other services) expressed as a percentage of the four different comparatives.

From this data it is obvious that, over the eight years, it has been far more lucrative in terms of income growth to be a company director than a shareholder, the ratio in this instance having moved up from 5.5 to just over 7. The position would have looked even worse had this exercise been done in 1986.

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FNB in bid for Allied

JOHANNESBURG — The Allied Group's 48,000 shareholders are in line to make a handsome profit. After weeks of speculation about the possible future of Allied, a new suitor emerged yesterday when First National Bank presented proposals to acquire the group.

First National has given no details of the price it is proposing to pay for Allied's shares and whether it wants to acquire all or only part of the equity.

Largest banking group

However, at the request of Allied the Johannesburg Stock Exchange suspended trading in Allied shares. This suggests that the offer by First National is above the current market price of 295c.

First National managing director Barry Swart said he was awaiting a reply from Allied directors and further information would be made available as soon as possible.

A merged Allied-First National Bank would have assets totalling around R47 billion, making it the largest banking group in the country in terms of assets.

It would be slightly bigger than the Standard and also slightly bigger than a merged Volkskas-UBS.

Allied's directors were at a meeting all yesterday and were unavailable for comment.

Mr Swart said that his group had been considering linking up with the Allied Group for some time.

He believed that the Allied had tremendous potential and that the two banks could work well together for their joint benefit.

Many of Allied's senior staff, including the manager director, Mr Kevin de Villiers, are also former First National employees, which should help facilitate cooperation between the two organisations.

Mr Swart said that as a result of acquisition through the share market First National now held 6.3 percent of Allied's share capital.
By MAGGIE ROWLEY
Business Staff

CAPE-based financial services and development company, Masterbond Trust, which is looking to a whopping 200 percent increase in pre-tax profits for the year ending February 28, is negotiating to merge with Pretoria Bank, chairman Mr Koos Jonker said this week.

Pre-tax profits surged to R6 million, well ahead of the forecasted R4 million.

For the second consecutive year assets under its control more than doubled and have now passed the R1 billion level while funds under administration showed a 50 percent increase to R750 million.

The seven-year-old company has grown rapidly in the past two years.

For the year ending February 1990, Masterbond’s pretax profits doubled to R2 million, while managed assets rose from R186 million to R332 million and funds under administration soared to R490 million.

In an interview, Mr Jonker said that financial services, the traditional area of operations, had performed particularly well.

The group recently expanded into specialist investment services through the formation of Capital and Asset Management Services, which now has assets of about R250 million against R150 million during the previous financial year.

**Negotiations**

He has ascribed the growth in financial services to the high real interest rate pattern coupled with uncertainty in stock markets.

Mr Jonker said that negotiations for the group to merge with Pretoria Bank in which it has a 30 percent stake were well underway.

However, details are still being worked out and the scheme of the arrangement is still subject to approval of the board and shareholders,” he said.

Pretoria Bank’s assets stand at about R140 million. Both Mr Jonker and Masterbond Trust’s MD, Mr Johan Brits, sit on Pretoria Bank’s board.

Publicly held

Mr Jonker said Masterbond was looking to further real growth in the 1991/1992 financial year but budgets were still being drawn up.

Masterbond is highly active in the leisure industry and these interests are consolidated under the Masterlease subsidiary which had also had a good year.

He said statistics from Resort Condominium International showed that their Club Mykonos development on the Cape West coast, which falls under a separate company with 70 percent of the shares held by the public, presently accounted for 50 percent of all timeshare sales in South Africa.

**Timeshare sales**

A total of 900 units are planned in the development which is scheduled for completion in the next five years. So far 280 units have been constructed.

A further 96 units will be built this year and work will start on 32 others which will be completed early next year.

Timeshare sales were well ahead of budget and had passed the R9 million in November and R6 million in December.

Total sales in the past four years since the development was launched had totalled about R150 million, he said.
Pyramids escape the noose

By DAVID CARTE

Professor Katz says the shareholders did not want to see the pyramid escape the noose. He had already been working on a plan to get rid of the pyramid and he was the only one who had been successful.

President Terence says the pyramid was not a problem for the company. He had been working on a plan to get rid of the pyramid and he had already been working on a plan to get rid of the pyramid.

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New era opens for investor protection

REVOLUTIONARY legislation affecting takeovers, mergers and insider trading was promulgated last week. The Securities Regulation Code on Take-overs and Mergers (the Code) was published in the Government Gazette. Professor MICHAEL KATZ, one of the Code's authors, reviews the legislation in the other report on this page. DAVID CARTE mentions objections to some aspects of the legislation.

By MICHAEL KATZ

Sunlight is said to be the best of disinfectants; electric light the most efficientuciement. — Louis D Brandeis in Other People's Money.

THE NEW rules are the culmination of much effort by many people over a long time to regulate the securities industry.

The most significant feature of the regulation which is embodied in sections 460A to 460M of the Companies Act No. 61 of 1973, as amended and the Code is that on the one hand it achieves all the advantages of self-regulation by the industry as well as the benefits of flexibility.

On the other hand, there exists a statutory sanction to control breaches of the legislation.

This pattern of regulation is pioneering in character and it is confidently expected that it will be the forerunner for similar regulation in other jurisdictions, particularly the EEC.

Flexibility is indeed an advantage in this sphere of securities transactions, particularly mergers and acquisitions. This is so because almost every merger and acquisition has its own nuances. Thus any effort to legislate comprehensively to cover every possible nuance will be highly complex and both difficult to administer and obey. This has been the unfortunate experience in Australia.

Flexibility will be achieved in S.A. by relying on the spirit of the regulation and its general principles.

What then are those general principles? In commenting on the City Code in England, which has served as a useful precedent for ours, Antony Beevor in Practitioners' Guide to the City Code on Take-Overs and Mergers points out that the Code's objectives are fourfold. It is submitted that this would be of equal application to our Code.

The four principles are:

1. Equality of treatment for all shareholders, large and small.
2. The provision of adequate and timely information to enable shareholders to decide on the merits of the offer;
3. To ensure a fair market in the shares of the companies involved;
4. To ensure that neither the target company nor its directors take any action which would operate to frustrate the offer against the wishes of the shareholders.

What is outside of the scope of the regulation? First, the commercial fairness of transactions. It is not the objective of the regulator or the law to prevent investors from making bad bargains.

Second, competition policy remains the function of the Competition Board and is outside the Panel's powers.

It is also important to bear in mind that the provisions of sections 460A to 460M of the Act and the Code represent an additional overlay of regulation and are not an exhaustive codification of the law applicable to takeovers and mergers.

Other provisions contained in the Act continue to apply as, for example, the application of section 228 of the Act to disposals of major assets. Furthermore, the common law principles also continue to remain applicable, such as the fiduciary duties of directors.

Where companies listed on the JSE are involved, they continue to remain bound by the rules of the JSE. Thus, where an offer to minority shareholders would be required in terms of the JSE's rules, that obligation continues whether or not it would be required in terms of the Code.

It follows that the actors and their advisers have to co-ordinate the interaction of all these applicable requirements.

However meritorious the substance of the new regulatory provisions may be, their effective working in practice will depend much on the procedural attributes of the Panel and its personnel. Much care has been taken to ensure that there will be effectiveness from a procedural point of view.

The Panel will work on a day-to-day basis through its executive director (or his deputy) and, where appropriate, through its executive committee. As is set out in the Code, the executive functions include, either on the Panel's own initiative, or at the instance of any party, the conduct of investigations (including those into suspected insider trading), and the monitoring of relevant dealings in connection with the Code.

In recognition of the fact that speed is the essence in takeovers and mergers, the executive director is available at all times for consultations and rulings. An expedited appeal mechanism also exists.

In England, when the concept of a panel was first introduced at the instance of the then Prime Minister, Harold Wilson, it worked exceptionally well largely as a result of the stature and excellence of its first chairman, Sir Hartley Shawcross.

The mark which he stamped on the Panel gave it a character and reputation which ensured its success initially and for all time thereafter. We are indeed fortunate in S.A. that we will enjoy in Mr Justice Cecil Margo, the first chairman of our Securities Regulation Panel, a man of similar stature, whose presence will undoubtedly contribute to the success of the Panel and its significance to the securities industry.

We look forward to a new era of securities regulation in this country.
Takeover Code watchdog, the Financial Services Board (FSB), due to come into operation on February 1.

This followed the effective rejection by the Allied board on Friday of a counter offer from First National Bank (FNB) for Allied, Volkskas, UBS and Sage Financial Services (SFS) in a new holding company for fear that use of Section 228 of the Companies Act could be overturned by the FSB.

The UBS camp seems to hope that if terms can be agreed before February 1, the merger deal could avoid investigation by the FSB, which will then have more power than there are now to protect shareholders.

However, outsiders believe the UBS is under pressure to reach agreement on the merger of the assets of Allied, Volkskas, UBS and Sage Financial Services (SFS) in a new holding company for fear that use of Section 228 of the Companies Act could be overturned by the FSB.

He made that point on the basis that Section 228 requires only that a majority of shareholders present at an ordinary shareholders’ meeting vote in favour. On Friday, FNB announced its offer for absolute control of Allied.

The offer’s terms were not disclosed but they were reliably said to involve a share swap with a cash underpin amounting to almost 250c an Allied share.

An earlier cash offer by Southern Life for 30% of Allied fell away.

However, at a hurriedly convened board meeting on Friday, Allied’s directors again chose to go along with the UBS and, by implication, rejected FNB’s approach.

FNB’s offer differed materially from the merger proposals by the UBS in terms of which Allied’s assets would be transferred to a new holding company whose shares would, in turn, be distributed to Allied shareholders in payment.

In the past, Section 228 deals have frequently been disallowed by the courts protecting shareholders’ interests. Those rejections have been prompted by judges’ views that Section 228 could be used to circumvent regulations designed to protect minority shareholders’ rights.

Analysts said the Allied board’s decision appeared to have been taken on incomplete information as lawyers were still working on the UBS proposals.

The intention is for Allied’s shareholders to be compensated by means of a special dividend paid in the scrip of a new holding company to be formed to hold the assets of UBS, Volkskas, SFS and Allied.

The effective rejection of its offer has not pleased FNB as it believes several of Allied’s directors closely linked to Sage should have recused themselves. It is particularly concerned that Section 228 procedures are to be employed Shill said, however, that the question of recusal created a distorted impression and claimed that Sage had little influence on Allied’s board.

At Friday’s meeting of Allied’s 10-man board, the UBS option was supported by Shill, Alan Tindall, a director of Sage Properties and a former chairman of Allied who initiated Allied’s contentious marketing and computer agreement with Sage.

Noel Mills, who is the managing director of Sage Properties, Jeff Bortz, one of Sage’s attorneys, and stockbroker Hugh Boonzaier The vote was not taken on a show of hands but “consensus” was assured by Sage’s associates commanding half the votes, company insiders said.
DURBAN — JSE president Tony Norton has warned South Africans to think very carefully before indulging in insider trading after February 1.

On that day, when the Securities Regulation Panel (SRP) comes into being, a “particularly vicious” set of penalties will be introduced for the offence, he says.

"Now, at last, we will get them," Mr Norton says. He says previous attempts to nail offenders had failed because the JSE had been a “toothless bulldog” when it came to policing insider trading.

University of Durban-Westville’s Professor Narendra Bhana, who has researched the subject, says insider trading is rampant and unchecked in South Africa, particularly in the five days preceding company announcements.

Both he and Mr Norton say the new laws will go a long way towards reducing the malpractice, although Professor Bhana believes a couple of areas still need to be tightened up.

From February 1 businessmen and others who use privileged information for their own profit face jail terms of up to 10 years plus a fine of up to R500 000.

In addition, Mr Norton says, they will be exposed to potentially huge civil damages claims.

Professor Bhana believes the authorities will start looking for one or two top businessmen to make examples of.

This, as happened in the Ivan Boesky and other cases in the US, should send shock waves through the business community.

Mr Norton is enthusiastic about the structure and powers of the new panel whose activities will strengthen the perception of the market as being fair and honest and, hopefully, attract smaller investors back to the JSE.

He says the JSE has the lowest level of small shareholder involvement in the world.

One of the panel’s most potent weapons will be its statutory power to interrogate anybody on subpoena, enabling it to dig deep beneath veils of lies, half-truths and nonsense.

Those who refuse to testify can be held in contempt of court.

Mr Norton, who sits on the SRP, also proposes to develop a “stop-watch” computer programme to be used for prima facie investigations to determine unusual moves in share prices or trading volumes in the weeks prior to an important company announcement.
Holdains gains control of Sunvest in JSE bookover

By Jabulani Sibahane

Paper and packaging group Holdains has gained control of Sun Packaging Investments (Sunvest), holding company of Sun Packaging Holdings (Sunpak) and the recently-listed Biopolymers.

Holdains said today it had acquired more than half Sunvest's shares through stock market purchases. It is offering minorities 130c a share.

The acquisition would have no immediate material effect on either earnings or net asset value but benefits were expected in the future.

Sunvest chief executive Jan Strachan said today: "The takeover was a surprise to most of us in the company but we will obviously make the best of it."

On Friday more than 103 million Sunvest shares worth R14.181 million - equal to 40 percent of the company's issued share capital. The share price rose 25c to 130c.

The deal was effected by Martin & Co, which is also Sunvest's sponsoring broker.

According to McGregor's Quick Reference to the JSE, Sanlam had 23 percent, Quarto Nominees (effectively directors) held 8.4 percent and Martin & Co's Sharestock Nominees 11.2 percent.

The directors and Sanlam were the ultimate controlling shareholders.

An analyst said that judging by the size of the deal, either directors led by chairman Tubby Gercke were selling their stake, or there was a re-arrangement of holdings.

Sunvest controls 51 percent of Sun Packaging Holdings, which in turn holds Sunpak.

Sunpak has three divisions which produce white polystyrene trays, laminated polystyrene trays and synthetic paper used in labelling.

The Atlantis-based Sunpak has a remarkable and valuable relationship with one of Japan's largest packaging companies, Sekusui, which has a turnover of $10 billion.

Sekusui only sells within Japan, which opens the way for Sunpak to export Sekusui's patented products.

Another analyst said Sunpak had good growth prospects. The company exported synthetic paper labels for the packaging industry to 20 countries, making it a hedge in various currencies.

Because of the higher export allowances for high value-added manufactured goods, Sunpak's effective tax rate was low.

Sunpak was started by Jan Gercke in 1984 after a career in business dating back to his university days when he founded Palmaurus Trawling to exploit rock lobster at Mount Verna Seamount.
Will Learn Today

Emerging Institutions
UBS, Allied detail plans for merger

Own Correspondent

JOHANNESBURG — UBS HOLDINGS believes it has beaten off competing bids for Allied Holdings after yesterday's announcement of its merger terms with Allied, Volkskas and Sage Financial Services (SFS). It also believes its merger plans will not come under the scrutiny of the new Securities Regulation Panel (SRP) due to come into being on Friday.

The proposed merger is expected by its participants to create SA's largest financial services group, boasting total assets in the region of R50bn.

The merged group will be housed in UBS Holdings, which will be renamed Amalgamated Banks of SA (Absa), and its listing on the JSE is planned to coincide with the disappearance of separate listings for Allied and Volkskas.

If the merger goes through as planned, Absa will effectively be controlled by Rembrandt, the Mine Officials' Pension Fund, the Mine Employees' Pension Fund and SFS, which have agreed to pool their 30.4% interest in Absa into a single holding company. This would have the power to block any transactions requiring special resolutions.

At yesterday's media briefing to announce the merger, little attention was paid to last Friday's counter offer for Allied by First National Bank (FNB).

However, there was an indirect recognition that FNB's approach remains in play as the merger terms include a partial cash underpin for Allied shares — an option not extended to shareholders of the other three merger participants.

FNB did not officially disclose the takeover terms it put to Allied's board last Friday, but reliable company sources valued the cash underpin of FNB's bid in the region of 230c an Allied share.

At the weekend it was suggested that the merger announcement was being advanced to avoid possible investigation by the new SRP and the Financial Services Board as was reported erroneously reported yesterday. Here Hefer, Absa's chairman designate, said the timing of the merger announcement meant the deal would not be subject to SRP attention.

Allied shareholders have been told that their share earnings and net worth are expected to be improved by the merger.

They have been offered 100 Absa shares for 320 Allied, and a consortium headed by the Mine pension funds has agreed to buy half of the Absa shares issued to Allied shareholders at 770c each in cash. That placed an effective cash value of 240c on each Allied share.

The same cash offer is not extended to Volkskas, its shareholders are faced with the prospect of earnings and asset dilution as a result of the merger. Though stockbrokers believe this might be a small immediate price to pay for improved growth prospects.

SFS is to transfer 49% of its principal interests to the group at an effective price of R154m based on the 770c Absa cash underpin. UBS shareholders simply receive Absa shares for their UBS shares.

Some Allied minority shareholders yesterday expressed concern at the merger's mechanics. Peter Brown, the 19th largest Allied shareholder, with over 500 000 shares, said: "It is immoral to push the merger through on a Section 228 ticket, using the vote of only three to four shareholders.

UBS is obviously sidestepping a possible examination by the SRP which will be effective this Friday. A further inquiry is that Allied's board has a strong Sage link, which obviously loaded the decision in favour of the merger."

Norman Alborough, Allied's chairman said the board had taken the decision based on the facts on the table at the time.

First Corp director Stuart Jones said the UBS merger was not a fait accompli and the door was still open for counter offers. "Now that UBS's cards are on the table, FNB is better able to consider its options."

Hefer countered that UBS had chosen the "228 route" as it provided a greater chance for the merger to succeed.

Section 228 requires only that a majority be achieved among the shareholders present at an ordinary general meeting. In terms of Section 311 of the Companies Act, 75% of shareholders in a group or an extraordinary meeting need to approve a special resolution when minority contest plans for a company to dispose of major assets.

Volkskas shareholders have been offered 240 Absa shares for 100 Volkskas shares, translating into R18.48 a Volkskas share if the new Absa shares were worth the 770c cash alternative being extended to Allied's shareholders.

The new Absa board will be reconstituted to reflect the constituents and structure of the new group. UBS chairman here Hefer will become Absa's chairman, and Volkskas' chairman Joe Stegemann becomes deputy chairman.

Piet Badenhorst will assume the position of CE, while Danie Cronje will become deputy CE. The vice-chairmen will be Norman Alborough, chairman of UBS, Graham Boast of UBS and Louis Shill of Sage.
COMPANIES

Gencor on track to maintain dividend

Gencor expected at least to maintain its dividend at 40c a share this year, executive chairman Derek Keys said at the AGM yesterday.

He said operating income from Gencor's divisions could show a decline on last year, but both Engen and Genbel were performing better than expected.

"This, coupled with transaction profits which should be fairly substantial this year, should enable Gencor to at least maintain the dividend at its increased 1990 level of 40c a share," he said.

He said Gencor - which ended its last financial year with large net cash balances - still had its cash resources intact.

Keys said Gencor would not have to resort to either borrowings or to shareholders to fund projects.

Asked about Samancor involvement in the Columbus project, Keys said various options to proceed with the project were being investigated. No final decision had been taken.

Only if the project went ahead and Samancor found its own substantial cash balances insufficient to fund its 50% participation, would Gencor be called upon to contribute.

Even then it had to be borne in mind that Gencor's holding in Samancor was only 41%.

Asked about Impala Platinum's expansion while the market was perceived to be oversupplied with platinum, Keys replied:

"Our analysis shows that the market may well be in balance, not in surplus. Not only that, Impala has a long-term supply contract with General Motors and as a consequence, any surplus is more likely to affect price rather than volume, so we are not unduly concerned at this stage."
Bank merger drama expected as curbs Act deadline nears

Business Staff

LAST minute counter offers to Allied and Saambou are expected to be made in the next day ahead of stricter regulations governing mergers and takeovers coming into effect on Friday.

First National Bank is expected to make a counter offer today to acquire 100 percent of Saambou. This follows the announcement Monday that Allied intended merging with UBS Holdings and Volkskas to form South Africa's largest bank with assets of $50 billion to be called the Amalgamated Banks of South Africa (ABSA)

Mr Viv Bartlett, a senior general manager at First National Bank, said this week that FNB was still keen to acquire Allied. On Friday FNB said it had made a proposal to acquire Allied, but it was rejected.

He said FNB was considering its position and hoped to make a statement today. He said the proposed merger of Allied with UBS and Volkskas still had to be approved by Allied shareholders.

Analysts said if FNB was to have any hope of securing sufficient Allied shares to block the merger, it would need to offer substantially more than the 240c for each Allied share that ABSA was offering.

And with just one full trading day left before the close of Trafalgar's offer to acquire 30 percent of Saambou, there is widespread speculation that another party will make a last minute counter offer to get control of the independent building society.

Market speculation is that another bid could come from Nedcor, Fedsure or Prestasi and that one of these parties recently acquired about 5 million Saambou shares.

Nedcor's Mr Chris Liebenberg and Fedsure's Mr Arnold Bascraube were not available for comment yesterday. Earlier this month Prestasi denied it was involved in an offer for Saambou shares.

The close of trading tomorrow is important for several reasons, and many Saambou shareholders will not commit themselves until tomorrow afternoon. They will want to see if there is any other offer and how the market price compares with the Trafalgar offer before deciding whether to take up that offer.

Starting on Friday morning, takeover and merger activity will be regulated by the Securities Regulation Panel (SRP).

As the new regulations impose tougher requirements on takeover and merger bids, it seems likely any counter bid in the offing would be made under the existing legislation.

Also the new Deposits Taking Institutions Act comes into force on Friday, which means that any potential bid for control of a financial institution from that date would have to meet with the banking industry's new requirements.

Because of the SRP and the new Act, Trafalgar will not be extending its present offer beyond tomorrow afternoon.

In spite of the strengthening in the share price since Trafalgar published its offer on January 17, Mr Pieter Hougaard, an executive director of Trafalgar, is optimistic about a good response to his 140c offer.

He says it will not be possible to identify the extent of the response until late tomorrow, but points out that the fact that the current share price is around 150c does not automatically mean that the 140c will be rejected.

He says many of the 18 500 Saambou shareholders might not familiar with the workings of the stock exchange and might prefer to respond to the offer letters received from Trafalgar. Also the 150c JSE price might not be sustained if there were a lot of sellers.

Trading charges

What must also be taken into consideration is that trading charges on the JSE reduce the apparent gap between the offer and market prices.

Against all of that is the fact that Trafalgar's offer is only for 30 percent of the Saambou shares, while a counter offer could be for 100 percent.

In spite of speculation about his objectives and his backers, Mr Hougaard remains adamant. He has identified Saambou as an under valued investment and is using the funds in his case to try and get a strategic stake in the company.
FN

persuading any market price of Allied shares since its listing in June 1987. De Villiers remarked that a cash underpin would swing Allied management overwhelmingly in favour of an FNB merger. From the writer's perspective the Rembrandt-structured deal is hardly synergistic, duplicating the building society profile (UBS and Allied) while overlooking the need for a corporate component.

This is an oversight as merchant banks are expected to play a greater role in boosting profits in the '90s, as savings flows to banks are increased, with the advent of a holding tax (possibly) in February.

Analysts canvassed said the FNB-Allied alliance was the most compatible. They pointed out that FNB has a relatively barren home loan book and has a strong management link with Allied. From a portfolio viewpoint a fair price for Allied would be 100c a share, one said.

"The Volkskas-UBS-Sage-Allied proposed deal pitched Allied's price at 240c a share which is a sharp premium given the inefficiencies in the set-up."

"There's no doubt that FNB has the most chance of exposing and cultivating the benefits."

"Even FNB's small mortgage book can be taken over and accommodated by the Allied using their excess computer capacity."

FNB's late dash to acquire a building society was handicapped by a low share rating — currently at about R50 a share — which traded at R14 roughly a year back.

As an aside, Southern Life and FNB have a deep commitment to each other underlined by the large crossholdings Anglo American, in turn, has effective control of both.
W & A buys Arwa Hosiery

By AUDREY D'ANGELO
Business Editor

W & A Investment Corporation has bought the entire hosiery knitting and distribution activities of Arwa Hosiery from the Duros group, with effect from Monday, January 28.

In a statement yesterday W & A said: "The purchase price, to be settled through the issue of ordinary shares in W & A, will be determined after completion of an audit of the net asset value of the acquired businesses, but is subject to a ceiling of R27m."

The deal will give W & A about 90% of the total SA hosiery and pantyhose market — which is estimated to be 80m pairs a year — and substantially increase the group’s export capacity.

A spokesman for W & A said the deal had been sanctioned by the Competition Board because Arwa was "a failing company".

He said market research by an independent company had shown that W & A’s Burchose group had 60% of the SA market before the deal and Arwa 30%.

Burchose had been in the export market for seven years. Sales overseas had reached a level which justified the opening of an office in Europe last year. Before then the export business had been handled through agents.

The statement issued by W & A said the transaction was "consistent with W & A’s stated policy of developing its core businesses on a global scale through gaining significant market share at home, then entering export markets, and finally acquiring direct international investments.

"The additional manufacturing facilities now available to W & A are expected to assist in further development of W & A’s existing, substantial hosiery export business, with beneficial impact on foreign exchange earnings."

The statement continued: "There will be some rationalisation of W & A’s enlarged hosiery manufacturing operations, but marketing, sales and promotion activities of Arwa will remain autonomous, competing freely for business with W & A’s existing brands and with imports."

"The established hosiery brand names acquired from Arwa will be developed under the strategic guidance of W & A executives."

It said costs would be incurred this year in streamlining and upgrading the newly-acquired hosiery activities, "but thereafter meaningful, ongoing benefits are expected to accrue to W & A."

Alan Falconer, MD of Burchose, said that companies within the group including Cape Town-based Golden Girl competed fiercely with each other. Arwa would continue to compete with them.

Falconer said the SA market was not completely recession-proof and had fallen by 15% in the current downturn.

But exports to Europe were successful because "SA hosiery is very competitive in world markets. We can produce and ship high quality hosiery much more cheaply than they can make it themselves."

The quality of SA products was higher than those from "the other cheap production areas."

"People who are shopping around for good value in hosiery have SA high on their lists, particularly now that sanctions are falling away."

Markets were opening up "at a very fast rate." Although the group was not yet exporting hosiery to the US, it was receiving inquiries and discussions were taking place, said Falconer.
Spotlight on SA Monopolies

BY DAVID SHANDON A READING EXPERT

The term "monopoly" refers to a market structure where a single seller or producer dominates the market and has control over the price and supply of a product or service.

Monopolies can arise in various forms, such as natural monopolies, where economies of scale make it inefficient to have multiple sellers, or market power monopolies, where a company gains control over the market through strategic actions.

In recent years, there has been growing concern over the potential negative impacts of monopolies, particularly in the tech industry, where a small number of companies have become dominant players.

Understanding the dynamics of monopolies and the measures that can be taken to regulate them is crucial for ensuring a fair and competitive market environment.

In this article, we will explore the concept of monopolies, their implications, and the strategies that can be implemented to mitigate their negative effects.

Economies of Scale

Economies of scale refer to the cost advantages that a company enjoys as it increases its production. These advantages can arise from a variety of factors, such as the use of specialized equipment, the ability to negotiate lower prices for inputs, or the efficiency gains from specialized labor.

In a competitive market, these economies of scale can lead to a single company achieving a dominant market position, thereby creating a monopoly.

Regulation and Antitrust

Governments and antitrust agencies play a critical role in regulating monopolies to prevent anticompetitive behavior and ensure fair competition.

They do this by enforcing antitrust laws, which prohibit monopolistic practices such as price-fixing, exclusive dealing, and predatory pricing.

Moreover, antitrust agencies may initiate merger reviews to prevent the formation of monopolies through consolidation.

The Role of the Government

The government also has a role in managing monopolies through public intervention and policy measures.

This can include setting industry standards, providing subsidies to smaller companies, and implementing taxes or regulations to reduce the market power of dominant players.

In conclusion, understanding the dynamics of monopolies is essential for ensuring a healthy and competitive market environment. By regulating monopolies and implementing measures to mitigate their negative effects, governments can help maintain a fair and dynamic marketplace.

References:


[Final Note]: The content of this article is for educational purposes only and should not be considered as professional advice or expertise.

[End of Article]
UBS plea to Allied shareholders

The UBS plea to Allied shareholders comes as the Swiss bank prepares to make a major move into the South African market. Allied, which recently acquired a major stake in the country's financial services sector, is being targeted by UBS as a potential acquisition target. The Swiss bank has already made a bid for a stake in Allied, but the offer has been rejected by the company's current shareholders.

UBS's offer is seen as a strategic move to strengthen its position in South Africa, where it currently has a modest presence. The bank has been active in other African countries, including Kenya and Tanzania, but has yet to make a significant impact in the region.

Allied shareholders are being given a choice: accept UBS's offer or continue to hold onto their shares in the hope of a higher bid. The company has already stated that it will not entertain offers from other suitors, and is determined to remain independent.

UBS's bid is also being seen as a test of the company's commitment to Africa. The Swiss bank has been pushing for greater investment in the continent, but has faced resistance from some investors who see it as too risky.

Despite the challenges, UBS remains committed to the region and is expected to make further moves in the coming months. The company's offer to Allied shareholders is just the latest in a series of attempts to establish a foothold in South Africa's dynamic financial services sector.
Allied bidders warned by JSE

DEREK TOMMEY

ALLIED shareholders look like being the first to benefit from the new Securities Regulation Panel (SRP), which has been established to give shareholders a fairer deal and the Johannesburg Stock Exchange some "teeth".

The SRP, which came into being yesterday, quickly made its presence felt.

It warned the two parties bidding for Allied that it could cost them a lot of money if they bought Allied shares on the market at a price above their public offer price.

The SRP pointed out that in terms of the new regulations the competing bidders would have to bring their offer price in line with the share market price.

The SRP made this announcement shortly after Allied shares traded at 275c. This was substantially above the United offer price of 240c and the First National offer of 250c in cash or 262.5c in FNB shares.

After the announcement Allied shares dropped back to 265c.

Allied has almost 330 million shares so if the UBS had been involved it would have cost them an extra R165 million. For FNB it would have meant an extra R57 million to R75 million.

Market sources believe that speculators were behind the surge in the Allied share price in the expectation that the UBS would make a higher bid for the Allied. So far, the UBS has not replied to the FNB offer.

But yesterday Allied group MD Kevin de Villiers told Sapa he believed First National would win in the end and that the battle could be over by February 21.

Mr de Villiers said he felt that United may not be willing to match the FNB offer because it already had a hefty home loan book, while FNB was prepared to pay a premium for a building society operation that it did not have at present.

However, the decision as to who wins rests not with the competing banks, but with the tens of thousands of "little" shareholders including the "golden girls" as they have become known — the wives, widows and career women who over the years entrusted their savings to the Allied and took up Allied shares when it went public in 1937.

They carry a lot of clout in the present stage of the battle and no one can really say which way they will vote.

What is important is their loyalty to Allied and FNB has recognised this and has stressed that Allied shareholders who accept its offer will still have a stake in the Allied.
Guinness takes stake in local distributor

UNITED Distillers, the spirits company of UK brewing giant Guinness plc, has acquired a 50% stake in local liquor distributors Henry Tayler & Ries (HTR) for an undisclosed sum.

HTR would become sole distributors for United Distillers Scotch whisky brands White Horse, Dewars White Label and Black & White, a statement released by HTR said at the weekend.

United Distillers regional director (SA) Walter Crook said the acquisition was in line with United Distillers' policy of developing a more focused approach to controlling the distribution of its brands worldwide.

The acquisition of the shareholding is effective from February 1, 1991.

Stellenbosch Farmers' Winery Group (SFW) and Distillers Corp each retain 25% of HTR shares.

SFW handles United Distillers' Bell's, Haig and Dimple Scotch whisky brands, while Distillers Corp distributes the company's Johnnie Walker Red and Black Label whiskies.

MARC HASENFUSS
Billions to be freed by IDC restructuring

SA INDUSTRY stands to get a multi-billion-rand boost from the proposed restructuring of the Industrial Development Corporation, announced by President P W de Klerk in his speech in Parliament on Friday.

The restructuring is expected to involve the sale of IDC's existing holdings to raise funds for industrial development. These holdings include phosphate giant Foskor (at least R330m) which is earmarked for privatisation, a 30% stake in Sasol Ltd valued at about R2bn, a major stake in aluminium giant Alusaf, a R680m investment in Sekotong, and its holdings in Natsei and Indisele, two listed companies with substantial investments on the JSE.

Restructuring the IDC is believed to be just one of numerous initiatives aimed at reducing the state's economic involvement and encouraging private sector industrial developments towards increased beneficiation of raw materials.

"We simply cannot aford the much-needed employment opportunities this will bring about," De Klerk said in his speech on Friday. "Government places a high premium on job and income-creating growth."

Government sources said the restructuring of the IDC would make at least R2bn to R4bn available for industrial investments, at current market value.

De Klerk's announcement that the IDC would be restructured to promote optimisation industrial growth follows a report by retired auditor-general Joop de Loor and a separate inquiry by Economic Co-ordination Minister Wim de Villiers.

Both apparently criticised the IDC for sitting on strategic investments rather than ploughing these funds into new risk ventures.

De Villiers's view is that there are sectors, such as the mining sector, that have most of the resources to turn raw materials into finished products, increasing South Africa's competitiveness in the export market and bolstering growth and productivity.

KEVIN DAVIE
and BILLY PADDOCK

Natsel and Indisele, which are 51% owned by the IDC, hold numerous IDC investments which are sufficiently mature to pay regular dividends.

Major shareholdings within these two portfolios include those in Bankorp, C G Smith, Implats, Sappi, Sasol, Palabora Mining, Tongaat-Hulett, Fedvelks and the Industrial Finance Corporation, a company jointly owned by Natsei and Indisele, which has investments in C G Smith, Sentracem and Alusaf.

While the IDC sees these holdings as a way of allowing private participation in its successful ventures, critics say too much of its potential funding is tied up in safe equity investments.

De Klerk's announcement came as a surprise to the IDC, which appears not to have had advance warning that it was to be restructured.

Government wanted to reduce its share of the economic pie and operate more as an agent in development, De Klerk said.

"This includes a shift from import replacement and strategic self-sufficiency to an export-orientated strategy, involving limited protection of domestic industry, and aimed at maximum productivity and cost-effectiveness," he said.

An IDC spokesman declined to comment until more details were forthcoming.

The restructing is likely to focus on freeing up some of the mature investments, making more finance available as soft loans for entrepreneurs. It is also likely to speed up projects which the IDC is investigating.

MD Carel van der Merwe disclosed in a recent interview that the IDC had projects valued at R21bn in the pipeline. He said it could raise R10bn in the next five years to fund new industries.

He said capital was not the problem if the right opportunities could be identified.
Saambou fights hostile takeover

Own Correspondent

JOHANNESBURG — Saambou management is fighting tooth and nail to avert a hostile takeover bid with its latest move being a deal with independent insurance company Fedsure.

Saambou MD Hendrik Sloet said "We want to send a message to the marketplace that a takeover of Saambou will not be easy."

In a joint announcement, the companies say Saambou will issue to Fedsure subsidiary Fedlife convertible debentures to the value of R55m in exchange, Saambou will acquire finance company Plant Finance from Fedlife.

Fedlife’s debentures may be converted into Saambou ordinary shares at any time during the next three years. Should Fedlife elect to convert, it will acquire about 30% of Saambou’s ordinary share capital, making it the largest shareholder in Saambou.

The price at which conversion will take place will be 140c a Saambou share, plus a premium based on the increase in the net asset value of the Saambou share between March this year and the conversion date.

It is believed Saambou management is fighting to avoid a hostile party from gaining too much power. It is understood management sees the bid for 30% of Saambou, launched by Trafalgar Portfolio Managers (TPM), as hostile.

It is not yet known who is behind Trafalgar, whose offer closed last week. Trafalgar declined to comment on the Fedsure deal with MD Pieter Hougard saying an announcement would be made this week.

The weekend announcement followed last week’s by Sege-Altansie that it had acquired “a strategic stake” in Saambou. This was also seen as an effort to counter the Trafalgar offer. The transaction, which is valid from January 31, still has to be approved by shareholders.

Asked whether Fedsure would act if a significant stake was acquired by an outside party, Fedsure CEO Arnold Basserabe said “That depends on circumstances.”

Multi-billion rand boost for industry

Own Correspondent

JOHANNESBURG — SA industry stands to get a multi-billion rand boost from the proposed re-structuring of the Industrial Development Corporation (IDC), announced by President FW de Klerk in his speech in Parliament on Friday.

The re-structuring is expected to involve the sale of IDC’s existing holdings to release funds for industrial development.

These holdings include phosphate giant Foskor (at least R330m) which is earmarked for privatisation, a 30% stake in Sasol valued at about R2bn, a major stake in aluminium giant Alusaf, a R660m investment in Iscor, and its holdings in Natsel and Indielse.

Two listed companies with substantial investments in JSE is the IDC. Restructuring the IDC is believed to be just one of numerous initiatives aimed at reducing the state’s economic involvement and encouraging private sector industrial developments towards increased beneficiation of raw materials.

“We simply cannot forgo the much-needed employment opportunities this will bring about,” De Klerk said in his speech on Friday.

“Government places a high premium on job and income-creating growth.”

Government sources said the re-structuring of the IDC would make at least R3bn to R4bn available for industrial investments, at current market value.

De Klerk’s announcement that the IDC would be restructured to promote optimum industrial growth follows a report by respected Auditor-General Joop de Loor and a separate inquiry by Economic Co-ordination Minister Wil van der Vellin.

Both apparently criticised the IDC for failing to invest strategic investments into finished products, increasing SA’s competitiveness in the export market and bolstering growth and productivity.

De Klerk’s announcement came as a surprise to the IDC, which appears not to have had advance warning that it was to be restructured.

Government wanted to reduce its share of the economic pie and operate more as an agent in development, De Klerk said.

“This includes a shift from import replacement and strategic self-sufficiency to an export-oriented strategy, involving limited protection of domestic industry, and aimed at maximum productivity and cost-effectiveness,” he said.

An IDC spokesman declined to comment until more details were forthcoming.

The re-structuring is likely to focus on freeing up some of the mature investments, making more funds available as soft loans for entrepreneurs. It is also likely to speed up projects which the IDC is investigating.

MD Carel van der Merwe disclosed in a recent interview that the IDC had projects valued at R21bn in the pipeline. He said it could raise R10bn in the next five years to fund new industries.

He said capital was not the problem if the right opportunities could be identified.
New bank would control home loan market

By ARI JACOBSON

A UNIFIED banking group in the Rembrandt stable — with Allied on board — would provide the Amalgamated Bank of SA (Absa) with effective control of the home loan market according to BA9 returns for the period to September.

These returns, which display each market player's share, have UBS as the major force, with 22% of total home loans.

The importance of the tug-of-war between First National Bank (FNB) and the UBS-led coalition is highlighted by Allied's 13.6% portion of the home loans market. FNB languish on roughly 9% (a book of a mere R3.6bn).

A successful UBS-Allied merger would provide Absa with close on 40% of the home loan market (which includes Volkskas's 3% contribution). Furthermore, UBS' backward linkages, with strategic stakes in estate agency businesses, will cement its overall control.

A UBS spokesman said the prime consideration in the prospective merger had been the benefits arising from rationalisation of support services (such as computer facilities).

He said while Allied and UBS were strongly represented in the home loan market neither had a strong presence in banking-related activities such as personal loans, instalment sales, cheque accounts and overdraft facilities.

FNB senior GM Viv Bartlett said a tie-up with Allied would assure the banking group a well-diversified presence in the industry. FNB has a 27% claim in the instalment credit market coupled with a strong banking portfolio. The Permanent Building Society of SA (the Perm), with its well-documented endeavours in the black housing market, has a sizeable 18.2% of the home loan market.

Theoretically this core area of banking business could be well-spread if linkages were distributed in an equitable fashion.

Take FNB-Allied on 22.6%, UBS-Volkskas alliance on 24.8%, and the Perm-Nedbank tie at 21.2% — nearly sharing the spoils in the mortgage market.

In addition intimations of a Standard Bank and Natal Building Society linkage (NBS) would enhance equality with 22.2% of the total home loan profile.

Bankorp — the only major financial institution missing — intends using the current financial year to June as a consolidation period after undergoing tough rationalisation measures.

CE Piet Liebenberg said the group's 9% stake through Trust Bank home loans was satisfactory, considering the enlarged focus in commercial, industrial and mining loans.
McGregors open up the debate on possible SA economic scenarios
Trans-Natal sells reserves to Eskom

Owa Correspondent

JOHANNESBURG. — Trans-Natal, which increased its after-tax profit by 5% to R60,0m (R56,5m) in the six months ended December, announced yesterday that Eskom had decided to buy its Usutu Colliery coal reserves for R109m.

The Eskom board took the decision yesterday to ensure an adequate coal supply should Eskom’s Camden power station some day resume electricity generation.

Usutu’s operations ceased when Camden closed down at the beginning of this year. The R109m payment is not reflected in today’s interim report, MD Mike Salamon said yesterday.

Profit boost

Higher coal prices and increased export tonnages enabled Trans-Natal to achieve an increase in profit despite a shrinking local coal demand which saw overall sales drop to 14-million tons from 15.5-million.

Trans-Natal’s domestic tonnages were hit by Eskom’s rationalisation and lower demand from Sasol and municipal power-stations.

Coal exports accounted for 63% (about 69%) of the group’s sales revenue of R125.5m (R108.0m). Inflation, strikes and a fire at Optimum Colliery pushed up the cost of sales to R867.1m (R532.4m), leaving an operating income of R109.4m (R128.8m).

Non-Eskom demand dropped to 2.7-million tons from 3.5-million.

The interim dividend was increased to 22c (20c) a share and earnings per capital unit rose to 75.3c (71.7c).

Salamon said he was optimistic about the group’s future export potential. Niche marketing in Europe had already secured higher contract prices. A similar strategy was aimed at Japan, for which its marketing team left yesterday.

The group’s Eskom sales dropped to 6.1-million tons from 6.9-million after the power utility’s decision to mothball its Camden and Komati power stations. Usutu Colliery and the Blinkpan section of Koornfontein Mines, which were tied to these power stations, ceased operations at the beginning of this year.

Discussions with Eskom regarding Koornfontein are still underway.

Mine extended

Koornfontein Mines’ Gloria project was on track and already producing coal. The mine is being extended to enable Trans-Natal to fully utilise its expanded Richards Bay quota of 11.2-million tons (9.3-million) in 1994.

Optimum is to get a new lease on life by having an underground section added, estimated to cost R230m over the next three years.
Confusion grips the Allied shareholders

From CLAIRE GEBHARDT

JOHANNESBURG. — Allied shareholders, wooed by First National Bank (FNB) and the proposed Amalgamated Banks of SA (ABSA), are thoroughly confused about the issues they face.

We selected 35 names at random from the Allied share register, found 24 phone numbers and managed to talk to 13 shareholders.

Those approached for comment all expressed the desire for more information.

All believe Allied should have done more in cautioning or guiding them.

Most will hold on to their shares in the hope that they will go higher.

Many say they will stay loyal to whichever side has given them better service.

Mr Arthur Jeffrey, 76, of Kensington, who holds 9 600 shares, says he has read all about the battle in the Press and is holding fire at the moment.

"I want to get rid of my shares because I want the cash to buy a new car but I want the best price I can get for them."

He believes that neither FNB nor the UBS have explained the issue properly to Allied shareholders.

"After I bought Allied shares in 1987 the bottom fell out of them. We heard on the grapevine afterwards that it was because of poor management but the shareholders never got told anything."

Senior citizen Beryl Chudleigh of Bez Valley (2 700 shares) feels the matter hasn’t been properly explained and says she will hang on for some clarity.

"I can’t get to the bottom of it and the mail doesn’t help."

She doesn’t feel it makes much difference which side wins as she has always had good service from the Allied.

Another elderly lady who holds 2 550 shares but asked not to be identified by name is hoping fervently that FNB will come out tops.

Barbara Jameson of Parktown North is one of the unfortunate who sold her 1 580 shares at 210c because of lack of information.

"I have just received some booklet in the post but too late now."

She made her choice because she didn’t want to be caught again as she was once before when Allied went up to 280c and then plummeted back to 105c.

She says she has been a loyal account holder at FNB, though her husband has tried unsuccessfully for years to get her to change.

"I know it’s a habit, but because I don’t know the UBS I’d probably choose FNB."

Mr Douglas Barrow of Illovo (10 950 shares) says he will be staying put for the moment and will only be swayed by the cash consideration and the additional value of the shares.

The man in the street probably has great difficulty in understanding what is going on and it is difficult for him to get it right, he says.

Dr Marie Baitke has 3 000 shares and says she will just have to wait to see what happens.

Mr Duncan Hyslop, 34, of Bramley sees any change as being good, as either way the value of his 750 shares will increase.

He believes shareholders have been ill-informed and says it is very difficult for the man in the street to evaluate the implications unless he reads the financial press.

Elderly Mrs Anne Robb of Highlands North (2 550 shares) says it all seems to be such a max-up that no-one knows what is going on.

"One gets circulars form one crowded and then another but nothing is properly explained," she laments.

"I think when the time comes I will just sell and get rid of the shares."

Favours UBS

Another senior citizen, Mrs Margaret Rosewarn of Kensington (16 500 shares), says she would like the UBS to win, as they have a good standing and seem to be going ahead very rapidly.

"The fact that both are building societies is a good start."

Mrs June Hynd of Craighall Park is not quite sure what to do about her 7 500 shares. She’ll rely on her husband’s advice.

"In any event, if we sold where would we put the money?"

A Johannesburg gynaecologist, who did not wish to be named, said he was holding on to his 403 shares because of rumours that there might be another offer.
KreditInform joins the mating game

THE BUSINESS information revolution, spurred by the fear of bad debts during the recession, has taken a new turn.

Companies looking for merger mates or acquisitions will benefit from a link-up between KreditInform, SA’s largest corporate information organisation, and McGregor’s Online Services, which compiles a specialist database covering listed companies.

KreditInform has bought a 29% stake in McGregor’s Business Times Reporter

Online, making it the only non-family shareholder in the group. The two companies already operate a 50-50 venture, McGregor’s Research.

KreditInform managing director Ivor Jones says the stake in McGregor’s Online is a natural development.

“For the first time subscribers to either company will be able to get the complete picture.”

Bills

“McGregor’s looks at a company’s position on the basis of its results and share performance. We look at how the company is trading and paying its bills.”

In addition, our extensive database of unlisted companies will benefit anyone looking for acquisitions.”

The companies are co-operating on an analysis of JSE-listed companies which is designed to give early warning of companies which could be in a precarious position.

“We are looking at their financial ratios and how they are performing on purchases and payments,” says Mr Jones.

A similar study of UK companies last year showed that 20% of those listed on the London Stock Exchange could be rated “precarious.”
Mining investors face lean pickings report

INVESTORS in mining shares face lean times this year with little prospect of dividend improvements in 1993, according to Davis Berkum Hare's quarterly forecast of earnings and dividend yields of major shares in all JSE sectors for 1991 and 1992.

Among mining shares, except for leading coals Amcoal and Trans-Natal, the outlook for earnings and dividend growth is poor for diamonds, golds, platinum and other metals this year.

Mining houses and holdings are projected to show negative earnings and dividend growth this year and only a marginal improvement in 1992.

Insurance (FedSure, Liberty and Southern) should be the stars in the financial sector, showing growth well above the inflation rate both this year and in 1992, followed by banks and financial services.

The Davis Berkum Hare report says leading property shares (Amaprop and Panprop) should also show good growth over two years.

Leading industrial holding shares earnings and dividends should spurt in 1992 as will leading beverages and hotels (Kersaf, SA Breweries and Sunbop).

Bellwether stocks in the building sector (Anglo Alpha, Blue Circle Boumat and Pretoria Portland Cement) should show marked earnings and dividend growth in 1992 following a rather flat 1991. Leading chemicals and oils (AECL, Engen, Sasol and Sentrachem) will achieve good earnings growth this year but will slow down to a marginal growth rate in 1992.

Electronics leaders (Altech and TSI) will not be able to improve dividend payments this year but should show strong dividend growth in 1992, Davis Berkum Hare says. Major food shares (I & J, Premier and Tiger) are projected to achieve a growth in line with the current inflation rate this year, showing a slight decrease in growth rate in 1993.

Paper and packaging leaders (Nampak and Sappi) will suffer negative earnings and dividend growth this year, recovering in at a slow rate in 1992.

Steel and allied shares (Consolidated Metallurgical Industries, Highveld Steel and Iscor) are projected to show a marginal decline in earnings and dividend growth this year, turning around positively in 1992.

Retailers and wholesalers (Edgars, Foschini, Metro, Pick 'n Pay and Woolworth) are the stars among industrial shares, possibly achieving earnings growth of 24% and dividend growth of 25% this year and next.
Truce offer as
Allied share price rockets

Own Correspondent
Johannesburg. — First National Bank (FNB) approached United Building Society (UBS) on Friday afternoon hoping to strike a deal in the battle for the control of Allied, well-placed observers said at the weekend.

The flag of truce has been raised because Allied’s share price rocketed to 290c at one stage on Friday, well above its net worth of just over 200c and the 250c cash offer FNB has made to Allied shareholders.

The observers speculated that FNB could make an offer to the UBS-led Amalgamated Banks of SA (Absa) consortium for its Allied shares at a price above the UBS camp’s offer price, but below current market prices.

If such an offer was to be accepted, UBS would stand to make a profit of about R200m. But observers say UBS chairman Piet Badenhorst has put much work into his proposed super-bank and is unlikely to back off without a protracted fight.

A truce of sorts has also been declared in the Allied boardroom.

Allied MD Kevin de Villiers was heading for a showdown with his board on Friday. It was expected that he would be asked to resign but would refuse to do so.

In a statement issued after the meeting the board said it would perform its fiduciary duty to shareholders and was preparing, together with its advisors, its response to the FNS offer. This is expected to be completed within the next few days.

Although de Villiers was officially gagged, the board softened the blow by saying it would allow him to carry out his statutory responsibilities in terms of sections 316 and 317 of the Companies Act. These sections allow the expression of minority and diverse opinions.

Sources close to the battlefield suggested that an expensive stalemate could result from the recent scramble for shares on the JSE, with neither FNB nor UBS gaining clear control of Allied.

The UBS has been the more aggressive buyer of shares, but FNB has also been active. At the beginning of the battle Absa and its allies could claim about 30% of Allied’s shareholding against FNB’s 20%.

In the past month 14% or 41m of Allied’s 300m shares have changed hands. The value of turnover has been a massive R107m at an average of R30 000 a deal, an indication that smaller shareholders are taking advantage.

Friday’s trading was hectic as R32 7m worth of shares changed hands in 592 deals involving 11.5m shares. Allied shares closed at 280c on Friday, down from the day’s high of 290c.

Dealers believe a particularly large seller was in the market, as R6m worth of shares traded within 20 minutes in mid-afternoon. This view is backed up by the average deal size rising to R55 297 from the R30 212 monthly average on Thursday.

But trading came to an abrupt halt late in the afternoon, leading to speculation that a truce flag had been raised, or one of the parties had acquired sufficient shares in terms of takeover panel rules.

“Allied’s share price is unrealistically high,” Ed Hern analyst Alan McConnachie said on Friday afternoon. “There is no chance the bids (by the UBS and FNB camps) will get close to this level.”

“I would advise shareholders to sell and get paid next week rather than wait months and get a lower payout,” he said.

Other analysts pointed out the net asset value of Allied was in the low 200c bracket, and said some large shareholders might not sell as they had promised their support to one of the parties.

FNB is offering Allied shareholders 250c for cash, or an effective 262.5c, in a share swap for FNB shares.

FNB MD Barry Swart was in a meeting yesterday and could not be reached for comment at the time of going to press.
JSE to probe Sage’s change of year-end

GILLIAN HAYNE

The change in Sage Holdings’ financial year-end from December 1990 to March 1991 could have breached both the Companies Act and JSE regulations.

The JSE is to investigate the change immediately.

JSE GM, listings and equity markets Richard Contensyr said it was unusual for a company to change its year-end after the conclusion of the financial year.

In the case of a year-end change, the JSE requires the company put out a set of results for the second six months of the year — which Sage has yet to do.

“We specifically call for a second six-month result and will be following this up immediately,” he said.

The Companies Act states that a request for the change must be lodged with, and approval given by, the Registrar before the old year-end.

Critics in the First National Bank (FNB) camp suggest Sage is trying to hide its results until June, by which time a decision will have been reached on the proposed UBS merger with Allied, Volkaans and Sage Financial Services (SFS), forming Amalgamated Banks of SA (Aba). The Allied Group is at the centre of two aggressive bids, by UBS and its associates and FNB.

Sage has a 19%, R50-million shareholding in Allied, but has aligned itself with UBS, as has the Mines Pension Fund (MPF), which has pledged itself to provide the cash underpin for 50% of the UBS offer. MPF is also a 35% shareholder in Sage Holdings.

Sage has a US liability estimated at R70m and has been frustrated in its attempts to sell its loss-making operations across the Atlantic. The sale of its Allied shares to FNB would give it R70m which should cover its foreign commitment.

Sage executive director Bernard Nacken said Sage did not do deals to overcome specific problems, but rather for its long-term strategic value.
Price hits record highs . . .

R36m Allied
shares change
hands on JSE

232

Own Correspondents
JOHANNESBURG — The battle for
c control of Allied was reopened in ear-
nest yesterday as frenetic buying re-
sulted in a record R36m worth of
shares changing hands, pushing the
share price to close at a new high of
285c.

Both First National Bank (FNB) and
United Building Society (UBS) camps
agreed at the close of trading yester-
day that the UBS camp was probably
close to acquiring the maximum it
may buy in terms of the new Securities
Panel rules.

"The UBS camp is approaching a
major position," said one insider.

Panel rules require individuals or
people acting in concert to pay the
highest price they paid for shares to
all other shareholders if more than
the specified maximum number of
shares are purchased.

In the UBS's case, sources say, this
is 5%, while FNB may acquire up to
10% because its shareholding in Al-
lief is lower. The UBS has offered
240c for Allied shares, while the
FNB's offer is 282.5c (cash and shares)
or 230c (cash).

A breach of the rules could cost the
breaching party between R56m and
R100m extra to win control of Allied.

"We're watching the code very care-
fully," a source in the UBS camp said.

"A contravention would be very ex-
penasive.

JSE president Tony Norton said yest-
erday that there had not been any
breaches in Securities Panel rules.

Yesterday's activity on the JSE floor
followed a FNB-initiated attempt late
on Friday to calm the market and dis-
cuss a possible settlement whereby
the FNB would buy the UBS camp's
Allied shares.

But the peace was short-lived, and
the UBS response was seen in the
market, as the price surged towards
300c.

Trade in the shares hit a record high
yesterday as 12.7m shares changed
hands in 893 deals. This brings the
total amount traded in February to
over 40m, 13.6% of the issued shares.

In terms of Rule 8 of the new Securi-
ties Regulation Code, an offer has to
be made to minority shareholders if
the party acquires the specified per-
centage or more that carries voting
rights in a company. This is believed
to be the case with FNB.

This also stands for any party that
holds the specified percentage and
then acquires, within a year, an ad-
ditional 5% of voting rights. This is be-
lieved to be the case with the UBS
camp.

Observers say the UBS-led group is
very close to acquiring the maximum
allowed by panel rules. As this camp
originally held more than 30% of the
total shareholding, if it and its concer-
party acquire another 5% then all
other shareholders must be offered
the highest price paid during the ac-
quisition spree.

Assuming the UBS camp holds 35% of
Allied and they are forced to make
an offer at 285c a share, it will cost
them R567m, R106m more than the
R461m they would have paid at the
240c offer price.

FNB held about 20% of Allied at the
beginning of the share war two weeks
ago. It can boost its holding to 30%-
before being required to pay the high-
est purchase price to all other share-
holders.

FNB, if it overstepped the 30% mark,
might have to pay R811m at 250c, R856m
more than the R553m offered at 250c.

Analysts say the premium is too high
for either party and they will be wary
of overstepping the mark.

Sources close to the UBS have sug-
gested that Anglo American is backing
the FNB bid, and that it either bought
FNB shares or did a share swap to
enable FNB to offer the 250c cash
underpin for Allied shares.

An Anglo spokesman said yester-
day: "Anglo has no involvement what-
soever."
Allied shareholders take the cash and run

By Derek Tommey

The battle for Allied flared up again on the JSE yesterday.

Hectic trading developed in Allied shares and by the end of the day a record 12.3 million shares worth R56.2 million had changed hands, with the price reaching a peak of 29c.

In the past six trading days 35.5 million Allied shares worth more than R100 million have been sold on the JSE.

It seems many Allied shareholders, confused and undecided about the conflicting bids by UBS and First National Bank, are taking the higher price available on the market.

Yesterday's closing price of 29c compares with the 24c being offered by UBS and the 26c in cash or 262c in shares being offered by FNB.

Dealers point out that in situations where there are two parties bidding against each other in the share market, the price can suddenly collapse once both have secured their targets.

But dealers are speculating that the boom in Allied shares could continue for some time.

Both parties are allowed to hold up to 30 percent of Allied shares without incurring penalties.

But in the past six days only about 11 percent of Allied's total share capital has changed hands — which means that a lot more shares might have to be traded before the two parties get their full shareholding.

A sudden halt to the buying on Friday afternoon started speculation that the UBS had succeeded in getting its 30 percent.

But its apparent return to the market yesterday suggests it still has some way to go. As FNB has not been particularly active in the market until now, it might have to buy substantial numbers of Allied shares.

Although FNB's offer is higher than that of UBS, it has a harder task in securing the support of enough Allied shareholders to give it control.

As things are, all UBS needs to merge the Allied with UBS-Volkskas is the approval of the majority of shareholders attending a general meeting in the second half of March.

Therefore the FNB must muster enough support to out-vote the UBS at the meeting if it wants to block the merger.

Maling life difficult for FNB is that it is unlikely to know how many shares UBS has, so it does not know how many votes it needs.

Furthermore, its offer is conditional on its being able to block the UBS.

This aspect of the FNB offer is causing confusion among Allied shareholders and tending to deter them from supporting FNB.

But Stuart Jones, vice-president of First Corp, which is acting for FNB in the takeover battle, says "If Allied shareholders do not support FNB to block the UBS, they will not get the higher FNB offer."
Differences aired over Minerals Bill

CONTROVERSY surrounding government attempts to consolidate and rationalise the nine different mineral laws and restore certain common law rights to surface owners re-emerged in Parliament yesterday.

Major differences over the Minerals Bill were expressed yesterday in a sequel to a meeting between the Chamber of Mines and Mineral and Energy Affairs Department officials on Monday night.

The parties agreed to disagree over the controversial clause 43 of the new Bill — the alienation of state minerals.

The clause attempts to ensure government policy in respect of privatisation and deregulation is applied and entailed.

- The removal of regulating measures which mean the holder of mineral rights cannot dispose of his right but that the right is put out to lease by the state, as with precious stones on proclaimed land.
- The prospect of gradual privatisation of mineral rights which are registered in the name of the state, and
- The recognition of the free enterprise system.

Mineral and Energy Affairs Minister Piet Welgemoed said the chamber preferred to see a fixed formula in accordance with which state minerals were alienated while government felt market forces should be the deciding factor.

The chamber is concerned about a five-year grace period for this clause to be made effective.

The chamber claims compensation is required in respect of alienated land, where someone owns the land but the state holds mineral rights and the owner may get prospecting and mining rights for a fee or may nominate a third party.

The chamber position is that while the state owns the mineral rights, it has spent huge amounts of money on prospecting and putting in infrastructure, which needs to be taken into account when the sale of these rights is negotiated.

DP Mineral and Energy Affairs spokesman Roger Bulley said government should allay the fears of the mining houses which held nomination rights on alienated state land, by clearly stating in the Bill they would not be worse off than before the legislation was implemented.

Disaster

MATTHEW CURTIN reports that National Union of Mineworkers general secretary Cyril Ramaphosa said the future of SA’s mineral rights should be negotiated in a tripartite forum similar to that of the Labour Relations Act accord.

He said the Bill would be a disaster for the mining industry if passed in its present form.

The NUM and the Chamber of Mines had agreed in principle to approach government on reservations they had about the proposed legislation, but government had rejected joint discussions.

Geologists said the Bill failed to address three crucial areas including offshore rights, game parks and communally held land and the rights to gold, silver and precious stones in the Cape, ceded to the state in a 19th-Century proclamation.
Spareco staff treatment queried

THE conduct of creditor banks and their representative towards the ex-employees of liquidated motor spares distributor Spareco Holdings (Spareco) was questioned in the Rand Supreme Court yesterday.

The banks involved are Bankorp, First National Bank and Alpha Bank, and their representative is financial management group the Reuben Miller Group.

In an interim order, acting Judge Mr Justice Michael Kuper said the conduct related “to the use made by this consortium of the services of the workforce of Spareco during September 1990”.

**Threats**

The order follows an application to the court last week by liquidators Michael de Villiers of Deloitte Pun Goldby and Les Cohen of Westrust for directives on how to treat the claims for the salaries of Spareco’s former employees.

Yesterday’s order questioned the consortium’s use of the former employees’ services, and its alleged instructions to employees who were not prepared to assist with work required by the consortium to leave the Spareco premises. It also queried about alleged threats to employees.

**MARCIA KLEIN**

The order questioned the consortium members’ denial of any liability to reimburse staff for work done in September.

The consortium has been given 10 days to explain its position and conduct.

The liquidators and the Legal Resources Centre, who are representing the employees, were given a further four days to reply by way of affidavit.

In last week’s application, Kuper told the court it was strange that everyone — including Spareco’s major creditor banks — had avoided responsibility for the payment of Spareco’s employees.

He asked the liquidators’ advocate Cassie Badenhorst to obtain an explanation as to why the liquidators had not sought the views of the creditor banks involved about claims made by 628 ex-Spareco employees who had not been paid wages and salaries for September 1990.

In September 1990, an interim order was granted against Spareco by the industrial court, ordering it to pay its employees’ salaries. But Spareco could not comply as its assets were held by its creditor banks.

Cheques issued by Spareco to employees were taken to the main branch of Trust Bank, where they were dishonoured.
Third player emerges in battle to control Allied

Own Correspondent

JOHANNESBURG — A third major player has emerged in the battle for the control of Allied, with all indications being that it is Standard Bank Investment Corporation (SBIC).

SBIC MD Conrad Strauss said last night “it would be inappropriate to comment”.

But FNB MD Barry Swart said that he was aware that there was a possible third major player. He said the huge volumes of shares on the JSE in the past few days would have suggested that Securities Panel rules were breached if there were only two major buyers.

“These mechanisms would have already been triggered,” he said.

The third party is independent of both the UBS and FNB camps as Securities Panel rules require parties acting in concert to disclose their links. Securities Panel executive director Doug Gair said yesterday he had heard that there was a third player active in the market but doubted that this player would be able to buy up 30% of Allied.

In another development yesterday, a source close to the UBS camp indicated that it was likely to lift its 240c offer.

“There is pressure on the UBS camp to lift its offer,” the source said.

Allied featured on the JSE again yesterday. The share touched 300c at one stage before easing to close at 276c in active trade of R26m.

Observers believe the third player is unlikely to try for control saying it is more likely that it is making the battle more expensive for the other two parties, or trying to force a stalemate where neither the FNB nor the UBS camp wins outright control. This could mean that Allied remains independent.

Standard’s holding in Allied is not reflected in “Who Owns Whom”.

The two camps bidding for Allied are providing detailed daily returns of all Allied share purchases and holdings, says Gair.

He says the panel is only applying rule 8 of its Securities Regulation Code. This rule obliges parties which hold more than 30% and increase their stakes in a 12-month period by 5% to pay all other shareholders the highest price paid in the open market.

The same mandatory offer applies to parties which increase their holdings above 30% over an unlimited period.

Gair indicates that neither the UBS nor FNB camps expected to have their bids fall within the jurisdiction of the panel.

“I assume from their actions (making their bids before the beginning of this month when the panel came into effect) that they believed they would not fall under the new rules,” he says.

Gair says the panel has asked for lists of concert parties, adding that the panel is considering releasing the names of these parties “if the code is broken or for some other valid reason.”

FNB’s Swart criticised the secrecy over UBS’s concert parties. He said shareholders had the right to know who was supporting the UBS-led bid.

GILLIAN HAYNE reports that in spite of the fact that the UBS merger proposal announced over two weeks ago, the official UBS offer document has yet to be released.

FNB claims the delay is “inordinate, unreasonable and unfair.” They have been pressing the JSE to make the document available.

A UBS spokesman said the document would be published on February 25. He added it was unreasonable to expect the more complex UBS proposal to be finalised as quickly as the FNB offer.
Cortech plans revamp after liquidation move

JSE-listed computer company Cortech is expected to be placed in provisional liquidation by the Cape Town Supreme Court today.

Two Cortech companies, Cortech Electronics Holdings and Gig Transvaal, were provisionally liquidated yesterday.

In addition, nine other subsidiaries, including listed CRB Holdings, have applied in terms of Section 311 (1) for compromise arrangements with creditors. The only business that will be unaffected is Cortech Systems Engineering.

The remaining businesses will trade profitably after the implementation of these moves, which are aimed at removing the group's large debt, says MD John Miller.

He says the decision to make the applications was taken towards end-January, after Cortech experienced particularly poor trading conditions in November and December. The intention was to protect creditors, customers and staff.

While figures have not been finalised yet, Cortech will have made a considerable trading loss for the year to December. Its liabilities exceed its assets by about R320m, says Miller.

After the liquidation, Umdeob, which had a 70% holding in Cortech, is likely to have a reduced stake because of an arrangement which involves Sebho converting its loans to equity.

Cortech minorities are expected to lose out, but CRB minorities may be able to recoup some of their losses, as some funds may remain after CRB becomes a cash shell and settles with creditors.

Two non-computer companies will be sold. Hico, which installs raised floors and airconditioning, will be bought out by its management at net asset value. Two-way radio and electronic components group Hamrad has found buyers who will take it over after it settles with creditors.

Miller, who was brought in from ICL in June last year to help restore the group, says Cortech has three offices premises, but required only one. This cost the company an extra R2m a year.

Cortech was also suffering from the harsh credit terms imposed by its major creditor, a US-based company which disinvested from SA some years ago.

In addition, when the group was formed in 1987 some of its assets were bought at "optimistic" prices, Miller says.

After the provisional liquidation a new company called Sendacontrol will hold Cortech's business.

Each subsidiary will be very clearly focussed on a particular target market and will be profitable in its own right.

Yesterday, Cortech traded at a low of 4c a share on the JSE and CRB at 3c a share, down from yearly high for both of 18c in July last year.
JOHANNESBURG — The odds in the takeover battle for the Allied are stacked heavily in the United Building Society’s favour after a secret Securities Regulations Panel (SRP) ruling this week. The UBS-led camp now has scope to increase its stake in the Allied substantially before triggering the panel’s limits mechanism that requires an offer to be made to minorities at the last purchase price.

Although no official confirmation of the finding could be obtained, market talk is that the panel decided Sage Holdings was not acting in concert with the UBS.

UBS chief executive Mr Piet Badenhorst said yesterday: “We asked the panel for confirmation of our interpretation of the law, and they provided it. We have scrupulously observed its rules and regulations.”

Allied merger: Odds favour UBS after secret ruling

Asked whether the battle had been won, he said: “First National has a chance and we have a chance, but we think we stand a good chance. The battle will only be over after the Allied shareholders’ meeting.”

With its big stake in the Allied, the UBS-camp is favoured to gain the 51% majority needed for the “megabank” merger of UBS, Volkskas, Sage Financial Services and Allied to go ahead.

First National Bank (FNB) managing director Mr Barry Swart said the bank intended to contest not only the secrecy of the SRP ruling but the finding itself. Mr Swart was unhappy about the Allied board’s delay beyond Wednesday’s deadline for its response to FNB’s offer. FNB is offering 262c (cash and shares) or 250c (cash) against the UBS’s 240c offer.

Late yesterday afternoon the Allied board presented FNB with an ‘unofficial’ response that failed to choose sides clearly between FNB and UBS, according to a well-placed source. The source said the board did, however, recommend in favour of the FNB cash offer.

Expectations that the UBS would raise its offer faded yesterday amid rumours of the panel’s ruling in favour of the UBS.

Market players expressed frustration at the panel’s secrecy, saying it was confusing the issue.
The SA Law Commission's Project 63, captioned "Review of the Law of Insolvency," aims to formulate a single statute to regulate, as far as possible, sequestration of the estates of natural persons and the liquidation of juristic persons (companies, close corporations, co-operatives and others). The statute will embody provisions common to those proceedings, eliminating needless differences, and setting out matters which relate specifically to one or more of the proceedings. Insolvency law generally will be reviewed, updated and amended where necessary.

The task is massive. The initial investigation is being done by a project committee which issues working papers calling for public comment on various segments of the subject. The papers summarize the existing insolvency law, explain problems which have arisen and outline, for comment, possible provisions of the intended unified statute.

The third working paper, issued towards the end of last year — Effect of Insolvency on Assets, Civil Proceedings and Contracts — requires comments to be submitted by February 28.

Many of the matters dealt with in the third working paper are of a procedural nature and do not affect the substantive law of insolvency. The committee's recommendations on these will be based on the input of lawyers, accountants, the Masters and Registrars of the Supreme Court and the Registrars of companies and financial institutions.

A serious matter on which the committee is seeking comment is the delay in attachment of the assets, books and documents of a debtor, a delay that often permits the mysterious disappearance of goods and records. Ideally, the attachment should take place within hours of the court order. The goods and papers should be removed immediately from the control of the debtor either by transfer to storage or by locking up of premises.

The attachment is now made by a deputy sheriff of the district and there is always a long delay before he receives and carries out his instructions. Furthermore, the whole process is very different from the normal function of a deputy sheriff and many of those officials do not have the knowledge, facilities nor will to make proper attachments and prepare full inventories.

The substitution of a different process would be difficult. Proposals that the provisional liquidator (which term in the working papers includes the trustee) should make the attachment are, for various reasons, impracticable. A possible solution would be to establish in each province a panel of deputy sheriffs who would have the training and facilities to discharge the functions properly, on receipt of fixed instructions, within hours of a court's order. The increased costs involved would be justified by the elimination of the present unacceptable position.

The Insolvency Act, coupled with the Alienation of Land Act and the Credit Agreements Act, deals with the case of sales of immovable property where payment in full has not been made, installment sales of moveables where the passing of ownership has been reserved, leases of property and contracts of employment.

There are provisions regulating the rights of the parties and the liquidator on the insolvency of a party. In some cases the provisions relate to the insolvency of either party. In other cases only the insolvency of one party is referred to, leaving the insolvency of the other party to be governed by the common law of insolvency concerning executory contracts (for example, those where obligations of the parties remain to be performed).

The working paper proposes certain improvements in the provisions relating to these cases but it is clear that the basic provisions should remain.

Save for the cases specifically dealt with by statute, an executory contract is not automatically terminated by the insolvency of either party. It is not competent for the parties to provide for such termination as this would be a departure from the law of insolvency.

The liquidator of the insolvent party has the right, to be exercised within a reasonable time, to keep the contract alive. This feature, particularly where there is work which should have been done by the insolvent under the contract, often causes great prejudice to the other party. The provisional liquidator has no power to make the decision to continue the contract and — given the usual inordinate delay in the appointment of a liquidator — there may be months of uncertainty as to the future of the contract. Except for work which is relatively simple, the liquidator will not normally have the specialised skill to have the contract completed if he elects to do so and there will inevitably be disputes and litigation.

These aspects are particularly relevant in building and engineering construction contracts. Here the work is not being done in some distant factory but on the premises of the owner who engaged the now insolvent contractor. Buildings, roads, dams and other works stand unfinished for months, often deteriorating and obstructing the normal use of the land.

In the light of these circumstances the working paper proposes simply, and appropriately, that executory contracts should terminate automatically on the insolvency of either party. Obviously it would be permissible for the liquidator, with authority from the creditors, to agree with the other party for total or partial completion of the contract, if the circumstances so warrant.

Such a change in respect of executory contracts would introduce much needed certainty in an important area of contracting. The parties would be able, in their initial contract, to make suitable ancillary arrangements (not in conflict with insolvency law) with sureties, subcontractors and others.
Pyramid update

PYRAMIDS' account for about 10% or R35-billion of the JSE's market capitalisation

This finding, from research carried out by McGregor's Online Information for new editions of its JSE reference books Who Owns Whom and its baby brother Quick Reference to the JSE, will fuel the debate on the wisdom of allowing the pyramid structure.

Robin McGregor says the research was carried out because the existence of pyramids had raised controversy about the validity of Who Owns Whom's control figures.

He says eliminating the pyramids reduces Rembrandt's control percentage because of its four-stage pyramid, but there is no significant change in any other big groups.

The new market capitalisation figures, excluding pyramids, are Anglo American 44.2%, Rembrandt Group 13.6%, Sanlam 13.2%, SA Mutual 10.2%, Liberty Group 2.6%, Anglovial 2.6%, FS Group 0.8%, Venteron Group 0.4% and Raymond Ackerman 0.3%.

Rembrandt's assertion that it works in partnership with its associate investments and not in control of them would lower its percentage to 9.4% by the removal of GFSA from the table.

Mr McGregor says, "Pyramids were made fashionable by Raymond Ackerman in 1961 and certainly have some justification when the loss of control of such an able entrepreneur and manager..."
Securities Panel meets on Allied takeover issues

By Greta Steyn

JOHANNESBURG — The Securities Regulation Panel met urgently yesterday at the request of First National Bank (FNB) to clear up legal issues in the takeover fight between FNB and the UBS for the Allied Group.

The panel yesterday confirmed that a meeting was being held "at the request of one of the parties". It was still under way at the time of going to press, but it was understood that the secrecy of the panel's ruling for the UBS last week and FNB's legal position were being discussed.

It is believed the panel last week confirmed the UBS's interpretation of the law — a move which meant the UBS-camp could build up a much larger stake in Allied by buying shares on the market than initially thought legally possible.

Allied chairman Norman Alborough has officially asked the panel to make public any rulings it has made about interpretation of the law "in the interests of our shareholders".

"We are not involved in the positions either of the two parties are taking in Allied shares, but we feel those positions should be communicated to our shareholders," he said at the weekend.

The message to Allied shareholders at a press conference on Saturday was to sell in the market, unless they wanted a long-term investment. Director Joe Pamensky said, "The market is telling us there is a buyer at prices higher than those stipulated in either offer."

He added that "the serious investor" had to decide which group would best take advantage of rationalisation benefits once it had taken over Allied.

"The board had no time to judge the strategic merits of the FNB offer."

The message to sell in the market rather than try to decide between the two offers was further underscored when Allied Group MD Kevin de Villiers acknowledged he had sold about two million shares "when the predators were feeding."

Noting the board's difficulty in making a single decision on behalf of 47,000 shareholders on which offer to favour, Alborough said the board had set out to identify the choices without attaching a value judgment. Both offers were "fair."

But the board also drew attention to potential pitfalls in both schemes.

A potential problem in the Amalgamated Bank of SA (Absa) offer was that shareholders could be left with a fragmented investment consisting of some Allied shares and some Absa shares. This would be the case if a special resolution was not passed with 75% in favour at the Allied general meeting in mid-March.

The resolution was needed to reduce Allied's share capital. Shareholders would end up with only 50% of the shares and cash they would have received otherwise, with the balance made up of Allied shares.

A potential pitfall of the FNB offer was that it could result in no effective control of the Allied. The only condition attached to FNB's offer was that the Absa offer be rejected at the shareholders' meeting.

Alborough disclosed that FNB's original intention to make an offer had contained a condition that it succeeded in acquiring a minimum of 50%. The Allied Board had convinced FNB to drop the condition.

"On one hand we had a firm proposal to form Absa, and on the other hand we had FNB's intention to make an offer with conditions that the board found unacceptable. It is significant to note that the condition of a minimum 50% was not included in FNB's final offer," Alborough said.

But while the board did not formally choose sides, only two directors — De Villiers and alternate director Angus Fren-tice — were in favour of the FNB offer.
SA reserves sold to cover social needs

Political Staff

The Minister of Finance, Mr Bar-end du Plessis, has confirmed that the government is selling off stockpiles of strategic resources to raise funds for socio-economic development.

Details of what was being sold and how much was being raised could not be established, nor could it be confirmed if the resources included oil.

In response to inquiries last year, Mr Du Plessis said it would be highly irresponsible to sell off the country's oil reserves.

He told parliament yesterday that the R319.4 million spent in buying land for black urbanisation and education had come from the National Supplies Procurement Fund.

He said the change in international attitudes towards South Africa had reduced the need for strategic stockpiles.

Minister of Trade and Industry Mr Kent Durr said non-oil items were being pared down.

However, Minister of Mineral and Energy Affairs Dr Dawie de Villiers, who is responsible for oil, could not be reached for comment last night.

It had been intended that socio-economic spending would be met through privatisation, but no progress had been made towards this end.

Mr Du Plessis said that last year he had expected R1 billion from privatisation for social spending. This was to have been used to eliminate backlogs in education and buy land.

Only R319.4 million had been spent.

If the balance was used in the coming year, it would be covered by the Additional Appropriation for 1991/1992.

State debt, which already exceeded defence spending in the budget, had increased more than had been expected.

Of the R479.1 million that exceeded the Contingency Reserve, R418 million was the result of servicing public debt.

However, no extra taxes would be imposed or loans raised.

Mr Du Plessis said that although parliament had passed an extra R2.8 billion yesterday, it was expected that departments would surrender R250 million in unused funds from their budgets.

The Democratic Party's spokesman on finance, Mr Ken Andrew, said the Additional Appropriation was a failure in term of Mr Du Plessis's yardstick of reducing spending.

"The 1990/91 budget has been overspent by R2.8bn or 4% — the worst performance in at least three years and not a good omen at a time when pressures to overspend are going to be greater than ever."
ANC ‘rethink’ on economy

Own Correspondent

JOHANNESBURG — Nationalisation could create a national debt problem, a flight of skills and economic insecurity, according to an ANC discussion paper which signals a new debate within the organisation on state ownership.

Excerpts of the paper appear in this month’s edition of the ANC journal Mayibuye. The paper itself is being distributed widely in ANC circles.

It lists the advantages and disadvantages of nationalisation and says nationalisation “is not a simple clear-cut issue.”

Although ANC economic policy is still apparently in a formative stage, nationalisation has been a central plank of policy since it was adopted in the movement’s Freedom Charter in 1955.

The discussion paper notes that while nationalisation could ensure essential services, better working conditions, increased social expenditure and the “democratisation of the economy”, “we cannot have the view that nationalisation will give a new democratic government the means to provide us all with jobs, houses and education.”

“If we are going to nationalise, we need to borrow the money to pay for the companies we buy. We will have to pay back this money with interest. This money will be spent without creating a single new job.”

“If we are unable to pay back because the government does not make enough profit from that particular nationalised industry, we will be increasing our debt problems. This happened in some countries where the government nationalised the mines, for example, and then ran into many difficulties.”

Nationalisation could lead to investor insecurity and a fall in foreign investment. The paper notes “the impact on the economy when financial sanctions were introduced in 1985.”

The policy could end up benefiting only the few who ran the industry and were employed by it.

The paper says it could be argued “we cannot afford the R70 billion it would cost to nationalise the mines.” It argues instead for higher mining taxes, worker safety laws and mineral rights leases.
Unit trust total 'soared by over R2bn'

CAPE TOWN — The R8bn unit trust industry took off in 1989 as the value of total assets increased by more than R2bn (51.2%) to R6.64bn, the 1989 report of Unit Trust Companies Registrar Piet Badenhorst said.

Badenhorst said in his report, tabled in Parliament yesterday, the growth was remarkable in view of the sharp drop in prices on the JSE on October 16 1989. After a large rise in units repurchased during the year, the net inflow of new investment capital was R565.5m.

Lesley Lambert

Last year, the industry's total assets grew by a further R1bn to R7.6bn, while the number of accounts rose from 568,000 to 738,000; latest figures show. The net inflow of R1.12bn was almost double that of the previous year, indicating continued momentum in the growing investor interest in unit trusts.

Four new general equity trusts and two specialist equity trusts were launched in 1990, bringing the total number of trusts in operation to 37.
Pepkor buys 47% stake in Smart Centre

By AUDREY D’ANGELO
Business Editor

Pepkor has bought Tradegro’s 47% stake in fashion chain Smart Centre for R650m in cash — with effect from March 1. The dividend of Scs a share due to be paid before the end of March will also accrue to Pepkor.

Pepkor will make a similar offer to minority shareholders, but it intends to continue running Smart Centre as a listed company.

Announcing this yesterday, Pepkor chairman Christo Wiebe said Smart Centre was a well-managed and soundly based business which met his group’s criteria for growth potential.

Smart Centre — with 151 outlets all over the country under the names of Smart Centre Mappas and Patrick Daniel — caters for the middle to upper-income market and has a large black client base.

Pepkor’s target market has been mainly the lower income group.

Wiebe said yesterday that the Smart Centre chain would “complement and extend our existing retailing operations, which are geared to the mass-market.”

Pepkor had that about 30% of clothing sales in SA were on credit, he said. “Until now we have not been in this market. But we have been looking for years, for a well-managed and clearly focused credit chain.”

He thought Smart Centre could grow to between 300 and 400 outlets so far it was mostly in the PWV area but more branches would be opened in the Cape.

“We shall grow it here. We shall open more outlets in areas where it is not yet well represented.”

The sale of Smart Centre is part of the “unbundling” process of Tradegro and more announcements are likely in the next few days, including management buyouts.

Wiebe confirmed that Pepkor was interested in at least one other Tradegro company — “there are other aspects we are talking to them about”.

Smart Centre would continue to be run as a new division within Pepkor and would not be merged with any of its existing operations. Its management and staff would be retained and “no rationalisation of its branch network envisaged”.

Wiebe said one of its major attractions for his group was that it had a “very well entrenched and stable top management”.

He was very happy with the way its credit operation was being handled. Their collection processes and monitoring are very good.”

Pepkor financial services director Carel Stassen said it was “definitely not negotiating for checkers”.

The other acquisition it might make from Tradegro was “a very small company”.

Smart Centre lifted attributable profit to R7.5m (68.6m) in the six months to December 31.

This was achieved on a turnover of R101m (R72.1m) Operating profit was R17.1m (R16.4m). After-tax profit was R8.3m (R0.5m).

Food may still get a zero rating or a reduced rate. If VAT is charged at the full rate then substantial food subsidies are likely to be introduced.

Asked yesterday if the team’s presence suggested links between SA and the IMF were improving, Deputy Finance Minister Per Marais and Vacom chairman Orde Marais said it couldn’t be assessed.

An interim report on poverty alleviation has been completed which envisages a nutrition intervention programme or “life net”, but the financing of the programme could depend on the final recommendations by Vacom and the IMF.

A separate flight to that of MD Michael Camedes, who was on a stopover visit.

The IMF’s input may affect this year’s Budget since VAT will be a revenue earner for the focus on October.

Government will also introduce schemes to alleviate poverty and if VAT is included on foodstuffs, additional provision will have to be made to aid the poor.

An interim report on poverty alleviation has been completed which envisages a nutrition intervention programme or “life net”, but the financing of the programme could depend on the final recommendations by Vacom and the IMF.
Head of trading operations at Investec, Simon Shapiro, says whatever product is chosen it should take into account the limitations of the SA futures market:

- Convergence between the spot and futures contracts and their capacity to trade at fair value (the theoretical price at which a future should trade);
- Inability of non-JSE brokerage members to arbitrage because of non-level playing fields between brokers and others — the MST and non-negotiable brokerage give brokers an advantage;
- Shortage of liquidity, and
- Absence of overseas participation.

With futures now trading at 2,000 contracts a day, well below the 3,000-4,000 budgeted for, Safex needs R100,000-R150,000 a month to return to a break-even situation. It has suggested imposing a levy of R250 monthly on non-active members. Those not trading to this amount each month would make good the shortfall.

Criticism from members has prompted Safex to consider other measures. Says Rees:

"This will include cutting costs, increasing the haircut on the interest rate we pay to members on margin moneys we hold (now 0.5%) and the introduction of a modest minimum transaction fee."
**FUTURES**  
**UNDER CONTRACT**

Safex hopes to introduce a new contract this month to push up volumes and increase liquidity in the SA futures market. It was initially designed as the Weekly All-Share Index (Wasi) future which would roll over each week in perpetuity. However, in response to requests for comment from members, adjustments were made.

National Futures and Options' Brett Stacey says: "The major criticism was there would never be any sellers, the institutions would just buy in and this would inhibit volume rather than increase it."

"The roll-over aspect is now to be scrapped and the future will be closed out every Friday afternoon. This should stimulate arbitrage between the Wasi and the longer-term contract."

A spokesman for a large institution says: "If it has reasonable volume, like the standard All-Share Index future, it could be a useful tool, though I see it as more of a position-taking tool than a hedge."

Safex CEO Stuart Rees says the new contract and alternatives will be discussed at a meeting on February 20.

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**ECONOMY & FINANCE**

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Firms should insure against credit risks

In an increasingly robust business environment, credit control has grown in importance. Latest liquidation statistics—which show an increase in the number of liquidations, but even more alarmingly, a sharp increase in the value of default and consent judgments—implies worsening liquidity problems for South African companies.

Although the actual number of liquidations last year was only marginally higher than 1989, the value of default and consent judgments will probably total R180 million for 1990—a disturbing rise of 59 percent.

Perhaps the most reliable way of controlling a credit risk is to insure that risk. It is also prudent to investigate the credit rating of future clients and to monitor the creditworthiness of debtors.

Credit Guarantee Insurance Corporation offers SA’s most comprehensive portfolio of credit management services and its policy holders benefit from Credit Guarantee’s con-
JSE firms 'place profit above jobs'

By Shareen Singh

The top 100 JSE-listed industrial companies produced a 21.3 percent increase in dividends last year, but only increased employment by 0.1 percent, according to Labour Research Services.

Some of the biggest companies chose to grant shareholders significantly larger dividend payments and cut employment during 1990, LRS said.

Employment creation should be a major concern for South African companies, it added.

But instead of expanding employment opportunities and making economic growth a priority, these companies and their directors preferred to keep shareholders happy with large dividend payments, the research body said.

Profits of the top 100 companies increased by 15.8 percent, just above the average 1990 inflation rate of 14.3 percent. Despite the recession, these companies managed to increase sales by 18.3 percent.

Sales per worker rose by 17.3 percent, suggesting improved worker productivity.

Listed companies in the engineering sector recorded, on average, a 45 percent increase in profits last year — the largest increase in profits of the JSE sectors surveyed.

Profit increases for some of the big five conglomerates might have been poor in 1990, the LRS said, but they still earned large returns on their shareholders' investment. Anglo American earned the largest return of 24 percent.

Barlow Rand's profit attributable to shareholders fell by 14.2 percent in 1990, but the company still earned "a very respectable" 22.4 percent return on shareholders' investment.

Barlow Rand group public relations manager John Cammell said the company had not increased its dividend payout.

Despite a 14.2 percent decline in attributable profit for 1990, the total wealth created by the group increased by 9.3 percent to R8.6 billion. Of this, 54 percent was distributed to employees compared with 49 percent of R8 billion in 1989. The proportion distributed to shareholders remained unchanged at 4 percent, he said.

A spokesman for the South African Chamber of Business, of which most of the top 100 companies are members, said the organisation was studying the report and may respond later.
DEREGULATION

BUREAUCRATS RESIST

Local authorities in Natal continue to resist the scrapping of most business-licence requirements and trading-hour laws, but this is unlikely to stop parliament from pushing ahead.

The Business Bill, now being debated by the parliamentary Joint Committee on Trade & Industry, would replace the interim measure that took effect on January 1, 1990, that eliminated licence requirements except for escort services and businesses that process or handle food. They also allowed unrestricted trading hours every day except Sunday and religious public holidays.

But Natal was temporarily exempted from the deregulation because the provincial government depends on licence fees for income. Municipal councilors, fearing of losing their licensing department jobs and power to restrict businesses, also opposed the measures, especially in Cape Town.

Jimmy Sadie, director of the Pretoria-based United Municipal Executive, which represents local authorities throughout the country, says there is no reason to believe that the provincial government would agree to the measure. Municipal councilors, he says, cannot comment on the measure because it is barred from giving evidence to the committee.

As a smoke screen for their real complaints, local authorities objecting to the Bill argue that it will lead to chaos and a drop in standards. But Brian Goodall, the DP spokesman for Trade & Industry and one of the staunchest supporters of the measure, says the deregulation has been in place for more than a year "and the sky hasn't fallen on our heads."

He says the Bill is particularly beneficial to small business and the informal sector because it removes many restrictions on their activities. "Government has talked about deregulation for years. This is the opportunity to put its money where its mouth is. If parliament doesn't pass this Bill, then all the talk of deregulation will have been meaningless. If we are serious about free markets and fair competition, then this measure must go through."
The new Securities Regulation Panel meets tomorrow to hear an appeal against its ruling in the Allied Group takeover battle.

The appeal has been lodged by First National Bank which is competing with a UBS-Volkskas-Sage Financial Services consortium for control of the Allied. The panel has come under heavy fire for the secrecy surrounding the first test of its powers to protect minority shareholders.

A renewed surge of buying Allied shares followed the panel's ruling at its first meeting last week that UBS and its consortium partners Volkskas and Sage Financial Services were not "concert parties" operating in cooperation with one another.

The UBS alliance's offer of 100 shares in a new banking giant to be called Amalgamated Bank of SA (ABS) for every 320 Allied shares values them at 240c — the price of a cash offer for half the Allied shareholder.

FNB countered with a share swap offer valuing Allied shares at 265c, or 250c cash.

While the legal issues were being hotly debated, confused minority shareholders in Allied became sellers again as the share price rose on Friday to 290c, not far short of the 300c at the height of the stock scramble. The shares later traded at 270c.

The effect of the panel's ruling would enable the ABSA partners to continue buying Allied shares at higher prices in the market without having to offer the top price to other minorities.

The original UBS application was heard by three members of the 18-man panel — chairman Mr Justice Cecil Marge, executive director Doug Clair and JSE president Tony Norton.

Tomorrow's appeal will be heard by five members of the panel, but the three who made the original decision will not be among them.

It has been authoritatively learned that the panel consulted the London Takeover Panel about the problem and its view is that the ABSA partners are indeed "concert parties" — directly contradicting the decision of the three-man executive committee last Friday.

This raises the question of what will happen if the panel reverses its decision tomorrow if the ABSA partners have exceeded the 30% stake they were allowed to buy on the market without needing to increase the offer to all minorities in Allied they could be required to raise the general offer.

Even if only 100 shares were bought at the top price the ABSA partners would have to offer the same price to every shareholder.

At one stage Allied shares changed hands at 300c. If ABSA paid that price, the cost of acquiring Allied would rise from about R720-million to nearly R900-million.

However, the alliance could claim it acted in good faith, opening the way to lengthy litigation between it and the panel.

Block

Allied shareholders who did not follow managing director Kevin de Villiers' example by selling their stock will be counted as the protagonists seek their proxies for the meeting due on March 21.

The resolutions on which shareholders will have to vote will be sent by Allied in a few days.

A decision on an ordinary resolution approving the sale of Allied's assets to ABSA can be carried by a simple majority.

However, a special resolution to reduce the Allied's capital so that it can be absorbed by ABSA requires 75% approval of "shareholders present in person or by proxy".

Many analysts believe that FNB has sufficient Allied shares to block this resolution.

This would effectively fragment the ABSA offer and leave shareholders with a mix of Allied and ABSA shares and a reduced cash offer from ABSA.

FNB managing director Barry Swart said the bank would deal with this issue in its formal response to the Allied board's takeover.

By Ian Smith

Document issued last weekend

Until then, he said, Allied shareholders should be careful about signing proxy documents.
The brakes are still on but you can start revving up
New salvoes in baffling bank war

John Spira

EVENTS in the Allied takeover saga are still moving at bewildering speed, with United, Sage and Vellines yesterday releasing a tough statement to counter First National Bank's claim that the Allied-led bid for Allied contained a major pitfall.

"Nothing could be further from the truth," states the joint announcement.

To be successful, the Allied-led ABDA (Amalgamated banks) bid would require a capital reduction in Allied for which approval from 75 percent of shareholders would be required.

**Implied**

FNIF has argued that it could block such a resolution, in which event Allied shareholders would end up with less cash and shares than they would have received in terms of the ABDA offer.

But Allied now points out that, although the special resolution authorizing the capital reduction will not be at its disposal

*Allied shareholders would receive a dividend of 56 ABDA shares for every 100 Allied shares held, and Allied would retain its only assets the remaining 44 shares relating to each holding of 100 Allied shares it would otherwise have contributed to shareholders.

*Allied shareholders would retain their existing Allied shares.

*Allied would become an investment holding company with an important block of ABDA shares.

Such a situation, says the statement, may actually be to Allied shareholders' advantage.

In addition, they would own the 56 ABDA shares which they would receive and hold directly for every 100 Allied shares held. And those who opted to retain their Allied shares could sell them on the JSE.

With such an advantage, who could engage selling the 56 ABDA shares, according to Allied, would not otherwise have been exercised.

The United consortium goes on to suggest that the FNIF consortium offered an attractive alternative to the United offer. It pointed out that the United offer was supported by a large number of shareholders.

"We believe that the United offer is the best offer available to Allied shareholders," the statement concludes.

MARIKE, WINNIE not too friendly

This personal chemistry between State President FW de Klerk and ANC deputy president Winnie Mandela did not seem to filter across to their wives when the couple met at a banquet hosted by the Johannesburg Press Club on Friday night.

While the political leaders were greeted each other and exchanged pleasantries, before their addresses to a select crowd at the club venue, Marike de Klerk and Winnie Mandela kept a palpable distance from each other.

At a pre-dinner reception before the announcements of both parties moved to the dining hall, Mrs de Klerk and Mrs Mandela exchanged a few words and promptly moved to their respective tables.

Emerging from the dining room, Mrs Mandela and Mrs de Klerk remained about 10 places apart as they strode to the conference hall.

On entering the hall, Mr Mandela and Mr de Klerk constantly smiled and chatted to each other, but their wives were shown to their places independently.

Up until the delivery of the speeches, Mrs Mandela and Mrs de Klerk did not speak to each other as they were seated about five places apart.

It was the first time the two women had met publicly. - Sapa.
Anglo still king of the corporate castle


Anglo makes up 44,2% of JSE market capitalisation, followed by Rembrandt group's 12,6% (8,4% if GP and GP SA is excluded), Sanlam’s 13,2% and SA Mutual's 10,2%.

The rest come well behind – Liberty group has 2,6%, Anglovaal 2,5%, F S group 0,8%, V & R group 0,7%, and Raymond Ackerman 0,3%.

These nine comprise 87,6% of total JSE market capitalisation.

Editor Robyn McGregor says these figures reflect the removal of all pyramid companies.

The market capitalisation of these pyramid companies amounts to R2bn, or 10% of the total JSE market capitalisation.
Safex takes strong action to survive

local but an international phenomenon

When Safex took over the clearing function from Rand Merchant Bank last April, volumes were expected to rise and they did reach a high of 5,000 contracts a day in August.

Although trading in futures is a zero sum game — for every loser there is a winner — perceptions of the market were damaged by the collapse of futures trading company DBS, although no clients with open positions lost money as a result of the failure of the firm.

Referring to talk in the market that Rand Merchant Bank — which operated as a clearing house for futures trading for three years from April 1987 to April 1990 — might be asked to resume this function, Rees said this was one of the options.

"The major concern of Safex is that the futures market should survive and prosper, even if this involves shifting the clearing function to another clearing house. "We have been discussing the possible merger of our clearing operation with that of Unexcor, the proposed central clearing organisation owned by the major clearing banks. If this would be to the advantage of the market, we would consider it," he said.

He added that measures being adopted should enable Safex to pursue the purpose for which it was founded.
Four groups control 80% of JSE capital

By Tom Hook

More than 80 percent of the market capitalisation of the JSE is controlled by only four major groups.

This is calculated by analyst and author Robin McGregor in the latest edition of Who Owns Whom.

Extending the list, he calculates 87.5 percent is controlled by nine groups.

Just over 44 percent is controlled by Anglo American Corporation Limited.

No2 spot is held by the Rembrandt Group, which has moved up the list to the No 2 spot, owning 13.6 percent, though this stake falls to 9.4 percent if Gold Fields of SA is excluded.

Sanlam is estimated to control 13.2 percent of the JSE, ahead of Old Mutual with 10.2 percent.

The other major groups are listed as Liberty with 2.6 percent, Anglovaal with 2.5 percent, FS Group with 0.6 percent, Ventron Group with 0.4 percent and Pick'n Pay with 0.3 percent.

Pyramid

"These figures reflect the removal of all pyramid companies, whose market capitalisation amounts to R38 billion, or 10 percent of the total JSE capitalisation," says Mr McGregor.

The latest edition of the book contains several new features, including a breakdown of the holdings of the six major groups — Anglo, Rembrandt, Old Mutual, Sanlam, Liberty and Anglovaal Holdings.
Govt sells stake in Sasol 3

Johannesburg — Sasol has bought the Central Energy Fund's (CEF) 50% stake in and loans to Sasol 3 in a deal worth R2.5bn which it will fund from internal resources.

The synthetics and chemical giant also announced yesterday a 29.2% rise in attributable earnings for the six months to December, largely due to higher oil prices and increased production volumes.

Mineral and Energy Affairs Minister Dawie de Villiers said in a statement yesterday the funds received would be used by CEF to finance Mossgas and other energy-related projects.

Sasol chairman Joe Stegmann said at a press conference the negotiations for Sasol 3 had been 'tough', but both parties described the price as fair.

The full value of Sasol 3, which had cost R3.3bn to build and was commissioned in 1992, had been set at R3.5bn.

Stegmann said the acquisition was in line with a contractual commitment between the state and Sasol entered into at the time of Sasol's privatisation in 1979.

In terms of this agreement Sasol had acquired the stake it did not hold in Sasol 2 in 1983.

It was agreed yesterday that Sasol would buy all the shares it did not hold in Sasol 3 and redeem the loan made by the CEF to Sasol 3 with effect from July 1, 1990.

Sasol would acquire the CEF equity in Sasol 3 for R617m in cash. It would also redeem its R2.4bn loan by paying R135m in cash, followed by four annual payments of R400m each and a final payment of R550m.

Sasol MD Paul Kruger added there had been discussions on the Industrial Development Corporation's (IDC) sale of its stake in Sasol, but nothing was firm.

Kruger said the acquisition would not affect Sasol's future capital expansion programmes. At present, capex of R1.3bn has been committed, but, however, pushed gearing up to 46%.

He said the acquisition would initially have a relatively small but favourable effect on Sasol's earnings a share because the loss of the dividend previously received on the investment in Sasol 3 would be compensated for by the consolidation of Sasol 3's profits.

However, in the longer term earnings a share would increase concomitantly with a reduction in interest payable as the loan was redeemed.

In the six months to December, Sasol's attributable earnings, which included those of Sasol 3, rose 29.2% to R464.8m (R359.7m) or 62.6c (63.6c) a share.

However, Sasol's profit growth in the second half is expected to go down because of the expected lower average oil price.

A dividend of 32.5c (27.5c) a share has been declared, up 18.2% and covered 2.3 (2.3) times.

Kruger said for most of the period under review international crude oil prices, as well as petroleum product prices and refining margins, were considerably higher than for the comparable interim period.

With the inclusion of Sasol 3's contribution, turnover excluding excise duties and levies jumped 63.5% to R4bn (R2.4bn), but operating profit was up 50% to R974.2m (R613.1m).

The group received R200m in dividends, compared to the R104m in the period before the acquisition of Sasol 3.

It paid R204.5m in interest compared to the R4m it received the previous year. This led to pre-tax profits rising 19.9% to R769.9m (R642.1m).

Sasol's tax rate increased to 38.9% (19.9%) because of the change in the method of accounting for depreciation. As a result, taxes paid were 8.9% lower at R404.8m (R513.7m).

But the group made no transfer to its internal equalisation reserve following the R154m transferred the previous year.
LETTERS

Jim Jones

4/7/21

Alfred Shales... a most taxing problem
Allied battle: 13,3m more shares freed for the chase

By GRETA STEYN

JOHANNESBURG. — The number of shares chased in the Allied takeover battle between First National Bank (FNB) and a UBS-led camp rose by a substantial 13,3-million after Allied executives this week got the right to exercise their share options.

The prices at which the options can be exercised vary from about 140c to just over 200c. The share peaked recently at 300c and has been trading in a band between 265c and 285c.

The potential profit margin for executives who want to sell in the market narrowed yesterday as the Allied share price shed more than 5% to 265c and volumes dwindled to their lowest levels since the takeover battle started.

The market is waiting for a crucial Securities Regulation Panel decision on FNB's appeal against the panel's earlier finding placing the UBS in a favourable position.

An announcement is expected before the close of the market today. With Allied trading at 265c yesterday, speculation that the panel might force a UBS offer to minorities at 300c faded.

In terms of the original employee share option scheme, executives would only have been able to exercise a quarter of their options in June this year.

The decision to bring forward the exercising of the options is understood to be because the scheme was not carried over to the UBS-led ABSA takeover proposal.

The new block of shares held by the executives represents a substantial 4% of the capital. It immediately dilutes the holding of the two predators with FNB's stake falling below 25% of the shares in issue. But FNB has made no move to pick up the new block, saying such action would depend on the outcome of the panel meeting.

FNB is understood to have asked for the panel to consider "the spirit and not the letter" of the Takeover Code, whose ambit is bypassed by the UBS offer's structure.

In terms of the UBS offer, all that is needed is a majority vote by shareholders present at next month's shareholders' meeting in favour of selling all the assets - regardless of the number of shares represented at the meeting. FNB opposes this, saying "the substance of the deal, and not the form" should be the crucial issue.

Yesterday the JSE approved the terms of the Absa merger agreement, details of which are in the process of being prepared and sent to all relevant shareholders, an announcement today says.
ANGLOVAAL Industries (AVI) shrugged off reduced margins affecting markets served by the group, and a still heavy interest bill, to post a 5% increase in earnings in the six-months to end-December.

Attributable earnings climbed to R102m (R98m), equivalent to 35c (34c) a share. After-tax profit rose 10% to R168.8m (R152.8m).

AVI's packaging and rubber sector contributed most to the growth, with a 9% increase in its contribution to group interim earnings. All five business sectors contributed to bottom-line earnings, but the construction and electronics and diversified businesses sectors contributions fell by 3% and 7% respectively.

MD Jan Robbertze said last night the performance of the construction and electronics sector reflected the reasonable conditions in the building industry, but a tighter situation facing civil engineering.

Profit gains in Consol's rubber division and National Brands were offset by lower contributions from Grunaker Holdings and the group's textile businesses. He said commercial electronics faced difficult times. Grunaker Electronics had lost a significant component of defence spending, and was refocusing its operations.

Robbertze said the company's non-defence business was picking up — it had won antenna contracts from the SABC — and with the easing of overseas market conditions it was likely to raise its contribution to group earnings by financial year-end.

**Revival**

Textiles were hit by government's structural adjustment programme, which had promoted imports.

AVI's businesses had been less badly affected than its competitors, but their revival would depend on government re-evaluating its approach to the industry.

Consol's rubber division fuelled 12% of the 19% increase in group turnover to R3.66bn (R3.36bn).

AVI's interest bill fell 10% in the interim to R43m (R47.6m), compared with a total bill of R100m at year-end 1990 (R44.8m at year-end 1989).

Operating profit was boosted by a 26% increase in investment income to R31m (R30.8m).

The directors said for the next six months earnings would match interim results, although recessionary trading conditions were expected to continue.

Negotiations were in progress which, if successful, would result in AVI increasing its interest in Grunaker Holdings to 51% (now 46.5%) when the transaction was completed. AVI planned to transfer its entire Grunaker Holdings equity into direct ownership by AVI, eliminating a need for intermediate holding company Avgrn Holdings, which would be deregistered.

AVI had signed a conditional agreement whereby National Brands would — on April 2 — acquire the local business of Yardley of London (Africa).

Directors said the group's capital expenditure was reduced to R53.9m (R119.9m) in the half-year. Authorised capital expenditure stood at R149.7m (R119.7m), of which R83.9m had not been contractually committed. Chairman Basil Herce said last year, AVI had budgeted R1.1bn in capital expenditure over the next three years.
Former FSI men take Under Fire

Andrew Goll

Investigation Holding Company Under Fire from Congress

For，则是"的, 报道, 这些

The former FSI men are being held for information about the investigation. The investigation is said to be looking at potential violations of law. The former FSI men are said to have been involved in activities that were deemed illegal.

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Iscor shareholders in for a letdown

By Derek Tomney

The 222 000 investors who hold shares in steelmaking giant Iscor will be disappointed with the company's earnings for the six months to December.

Attributable profit fell by 29.3 percent from R426 million to R301 million, and the dividend has been reduced by 16.7 percent from 5.4c to 4.5c a share.

But Iscor's shareholders have one consolation.

Most of the world's other major steel producers faced difficult times last year and are also reporting poor profit figures, according to profit comparisons.

The main cause of Iscor's woes was a 12.5 percent cut in local steel sales as a result of the mounting recession.

Offset

Iscor tried to offset the losses with increased exports and was extremely successful, with export sales rising by 54 percent.

This, together with increased coal sales to Eskom and record iron ore exports, helped push total sales up by 17.2 percent from R3.1 billion to R3.6 billion.

However, the lower prices received for exports, together with the firmer rand and easier dollar, were not enough to offset the loss of income from reduced local sales.

Income before financing costs and tax dropped 27.3 percent from R581 million to R437 million.

These earnings were further trimmed by a rise in interest paid from R49 million to R168 million.

However, Iscor's heavy investment programme resulted in a sharp drop in its tax liability.

Increased investment allowances enabled the company to cut its tax bill from R127 million in the second half of 1989 to R24 million in the second half of last year.

Net income attributable to shareholders was R301 million — equal to 16.1c a share.

This was a drop of just under 30 percent from the R426 million — equal to the 23c a share — earned in the second half of 1989.

Managing director Willem van Wyk, discussing prospects, sees little immediate change in market conditions from those in the six months to December.

World steel production and international trade in steel started to turn down in 1990 and Iscor expects the trend to continue this year.

In fact, Iscor thinks conditions will be worse that the 1.2 percent decline in world steel trade forecast for 1991 by the International Iron & Steel Institute.

However, the heavy investments made by Iscor are expected to start showing increased operating efficiencies and encourage the development of new products.

The full commissioning of the modernised Vanderbijlpark blast furnace in the first half of this year should increase plant throughput and enable exports to be maintained at levels, thereby optimising efficiency.

Moreover, the capital expenditure programme has peaked and the benefits will gradually become available as projects are completed.

Looking farther ahead, Iscor expects that the European Community and the US later this year to lift sanctions.

Opportunity

Iscor still has its sales representation in Europe and the US and believes lifting sanctions will offer the opportunity to broaden its export base.

It should enable Iscor to sell value-added products, which are forming a steadily increasing proportion of its output, to more lucrative markets, says Mr van Wyk.

But he is adamant that Iscor will not rush into Europe or the US when sanctions go.

"We will look carefully at these markets, but would not want to disturb the existing situation," he says.
Rights offers boost Anglovaal

Anglovaal has reported a 28 percent increase in profits in the six months ended December, while its investment and exploration company, Mid-Wits, regains an increase of 101 percent.

The main reason for the improvement in both cases was interest received from the funds raised through their respective rights offers.

In spite of the 39 percent increase in Anglovaal's issued share capital, its earnings per share were only 8 percent lower, while the growth in Mid-Wits' individual share earnings was 50 percent after its 33 percent increase in equity.

Anglovaal's consolidated earnings rose to R135.3 million from R105.6 million in the year-ago period. This follows a 30 percent gain for the 1989/90 financial year as a whole.

Furthermore, the board anticipates that the current year's earnings will continue to grow, again because of the increased number of shares in issue, earnings per share are expected to decline.

In addition to the interest received factor, Anglovaal received a modest increase in contributions from Anglovaal Industries (AVI), which has reported a 5 percent rise in earnings. Most markets served by the AVI group reported reduced margins and restricted consumer spending.

AVI is currently conducting negotiations which, if successful, will result in it increasing its 46.5 percent indirect interest in Grumaker Holdings to a direct ownership of 51 percent of equity. Furthermore, the subsidiary, National Brands, will acquire the South African business of Yardley of London on April 2.

Mining investment income in the current year is expected to decline, but this will be more than offset by the higher interest received.

Lower base and precious metal prices led to a decrease in the profitability of the mining division and this, in turn, led to reduced dividend receipts and equity-accounted earnings—particular in the case of Associated Manganese Mines.

In line with the gold mining industry, Anglovaal mines continued to be adversely affected by lower real-terms rand gold prices.

Mid-Wits' earnings reflected a rise to R23.2 million (1989 R11.5 million), the higher interest income being offset to some extent by lower dividends from the company's mining investments and reduced equity-accounted earnings.

The group's exploration programmes for gold in the Sun and Oribi areas are continuing with the emphasis remaining on the southern part of the Sun area where the current drilling phase is further delineating ore body boundaries, as well as further extending these. However, drilling delays have led to a further postponement of the current exploration phase.

During the half-year, Anglovaal's share of exploration costs—including mineral rights purchases—amounted to R36 million (1989 R41.5 million), most of which was incurred on the Sun and Oribi areas.
INVESTING ABROAD

Activities: Holds investments, mainly in mining, property and farming, in Africa, Australia and in the US
Control: Conafex (registered in Luxembourg) 52.4%
Chairman: D C Marshall
Capital structure: 3.8m ordz Market capitalisation 228m
Share market: Price 680c Yield 3.5% on dividend, 18% on earnings, p/e ratio, 6.6, cover, 4.3 12-month high, 760c, low, 625c
Trading volume last quarter, 4,000 shares
Year to Sep 30 '87 '88 '89 '90
Return on equity (%) — 6.8 9.2 8.5
Turnover (Sm) 12.4 18.5 20.7 31.1
Pre-tax profit (Sm) 2.0 3.4 4.1 3.9
Pre-tax margin (%) 16.0 18.1 19.4 12.5
Interest cover — 4.0 4.4 3.0
Earnings (USc) (2.0) 27.3 49.6 42.9
Dividends (USc) 8 9 9 10
Net worth (USc) 448 400 541 506

For local investors, Afex's investments in hard currency economies have long been the prime attraction in the share. The rand hedge qualities should continue to outweigh the recent setback in profitability, particularly as there are plans to strengthen the hard currency exposure.

Plans were announced this week to raise up to US$3.2m by way of a rights issue. Chairman David Marshall says the effect of restricted remittances from currencies with foreign exchange control has resulted in a greater proportion of the group's assets being within so-called soft currency countries than is considered wise.

By raising new equity capital, the board wants to...
Embattled Undev — now counting the cost of the liquidation of its Cortech electronics subsidiary and flat results from Rusfarm — is expected to announce this week its long-awaited refunding plan.

As expected, Undev and its Unicon parent are to participate in rights issues, to be underwritten by Senbank, which will raise about R15m. When the PM went to press the number of shares to be issued had still to be decided. The group's last rights issue, in September 1989, raised R20m and increased Undev's issued shares from 17,4m to 30,7m. Undev's share now trades at 33c, on a historical dividend yield of 42,4%, while Unicon's price is 170c, yielding 4,7%.

Proceeds of the rights issue will be used to help trim Undev's substantial debt. Additional funds for this purpose will be raised by disposing of what the group describes as non-core assets. These assets, mainly properties, are expected to bring in a further R30m. As no financial accounts have been published since the 1989 annual report, the group's present gearing level is difficult to gauge. However, the recapitalisation of Undev should ensure that cash flow is positive.

In addition to these measures, a major clean-out of the Undev board is expected, with all but chairman Henry Vorster and MD Ronnie Stein likely to be replaced.

Simon Cashmore
If you’re tempted to cut and run, thi

JOHN SPIRA

The Moving Finger writes, and having writ
Shall I be read, or shall I be wrote?
Nor all thy tears wash out a word of it

— The Rubaiyat of Omar Khayyám

But when push comes to shove, these views are just that. Seldom are they reinforced by anything that a belief based on the author’s subjective assessment of how he or she sees a situation so complex that the myriad variables cannot possibly be distilled into a meaningful, full objective conclusion.

Crystal balls

How, then, does one predict the future when reliable crystal balls are in such short supply? By reading the writing on the wall. The scribblings of the moving finger are far from confessional, they are clear, unequivocal and hidden only from those who don’t understand the language in which they’ve been written — or from those who don’t wish (or aren’t able) to interpret what they see.

So where is this graffiti and what does it say?

A convenient starting point is the Johannesburg Stock Exchange. Stock markets worldwide are resonated for their facility of reflecting not only present but the hereafter. In this sense, stock markets act as barometers rather than thermometers. They are anticipatory mechanisms which pool the combined expectations of all parties, and reflect the results in the form of share prices.

And since, when investors commit their hard-earned money (or the money of those who have entrusted them to do so) to the stock market, they necessarily weigh up their decision with a great deal of care.

The end result of all this amalgamation is informed, and, almost inevitably, reliably predictive. The city pretty.

In the past few months, the JSE industrial index (a measure of the action in industrial shares) has risen a full 18 percent to hit an all-time high.

It’s a performance that has been recorded against a backdrop of economic recession, a war in the Middle East declining world economies and repeated ANC warnings against the lifting of sanctions.

If share prices have been so buoyant in such a negative a context, surely the future cannot be as bleak as the popular observers would have us believe.

Financial rap

Bad South Africa been bend-
ning down the road to disaster. The share market would be implausible as investors foresee irreparable damage being done to the economy by a new political and co-economic system (meant to redress the failed Eastern European and African models).

We in South Africa, of course, are right on top of the action; often making it difficult to see the wood for the trees.

Foreigners are therefore perhaps better qualified to look into

South Africa’s hereafter

How, then, are these foreigners voting? Not those who vote with their heart but those who vote with their heads and their cheque books.

An interesting indicator is the financial rap.

Capital outflows

If, on the other hand, was positive the future would be rising.

It might therefore surprise to many that real runs would be reversing strongly.

Four months ago, have taken FLRA to dollar earlier this quarter only to be looked at another four confidence in has risen by nearly 3%.
emptied to cut and run, think again

Financial Rand in US Dollars

JSE Industrial share index

SPECTRUM

'Ve have to cut and run; there is no other way.'

The rubaiyat of Omar Kayyam

The Moving Finger writes; and having writ,
Moves on, nor all thy Piety nor Wit
Shall lure it back to cancel half a line,
Nor all thy Tears wash out a word of it.'

- The Rubaiyat of Omar Kayyam

Financial Rand

The South African Rand has been losing value recently and may continue to do so. The country is facing economic problems, and the Rand is expected to remain weak.

Capital outflows

Foreign investors have been selling their South African assets, leading to a decline in the value of the Rand.

The moral

They reason that this is the way South Africans do business, to maximize their short-term gains, regardless of the long-term consequences.
SENABANK and two of FSI's brightest boys are to tackle the challenge of salvaging Undev.

A consortium of the bank, Alan Chonowitz and Jean Brett has bought control of Uncon.

It did so through buying Top-It, which owns 79% of the Undev pyramid.

It was sold by a consortium comprising Undev directors Ronnie Steen, Steve Flehr, Ian Hirschson, Lionel Willmore and former director Geoff Grylsa.

Operations will move from Cape Town to Johannesburg, from bug debt to clean assets, and from short-term trading of investments to longer-term business development.

Senbank will underwrite the R15-million to be raised through rights offers in Uncon and Undev. Uncon shares were offered at 16c — they should theoretically be 88% of the Undev price — and Undev's last offer price to hit a low of 25c before rallying 10c to 35c after news of the deal.

The pitch price has yet to be arrived at.

Head-office debt at Undev is about 250-million out of a group total of R133-million at the last balance sheet to December 1989.

Head-office debt should be cleared by the sale of assets and property. Likely to be re-titled are the interests in Mecor, Equokor, Prestige, Hyperette and Rusturn.

Mr Chonowitz and Mr Brett are long-time colleagues.

Mr Brett, who was deputy managing director of Teamcor will be more active in the operations side of Undev. FSI Corporate Services managing director Mr Chonowitz will focus on the corporate side.

They expect to run a tight ship.

Senbank chief Henno van der Merwe says that FSI company V&A half considered taking Undev aboard, but decided against it.

The deal is a good one for Senbank, which stood to lose partly of heavily borrowed Undev had been beyond rescue.

It also gives Undev shareholders a chance. They might otherwise have shared the same luck as did members of Cortech.
LIQUIDATORS of the AA Mutual short-term insurance business have successfully applied to the Supreme Court in Pretoria to enter into a settlement with creditors.

Metrust liquidator Henry Gunn said yesterday: "The time and cost involved in settling 18 Supreme Court cases would have been huge. It is in the creditors' interest to settle the claims. Creditors have received 30c in a rand so far. The seventh liquidation account will give them another 25c and a final total dividend of 90c is expected -- if we can sell 27 Daggaal Street for R76-million."

Assets

"The application was justified because the liquidators were saved liabilities of R130-million. High dividend payments were saved and expedited by a few years."

Major creditor Federated, which has a R35-million claim against several parties, will get R27.5-million in all, according to Mr Gunn.

Syfrets liquidator David Rennie said the five liquidators, of whom he was one, may now pay out of the assets under their control a sum of R12-million to settle with Federated.

He said the liquidators were currently holding the money on behalf of the creditors.5[1752]

By DIRK TIEMANN

In February 1988 the Federated group agreed to buy a controlling stake in AA Mutual from subsidiaries of Kirsh Industries and the Automobile Association, worth R35-million.

Huge underwriting losses then emerged and Federated pulled out of the deal AAA's short-term business was wound up in June 1988.
Foreign listings will depend on ‘gold and SA politics’

INTEREST by foreign companies in listing on the JSE might be rejuvenated if a political settlement was reached and the gold price improved.

This was said by Davis Borkum Hare director George Joubert at a Webber Wentzel seminar on the listing of foreign companies in SA and SA companies listing overseas.

The 29 foreign companies listed on Diagonal Street had a market value of R36bn — about 9.2% of the total capitalisation.

In terms of foreign ownership of SA companies, 24% of the gold sector was foreign held and 23.8% of De Beers, which was often referred to as a currency stock as it was easily tradeable overseas and had an enormous market capitalisation, Joubert said.

However, foreign ownership had decreased in recent years. Only when there was a turnaround in the political situation, sanctions and the gold price, would SA see more trading from overseas, Joubert said.

JSE president Tony Norton said the 29 companies on the JSE registered abroad fell into two categories: those whose lead exchange was the JSE and which were registered in neighbouring states, and the truly foreign companies.

The 17 with a lead exchange outside SA were mainly from London, Luxembourg and Harare.

He said the JSE could hardly claim to be an international exchange.

As far as the JSE was concerned, there were no formal requirements for a foreign company to list, but if the JSE was the lead exchange, the foreign company would have to meet all the JSE’s requirements.

Most of the foreign companies listing on the JSE did not see it as a place to raise money, and in most cases the listing “was on a corporate finance tidy-up basis”.

In terms of SA companies wishing to list abroad, Norton said most wanted access to capital, foreign banking allowances and paper, and visibility.

“We have regrettably experienced a selling back in the last few years due mainly to gold”, he said.

The JSE would like to continue its policy of encouraging investment even if it was only in the form of paper to begin with, because other things flowed in besides money, like technology.

Webber Wentzel’s Luxembourg partner Steven Georgala said a SA company would want to list overseas to raise capital in a foreign market, because a more attractive share price would stimulate the value of share-for-share swaps and acquisitions, and to make a name for the company.

However, there were downsides. It was expensive in rand terms to list, there was the possibility of more stringent requirements, management time was wasted obtaining and maintaining the listing, and other markets which were anti-SA could cause shares to trade at a discount.

There was also an immense cost involved and a large amount of market capitalisation was required.
‘Texas auction’ mooted for Allied settlement

Own Correspondent

JOHANNESBURG. — The battle for control of Allied was marked by a series of last-minute weekend meetings to thrash out a settlement ahead of the secret ruling which comes into effect today.

At the time of going to press, no settlement had been reached between the UBS-led Amalgamated Banks of SA (Absa) and First National Bank (FNB).

The two warring camps spent the weekend trying to put together a formula acceptable to both parties.

A settlement might be reached through a “Texas auction” where the best bids are placed on the table and the highest bidder gains the option to take out the lower, a source said yesterday.

The Securities Regulation Panel (SRP) has asked the parties fighting to control Allied to present a settlement by this morning.

If they cannot resolve their differences, details of the panel ruling, which to date have been kept under wraps, will be announced.

There is also the possibility of legal action, sources say, but which parties would be taking action remains unclear at this stage.

The details of the ruling are known only to the FNB and UBS camps.

A source speculated that this ruling must either be favourable or partially favourable to FNB, or the UBS stable would not be talking to FNB.

Another source said it was probable the UBS camp had about 40% of Allied and that FNB held about 25%.

On this basis, FNB would be able to block any special resolution of Allied and could become a problem to the UBS group in the future. But FNB would be a relatively powerless minority in Allied.

“It is not unusual to use a Texas auction when two parties both want control,” a participant said yesterday.

The auction could be very expensive for the party that wins control, as the price paid is likely to be extended to minorities.

Allied shares were suspended from trading on the JSE on Thursday at 295c a share. The settlement price could be at a substantial premium to the original FNB and Absa offers, and be very costly to the winning party.
UBS share sheds 7% yesterday, signalling the market's belief that the group was paying too much for the Allied in a new offer made to minorities to form Amalgamated Banks of SA (Absa).

The fall in the UBS share price reflects the dilution in earnings and dividends per share because of the new offer.

Since more Absa shares are issued than in the first offer, the projected earnings per share is reduced by 5% to 84c a share.

UBS, which closed at 705c yesterday, will pay about R100m more for the Allied than the original consideration of about R712m.

The offer of 100 Absa shares (equivalent to UBS shares) for every 260 Allied shares values the Allied at about 270c.

Shareholders can also elect to cash in half their shares at 275c — a substantial premium over the UBS's first offer of 246c and well above the net asset value of just over 200c.

First National Bank (FNB), the loser in the battle for the Allied, has indicated it has no immediate plans to set its sights on another small bank or building society.

An obvious target would be the NBS. Senior GM Viv Bartlett said the group would "get on with its business and grow organically."

It added that FNB had wanted the Allied "at a certain price" and that at a higher level, it became too expensive.

The UBS 5 is to address the question of staff morale at the banks in the new group in the next few days. The group is expected to allay fears of massive retrenchments.

The Securities Regulation Panel yesterday broke its silence over its rulings and explained why it had upheld FNB's appeal against an earlier ruling.

The panel agreed with FNB's argument that "substance should prevail over form" when considering a transaction.

It found that its executive committee had considered the matter "from a narrow specific point of view."

But "matters of this nature" could not be "confined to narrow specifics when there are other wider transactions being undertaken.

Explaining its decision to uphold FNB's appeal, the panel said "Great stress was laid in the submissions of UBS Holdings on the panel being constrained by the definitions in the rules.

The panel accepts this constraint but, as envisaged in the rules, has the right to interpret those definitions in the spirit of the rules."
'No losers in Allied takeover'

By HAI JACOBSON

THE dramatic saga of the war for possession of the Allied Group has finally been resolved, says the chairman of the SA Shareholders' Association, Izy Goldberg.

Goldberg says in his opinion an equitable solution has been found.

"The panel, which was set up to protect minority shareholders against unfair treatment in the takeover of companies, was thrown into the deep-end as the arbiter of the conflict between two giant financial institutions."

Better deal

Goldberg says the end-result is that minority shareholders have been awarded a far better deal than originally offered by the United Building Society (UBS) and associates or First National Bank (FNB).

"A contested bid of this significance is without precedent in SA corporate history — with a price tag of almost R1bn. Minority shareholders have now been offered an almost 20% improvement for their shares."

For each 200 Allied shares surrendered they will now receive 100 Amalgamated Banks of SA (Absa) shares. The original offer was 320 Allied shares for 100 Absa shares. Further, half the Absa shares will now be convertible to cash at an effective 275c an Allied share.

"There has been much criticism of FNB’s appeal being upheld, thus reversing the original decision by the panel’s executive which permitted UBS to buy shares freely without invoking Rule 8 — requiring the top price paid in the market to be passed on to minorities.

According to published reasons for the judgment of the appeal panel, “the explanation of the reversal of the decision by the appeal panel is that certain facts including important provisions of the merger agreement unknown to the Executive surfaced later and came to the notice of the appeal panel.”

New factors

He says the appeal panel took into consideration the new factors at their disposal and came to a different decision upholding the FNB appeal.

Goldberg says it is important to note that the spirit and general principles which form part of the rules must be applied in the interpretation.

"The appeal panel accepted the constraints submitted by eminent counsel acting for UBS and associates, that the definitions laid down in the rules were of primary importance and should be respected to the very letter."

"The appeal panel, however, felt it had the right to interpret those definitions in the spirit of the rules without abusing its intentions."

And so, says Goldberg, the appeal panel ruled that the merger agreement between UBS and associates resulted in a concert party being created with the totality of their shares exceeding the specified 36%.

"Following on the appeal panel’s ruling the parties came to agreement whereby a new formula was extruded and FNB opted to resign from the contest”

"There are no real losers with those not having sold shares on the market — given a better deal.

Profitability

"FNB will be reimbursed for expenses in opposing the deal (R16m), while UBS has created a tremendous financial services giant amounting to R50bn. The hundred million extra cost is unimportant in a billion rand transaction.”

Goldberg says minorities in Allied could consider “staying for the ride” with the Absa rationalisation promising much profitability over the years.

"It is of interest to debate what FNB will do with their 25% or 75m Allied shares. They must be given the same deal as minorities which could translate into a substantial 10% of Absa.”
Brokers expect another tough year on the JSE

DECLINES in the volume and value of shares traded and, in particular, a sharp fall in the number of deals on the JSE put the squeeze on the broking community in the past year.

Value of shares traded in the JSE's financial year to February decreased to R21.62bn from the previous year's record of R23.7bn, while volume of shares traded declined to 2.34-billion from 2.88-billion.

The number of deals plummeted to 332.156 from 992.275, reflecting in part the withdrawal of small investors from the market and in part the caution of institutions, some of whose liquidity levels were the highest in 10 years. Liquidity levels were at 24% in the December quarter.

Taking a 15% inflation rate into account, brokers' returns took a knock. In addition, the outlook for 1992 is not favourable on current factors and some brokers are preparing another fall in turnover this year.

Having started with high expectations following President F.W. de Klerk's breakthrough speech, brokers enjoyed a short-lived spurt in market activity, which slumped dramatically after four months of good going.

Most brokers were happy to survive, said Frankel Max Pollak Vinderine broker David Shapiro.

The industrial sector was flat and gold's disappointing performance failed to rescue the market as it had done in the past, he said.

Rationalisation took place in large firms - salary and staff cuts, and the merger of Max Pollak & Freemantle and Frankel Kruger Vinderine.

Peter Allen of Edye Rogers said business perked up in the past month, but fears were that the current level of market activity would not be maintained. He said the industrial market was not cheap and brokers were sceptical about gold's prospects.

However, Shapiro said he was hopeful about the forthcoming year because there had been more interest by corporations than in the past.

Richard Jesse of Martin & Company said firms which depended on small investors had suffered.

However, the highflyers in the popular consumer sector were looking too expensive, with Pick 'n Pay on a PE of 28. Institutions might well have to look towards sound second-liners with PEs of around 6.

Jesse also foresees market leader De Beers coming into its own. Although diamond sales might still lag this year, the early end to the Gulf war indicated better international growth prospects and De Beers' price might, in the second half of the year, start discounting improved diamond sales in 1992.

Bill Yeawart of Simpson McKee said his firm was looking at a further slowdown in business this year and was projecting a JSE turnover of R10bn.
Sinclair sells Aquanaut to US company for $7.1m

POOL cleaner company Aquanaut has been sold to an unnamed US company for $7.1m, it was announced today.

Aquanaut parts will no longer be manufactured in SA but will be available to users in the short term.

Although the supply of parts could not be guaranteed in the long term, maintenance for the pool cleaners would be available for at least two years, said Michael Paaff of parent company Sinclair Holdings.

Paaff said he could not divulge the identity of the US buyer but recent speculation pointed to US-based Aquanaut Inc in which Sinclair has a 20% stake.

However, an industry source said yesterday US pool cleaner company Arason had bought Aquanaut SA.

Paaff said the decision to dispose of Aquanaut was in line with Sinclair's stated intention of concentrating on the motor business after selling off other assets.

This followed Aquanaut's heavy losses.

Aquanaut MD Joa de Groot recently denied that the financial state of the company was the reason for the disposal.

After the payment of associated debt and liquidation costs of Aquanaut entities, more than R15m would be distributed among shareholders.
Manserv minorities receive share offer.

MARC HASENFUSSE

AFTER a year-long struggle, minority shareholders in suspended Management Services Corporation (Manserv) have secured an offer to purchase their shares.

At a meeting yesterday the Isle of Man-based Financial Ltd, which acquired an 88.5% stake in Manserv in February last year, offered minorities 10c a share, JSE president Tony Norton confirmed.

When Financial bought the controlling stake in the R15.4m cash shell it undertook to make a similar offer to minority shareholders, but did not do so after falling foul of Reserve Bank regulations on the use of rand.

Financial's deposit at UAL Merchant Bank for payment to minorities came in through the rand without the Reserve Bank's permission.

Norton said the Bank had released the R1.5m deposit it had held while Financial was investigated in connection with alleged forex fraud. He praised the Reserve Bank for putting the interests of minorities above other issues.

In January the JSE threatened to institute legal proceedings against UAL Merchant Bank if the Reserve Bank did not unblock the deposit.

Norton said it had cost the JSE at least R100 000 in its bid to protect minorities. This figure excluded the cost of legal fees, which have not been finalised.

Manserv minority shareholder Trevor Nel told Business Day he was extremely relieved the battle was over.

Circulars informing minorities that they have 21 days to register their share certificates will be posted tomorrow.
JSE moved first, says Norton

New details widen net in Mutual probe

THE investigation into suspected dealing irregularities by individuals at Old Mutual and the JSE shifted gear yesterday, coinciding with a wave of disclosures which shed further light on the scope of the suspected illegal activities.

JSE president Tony Norton said the suspected scam had first been exposed by the exchange, which had noticed the Mutual about "some deals that had looked unusual". The Mutual had acted immediately by instituting its own investigation and suspending two senior employees.

Old Mutual's chief operating officer Gerhard van Niekerk repeated yesterday that the men were suspended because they were in responsible positions and that they were not necessarily involved.

After three weeks of declining to comment, Norton said the JSE had been investigating the matter since it was noticed, first with Old Mutual and now with the state-appointed investigative team headed by Attorney-General Frank Kahn.

Major broking firms have apparently been under scrutiny at the JSE. Norton said although the exchange's inspectorate was combing through thousands of deals, "nothing seemed circumstantial at this stage. He pointed out that no conclusions had yet been reached.

"No stone will be left unturned," he said, and if anything was found, people would be punished under the full spectrum of rules, laws and the code of ethics.

In Cape Town yesterday Van Niekerk said it was clear the investigation needed to be extended beyond Old Mutual, and that a criminal investigation might be warranted.

The companies whose pension funds may have been affected had been informed by Old Mutual.

The transactions which Old Mutual had investigated internally had been JSE share transactions. Fewer than 10 share transactions were currently under investigation and the amounts concerned were insignificant.

The transactions had appeared normal when studied in isolation, but suspicious coincidences had emerged as Old Mutual's investigation delved further back in time, he said.

He knew nothing about financial rand transactions or forex fraud. If there had been any they would have been outside the realm of Old Mutual.

Brokers said the likelihood of an offshore link was strong, raising the question of how deeply involved some individuals or stockbroking firms had been.

Van Niekerk added that as yet Old Mutu-

Mutual's investigation was not acted against any brokers by withdrawing business. He said this would only happen when the investigation had been completed and any guilt had been established.

Kahn's investigating team and the JSE inspectorate had been hard at work. Stockbroking firms mentioned as being involved have promised full co-operation and have emphasised the need for getting to the bottom of the investigation.

Deals by Frankel Max Pollak Vinderme had been investigated by the JSE. Joint MD Geoff Rothschild said yesterday He added that his firm had carried out its own internal investigation.

Rothschild said the internal investigation had not disclosed any deals that appeared questionable in isolation, but accepted that some might be seen to be so if put into what Van Niekerk called "a complex jigsaw puzzle".

He was unaware of any investigation of his firm by Kahn's team. However, Norton said no inference should be drawn from this. It would not necessarily be required that the team visit any broking firm's premises as it would have full access to the JSE's own records.

Ed Hern, Rudolph director Johann Bierach confirmed one deal, which appeared to him to be "bone fide", was under investigation.

Bierach was reported by the Financial Mail as saying deals put through by as many as 10 firms were being investigated. However, when asked to identify them yesterday he would not
Wit Nigel deal ‘prejudicial’

THE Registrar of Companies believes Wit Nigel’s minority shareholders were prejudiced in the takeover of their company by Joe Berardo’s Johannesburg Mining and Finance in August 1987.

The finding contradicts that of an earlier investigation by the JSE.

In addition, the report sharply criticized the JSE, saying it had not performed its duty as watchdog for the investing public and had not, in its investigation, been even-handed in its treatment of Wit Nigel’s former chairman Peter George.

The minorities, led by George, had claimed they were prejudiced because an offer by JMF to exchange one Consolidated Modderfontein S share for 3.377 Wit Nigel shares excluded them. The offer was made by a group led by Wit Nigel director Michael Tatz, who then sold the Wit Nigel shares to Berardo.

JMF’s failure to make an offer of R4.50 per share, coupled to the JSE’s failure to insist that JMF make such an offer in terms of its rules and procedures, severely prejudiced Wit Nigel minorities, the Registrar’s report said.

Registrar investigator Deidre Pinch Goldby’s Peter Wilmot, who was appointed by the Trade and Industry Department, said he found “difficulty in apportioning blame between the JSE and JMF” and recommended both he hold equally responsible for the costs of the investigation.

Yesterday, JSE president Tony Norton said he had great respect for Wilmot, but disagreed with his findings.

“I am comfortable the JSE acted correctly. After auditing twice, we found no cash element in the takeover. It was done through a share swap,” Wilmot said although JMF had obtained Wit Nigel shares by exchanging Cons Modder shares, it should have extended the offer in cash to the remaining shareholders based on the highest price paid, namely R4.50 a share.

The report also includes a reproduction of a stockbroker’s receipt to show there was a cash element in the takeover.

Copies of the report have been sent to the Attorney-General for possible prosecution of JMF for contraventions of the Companies Act and to the Registrar of Financial Institutions with a view to contesting the actions of the JSE.

The report was instigated by an application made two years ago by minorities representing 27.5% of Wit Nigel shareholders. In 1987, JMF engaged in a secret takeover which culminated in Berardo unseating George at Wit Nigel’s AGM. Berardo subsequently lost Wit Nigel to Southgo.

With regard to findings that actions by the JSE supported the view that it was not even-handed with regard to George, Norton said he was “fond” of George and it was not in his nature to be rude to anyone.
Industrial index at six-year high

By Jabulani Sithakhane

The JSE industrial index shot up 46 points to a six-year high of 3360 yesterday.

Dealers said local institutions were the main buyers with overseas investors nibbling at selected stocks, like SAB.

Although most industrial blue chips are considered over-valued at current levels, dealers said shortage of scrap and high institutions' cash flows seeking an investment home could push the industrial market higher.

Institutions were also turning their attention to second liners and cyclical stocks. Some institutions were taking a long-term view and looking at the new economic upswing which should benefit cycicals. Shares like AECL, Suppli and Sentrachem are beginning to move, one analyst said.

The continued strength of the industrial market, coupled with good demand for market leader De Beers helped boost the overall index by 35 points to 2865 — its highest level since last September.

In the industrial market, AMIC showed the highest percentage gain of 5.1 percent to R82 with only 12988 shares changing hands in 18 deals. The Rembrandt group of companies continued on their upward trend with Remgro up 4.4 percent to R17.75.

Companies in the Barlow Rand stable attracted good demand with Barlowa itself touching its highest level since mid-March last year with a gain of 150c to R40 Cgsmith, CGB Foods, Tiger Oats, Adcock Ingram, Rand Mines were also higher.

Sapa-Reuters reports from London that shares there closed sharply firmer, buoyed by optimism over the end of the Gulf war and the prospect of further interest rate cuts.

"The strength of this rally is pretty much unparalleled in recent years," said Richard Kersley, equity strategist at Barclays de Zoete Wedd.

He said a stock shortage and the large cash pile that institutions have to spend on shares underpinned the rally.

The FTSE 100 index closed 39.8 points higher at 2459.9, on a very high share volume of over one billion shares. Earlier the FTSE hit a record high of 2460.5, beating the previous record of 2479.4 set on January 4 last year. However, the market could not sustain that level and soon fell back.

"It's quite a big psychological barrier to get through," said Bob Semple, equity strategist at Country NatWest.

Share prices on the Tokyo Stock Exchange rebounded sharply on general euphoria triggered by a surge on Wall Street overnight, with high-tech blue chips leading the race. The key 225-share Nikkei index rose 480.51 points or 1.91 percent to 26382.99.

A flood of foreign orders swept German share prices higher as stock market euphoria in New York and Tokyo passed along to Europe. The 30-share DAX index rocketed 54.66 points to 1544.22.

In Paris French shares trimmed gains in late profit-taking but still closed at a new seven-month high, with the greatest volume traded since mid-January.

The bourse in Zurich closed sharply higher in moderate trading as the strong showing of overseas markets and gains on other European bourses boosted share prices.
Pepkor to take over Frasers stores for R13m

PEPKOR is to make its second acquisition of a Tradegro company.
Pep Limited, in the Pepkor fold, is to acquire the assets of the 42-outlet Frasers mine stores chain from Tradegro subsidiary Metro at net book value of about R13m. Pepkor chairman Christo Wiese announced yesterday.

This follows Pepkor's R31m acquisition of Tradegro's 47% interest in retail clothing chain Smart Centre Holdings on February 21.

The mine store chain is part of Metro's conventional wholesaling and mine store arm D & D H Frasers, whose management failed on Monday last week in its bid to buy out the company. The new acquisition will be effective from March 25.

Frasers mine stores sell clothes, textiles, hardware and toiletries at mines on the Witwatersrand and in the Free State, and the combined turnover of the 42 stores is about R36m a year.

Last week Metro executive chairman Donald Masson said Metro's rationalisation would include "closure of the conventional wholesaling division and disposal of the mine stores and other small businesses", and would include reduction of borrowings through asset liquidation.

He said yesterday that disposal of the mine stores was in line with Metro's stated intention of concentrating on its core business, which was cash and carry wholesaling through Metcash, and was part of an "overall plan to reduce overheads and liquidate assets."

Wiese said yesterday that the acquisition "would expand and complement Pep Stores' existing activities by providing it with a new niche within the framework of its mass market operations."

The mine stores had a well-established trading identity, efficient housekeeping, administration and control systems.

"By integrating these outlets into Pep's purchasing and management structures, we envisage considerable cost saving and expansion opportunities," he said.

Frasers' identity would be maintained and the stores would be managed as a new region within Pep Stores retail. Regional store management and store personnel would be retained.

In Metro's annual report for the year to June 1999, former MD Tony McSharry said the mine stores had an exceptionally good year in the light of the unrest and retrenchments experienced on the mines.

At the December 1999 interm stage, Masson said that Frasers had turned in a "disappointing performance."
Process of deregulating building industry begins

CAPE TOWN — Major deregulation has started in the building industry which could eventually remove the need for local authority approval of building plans.

The first stage of the process is the introduction of a newly rationalised, less prescriptive set of national building regulations, published in today's Government Gazette.

The rationalisation streamlines the regulations substantially, reducing the space they occupy in the gazette from 760 pages to 38.

The amended regulations will standardise the fragmented system of separate municipal regulations and ease formerly prescriptive building requirements without compromising safety and health standards, Trade and Industry Minister Kent Durr said in a statement issued yesterday.

They are aimed at allowing developers and their designers more freedom to introduce innovative building methods and alternative materials in order to contain costs. Further down the line is the possible introduction of a system of self-certification of building plans by architects and engineers. Durr said the matter was under consideration.

The SA Bureau of Standards would conduct an opinion survey among local authorities, the Institute of Architects, the Institute of Civil Engineers and the Association of Consulting Engineers before any system of self-certification was adopted.

Durr said the amended building regulations were universally applicable. Further guidelines for users were provided by SABS codes of practice. He said special rules could be developed by the SABS to accommodate different building materials.

Special provision was made in the amended regulations for disabled people, who made up more than 12% of the population.

Settlement board 'a waste'

CAPE TOWN — The DP has criticised government for the "grotesque waste of money" resulting from the formation and operation of the two-year-old Free Settlement Board.

Planning and Provincial Affairs Minister Hernus Kriel has disclosed board chairman Hein Kruger was paid R343 671, while the cost of the board's formation, functioning and hearings was R739 541. More than R150 000 was paid to other members of the board.

Lester Fuchs (DP Hillbrow) said yesterday that, even after President F W de Klerk's speech on February 2 last year, government "continues merrily to spend taxpayers' money on a process which is clearly on the way out."

Land reform paper is ready for tabling

CAPE TOWN — Government's White Paper on land reform is to be tabled in Parliament on Tuesday.

The paper will outline government's approach to land reform following the scrapping of the Land and Group Areas Acts.

Government is expected to provide protection for communally owned land in rural areas and to pave the way for peasant occupation of the 1.2-million hectares of land owned by the SA Development Trust.

The land, bought in terms of the 1936 Development Land and Trust Act, was originally intended for transfer into the homelands.

Government is expected to give a green light to plans drawn up for black farmers' development on this land by the Development Bank of Southern Africa.

Development Aid Minister Jacob de Villiers said arrangements for the disposal of this land would appear in the White Paper.

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09-Dec-91
Pepkor takes over Frasers mine stores

By Ann Crotty

Just two weeks after announcing the acquisition of Smart Centre, Pepkor has announced the acquisition of a second Tradegro operation.

This time it is the assets of the 42-outlet Frasers mine stores chain. It is being bought from Metro at net book value of approximately R13 million.

The stores (which have a combined turnover of approximately R36 million per year) retail clothes, textiles, hardware and toiletries at mines throughout the Witwatersrand and the Orange Free State.

The stores are part of the D&DH subsidiary of Metro, which in turn is a subsidiary of Tradegro.

D&DH, which has an annual turnover of around R320 million, is to be considerably trimmed down as part of a plan to refocus troubled Metro.

Last week Metro management announced that a management buyout offer (from the D&DH management team) had been turned down because the sum offered fell way short of the net asset value of the group as reflected in the Metro accounts.

Referring to the mine stores acquisition Pepkor chairman Christo Wiese said it would expand and complement Pep Stores' existing activities by providing it with a new niche within the framework of its mass-market operations.

Mr. Wiese said the Frasers' mine stores identity would be maintained and the stores would be managed as a new region within Pep Stores Retail.

Given the massive retrenchments being effected by the mines, the next few years could be tough for the stores in their traditional form.
Privatisation a major factor in the redistribution of wealth

By Des Parker

Privatisation of state-owned industry may be unfashionable in South Africa at the moment, but it will be looked at afresh if the words of the head of a visiting British trade delegation fall on receptive ears.

Sir Keith Stuart, chairman of Uksata (UK South Africa Trade Association) and is heading an influential trade delegation to this country.

In addition, he chairs the board of Associated British Ports Holdings, which in 1985 was one of the first public-sector bodies to be privatised in the UK after the Conservative Party led by Margaret Thatcher was returned to power in 1979.

Interviewed yesterday, Sir Keith said he understood the caution he had heard expressed on the question of privatisation in South Africa.

"When I talk to organisations on the left of the political spectrum about the drawbacks of nationalisation, I am asked, "What other means are there to redistribute wealth?" he said.

"I point to the considerable increase in wealth of the ordinary man and woman in Britain through the medium of share-ownership in privatised facilities. Just as happened in South Africa, there was initial opposition from the trade unions to the concept and in the distribution of shares among workers, but when there was acceptance for it among the people and the benefits could be seen, the unions changed their approach."

Significant

Sir Keith said it was "very significant" that the Labour Party in Britain was no longer proposing re-nationalisation. "Even if there was a change of government, Labour would leave the vast majority of privatised industry in the hands of the public."

As the biggest ports authority in Britain, Associated British Ports owns 22 of the major ports in the country, or about a quarter of the total. Its share price has increased eightfold since its flotation nine years ago.

"By far the most important aspect of privatisation is the emphasis on share-ownership among employees in order to overcome misguided accusations that it is all a capitalist plot," said Sir Keith.

At a lunch of the SA British Trade Association in Durban yesterday, Sir Keith told guests he believed the British government would move "over the next few months to remove sanctions, even if the Commonwealth and the EC drag their feet."

The "euphoria" over the emancipation of communist Eastern Europe had waned, and South Africa was once more in contention among British companies as an investment opportunity and a destination for exports.

However, Sir Keith cautioned, wariness about the country's constitutional future and at the ANC's stated views on nationalisation meant there would "not be a flood of pounds in the short-term." He warned too that while South African exporters had high-quality, saleable products to sell, they were not "aggressive or determined enough" to make the most of their marketing opportunities in Britain - one of the most open markets in Europe.

"The quality of your products is good, but the quality of the marketing effort that we have seen is way behind that of people like the Japanese, the Germans and the Italians. If you go out and hard sell - particularly now that politics is no longer on the agenda, the results will be most gratifying," Sir Keith assured his audience.

South Africa was a traditional trading partner of Britain which had once again become the second biggest exporter of goods to the Republic. Two-way trade last year grew 25 percent to R11 billion.

"Sir Keith said he would tell British exporters on his return home to concentrate on traditional markets, like South Africa, and "not to be obsessed with strange new worlds like Romania."

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JSE scrip is cheap by world standards

By Derek Tommey

The lifting of sanctions could see foreign investors showing interest in the local stock market, says Mr Adrian Allardice, a senior portfolio manager with the Old Mutual.

At present South African shares are cheap relative to those in the major international markets when price/earnings ratios are compared.

The current p/e of the All Share index is 9.3 and of the financial and industrial index 9.8. This is roughly the same as in Britain and Hong Kong but well below the 14.9 in Australia, 13.6 in Germany, 15.5 in the United States and 37.9 in Japan.

Mr Allardice told a seminar in Johannesburg yesterday that although share prices have risen on the JSE there are still shares worth buying. He added that they were not all in the industrial list.

He said that mining financials such as Anglo American offered as much value as the best blue chips. He also does not rule out the purchase of gold shares.

He said that the gold mining industry had at last faced up to its problems. The milling grade has been raised in the December quarter for the first time since 1974. Costs were being cut, the emphasis was on putting its house in order. As a result, when the gold price starts rising, gold shares will be interesting.

Mr Allardice says the gold price moves in large cycles. It has been underperforming since 1980.

Negative rates

One reason has been that interest rates have been real since then. However, the American authorities in their bid to push the American economy along, have allowed interest rates to become negative for the first time since 1980.

Mr Allardice said that Old Mutual's unit trust investors had criticized its policy of remaining pretty fully invested at the present time, when other unit trusts had become liquid and some extremely liquid.

Philosophy

He said the Old Mutual's philosophy was that it was selling equity performance. Therefore it had to keep most of its cash in shares in depressed market conditions, otherwise it would not be able to perform well when the market was running.

He said investors should start considering how they should invest in the "new" South Africa. There was considerable uncertainty in the market at the moment over possible future political developments. Markets were moved by sentiment and fundamentals. But in the long turn it was the fundamentals which counted.

The Old Mutual had been studying the outlook for investment and had concluded that share investments would do well in the coming years.
Anglovaal’s interim results were in line with market expectations but the question uppermost in analysts’ minds is just how much value, if any, the share shows at its current price of R46.

Traditionally, shares in mining houses trade at discounts of up to 20% to their net asset value, providing brokers with a perennial reason for convincing investors to buy in. That’s in spite of the fact that the discount is virtually never eliminated, no matter what the market conditions are.

At R46, Anglovaal’s share price is just above the 12-month low of R43 but in October, but it equals the net asset value shown at December 31, prompting some analysts to argue the share price looks expensive in relation to other mining houses.

The counter argument is that it’s a question of how you measure the assets and the current balance sheet does not reflect the value to the house of two major projects in the pipeline — the Venetia diamond mine now under construction in the northern Transvaal and the huge gold exploration venture under way in the Sun and Oribi areas of the northern Free State.

One analyst argues that Anglovaal stands at a discount of about 20% to net asset value if one attributes a value for the Venetia project. Anglovaal directly, and through associate Middle Witwatersrand Areas (Mid Watts), has an 87.5% interest in Saturn Mining, which holds the mineral rights to the mine.

De Beers is paying for the development of the mine which will cost around R1.1bn. Saturn will receive a minimum royalty of 12.5% of the mine’s operating profits, to the point when the capex has been fully recovered, after which Saturn and De Beers will split the profits equally.

Putting a value for the Sun/Oribi prospects is virtually impossible given the paucity of real information, like drilling results, published by Anglovaal. The date by which some

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**EARNINGS DIP**

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<th>Dec '89</th>
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The hard facts may be issued has just been pushed back by another nine months, from mid-1991 to the first quarter of next year, because of drilling delays.

Also, no go-ahead seems likely until there is a radical improvement in market sentiment towards deep-level gold projects — otherwise any rights issue or fund the mine, which will cost at least R2.35bn, could flop as badly as the Target Exploration offer held by Anglovaal’s Lonmin gold mine.

Main reason for the 28% rise in attributable earnings to R135.3m was the interest earned on the proceeds of last year’s R822m rights issue. Income from investments was 34% down and equity-accounted earnings were 32% down because of lower dividend income from the house’s gold mines and a sharp drop in profits at manganese company Assmans.

Industrial arm Anglovaal Industries (AVI) increased its earnings by 5% and for the full year to end-June expects to at least match the previous year’s earnings despite the recession in the SA economy.

Within the diversified AVI group, increased profits from the rubber division of Consol, the dry food and beverage sector and the frozen food sector were offset by lower contributions from the construction and electronics and textiles sector. Irvin & Johnson maintained its contribution to group earnings.

AVI is currently negotiating to increase its stake in construction company Grinker Holdings to 51% from the present 46.5%.

Anglovaal’s 28% increase in attributable earnings for the six months should be maintained or even improved on for the full year, but EPS will be lower because of the increased issued capital following the rights issue. The dividend should be maintained.
A WIDE-RANGING financial bill, published in Parliament yesterday, has paved the way for unit trust investments in the futures market.

The Financial Institutions Amendment Bill will also provide for the establishment of Advisory Committees for the unit trust industry and for pension funds, in line with recommendations by the Melamet Commission.

A memorandum attached to the Bill says the definition of "securities" in the Unit Trust Control Act will be amended to provide for investments by unit trust schemes in the futures market.

The Registrar of Unit Trusts will also be authorised to grant exemptions to the Act if this is recommended by the new Advisory Committee on Unit Trusts. This would, inter alia, promote self-regulation by the industry, the Bill states.

The Pension Fund Advisory Committee will have a similar function, but will focus in particular on safeguarding "the reasonable benefit expectations" of investors in a pension fund.

The Committee differs in function from the private sector committee, appointed by the Government this week, to investigate the public sector's R27 billion pension fund.

The memorandum to the Bill also facilitates the division of long-term and short-term insurance business if they are conducted by the same company.

The Bill also announces substantial changes to the Stock Exchanges Control Act.

In order to improve liquidity on the JSE the Bill says it is necessary to shorten the periods of compulsory purchase and sale of securities by a broker.

Other changes to the Stock Exchanges Control Act proposed by the Bill include:

- The exemption of certain bearer transaction from the Act.
- Provide for civil fines under the same Act for failure to disclose information in time.
- Place it beyond all doubt that dealings in options as defined in the Act are not affected by common law on gambling.

Finally, the new Bill will enable the Registrar of Financial Institutions to cooperate with the Registrar of Deposit-Taking Institutions if the latter uncovered any irregularities.
OM buying still
Issuers

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Regulating the futures exchange did little for investor confidence

SOME time ago I wrote a piece for The Star which, among other things, attempted to highlight the folly of spending vast amounts of money to “regulate” the South African financial markets.

The main argument was that regulators assumed that trading volumes in South Africa would be able to sustain the huge costs of regulation. The piece ended with an ominous warning that jobs in the industry would be lost if rising costs continued to make financial markets unviable.

Most of what I said then has come true. Over the last year or two prices have risen no more than common sense. It is a pity then that no one appreciates the damage now done to a hitherto flourishing financial market.

Take SAPEX for example. The futures exchange was only licensed for a few weeks when one of its carefully vetted brokerage members, DRS, went belly up taking private investors' money with it.

CONCLUSION

However, the question should be asked: Can we afford a formal futures market in South Africa? If the answer is yes, then the project has to be done properly with perky qualified personnel who understand both markets and costs.

If the answer is no, then maybe we should return to the informal market that worked perfectly well a fraction of the cost.
Mum's the final word in AA Mutual's settlement

POLICYHOLDERS of the defunct AA Mutual short-term insurer will probably never know all the details of the confidential "Overall Settlement Agreement" between a few major creditors and the liquidators.

The liquidators and creditors who hold copies say it is confidential and has nothing to do with the policyholders or other creditors.

"We have agreed that nobody will talk to anybody," says Mr Natze Kirsch.

Mr Kirsch was originally a major shareholder in AA Mutual who, with others, sold his share to the Federated Group in 1986 for R55-million. After discovering huge underwriting losses Federated attempted to cancel the deal and sued for the return of the money.

What is known of the agreement is that Federated will pay R22.3-million of the R55-million it originally claimed. Some R10-million will be paid by Mr Kirsch and the Kirsch Group. The remaining R12-million will come from the assets of the estate to be distributed among AA policyholders and other creditors.

Mr Justice Daniels, who granted the settlement says the matter was handled in open court and an confidentiality order regarding the agreement was given. But so far there has been no move by other creditors to gain access to the details.

Clear

The settlement comes five years after the AA Mutual was put into liquidation. It ends a dispute in which the liquidators have settled "a multitude of actions" arising from alleged misrepresentation by the sellers of the AA Mutual to Federated.

The way is now clear for final liquidation, in about 18 months time.

Liquidator Hendrik van Zyl says although Nathan Kirsch may have received the better part of R20-million for the sale of his shares, he had liabilities to cover. The liquidators are satisfied that the Kirsch subsidiaries, Sunsept and Namiac, only have R16-million.

Should the liquidators be paying R12-million to repay Federated, when subsidiaries of Kirsch Indu sterns and the Automobile Association were the major shareholders?

Mr Kirsch did not want to talk about the Overall Settlement Agreement.

The liquidators' payment to Federated will reduce the ultimate dividend to creditors by 5.4c, but the liquidators for the short-term business of the AA Mutual are putting themselves on the hook for a job well done.

In an application to court made on February 26, they say the R12-million paid to Federated has "discounted potential claims against the business totalling more than R200-million (capital plus interest).

The settlement proposed by the liquidators and approved by the Pretoria Supreme Court, means that in our full sweep, more than 13 claims and counter-claims are withdrawn. Each party will pay its own legal costs.

Meanwhile, creditors can expect a 25c dividend at the end of May 1991.

The liquidators say they realise "that any payment made from the assets of the liquidation will adversely affect the creditors' dividend."

The liquidators also feared that three actions worth R75-million might be decided against them. This would cut the final dividend by 25c in the Rand. They say: "On this scenario the ultimate dividend would be cut to 70c."

Saved

Currently creditors can expect 25c, notwithstanding the R12-million payable in terms of the settlement. This would include the sale of 27 Douglas Street for a minimum of R55-million, net of the R48-million the liquidators owe when they purchased the ground. The five liquidators say tremendous legal costs were saved and the dividend payment will be expedited.
The dirty deals of the filthy rich

BACKHANDERS in brown envelopes could be at the bottom of a share-dealing investigation by Cape Attorney-General Frank Kahn.

A tip-off by the JSE to the Old Mutual about a pattern of at best unusual, at worst inspired share dealing led to an initial investigation by the giant financial institution.

The JSE itself was alerted to the deals by a stockbroker. It would not have tipped off the market's biggest customer for trivial reasons.

Old Mutual undertook an internal investigation "to establish whether we were dealing with a string of coincidences or with improper practices and whether it was an internal matter or something that required the attention of one or more public authorities" according to a statement.

Employees Marco Colotto and David Schapero were suspended. They have faced no charges. The Old Mutual has stressed that their suspension does not imply blame or guilt.

It is up to the authorities that a criminal investigation might be necessary and this has been rapidly convened.

Old Mutual warned the special investigation because such investigations by the SA Police Commercial Branch often take a long time.

Old Mutual is reluctant to say exactly what irregular dealings might be suspected.

Small amounts to the Old Mutual could be large amounts to individuals. Markets this week were full of talk of foreign homes, works of art and racehorses.

Risk

Brown envelopes or back-handers from stockbrokers to institutional fund managers could be one possible explanation for the investigations. Stockbrokers are in the business of generating brokerage by getting more traders to use their services.

If the cost of a brown envelope is not out of proportion to the amount of brokerage it buys, it probably outweighs the risk of being found out.

There is an unwritten dividing line between Rear Bar notes and sweeteners such as trout-fishing weekends and helicopter rides.

A second possible route to riches involves collusion between an institution and a stockbroker to manipulate the price of shares, particularly those which move on small volumes.

This is especially possible where an institutional investor knows the buying policy of his employer. By front-running putting in orders ahead of the institutional biggie - stock can be secured at a low price. That price rises when a big buyer emerges. The colluding party sells out and the spoils are shared.

This ploy can be extended to the game of a London broker through whom shares are bought in sterling on personal account. The intention is never to pay, because the buyer banks on the expectation that share prices will rise when a large buyer becomes evident.

Not only is this a breach of integrity, it breaks the laws governing foreign exchange transactions.

Gold's failure to behave as expected in the Gulf War may have been the undoing of parties using this ploy.

Such parties may, for example, have gone long gold shares and lost heavily when the gold price dropped during the war instead of rising.

Frank Kahn needs a test of his skills as a legal watchdog. What could become SA's best-worst asset?

Clean-up

One dealer says the investigators are looking back at a six-year-old deals, and there are a lot of nervous people around at both institutions and stockbrokers.

"The good guys on the market welcome this. It should be marketed as a clean-up," said one.

Yet two things are in favour of anyone who has been under scrutiny. Is it illegal front-running or just very naughty? And how difficult will it be to prove major coincidences?"
JSE studies
new index

CHARLOTTE MATHEWS

THE JSE is researching the possibility of introducing a second-tier index to reflect the performance of medium-sized companies, currently lost within the JSE Actuaries Indices.

JSE researcher Renier Buss is to make a presentation to the Investment Analysts' Society on March 14, partly to sound out analysts on the selection of companies for the index.

Buss said he began a study on a second-tier index about seven months ago. He found the top 20 companies on the JSE made up about 70% of the exchange's market capitalisation. The JSE all-share index was heavily weighted by these firms because of their market capitalisation factor.

Buss looked at companies which fell below 30% of the total JSE market capitalisation, and with his team selected 200 companies with that financial performance, ratios and leverage in mind.

An index for the past 12 months was created and compared with the top 20 companies. During this period, second-tier companies starting at 100 ended at 93. The top 20 companies ended at 76.

Buss said the next step would be to canvass opinion from analysts and modify the selection of companies for the second-tier index.

The findings of the study will be presented to the JSE's general committee.
Premier's one cent has no monetary value

Analysts believe that there will be an accommodation between Sankorp — Tradehold’s controlling shareholder — and Premier over the issue of the one IC redeemable preference share that Premier holds in Tradehold. This accommodation may centre around plans for Metro following any unbundling of Tradegro.

The one IC preference share appears to play a frustrating or nuisance function for the management of Tradehold and has no role in the day-to-day running of the organisation.

The share, which was originally issued by Natie Kirsh's Kemet group to Premier has been passed on through the various restructurings and is now part of the Tradehold share capital. According to notes in the annual report the preference share is redeemable in July 2023 at par.

"The holder is entitled before that date to 16,564 percent of the surplus, after repayment of all capital and premium on all preference and ordinary shares on the winding up of the company."

"The share carries no other dividend or voting rights except that the shareholder is entitled to vote at any meeting of the company on a resolution which affects the rights attached to such share in which event the share carries voting rights equal to that of the total number of ordinary shares in issue at the time of such meeting."

Kemet help

The share was apparently issued to Premier as part of a deal which involved Premier lending Kemet R5 million to help fund the acquisition of the Metro group back in the 70s. It appears to have been done with the intention of frustrating any action that might subsequently have been taken to wind up Kemet.

Last week it was announced that "consideration was being given to distributing the assets of Tradegro and Tradehold" later this year. After the payment of all liabilities Tradegro and Tradehold will distribute to their respective shareholders Tradegro's surplus cash resources and certain investments.

Unless there has been marked and unsellable change from the balance sheet position at the end-June last year it is unlikely that after repaying all capital and premium on all preference and ordinary shares, there will be anything else left to distribute.

According to the 16-June balance sheet Tradehold's distributable reserves were in deficit. So the 16,564 percent surplus attached to Premier's share has no monetary value.

This cannot be definitely ascertained until the actual distribution date when Tradehold's various investments will be valued and calculations involving hundreds of permutations are completed.

Voting rights

If there was any dissension between Premier and Sankorp, analysts believe that a court would view the planned distribution in species and capital reduction as a winding up. However, it is uncertain whether or not Premier would be able to enforce its voting rights in meetings called to discuss an unbundling.

But for the moment all of this is hypothetical. Although there have apparently been no direct communications between the two groups, indications are that they have an amicable relationship and both are keen to resolve the unbundling situation satisfactorily.

But as Premier is reported to be interested in the future of Tradegro subsidiary, Metro it is possible that it may be able to strike some sort of bargain. This is likely to be an offer of last right of refusal which means that Premier would have the opportunity to match any offer made for Metro.
Options left open for Tradegro minorities

MINORITY shareholders of retail giant Tradegro and its pyramid holding company Tradehold will be in a position to choose which of the group's companies they wish to remain invested in following the unbundling of the group.

Sankorp GM investments Ernest Le Roux said in an interview yesterday that the unbundling would result in investors holding shares "directly in the group's individual companies instead of via controlling companies".

In terms of the unbundling, the group's investments - including Tradegro's cash - in its underlying companies would be proportionally distributed among all Tradegro and Tradehold shareholders.

After unbundling the control pyramids, Sankorp intends selling its interests in Checkers, Metro, Coreprop and Stuttafords/Greatermans. "We intend divesting if we get acceptable offers, but Cashbuild is not for sale," Le Roux said.

He said the offers to minorities would have to be made by any purchaser of Sankorp's interests after unbundling so that minorities "could make their own decisions".

After unbundling, Tradegro would own only Checkers and Coreprop, which would be effectively listed, and Tradegro's name would probably be changed to Checkers.

Stuttafords/Greatermans would be recapitalised in the unbundling process and would also be listed.

Sankorp planned to complete the unbundling before June 30 - which is Tradegro and Tradehold's financial year-end.

By this stage Sankorp would hold 42% of Cashbuild, 36% of Metro, 47% of Stuttafords/Greatermans and 4% of Checkers/Coreprop.

If Sankorp's interests in the companies were sold, "it would be a prerequisite that the buyers make an offer to minorities," Le Roux said.

Sankorp was negotiating with interested parties for the sale of individual companies, but no offers had been made. Although quite a few people had expressed interest the sales were not going to happen overnight, he said.

Le Roux did not think any buyer would asset strip any of the companies as has been suggested "To do an asset strip of Checkers is not easy, and this would be the worst price for any buyer."

He believed the 'Israeli consortium' interested in Checkers/Coreprop was actually an SA-based consortium with overseas financing. Despite the interest, no offer had been made yet because the parties were still investigating the company, he said. The consortium had assured Sankorp that it did not want to asset-strip Checkers.

Le Roux said if the consortium bought Checkers and Coreprop, management would probably be kept on. "The interested party was not in the business and would need SA management," he said.

However, "if we do not get acceptable offers, we will do what we can to get certain operations back to profitability."

Le Roux said following the unbundling, he would expect the various boards of the different companies to be reconstituted over time. In all probability Tradegro CE Donald Masson would retire.

Le Roux said a problem with unbundling was that marketable securities tax - of 1.5% on the value of shares unbundled - was a hardship. However, Sankorp had decided to go through with the unbundling.
Liblife forges ahead

By Ann Crotty

The Liberty group shares are deservedly rated as the bluest of blue-chip investments
Results for financial '90 show excellent advances in both earnings and dividends during a period when corporate performances in all sectors were hampered by adverse economic conditions.

These conditions were further aggravated by social and political considerations.

In the 12 months to end-December Liberty Holdings reported a 20.4 percent hike in earnings to R163.6c (R262.8c) a share and paid a total ordinary dividend of 220c a share - a 45.7 percent hike on the previous year's 150c. (In addition there was a special ordinary dividend of 120c a share declared last August.)

Liberty Life Association increased its net taxed surplus by 20.5 percent to R121.4c (R47.4c) a share in the same period and paid a total ordinary dividend of 86c - 36.5 percent up on the previous year's 63c. (There was also a special ordinary dividend payment of 50c a share.)

FIT's earnings were up 28 percent to 47.7c (R7.3c) a share and declared a dividend of 20c (18c) a share.

Appropriate to the group's blue chip status, Mr Donald Gordon notes in his annual chairman's statement, "Since Liberty Holdings was first listed 22 years ago in December 1968, it has recorded each year an unbroken pattern of increases in dividends per ordinary share averaging over 25 percent per annum."

And at a time when most executives believe that sustaining nominal earnings in calendar 1991 will be a difficult task, Mr Gordon says that the group is trying to budget for growth at least 20 percent "We've only once dropped below 20 percent."

Mr Gordon's optimistic outlook for growth at Liberty seems not much daunted by the extreme uncertainty that is facing corporate SA. He believes that long-term growth prospects will be supported by the tremendous backing of reserves that the group enjoys, noting that shareholders' capital and reserves plus investment surpluses and other reserves at Liberty Holdings amount to R1.65 billion. "The group is very very strong."

Other factors that will sustain solid growth during adverse trading conditions include its history of strong premium income growth, an excellent blue chip equity portfolio and its exposure to the UK property market through FIT.

The value of Liberty Life Association's shares and mutual fund units rose by 10 percent in '90 despite the JSE's weak performance in this period. Mr Gordon's annual statement includes a list of the major investments held by the Liberty Life equity portfolio at end-December.

As Mr Gordon notes FIT's high gearing is a consequence of the constraints on capital movements from SA.

First International Trust's (FIT) earnings were up 28 percent to 47.7c (R7.3c) a share and a dividend of 20c (18c) a share has been declared.

FIT, whose main investment is an effective controlling interest in London-based property and investment holding group Transatlantic, reported a 15 percent increase in income to R127.8 million (R110.8 million).

The interest payment remained high but little changed at R40.5 million (R40.6 million).

As Mr Gordon notes FIT's high gearing is a consequence of the constraints on capital movements from SA.

After tax, attributable income was up 14.4 percent to R66.1 million

The balance sheet at end-December shows net asset value was little changed at R10.63 (R10.30) a share. This was despite a devaluation in some of the underlying properties. This downward valuation was in line with the prevailing conditions in the UK property market.

At Liberty Life Association net premium income and annuity considerations were up 8.2 percent to R1.929 billion (R1.783 billion). Net income from investments and sundry income rose 20.5 percent to R1.466 billion (R1.271 billion) which lifted total income 13.2 percent to R3.395 billion (R3 billion).

Net taxed surplus was up 20.3 percent at R218.4 million (R181.6 million).

The end-December balance sheet shows total shareholders capital and reserves were lifted by 23 percent to R4.1 billion (R3.3 billion).

Total assets of R21.5 billion (R19.2 billion) comprised R12.2 billion (R11.1 billion) of shares and mutual fund units, government, public utility and municipal stock of R3.5 billion (R3.5 billion) and properties R2.7 billion (R2.3 billion).

The group also held R1.56 billion (R1.65 billion) of debt, while R341 million (R478 million) was invested in debentures, mortgages and loans.
Alant expounds on Businesses Bill

CAPE TOWN — Government was committed to a policy of deregulation aimed at ensuring ease of entry into the economy for all South Africans, Deputy Trade and Industry Minister Theo Alant said yesterday.

Introducing the second reading debate of the Businesses Bill in Parliament, Alant said the Bill was a product of this policy and represented a fundamental departure from the existing system of provincial control of business activities.

The Bill eliminates the licence requirements of all businesses other than those providing food or entertainment services, and allows unrestricted trading hours every day except Sundays and religious public holidays.

It had received widespread and enthusiastic support from all parties.

Alant said concessions had been made along the way, but the end product was a balanced proposal.

He said the Bill standardised the licensing procedures of the four provinces and drastically reduced the number of business categories requiring licences from 69 to a limited number in the food and entertainment industries.

It abolished licensing boards and, contrary to earlier fears, did not institute a system of registration.

The Bill also cut down on regulation which stifled the business activities of hawkers, Alant said.

But it maintained appropriate controls over their activities, restricting them, for example, from doing business on frontages of shops trading similar goods or from areas where they could obstruct traffic.

Licensing authorities would be able to refuse or revoke the licences of businesses in the licenceable categories if they did not comply with health and safety regulations.

The Bill affirmed the removal of restrictions on business hours during the week and on Saturdays. But, it did not affect restrictions on Sundays and religious public holidays except in Natal, where the 1986 abolition of restrictions on Sunday trading hours would be maintained.

Inequality

Alant said government was considering representations from the business and religious communities about Sunday trading.

DP MP Brian Goodall, a staunch supporter of the Bill, said the removal of unnecessary restrictions would help to reduce inequality in the economy without destroying growth potential.

Sapa reports Goodall said during the debate he hoped political apartheid would not be replaced by economic apartheid. Until blacks felt they also could enjoy the benefits of the market system, they would have no reason to support it.

NP MP Fanus Schoeman, who chaired a Parliamentary Joint Committee which considered the Bill, said it would make it easier for people to move into the business sector and help to create new jobs.
JSE gags members on
Old Mutual probe

By Ann Crotty

At an emergency meeting yesterday afternoon all senior partners and senior directors of the JSE were informed that they were not permitted to make or give comments to the public relating to the investigation that is being led by the Cape attorney-general Frank Kahn.

Mr Kahn is investigating alleged irregular transactions conducted between the Old Mutual and some JSE stockbrokers. Last weekend two brokers were arrested on charges of fraud. They were released on bail of R50,000 each on Monday.

In addition warrants were issued for the arrest of two Old Mutual employees who were suspended three weeks ago.

The two employees - Marco Celotti and David Schaprio - left the country before the warrants could be served on them.

Mr Kahn has in effect sub-poena the JSE's Inspectorate department to work as part of his investigation team. This means the JSE will not be able to complete its own investigation into the matter, but will have to await the outcome of the attorney general's findings.

Thus morning's hearing into foreign exchange losses suffered by stockbroking firm Ed Hern Rudolph last year has been cancelled as a result of this decision by Mr Kahn.

This latest move is not the only sign that the authorities are getting tough on the whole issue.

Brokers report that the Inspectorate Department has issued a number of warnings recently that have been designed to tighten up controls and leave no uncertainty about the types of transactions that are unacceptable.

On March 6 a warning was issued to broking firms that parties involved in "fictitious" transactions would be dealt with severely.

On Wednesday another warning was issued stating that brokers/traders involved in "muddling", "accommodating" or taking a cut for their own private accounts would be dealt with severely.

"Fictitious" transactions occur when a price is manipulated without underlying trade in the share to support the change in price. "Muddling" and "accommodating" relate to the use of a number of friendly buyers for the purpose of keeping share prices up before on-selling to a captive institutional investor.
CLOSING THE NET

For many years the deterrent value of a major and successful case against investment malpractices — such as insider trading — has been absent in the local financial community. That may be about to change.

After weeks of rumour, the swift arrests made this week by the high-powered team investigating activities at standard brokerage firms and the Old Mutual have left both brokers and institutions in no doubt about the magnitude of the case. It is expected to trigger an extensive reappraisal of share dealing procedures, and not only at the organisations already named in connection with the case.

As the investment manager of a leading assurer points out, should collusion occur between dealers in trusted positions in institutions and dealers in other firms, possibly even abroad, it may be extremely difficult to prevent malpractices, whatever systems are in place. Even so, most institutions will now be reassessing their systems and relationships with brokers.

Old Mutual CEO Gerhard van Niekerk says: “We will be reviewing all our relationships with brokers. We have quality requirements and expect zero defects. We will be talking to everybody we do business with. If standards are in place, it seems we have got to be explicit rather than implicit.”

It remains unclear whether material losses — as opposed to opportunity costs — have been suffered by pension funds, policyholders or other investors. Nor is it known how large any such losses might turn out to be.

Van Niekerk points out that any losses that may be substantiated in the case of pension funds administered by Old Mutual would be covered either by reinsurance or from the Mutual’s contingency reserves. These reserves, of course, also ultimately belong to policyholders, but are large — though the size is undisclosed — and the effective cost to policyholders would be “insubstantial, not an issue.”

Authorities investigating the case have produced results more rapidly than many had expected. That has prompted speculation that the team has encountered useful cooperation, though it may also reflect the size and efficiency of the investigating team led by Attorney-General Frank Kahn. The JSE’s 12-man investigative team is also fully involved. So, too, is General Nollie Hulme, head of the commercial branch.

Kahn simply confirms that two Johannesburg stockbrokers, Greg Blank, a director of Frankel, Max Pollak, Vndermeire, and Kenny Fouché, an authorised clerk at Ed Hern, Rudolph, have been charged with fraud. Also, warrants of arrest have been issued in respect of two Old Mutual employees who were earlier suspended, Marco Colitti and David Schapiro, as well as a London-based broker, Peter Rawson. All three are now “out of the country.”

Kahn declines to comment on the extent of the investigation, or on the scope and activities of the investigating team, but he emphasises that “every effort will be made to bring to justice those who have placed themselves beyond the reach of the law.”

Blank and Fouché have been charged with fraud, a broad charge that could include a range of activities from insider trading to exchange control irregularities such as round-tripping through the financial rand. While the exchange control aspect would presumably be relevant, given the known international link, the more common assumption is that the probe centres on front-running activities, a form of insider trading.

The two were arrested early on Monday and released on bail of R5 000 000 each. A figure which reflects the standing of the individuals involved as much as the magnitude of the case. The hearing was remanded until June 10.

Sydney Frankel, CEO of Frankel, Max Pollak, Vndermeire, says that, to his knowledge, nobody else in his firm is involved. He adds that the firm is co-operating fully.

Ed Herr, senior partner of Ed Herr, Rudolph, says he does not believe these activities investigated at his firm relate to financial irregularities, such as those which cost the firm R5 000 000 last year. Herr confirms that the firm put up the bail money for Fouché (42), who, Herr says, has not had an extravagant lifestyle: “When we lost money last year we asked for contributions from members and the staff,” says Herr. “Kenny sold his car and lent us money.”

Blank (32) had responsibility for running Frankel’s institutional dealing desk and he also managed numerous private client accounts. As a top dealer in one of the JSE’s largest firms, his annual remuneration package, including commissions, would certainly have been high.

Rawson is a former Zimbabwean broker who was known in Johannesburg but moved to London in the early Eighties. In about 1984, Herr opened a London office and, after the first two months, Rawson, who had cultivated contacts in the London financial community, was asked to run it. Herr says this arrangement lasted for three months, at which stage the firm decided the office was not a proposition. It was then run for some time as a small listening post under former SA broker Dave Burnham.

In 1988, Rawson, in partnership with National Discount House of SA (NDH), established RND International in London to trade SA equities on the UK market. That the firm was admitted as a member of the UK’s International Stock Exchange according to Rand Merchant Bank (RMB) MD Laurie Dippenaar, there was a restructuring in 1989 which resulted in RMB acquiring NDH’s 45% interest in RND Capital, which was acquired by RMB, Richmont and Geoff de Jager, who together acquired a 97% stake in RND.

Rawson resigned as a director of RND in November 1989 and has continued his business activities in the name of his own company, A W Bradshaw. The Herr office was closed completely when Burnham was hired by RND during its expansion.

Kahn remains tight-lipped except to say that the public should be wary of rumours. He reaffirms that the case is sub judice. Whether there will be further arrests remains an open question.

In any event, if it does turn out that the matter involves any form of insider trading, this will be a test for the new legislation which came into force with the advent of the Securities Regulation Panel. There has yet to be a prosecution in SA for insider trading, largely because of the difficulty of obtaining adequate evidence.

There are now tough new penalties, including fines of up to R5 000 000, or imprisonment of up to 10 years, or both. Claire Herbst, MD of Ernst & Young Corporate Advisory Services (Pty), notes in a booklet just published on the panel, that prosecution in cases of insider trading has been facilitated by shifting the onus of proof in certain instances. Offenders can now be more readily prosecuted and face significantly stiffer penalties. Also, anyone who contravenes the criminal provision of Section 440F of the Act can be held liable under civil law for loss or damage suffered by the other party.

In effect, the penalties now bear some relationship to the profits that insiders can make on such dealings, and thus might act as a deterrent. But they are not necessarily as stringent as those applied abroad. In the US penalties of up to three times the illegal profits can be imposed, in the UK there is no limit to the fine. Still, a successful case could have a lasting impact.
Manserv’s minorities get their cash, at last

By JULIE WALKER

UAL did not know at the time that the deposit had been made through the financial rand — a practice which the Reserve Bank wished to stamp out. Buying a cash shell at a discount is not the kind of move the Bank endorses.

A vicious circle emerged. UAL would not stand by its guarantee to the JSE that funds were available to pay Manserv minorities. Financial said it had already paid out the money to UAL, and it was not its fault the Reserve Bank had blocked the transaction.

The JSE said its hands were tied, and it would have had to take action against UAL in order to see the minorities served right.

Happily, the Reserve Bank has now agreed to release the funds — R1,5-million or so — on deposit at UAL for the offer to Manserv minorities.

Trade in the share has been suspended under JSE regulations since control changed in January 1999. Minorities have lost out on a year's interest they might otherwise have earned. But at least the end is in sight.

I would advise all minorities to accept R16c. Financial has not invested in the kind of businesses in which I would be happy to be a member.

Take the money and run.
NEC bows out, fuel policy goes

THE deregulation of the petroleum industry seems imminent following the government's decision to disband the National Energy Council.

In what will probably be its last major assignment, the council is to present a report on the deregulation of the industry later this year.

An informed source says the report examines in detail the most radical deregulation options and discusses their suitability for South Africa. Among those considered is the situation where suppliers would no longer be obliged to buy petrol from local oil refineries and be free to import from low-cost producers overseas.

The report is causing concern among oil companies that have for years had their profits guaranteed by statutory control of maximum and minimum wholesale and retail petrol prices.

The report on the oil companies to have an elaborate market-sharing agreement that determines, among other things, the number and location of filling stations each may have. Were it not permitted by legislation such an agreement would fall foul of South Africa's laws against collusion.

Privileges

The industry received these benefits partly because government wanted to persuade international oil companies to stay in South Africa (and probably help with the acquisition of crude oil) during the height of this country's international isolation.

But as sanctions fall away the argument for stripping away the industry's privileges mounts.

"Deregulation would lead to higher petrol prices in the platteland and big layoffs at oil companies and filling stations," says an oil company man, who may not be named.

"This would involve white staff as well as unskilled labour. The oil embargo is still in force and I am sure that our industry will be the last to be deregulated."

Deregulation probably would lead to higher prices in remote areas (as is the case with many products) because they are at present partially subsidised by prices paid in urban areas.

It would probably result in oil company layoffs because they will no longer be able to maintain the uneconomical depot system with its duplication of facilities.

It could also cause many service stations to lay off pump attendants in favour of cheaper, computerised self-service systems.

But the government's new views on industrial protection in general indicate that it has accepted the idea that such short-term sacrifices are unavoidable if the country is to become internationally competitive.

If deregulation is to be complete, requirements that each petrol station has its own workshop and trained mechanic will also have to go - so will the agreement that provides for one Sasol petrol pump in each garage in certain areas and an agreement that limits the sale of Sasol petrol through these pumps to less than 10% of the market.

Also to be addressed are the super profits made by the Transnet pipelines transporting fuel inland. These profits have been used to offset losses on black rail-commuter services.

What will probably stay is government protection on fuel produced by Sasol and Mongoose, whose price compensation of the oil price falls below a certain level.

In the "next few days" Dawie de Villiers, the Minister of Mineral and Energy Affairs and Public Enterprises, will meet members of the private sector, including oil companies, to discuss deregulation.

Government sources emphasise that the National Energy Council of previous meetings.

Established in 1987, the NEC advises government on all energy matters, including electricity and coal, and administers its energy policy.

This policy includes the administration of the Central Energy Fund, the Petroleum Products Act and the Liquid Fuel and Oil Act, which determines the allocation, manufacture, fixing of prices and the supply and stockpiling of liquid fuels.

Levies

Because of the oil embargo, most of the activities of the NEC have been secret.

Earlier this month Dr De Villiers said the NEC's functions would be transferred to the Department of Mineral and Energy Affairs in an effort to eliminate the funding of state activities outside the budget. This will take effect from April 1.

Since its inception the NEC has developed a "private sector culture" and has been financed largely by consumer funding. Government's contribution has been cut accordingly from 69% in 1989 to 44% last year.

In the current fiscal year, the Treasury made no contribution to the NEC. Instead, the NRC has survived on levies on electricity, fuels and coal.

Legislation for the transfer of the NEC and supporting staff to the Department of Mineral and Energy Affairs will be tabled in Parliament during the current session, as will legislation abolishing the levies.

Petru Hugo, director-general of the Department of Energy Affairs, says NEC councillors, who are largely private sector businessmen, will be replaced by a new "mechanism" responsible for administration.
The deregulation of the transport industry will open up major growth areas for the truck-hire market, but conditions in the next 12 months will remain difficult. Truck hire presently has about 5% of the total transport sector, but it has matured as an industry and has a major role to play in the future of the transport industry, says John Pearse, managing director of Bataileur Transport Holdings, which now controls Fleetrent, Perkins Truck Hire, Supreme Truck Rental and Fleet Car Hire.

Mr Pearse and Nedam Bank recently acquired the truck and car hire interests of the McCarthy Group for R15-million.

At the time of the sale, McCarthy Group chairman Brian McCarthy said nobody was making money on casual truck rentals, although contract deals were more profitable.

"We were making totally unsatisfactory returns, hence the reason for the sale," he said at the time.

Since acquiring the additional interests, Mr Pearse has introduced a number of cost-cutting exercises which he believes will improve profitability. These include staff reductions, a restructuring of financing of vehicles, security cost cuts, an improvement in management information systems, a reduction in the size of the fleet and insurance cost cuts.

Mr Pearse believes that after the current, difficult 12-month period, the industry will flourish and he expects growth of between 20% and 25% a year. The Full Maintenance Lease concept for trucks is expected to grow at a faster rate.

"Soaring vehicle prices are driving the FML sector to new heights. Last year there was a 25% growth in FML as companies, looking to maintain liquidity in uncertain trading conditions, tried to take expensive in-house fleets off the balance sheet," says Mr Pearse.

Bataileur has about R100-million invested in vehicles, which Mr Pearse says would have cost about R15-million in 1985.

"Costs have escalated to such a degree that a company can no longer afford to keep its own trucks standing idle in the yard. This is where truck hire companies offer a better, cost-effective alternative."

In 1981, when Mr Pearse established Fleetrent, it cost R10 a day to hire a one-ton truck and 10c a kilometre. Today it costs R77 a day and 77c a kilometre, he says.

"In 1981, I paid for six eight-ton trucks for the same price I paid for my first 100 vehicles in 1981 - 12 of which were eight tonners."

After due research, it has been decided that the three truck rental divisions will operate independently.
Fed gives jobless a skill base

By SOPHIE TEMA

A DURBAN organisation which teaches unskilled and unemployed adults to run their own cottage industries has opened a branch in Johannesburg.

The Foundation for Entrepreneurship Development (Fed) is a non-profit organisation which depends on private sector support for its survival.

Directors of the organisation said support during the five years of its existence had come mostly from overseas.

This week two sponsorship cheques were handed to Fed—one for R25,000 from the German government and the other for R8,000 from the Ithuba Trust.

The contributions will be used for the extension of the organisation's services in squatter areas around Johannesburg.

The Get Ahead Foundation has also made loans available to Fed graduates to start their own businesses.

Fed hopes to open other training centres throughout the country, where the unemployed will be taught business and sewing skills.

Fed executive director Dr Dennis Wolmarans said the shortage of sponsorships has restricted the Foundation to running programmes in the clothing-related field.

"But with further funding the programmes could be extended to other fields like carpentry, leatherwork and welding," he added.

Wolmarans said the Foundation was also working towards presenting youth development programmes if the necessary sponsorship could be made available.

Investors on the run

THE surge in prices on the Johannesburg Stock Exchange last year, just before the release from prison of ANC deputy president Nelson Mandela, was generally interpreted as being due to foreigners buying shares in South African companies because of confidence in that country's future.

A review of the past year's trading figures on the JSE, however, reveals that foreigners have been selling South African shares.

What apparently happened was that many South African investors bought shares through London.

This mistaken "foreign" buying encouraged local confidence and, in a happy merry-go-round, prices surged and gave foreigners an opportunity to offload South African shares at handsome prices.

Foreigners have been disinvesting through the stock exchange for more than five years and there seems no end in sight.

Unfortunately, South Africans are not allowed to invest on overseas stock markets due to the shortage of foreign currency and the resultant Reserve Bank restrictions.

Because everybody is chasing the same shares, prices continue to rise, creating an impression of a strong market.

Why are foreigners disinvesting? Economists and stockbrokers say the main reason is lack of confidence in the political future of South Africa. Another is militant trade unionism in the country and the declining productivity and competitiveness of our industries.

International confidence in our ability to manage the country politically and economically must be restored, because it is now clear that foreigners are not backing their political views with hard cash.
HUNDREDS of angry Mabula timeshare shareholders voiced their concern on Friday over significant increases in their levies.

A special meeting of shareholders was called after the provisional liquidation on February 6 of Mabula's development companies, Mabula Investments and Mabula Holdings.

Directors said at the time that unit shareholders would not be affected as the three Mabula timeshare shareblock companies — Mabula Timeshare, Mabula Shareblock and Mabula Modjadji Camp — which were not provisionally liquidated, were separate companies and would continue to operate without any adverse effect.

However, yesterday some unit shareholders complained of increases in levies of around 75% and an additional special levy of about R300.

Timeshare operations chairman Norman Moul said the significant increase in the levy was "because levies in the past had been much too low".

Moul said a third of the new levy was needed to provide Mabula with strategic funds for unexpected expenses on the financial and legal side.

Levies would have to be paid within 30 days, and directors had the power "to fix levies or special levies and decide on payment". They also had the power to fine and to withdraw rights.

He said there might be resistance to special levies. However, R450 000 was needed for "eventualities". Some of the R2,7m, which was the increased levy income budgeted for in the next year, would be payable by the developers, directors said. However, shareholders said they might be called upon to make up the deficit.

Directors said the three shareblock companies would have a claim on the liquidated companies. However, the liquidator said that concurrent creditors could expect about 9,5c in the rand on liquidation of the development companies.

Other areas of concern were that maintenance had deteriorated and the rental pool account was found to be empty. Directors told shareholders they should not hold their levies in lieu of the rental pool, and that bonuses also could not be offset against levies.
Consolidation means bad news for some

SOME shareholders often find their worst fears realised when a company consolidates its shares, but share splits are expected to open the door to more investors by making the stock more affordable and offering greater liquidity in the market place.

In fact, the several consolidations over the past few years (excluding those that made a major change, such as a merger or selling of significant assets at the same time) have prompted some strong opposition by shareholders.

BRENT VON MELVILLE

Trading

Market observers feel that invariably those who fear for their investment are right to, at least in the very short term.

Most issues dropped between the time the consolidation was announced, and the last day before the consolidated stock began trading.

And most dropped again, compared with the final pre-consolidation price, on the first day that they traded after the consolidation.

"Generally stock takes a nosedive after consolidation," says Aiona Jonker, an investment analyst with Mathison & Holridge. Soundings out several other analysts yielded the same verdict. Analysts do not recommend buying a company planning to consolidate because, invariably, the stock will be cheaper three months down the road.

A classic case in point is the now defunct Ellex Electronics. On June 2 1989 it consolidated its 15c shares on a five-for-one basis. On June 6 it moved to the electronics sector. Despite promises at the time by directors of big things to come, Ellex immediately shed 15c. Less than 11 months later, minority shareholders were offered, and accepted, 10c a share from Volkskas Merchant Bank.

The market supports the view that sentiment keeps consolidated stocks dipping. The logic is that there is no hope for a stock trading at 15c, so the investor holds his position.

But with one consolidated one-for-20 and trading near its new price of 30c, the investor suddenly has much more to lose, and so sells to limit the downside.

Based on prices of JSE consolidations last year, with such gems as Homemakers and the Cape-based Debonair Group (which consolidated one-for-five last December and is wallowing at 35c), investors would be better off to sell when the deal is announced, and come back into the market several months later.

Jonker says that shareholders generally use consolidation to offload their shares, thereby depressing prices. "A consolidation of shares is almost always a sure sign of problems with the company in question," she adds.

Debonair, for instance, had a pre-consolidation price of 15c a share, equating to a consolidation price of 75c. The share sagged slightly immediately following the consolidation, despite assurances by chairman Ian Foster that the group had resolved its problems by restructuring its capital base and was holding its own in an otherwise flagging market. The share has since come back to about 83c.

Just as conventional wisdom dictates that consolidations are attendant with declining fortunes, share splits tend to raise share prices, usually by making stock more affordable and increasing liquidity.

Jonker suggests a simple reason. "Consolidations are equated with struggling, poorly rated companies while share splits occur mainly with highly rated stocks. Recent examples include Randfontein Estates, Liberty, Anamint and Anglonaal, all of which subdivided their shares 10-for-one.

The market perception is that share splits send a message to the small investor: "Yes, we do value you.

In addition, small shareholders are generally more loyal than institutional investors..."
**Questions**

Indicates translated version

For written reply

**General Affairs**

*Refusal to render community service*

Mr. Lee R.H.D. Rogers asked the Minister of Manpower:

1. Whether any persons were sentenced in terms of section 72(2)(a) of the Defence Act, No. 44 of 1957, by magistrates in 1990 as a result of their refusing to render community service, if so, how many,

2. Whether any of these persons were given suspended sentences, if not, whether, if so, how many?

*The Minister of Manpower*

1. Yes

   (a) 145 (all are Jehovah's Witnesses)

   (b) 2 for 18 days each
       1 for 450 days
       1 for 540 days
       1 for 644 days
       1 for 854 days
       1 for 855 days
       2 for 900 days each
       2 for 1 034 days each
       1 for 1 035 days
       2 for 1 080 days each
       1 for 1 900 days
       130 for 2 175 days each

   The above-mentioned periods are administratively halved in accordance with the authorization given by the Minister of Defence on 29 January 1990.

   (c) No period of detention is served. All of them applied to be released on parole and are doing community service in state departments, provincial administrations and local authorities.

   (2) No. The Department of Manpower does not have this information available. It is suggested that the Department of Justice be approached in this regard.

*Persons declared bankrupt*

Mr. K.M. Andrew asked the Minister of Justice:

1.83 | 232

How many persons were declared bankrupt in each Division of the Supreme Court in 1990?

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<tr>
<td><strong>Total</strong></td>
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</tbody>
</table>

*Compulsory liquidation*

Mr. K.M. Andrew asked the Minister of Justice:

1.83 | 232

How many companies were placed under compulsory liquidation in the area of each Master of the Supreme Court in 1990?

<table>
<thead>
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<td><strong>Total</strong></td>
<td><strong>1 749</strong></td>
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**House of Assembly**

**Monday, 18 March 1991**

Page 562
AMENDMENTS to the Unit Trust Control Act, which will boost the performance of the unit trust industry, could be placed on the statute book early this year, Association of Unit Trusts (AUT) chairman Roy McAlpine says in his latest yearbook for the industry.

These amendments, which the AUT had been discussing with the Registrar for some time, would make certain provisions governing the industry less rigid, he said.

He added: "The Registrar has been very supportive of the proposals" which would enable investment managers to further enhance the performance of their unit trusts.

While the local equity market was "expected to continue to be nervous and per-

form in a somewhat pedestrian manner in 1991", McAlpine noted that this was the ideal time and opportunity for the public to purchase shares.

"Those investors who have committed funds to unit trusts during periods when equity markets are depressed ultimately have enjoyed considerable benefits." He added that, overall, the SA economy was likely to reflect a second year of negative growth in 1991, largely resulting from the authorities' decision to tighten monetary policy to bring inflation down.

A further six unit trusts were launched during 1990.
Sale of Aquanaut helps
lift Sinclair’s earnings

INDUSTRIAL and Commercial Holdings (ICH) subsidiary Sinclair Holdings lifted earnings by 69.5% to 13.5c (7.7c) a share in the six months to end-December.

Turnover increased 11% to R131.6m (R109.7m) while a 74% drop in the interest bill and no taxation lifted net income to R3.2m (R2m) in the period under review.

Net attributable earnings rose to R9.1m (R2m) as a result of the extraordinary profit in review period. This related to the sale of pool cleaning subsidiary Aquanaut and the closing of two motor dealerships.

No interim dividend has been declared.

It was announced earlier this month that Aquanaut had been sold to an unnamed US company for $7.1m. The decision for the disposal was in line with Sinclair’s stated intention of concentrating on the retail motor business after selling off other assets.

Because of the sensitive issue of sanctions against SA, the US company remains unnamed. Speculation in the industry pointed to US-based Aquanaut Inc in which Sinclair has a 30% interest and US pool cleaner company Arneson.

MD Simon Koch said yesterday the necessary turnaround of Sinclair had started but there was still much to be done.

"We are happy with the results of the disposal of Aquanaut and by next year the capital from the sale will have been distributed to shareholders.

"The company will now concentrate on the transport industry which is experiencing tough times in the present economic recession, but I am confident the rot that had begun to settle in the company has been stopped," he said.

All the pressing administrative problems had been solved and the company was expecting earnings to remain in line with those of the first half of the financial year.

The next six months would see the restructuring of the company taking place and Koch predicted year-end earnings of 23c (6.7c).

He said Sinclair was looking to expand in the transport sector and related fields and was in the process of acquiring a property company.
AVI's performance continues to improve

ANGLOVAAL Industries share price has staged a remarkable performance since 1988, with new, highs reached early in 1991. It is now at R20.

Except for the short period in 1989 the share of the Anglovaal group's industrial arm has outperformed the industrial index and major industrial groups such as Barlows and Malbak.

Improved earnings (although modest) on a relative basis, especially in a climate of slower growth, appear to have been the catalyst for the past year's price performance, says Davie Borkum Hare analyst Pierre Greyvensteyn.

At R20, AVI's price earnings multiple (currently 12) has moved into a new high territory, last seen in 1987. A similar pattern has emerged in respect of the dividend chart (current dividend yield is 1.5%).

Since 1989 both the price-to-earnings ratio and the dividend yield relative to the industrial index have shown increasing strength:

The share has become expensive compared with historic yields (in 1988 dividend yield was well over 5.5% and towards the end of 1989 it was above 2.5%).

Greyvensteyn expects that the share price may experience some consolidation in the short term. However, the long-term upward trend appears to be well entrenched.

Based on an earnings increase of 5% to 395c a share in the six months to December 1990, June year-end earnings should show a rise of 4.2% to 764c a share from 1990's 733c a share, while 1991 earnings should increase by 4.7% to 806c a share.

The estimated dividend total for 1991 is 146c, up from 1990's 135c, and a total distribution of 160c is expected in 1992.

Looking further ahead, Greyvensteyn forecasts an improvement of 15% at the attributable level for fiscal 1992.
Minister started on switchboard.

"Our biggest problem is unemployment. The aim of any strategy must be an employment-creating economy. We are exporting our employment opportunities," he said in a recent report.

On Wednesday it was announced that De Villiers would also take on the weighty Transport portfolio on April 1. The following day he collapsed while making a speech in Cape Town.

His death yesterday has left much of his work undone. Changing political demands have left privatisation firmly on the backburner, and most of his restructuring plans remain unimplemented.

Dr De Villiers leaves his wife Francie, two sons, a daughter, and six grandchildren.
Investors pump R2,1-bn into unit trusts
By Derek Tomsney

Investors opened 168 000 new accounts with the 37 unit trusts last year bringing the number of accounts to 735 405.

According to the Association of Unit Trusts' year book, investors put a record R2,1 billion into the movement in 1990 but withdrew R985 million, leaving it with a healthy and record net inflow of R1,12 billion.

In terms of income unit trust investors were well rewarded. During the year the income index rose by almost 25 percent.

But last year was not such a good one in terms of capital gains, mainly owing to the drop in the gold price.

At the end of the year the capital gains index was showing a drop of 1.5 percent.

At the end of 1990 the market value of the trusts was R7,56 billion, and the average account was R10 300.

A year earlier the market value of the trusts was R8,6 billion while the average account was R11 700.
Probing unusual positions at JSE

In an unprecedented move last Thursday evening Cape Attorney-General Mr Frank Kahn in effect commandeered the Inspectorate Department of the Johannesburg Stock Exchange.

That department will be working for Mr Kahn until he has completed his investigation into alleged irregular transactions conducted through the JSE by the Old Mutual.

The most significant public developments in that investigation have been the arrest (and subsequent release on bail) of a broker and a dealer and, the issuing of warrants of arrest on charges of fraud for three other parties.

JSE-led investigations are so much a matter of course that the initial stages of what has become the Kahn investigation did not cause much of a stir.

Apart from the Kahn investigation, it is believed (but not confirmed) that there are about 200 other cases currently being investigated by the JSE Inspectorate.

These investigations vary from misdemeanours to more serious issues such as undisclosed bear sales, muddling, accommodating and trading for private accounts.

In many instances, the circumstantial nature of the crimes under investigation means that no action can be taken.

But on quite a regular basis the inspectorate issues confidential notices to members of the JSE referring to action taken against individual employees and/or the stockbroking firm involved. Thus means that it has been able to establish reasonable evidence that "irregular transactions" have been effected.

**Penalties**

Action taken varies from caution to suspension. Suspension periods seem to vary from one to six months. In severe cases, the stockbroking firm itself is threatened with suspension.

The Kahn investigation appears to have had its origins in a probe that the JSE conducted into foreign exchange losses of around R3 million suffered by a stockbroking firm about a year ago.

It was while looking through this matter that the JSE's inspectorate department came across a number of irregular transactions that seemed to have one thing in common - they ended up at the Old Mutual.

The Old Mutual was contact-
3,439 declared bankrupt in '90

A total of 3,439 people were declared bankrupt by the Supreme Court last year, Justice Minister Kobie Coetsee said in the House of Assembly yesterday in reply to questions by Ken Andrew (DP Gardens).

He said 1,749 companies were put into liquidation in the same period. The Pretoria Division of the Supreme Court had placed 1,100 companies under compulsory liquidation and the Cape Town Division 298. In Bloemfontein there were 131, Grahamstown 87, Kimberley 15, and 148 in Maritzburg.

A total of 1,669 people were declared bankrupt by the Pretoria Division and there were 417 in Cape Town, 503 in Bloemfontein, 256 in Grahamstown, 92 in Kimberley, and 302 in Maritzburg.
Share incentive schemes can hold some attraction. One advantage of share incentive schemes is that they offer shares as a form of compensation to employees. However, there are several factors to consider when evaluating their suitability.

1. **Employee Ownership**: Share incentive schemes can foster a sense of ownership among employees, which can improve morale and productivity. However, the extent to which this is achieved depends on the design and implementation of the scheme.

2. **Tax Advantages**: Shares held as part of an incentive scheme may be subject to different tax rates compared to other forms of compensation. Employees may benefit from lower tax liability on the value of their shares.

3. **Performance Shares**: Some schemes offer performance shares, which are paid out based on the company's performance. This can align employee interests with those of shareholders, potentially leading to better financial outcomes for the company.

4. **Restriction Periods**: Shares issued under incentive schemes often come with a restriction period, during which the employee cannot sell the shares. This can serve as a means of preventing short-term speculation.

5. **Compliance Costs**: Implementing and maintaining share incentive schemes can be costly, as they require ongoing administrative and legal compliance.

6. **Market Reactions**: The market reaction to the introduction of share incentive schemes can be uncertain. Employees and investors may react positively to the perception of increased value, but over-reliance on such schemes can also lead to market overvaluation.

In conclusion, share incentive schemes can be an attractive form of compensation, but they should be carefully considered in light of the potential benefits and drawbacks. The design and implementation of such schemes can significantly impact their effectiveness.
JSE more sensitive to internal factors

A 10% move in the Dow Jones index produces a mere 2% move in the JSE's overall index, the SA market is therefore more sensitive to internal factors than movements in international markets.

This is the conclusion of a Beta-analysis study done by financial analysis company Indexa Research into the sensitivity of world markets to the US market.

It found that 48% of the total risk in the SA market is explained by variance in the US market. This compares with the three highest figures obtained: 68% for Canada, 31% for the UK and 27% for Holland.

Indexa MD Jeremy du Plessis said yesterday the findings showed SA investors should not look solely to Wall Street for indications of where the local market was heading.

A similar analysis into the sensitivity of international currencies to movements in the Deutsche Mark found the rand, unlike most other European currencies, bore "very little relationship" to the mark.

It proved movements in the rand were mostly due to internal factors.

First Financial Futures investment consultant Carolyn MacKenzie said in a newsletter: "This does not mean our market is isolated from external influences, it simply means overseas markets are not the best indication of these external influences."

JSE analysts were reluctant to comment until they had seen details.
Cutbacks

WHEN a Minister of Finance in Pretoria announced that the SA Futures Exchange (Safex) would have to cut its staff by 50% on August 10, last year, amid much ferment and optimism, few expected it would face so many problems so soon afterwards.

Instead of trading thousands of contracts a day, turning out new products and stimulating the financial sector, Safex now spends most of its energy on just keeping the market going.

With turnover about a third below the projected break-even point of 3,000 contracts a day, reducing vital clearing and transactional income that pays the bills, Safex has had to stem the bleeding.

"Safex CEO Stephan Rees says staff has been reduced from 21 to 14, an arrangement worked out with the Bank to reduce screen rental costs. We are being taken to the subject of alleged irregular transactions, but apparently unable to be lost on market observers," he says.

"Safex has reduced its liquidity to an already small market. Matiess were made worse by the subsequent market downturn."

However, Rees points to some developments that should boost volumes, including the possibility of having the Universal Exchange Corporation (Unexcor) handle all futures clearing. Unexcor, owned by the major clearing banks, is moving towards a centralised electronic clearing across all markets.

"R.E.S. says the current slump can be traced to the withdrawal of the market for Dvors Ralph Sadiq (DRS), and a key player, Cape Investment Bank (CIB). The former was placed in default on August 21, barely two weeks after Safex got its licence — producing a long drawn-out case that has still not been finally settled.

CIB — which cleared DRS's trades — was taken over by Prima Bank months later after running into financial troubles of its own. Like DRS, it has since been the subject of alleged irregular transactions.

"The apparent coincidence has not gone unnoticed by market observers," Rees says. "The absence of DRS and CIB, and reduced liquidity in an already small market, has added to the subsequent market downturn."

"Volumes have already started increasing steadily and surely over the last three months," says Rees.
Mining houses make the running on JSE

By Derek Tomney

Mining house shares are having a minor boom on the Johannesburg Stock Exchange.

Anglo American, Gencor, Anglovaal, Rand Mines, JCI and Gold Fields are the "heavyweights" of the stock exchange. Between them they control almost all of the country's mining operations and a substantial proportion of its manufacturing industries as well.

If you buy shares in a mining house you are buying "South Africa," a broker commented.

Leading the pack is JCI whose shares have risen just under 40 percent in the past eight weeks from R34.25 to R47.75. Runner up has been Rand Mines whose shares have gained almost 31 percent, rising from R6.5 to R7.2

Gencor is in third place with its shares gaining 23.2 percent from R22.50 to R35.80. It is followed by Anglovaal with a 15.9 percent gain and Anglo American with a 14.6 percent gain. Only Gold Fields of South Africa has been excluded from the manufacturing share market. Its shares have fallen 0.8 percent in this eight-week period.

Brokers cite a number of general and specific reasons for the strong performance of most of the mining house shares.

Among the more general reasons are expectations of an improvement in the American economy, the expected ending of sanctions, a more favourable attitude towards South Africa by foreign investors and the recent easing of the rand against the dollar.

All these factors should result in a greater demand for many South African mineral exports and also in a higher price.

Dr. Kevin Kartun, an analyst at Fraktal, Max Poliak and Vinderne, said that the ending of sanctions could lead to coal exporters getting an extra $3 a ton for their exports.

This could boost export coal earnings by about R240 million a year.

The four percent appreciation in the dollar against the rand in recent weeks is likely to boost the export prices of many of the country's mineral by a similar amount and this could easily result in a double figure increase in operating profits where the margins are small.

More specifically, the strong rise in JCI reflects its large interest in three strong companies, Rustenburg Platinum, SA Breweries and De Beers.

The ending of the Gulf war gave the platinum industry a boost and platinum shares have also risen strongly. Rustplat has gained some 30 percent in the past eight weeks, and this could account for much of JCI's rise.

However, there is also speculation in the market that JCI might be negotiating to take over Rand Mines' platinum interests, especially if changes in the ring-fencing provisions in today's Budget allow it to use Barplats' accumulated tax loss. Such a move could bring useful financial benefits to JCI.

While the rise in JCI shares is easily explained, the reasons for the 30 percent jump in Rand Mines' shares is not so obvious. Rand Mines is a major coal exporter, but its gold mining interests have not been profitable lately and its recent performance has been a heavy drain on its cash resources.

But some analysts suggest that the rise in Rand Mines' shares could reflect an appreciation among the investing public that management was starting to act decisively to overcome the company's problems.

Its handling of the reduction in operations at the giant Harmony mine and its proposed negotiations over the future of the group's platinum interests have shown that Rand Mines management can handle these problems.

Gencor's 23.2 percent rise also appears to be linked with its platinum interests. Shares in its major platinum investment, Impala Platinum, have risen 47.3 percent in the past eight weeks.

But the likelihood that the Government could announce favourable tax treatment for its proposed R2 billion stainless steel plant (also possibly in today's Budget) may also have created a demand for Gencor.

While the increases in the share prices of Anglo American and Anglovaal are not comparable to those mentioned above, they are nonetheless highly satisfactory.

The failure of Gold Fields' shares reflects its heavy investment in gold and the troubled times this metal is passing through at the moment.

However, brokers point out that even a reasonably small improvement in the rand gold price could have a marked effect on the earnings of Gold Fields and also on its share price.
Special standing of JSE and Futures Exchange may end

FINANCE Minister Barend du Plessis yesterday sent out the strongest signal yet that the special status of the JSE and the SA Futures Exchange (Safex) as independent exchanges would soon end and a more unified financial market structure will emerge.

This would result in a rationalisation and merging of computer systems and clearing facilities governing the three key groups of listed instruments — shares, forwards (futures and options) and bonds.

Du Plessis said the ruling conditions in the financial markets and the low transaction volumes were prompting self-regulating associations to reappraise whether their continued existence as independent exchanges was needed.

"In order to obtain the maximum benefits of scale, it has become important for the various financial exchanges to consider the merging of supporting systems and resources, as well as the establishment of central clearing facilities,"

Du Plessis said that though the JSE and Safex already had their own clearing mechanisms, the need for co-operation with the BMA "should not be ignored."

In reaction, Safex CEO Stuart Ross said "This shows that government supports the idea of a centralised clearing system."

JSE president Tony Norton said "There is a certain logic to exchanges sharing fixed costs. However, unlike other exchanges, the JSE has already incurred costs establishing its own systems."

ROBERT GENTLE

His remarks go some way to explaining why Universal Exchange Corporation (Unexcor), owned by the major clearing banks, has contacted the SA Futures Exchange and the JSE about taking over their information systems and clearing facilities.

The Bond Market Association (BMA) has already agreed to work with Unexcor in this regard.

Du Plessis said that though the JSE and Safex already had their own clearing mechanisms, the need for co-operation with the BMA "should not be ignored."

In reaction, Safex CEO Stuart Ross said "This shows that government supports the idea of a centralised clearing system."

JSE president Tony Norton said "There is a certain logic to exchanges sharing fixed costs. However, unlike other exchanges, the JSE has already incurred costs establishing its own systems."
JSE gets some of its wishes

THE JSE got at least some of the relief it was seeking from liquidity-killing transaction taxes when Finance Minister Barend du Plessis announced a 65% cut in Marketable Securities Tax (MST), to 1.8% of all share transactions.

MST, which hits all share transactions on the JSE, has been described by the financial community as hampering liquidity in an already-liquid market.

They would like to see it simply done away with, as has happened on most exchanges abroad.

Du Plessis described the reduction as being in line with last year’s decision to phase out MST over three years. At this rate, it will disappear in 1993.

"The eventual completion of this phasing-out process should enhance the ability of the stock exchange to compete with other world exchanges," he said.

JSE chairman Peter Redman observed that Du Plessis had kept his promise, made at the last Budget, to phase out MST over three years.

Deloitte & Touche tax manager Craig France said "Given the current low volumes being traded on the JSE, this year was probably the best in which to reduce MST."

Market sources who would not be identified said MST was still far too high and should have been axed altogether.

Du Plessis also announced that stamp duty on unquoted marketable securities would be cut from 15c to 10c on each R10, or part thereof, of the relative compensation or value.

The loss of revenue from the reductions in MST and stamp duty was expected to be R38m.

The cuts come into effect on April 1.
Finance exchanges may consider mergers

THE ruling conditions in the financial markets, and particularly the low transaction volumes, were prompting the several self-regulating associations to reappraise whether their continued existence as fully-fledged, independent exchanges was needed.

This was said yesterday by the Minister of Finance, Mr Barend du Plessis, in his budget review tabled in Parliament.

"In order to obtain the maximum benefits of scale, it has become important for the various financial exchanges to consider the merging of supporting systems and resources, as well as the establishment of central clearing facilities."

Although the share and forward markets already had their own clearing mechanisms, the need for cooperation with the gilt markets (which had not yet been formalised) should not be ignored.

"Attention is therefore now being given to the viability of a central clearing and settlement mechanism, as well as to a central repository for securities."

"These measures towards greater rationalisation are to be welcomed."

Among other important developments in the financial sector during the past year had been the Jacobs committee which had studied the question of equal competition between financial institutions.

The investigation had recognised the fact that in the future development of the financial sector, the need for business and development finance of a more or less informal nature in developing segments of the community would have to be attended to. — Sapa
JSE had hoped for a little more

By Ann Crotty

There may be an initial downrating of financial sector shares because of the 0.75 percent “interest tax” but otherwise yesterday’s Budget was generally regarded as neutral for the JSE.

Heade of Investment at Sanlam, Ronne Masson, noted that the JSE had moved up strongly over the past few weeks and might edge down because there were no obvious sources of stimulation for equities.

The reduction in marketable securities tax from 1.5 percent to one percent was in line with last year’s announcement that MST would be phased out over three years.

Some sources had expected the government to abolish it completely this year in an attempt to boost the sluggish trading volumes.

JSE president Tony Norton said the JSE had hoped for more but noted that the stock exchange had to be realistic and accepted the lower rate. He added that the Minister of Finance had done an impossible job extremely well.

Rowland Chute, assistant GM Investments at Old Mutual, said the Budget would not change the group’s view on equities and agreed that with the possible exception of the financial sector, the Budget was neutral for the JSE.

While the social spending aspect of the Budget was generally welcomed, there were some concerns about the possible inflationary impact of VAT being introduced at 12 percent on a much wider spectrum of goods.
Amendments to the Unit Trust Control Act, which are due to come before parliament this week, are intended to give the Registrar of Unit Trust Companies greater discretionary powers. They also make provision for the creation of an advisory board, to be chaired by the Registrar, that will review regulations governing the unit trust industry.

Clive Turner, newly appointed chairman of the Association of Unit Trusts, says the amendments are intended to enable the unit trust industry to be more responsive to changes in the markets in which it operates, to the benefit of unit holders. He says modifications to certain aspects of the legislation governing unit trusts could, if the current amendments are introduced, be enforced by notification in the Government Gazette rather than by putting the changes before parliament.

One of the first matters likely to come before the advisory board is the extent to which unit trusts will be able to invest in futures and options. Another amendment to the Act allows trusts to invest in such derivatives, though only within certain parameters.

Turner adds that the long-standing 5% rule — which stipulates that a trust can hold no more than 5% of its assets in one company's equity at time of purchase and no more than 5% of a particular class of shares of a company may be held by a trust — could be amended by the Registrar and his panel.
year. The 36.5% increase in its dividend reflects the change in dividend policy announced with the Interims in August. The new policy, which established dividend distributions at a level of not less than 85% of net taxed surplus, will have matching effects for Liberty Holdings.

On the international front, FIT — whose interests include a 27.7% stake in Sun Life Corp Plc and a controlling stake in the real estate company, Capital & Counties — produced attributable income of R66.1m, with EPS up by 27.9% at 47.7c, the dividend was raised by 11%.

**Currency boost**

With FIT’s investments all in the UK, the sharp depreciation of the rand against the pound during the first nine months of the year would obviously have boosted the result. It remains to be seen whether FIT will see a similar currency boost this year, but the odds must be against it. Notably, FIT’s share price, at 1.270c, trades well below the peak of 1.775c set in August.

Given what Gordon describes as extremely difficult financial and trading conditions, TransAtlantic’s strategy has been to strengthen its capital base and to improve liquidity. Capital & Counties is concentrating on the steady completion of its existing development programme, with no significant new development contemplated.

In October, Capital & Counties opened the Thurrock Lakeside shopping centre at a site which Gordon says is convenient for about 20% of the UK’s population. He adds that Thurrock is trading ahead of all reasonable expectations, when UK retailing has been going through its most traumatic period of the past two decades.

Last year saw several major distributions of wealth in the Liberty group. More than R1bn was distributed to policyholders by way of bonus distributions including income and capital appreciation applicable to linked participating policyholders. From the shareholders’ standpoint, there was the special dividend, and last month Liberty Life announced it would distribute to shareholders, free of consideration, about 34.2m FIT shares, amounting to a quarter of its issued shares. Liberty Holdings, with 56% of Liberty Life, is entitled to receive about 19.2m FIT shares, which will be distributed to its shareholders on the same basis. The scrip dividend is intended to provide tax efficient recompense to shareholders for the effective deferral of income almost from the start of the overseas venture more than a decade ago.

A bonus distribution is all very well, but when considering which of the shares offers the best long-term investment, the market favours the top company, Liberty Holdings, which directly benefits from growth achieved down the line. Since the trough of February 1988, FIT’s price has doubled, Liberty West has risen 178%, Liberty Life has gained 215% and Liberty Holdings has climbed 245%.

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**LIBERTY LIFE / FIT**

**LONG RUN**

shares in the Liberty group have done well over the past year. Since January 1990, Liberty and Liberty Holdings have climbed by between 38% - 45%, while First International Trust (FIT) — though restrained by a firming financial rand — gained about 22%.

Reasons are not difficult to find. Not only have earnings and dividends remained on the steady growth path established over about two decades, but both policyholders and shareholders have benefited from bonus distributions. Shareholders' funds of Liberty Life have gained from growth in value of strategic investments, such as SBIC, SA Breweries and Premier, while the international holdings in FIT are moving closer towards benefiting from large investments in real estate.

Overall effects are reflected in the top company, Liberty Holdings, whose EPS rose by 20.4%. Total dividends declared by Liberty Holdings for the 1990 financial year, excluding the special ordinary payout of 120c a share declared in August, amounted to 220c — a record 46.7% increase on the 150c paid in 1989. As chairman Donald Gordon points out, that gives an unbroken pattern over 22 years of increases in dividends averaging over 25% annually.

Liberty Life remains the dominant source of group profit, having contributed 78% last
SHARE PRICES 22/3/91 232
SCALING NEW PEAKS

Late last year, there were fears that the JSE and world stock markets may have entered a protracted bear market. Trading volumes had slumped and leading indices were declining in anticipation of worsening corporate results and, perhaps, a fully fledged international recession.

Sentiment turned more bullish early this year. The launch of the Gulf War in early January triggered renewed buying in New York, London and Tokyo and the JSE soon followed — though the action was largely concentrated in the financial and industrial sectors.

Against most expectations, on March 15 the JSE Industrial Index closed at a new high of 3,930, an increase of 12.7% since the beginning of the year. Similarly, the Overall Index, though restrained by a weakening gold sector, has recovered to 2,915, a rise of about 15% from its low of late January. The question remains, will these advances be sustainable and is the JSE casting off the malaise that stifled trading — and stockbrokers' profits — for much of last year?

At this stage, the improvement is mainly in the prices. Trading volumes have improved, but remain well below the levels needed. Daily trading values have recovered to above R80m, from around R50m-R60m last November. The number of deals being done each day — which many brokers consider more important — has lifted to around 2,500. That is better than the level of about 1,800 four months ago, but is well down on the year-ago level of about 3,500.

For a full recovery to emerge, continued improvement in share prices is needed. That will have to include the mining sector, which historically has been the source of the big trading volumes. Much of the recent action has focused on recovery sectors, such as financial services, as well as certain industrial companies expected to continue doing well during the recession, particularly the blue chip consumer-based companies.

Though many of these companies have kept reporting earnings growth well above the inflation rate, prices have also been pushed to demanding levels. Woolworth stands on a p/e of more than 20 and yields only 1.9% on dividend. Tiger Oats and Edgars are at a similar level and SA Breweries is not far behind. Results from furniture companies remain much better than in previous recessions and their shares have been firmed accordingly.

At the same time, an overreaction in the export-orientated stock, which is no longer gaining from the firm commodity prices or a weak Rand, stands on a p/e above 10. Barlow Rand's p/e is 8.8. Even if these prices do not prove brittle, there is a danger that the market is simply looking too far ahead.

Just as the overseas markets helped to lift the gloom, a return of the bear to New York could be bad news for Diagonal Street. The switch towards an easier monetary policy in the US and the UK was among the factors seen as favourable for these markets. In the past, the Dow Jones has tended to lead the JSE and, as a local industrial analyst points out, if the Dow Jones fails to sustain or extend its gains, then the JSE could soon fall back too.

Probably the most favourable local developments have been the cuts in the prime rate, but the downward trend has largely been discounted by the prices. Further interest rate cuts would further brighten sentiment, but a sharp decline over this year is unlikely. As far as the rand ahead stocks are concerned, there is no great expectation at present of a marked depreciation of the rand over this year.

Always in the background, of course, are the large cash flows of the institutions — the last unit trust figures showed steady rising liquidity levels, though these may now have been drawn down somewhat. Portfolio managers like to look well ahead, to take positions before an upturn starts. Apart from a recovery in the business cycle, investors are now considering the effects of sanctions being lifted, or an inflow of foreign capital.

As Old Mutual's senior portfolio manager Adrian Allardice points out, the assuer does not try to finesse the market, but seeks to buy on a five-year view where it sees value. From that standpoint, Allardice says the current level of industrials could best be seen as neutral, neither overbought nor oversold, but "prospects are bullish."

That may seem comforting, especially for those who are optimistic about political and economic trends over the long term. But there will be a lot of gloomy corporate and economic news over the next nine to 12 months. Thus, given present share ratings, may be enough to dampen sentiment again.

Perhaps the most likely scenario is that local prices will drift lower before resuming an upward trend. And, of course, while new bull markets are being hailed for London and New York, the possibility that this will later be seen as a rally in a long bear market is still there.

STANDARD ENGINEERING
STRIKING SETBACK

The seven-week strike at Mercedes-Benz's East London plant, and an overloaded situation at original equipment manufacturers due to a market downturn, had a major impact on first-half results to February.

Heavy vehicle gearbox manufacturer Astas suffered a severe setback. However, buying out minorities at the end of last year helped to reduce the minorities' interest by 66.6%. This led to a 28.5% rise in attributable earnings but a higher issued equity of 34.3m shares (26.9m) diluted EPS.

Chairman Hugh Brown says the strike and customer destocking led to the cancella-
Struggling NCI looks for partner

SHARES of venture capital market New Company Investments, which calls itself the blue chip of the sector, rose 50% this week — from 2c to 3c.

The share, which hit a post-listing high of 23c in June last year, has languished at 2c in recent months, but it has been the subject of market speculation in recent weeks.

Contradicting rumours, chairman Mike Clarke says NCI's flagship subsidiary, FCC Chlorine Ventures International, is not for sale.

"We are looking for a partner with international connections to help us exploit the product," says Mr Clarke.

"There are scurrilous rumours about NCI, but talks are going to establish a $1.5 million plant in the US to make Chlor 2000."

Spectacular

Shareholders have been more than patient. They have contributed about R14.5 million, but the group admits the major constraint bringing projects to profitability is lack of capital.

The projects are the Chlor 2000 water-purifying project, Davroc drill-bit manufacturers, DAC Braking, fast-safe vehicle braking system and the TLC low-cost tractor scheme.

Mr Clarke says there is a possibility that convertible debentures could be issued in FCC and Davroc to raise R2.5 million.

NCI came to the venture capital board in April 1990 with high expectations. "The prospectus spoke of 'truly spectacular growth' and "substantial short-term profits." But venture capital projects are notoriously vulnerable in times of high interest rates and a slowing economy.

Mr Clarke says "Expectations have not been met. We are regarded as third-tier." No capital was raised through the listing because NCI, formed by Mr Clarke in 1987, said it had current assets of R4 million and no borrowings or liabilities.

But before the listing more than 2000 investors had bought shares at prices ranging from the par 1c to 90c.

Preliminary results for the year to March 31, 1991, showed that the accumulated losses had almost doubled from R6.5 million to R8.9 million.

At mid-year the accumulated loss was nearly R12.4 million. This was attributed by Mr Clarke to the policy of writing down projects at inception and recovering such amounts when they become profitable.

NCI said then it expected to "turn cash-flow positive by the end of the financial year" — at the end of this month.

Mr Clarke says NCI is not yet in positive cash-flow. But, in a statement to shareholders this week, he reminds them that the original object was to build a portfolio of "dynamic businesses ahead of the next bull market."

The original time frame, he says, was three to five years. "Despite the setback of the non-performance of our proposed USA partner and the operating constraints within our own economy we have done this."
FOREIGN investor confidence in the JSE is taking a knock, according to Reserve Bank figures.

Foreigners have been dumping SA equities on a large scale. Sales for 1980 amounted to R4,8-billion — 58% higher than in 1989.

Net sales of SA equities eased from R2,6-billion in the first quarter of 1989 to R2,7-million in the third quarter and R3,4-million in the fourth.

Net sales of shares picked up again from January to February 1991 and totalled R488-million in spite of a strengthening by the financial rand. The record sales were made in the first two months of 1989 in spite of a weaker rand.


Net purchases by foreigners totalled R1,5-billion in 1989, but this figure was 50% below 1989's buying in the first two months of 1991. Net purchases were recorded in the third quarter of 1989.

JSE shares disappointed in 1990. The value of shares traded declined from a record R3,6-billion in the first quarter to R2,2-billion in the third.

In the fourth quarter there was a 44% drop to a "meagre" R1,5-billion.

Total turnover of R239-million for 1990 was 15% higher than in 1989. The Persian Gulf crisis, the weak dollar price of gold and SA's tough monetary policy contributed to slack turnover.

High.

Overall share prices fell by 17% on average from the all-time high in February 1990 to December 1990. The year-on-year decline amounted to about 12%, and a further 1% decline was registered in January 1991.

Gold and other metal and mineral shares were the main contributors to the overall index drop in the fourth quarter. Industrials on the other hand put on 6%.

The value of new ordinary shares issued by companies fell from R2,2-billion in the second quarter of 1989 to R300-million in the third. A recovery to R1,7-billion was made in the fourth quarter.

New issues for 1990, totalling R4,5-billion, were only half of the 1989 figure of R9-billion.

Average dividend yields on all shares rose from 5,3% in March 1990 to 6,1% in December. The yield was unchanged for January. Financial shares entered 1991 with a relatively strong average yield of 7,16%.

Strong performances were registered for November and December 1989 with yields of 7,32%, 7,09% respectively.

Average earnings yields on all shares fell from 12,4% in December 1989 to 14,2% in January 1991.
Standard galvanised by speculation

HEAVY buying of Standard Bank Group shares saw volumes double and the price hit a new high of R21 yesterday amid speculation that Liberty and Rembrandt are discussing restructuring their shareholdings in the banking group.

Market talk is that Rembrandt wants to sell its 10% holding in Standard to Liberty, which already owns more than 50%, in exchange for a direct stake in Liberty. It is said Rembrandt sees Standard as the key to gaining a strong say in Liberty, and possibly even control in the longer term.

Speculation is that Standard’s price is soaring because Old Mutual (holding about 20%) has got wind of the plans and is buying as a spoiling tactic to upset Liberty.

However, another rumour is that offshore buying via the financial rand was the reason why the price had soared by about 70% since the beginning of February. With its price-to-earnings ratio at 11.84, analysts say Standard is overpriced.

Almost 337,000 shares changed hands yesterday. Although yesterday’s volume represents only 0.5% of the issued shares, analysts say it is surprisingly large for such a tightly held share. Market capitalisation has risen by about R2bn during the buying frenzy.

Interest in the share helped push the banks’ index to a new high of 2,108 yesterday — a gain of about 5% in a week, bucking the trend of the overall market with Nedcor chalking up a 1.5c gain.

But a number of important players in the sector have lost some ground, notably the NBS, which has been at the centre of takeover rumours, and the UBS. The NBS shed 4% to 910c yesterday.

Yesterday Norwich Life MD Charles Davies confirmed talk of an offshore link in its strategy towards NBS. Luxembourg-based trust Stanley, with about 19% in NBS, had thrown its weight behind Norwich.

The latter therefore had effective control over about 30% of the building society group, after doubling its own stake to 20%. Norwich is understood to have increased its holding to stave off any hostile takeover bids. Likely predators include First National Bank, already holding an effective 13%, and the Standard Bank Group.
JSE results 'will be sharply down'

THE JSE, sitting on an estimated R50m in debt and feeling the bite of reduced trading income, high systems development costs and the price of its new annexe, is set to release sharply lower results when its financial report is published in May.

Market sources said the JSE was probably not running a positive cash flow, and that a deficit on operational expenditure might well emerge at year-end.

Brokers would then have to make good the difference from their pockets, or the JSE would write it off from its reserves — at present R42m.

JSE finance manager Frans Loeve, reacting to market talk about the exchange's finances, said that while times were indeed hard, the JSE was "not in a bad way financially". He said it would be inappropriate for him to comment on the JSE's cash flow until the financial year-end.

There were, however, no problems with the exchange's bankers. "We have got the assets to back our overdraft," he said, referring to the main JSE building and the annexe.

Loeve said the exchange's debt was "marginally higher" than last year's R42m.

Asked what lay behind the increase, Loeve said: "Until the committee decides otherwise, we are finding relatively long-term projects with relatively short-term funds." This was mainly a reference to TOM (Traded Options Market) — which cost over R12m — the new Broker Dealer Accounting system and the annexe.

He confirmed that as the JSE was a non-profit operation, the committee would decide on any surplus or deficit on operational expenditure.
Stanbic shares in renewed demand

By Ann Crotty

Speculation about a possible battle between Liberty and Rembrandt over control of Stanbic was fuelled yesterday when almost 500 000 Stanbic shares changed hands at R51 a share in trade valued at R22 million.

If there were a battle, it would be a multi-billion-rand affair involving at least three of the largest institutions in the country.

A battle for control at around R50 a share would value Stanbic at a massive R5 billion.

The players directly involved would be Liberty Life, which has 32.5 percent of Stanbic, Rembrandt with 10.7 percent of Stanbic and Goldfields with 10.5 percent.

As usual with the big groups in SA, there is much interlinking.

The most important cross-holding is Stanbic's 59 percent stake in unlisted Liberty Life Controlling Corporation, which gives Stanbic effective joint control (with Liberty chairman Donald Gordon) of the massive and powerful Liberty group.

At this stage, Mr Gordon has the controlling vote in the 50/50 partnership, but it is understood that when Mr Gordon leaves Liberty, the controlling vote passes to Stanbic.

It is Stanbic's stake in Liberty that makes a battle for control of Stanbic much more than just another battle for control of a massive banking operation. At stake in this instance is control of Liberty.

Although JSE traders seemed quite certain that the buying demand for Stanbic was coming from Rembrandt, analysts were confused about the implications of such a move.

It is difficult to see why anyone would make a play for Stanbic in view of Liberty's 32.5 percent stake, which sets it well ahead of other players. This position would seem to be protected by the fact that the shares are tightly held and are very expensive.

If Rembrandt is buying, it may be attempting to lift its stake to 25 percent — at which level it could block any special resolutions (because of its controlling stake in GPEA, Rembrandt in effect controls just under 20 percent of Stanbic).

Or Rembrandt may have some arrangement with Old Mutual, which would give it access to OM's 20 percent stake. From here it would not be so difficult or so expensive to move to 50 percent.

A second scenario is that Rembrandt may have a stake in both Old Mutual and Liberty. This would give Rembrandt a controlling stake in both firms, which would give the group a significant advantage in the battle for control of Stanbic.

Whatever is happening, it is certainly more than just a re-rating of Stanbic to unjustifiable levels.

Stanbic sources have said there are no significant new operational moves on the cards.

They have also said an announcement will be made "as soon as things develop."
Blueprint on SA
by FW’s advisers
backs the market

SUSTAINED growth, development and long-term stability to meet the aspirations of all individuals are only achievable in a market-oriented system based on private property, says the State President’s Economic Advisory Council (EAC).

The EAC’s Revised Long-term Economic Strategy released on Friday says it is critical for the future well-being of SA that the economic policy has the visible support of the widest possible spectrum of political, community and business interests, Sapa reports.

The EAC’s strategy document says there must be an increase in SA’s long-term economic growth potential, a reduction in the inflation rate to the level of SA’s trading partners and an improvement in the standard of living of the poorest section of the population.

Political democratisation, liberalisation and effective accommodation of the growing population will ultimately lead to changes in the pattern of the distribution of wealth, income and opportunities, the report says.

This will lead to a marked increase in demand for social welfare services such as education, health and housing. Financial restraints will determine the nature of these services, their scope and their standard.

The report recommends a reduction in the share of government consumption in GDP expenditure and its claim to scarce capital and manpower resources.

This must be achieved by greater public sector efficiency, by rearranging spending priorities, applying normal financial disciplines on capital expenditure and by stipulating and regularly reviewing long-term expenditure guidelines.

Privatisation, where it contributes to a more productive utilisation of production factors, will limit government’s responsibility in the economy, it adds.

Privatisation proceeds must not be used to finance current expenditure but to eliminate backlogs in the provision of basic social services.

Exports will be one of the driving forces in the next phase of SA’s economic development. Indirect tariff protection is preferred to the current system of industrial protection.

The advantages of this long-term strategy will only be realised over time, the report says. The outcome will be seen in a strengthening of business and investor confidence. This will enhance the economy’s capacity to create wealth, income and opportunities. With higher economic growth it will be possible to address the problem of the poor more effectively, the EAC says.
Solid Malbak no help to Gencor

MARC HASENFUS

MALKAS's solid interim performance, which saw a 6% increase in earnings as well as a reduction in borrowings, would not be enough to stave off the small drop in year-end earnings expected for parent company Gencor, analysts said.

Analysts said Malbak contributed about 8% to Gencor's earnings, and would therefore not offset the predicted profit declines from larger contributors like Sappi, Samancor and Engold.

Malbak's earnings lifted 8% to R118m (R111m) on the back of a 5% increase in turnover to R426m (R416m). The interim dividend was maintained at 12.5c a share, covered 4.5 times.

Malbak executive chairman Grant Thomas said yesterday all Malbak divisions performed well in difficult circumstances, and the results reflected the success of disciplined management.

Thomas stressed the improvement in the six months to end-February 1991 was achieved without the benefit of major acquisitions or other substantial changes.

The interest bill was reduced to R95m (R91m), but a 2.5% increase in the tax rate following the utilisation of assessed losses in Darling & Hodgson (D & H), and additional tax on Ellerines, saw an 18% tax rise to R95m (86m).

With the number of shares in issue increasing by almost 10-million as a result of debenture conversions, earnings a share showed a slender increase to 57c (56.5c).

Malbak's gearing decreased to 49.9% from 61.7% at the previous interim period.

Branded consumer goods, incorporating Tedex and Ellerines, remained the largest single contributor to Malbak's earnings, adding R25m (R21m).

Other major contributors were paper and packaging division Holdains, which added R25m (R26m) to earnings after a particularly strong performance from Carlton Paper.

Thomas expected Sunvest, acquired during the period under review, to make a significant contribution for the full year. Engineering and mining suppliers Standard Engineering and Haggie increased their contribution to R25m (R25m) while Kanbym, Malbak's food division, made a lower contribution of R15m (R17m).

The contribution by the construction supplies division D & H was down 20% to R18m (R18m). Cash-rich D & H was knocked by an increased tax rate and reduced demand for pipe as widespread unrest halted township development projects.

Thomas said there was little sign of relief from the lingering recession, which would continue to have an adverse effect on all the group's operations.

He said the recent reduction in the interest rate was welcome, but too small to have a material impact on the economy as a whole.

Thomas expected earnings for the full year to show a modest increase on last year, over and above the company tax benefits announced in the Budget.

Malbak shares held firm at their 825c high yesterday. The shares slumped to 450c in October last year.
Tollgate trounced in restructuring

CAPE TOWN — Substantial losses and a decline in permanent capital reported by Tollgate Holdings (TGH) for the year to December 1999 are indications that the group, which has since returned to profitability, took the punishment of restructuring on the nose.

This was the explanation TGH chairman Julian Askun gave shareholders when asked to comment on the results yesterday.

The difference in reporting periods and the transformation of the group during the year under review make it virtually impossible to compare the results.

Operating income plummeted from R67,4m in the 18 months to December 1998 to R25,8m in the 12 months to December 1999 on a decline in turnover from R1,13bn to R895,8m.

An interest bill, which declined by R16m during the year but remained high at R52,3m and abnormal items of R7,9m related to non-recurring costs of the restructuring, resulted in a pre-tax loss of R26,7m. Pre-tax profits of R9,9m were reported after the previous 18 month period.

Attributable losses amounted to R21,9m after a light tax bill (R16,6m) and higher dividend income from associated companies.

Provisions

The poor profit performance, anticipated by Askun when he and a consortium of businessmen took control of the group in June, was attributed largely to losses in Gants' deciduous fruit processing division, certain commuter bus divisions, the car rental division and interest costs incurred in the acquisition and funding of these loss-making divisions.

Full write-downs and provisions had been made for those subsidiaries sold or closed down, Askun said.

The performance of the group's profitable divisions had been restrained by the non-performing divisions and the high interest burden. This had been rectified by disposals and all operating companies had returned to profitability, he said.

An extraordinary item of R37,6m was related to the cost of transforming the group. It included R46,1m in net losses from disposals, R2m in restructuring costs and R2,4m in goodwill written off. The full amount was written off against permanent capital, Askun said.

- The decline in interest-bearing debt by the end of the financial year had been less than anticipated because it included the R30m cost of buying out minorities

Negotiations for the acquisition of an industrial distribution company in the UK were at an advanced stage
ROUGH AND TUMBLE IN FUTURES

The quick profits — and losses — to be made in the futures markets are brought home by the change in last week’s leader board in the Saffa Futures Risk Management competition. Only four of the previous top 10 traders survived in the lineup for March 22.

Mark Perkins of Greenwich Futures shot from fifth to top spot to push John Cutten, of Hayes Cutten, into second place. Perkins, who has increased the value of his portfolio by 5.65% in the three weeks since the competition began, is now in line for the R50 000 prize sponsored by Rand Merchant Bank.

Nedbank subsidiary Finansbank moved from third to first position in the company stakes with an average annualised portfolio return on its two best traders of 89.1%, putting it in line for the FM Top Trading Desk trophy.

Prima Bank lies second while Standard Merchant Bank has slipped back to third place with a return of 42.19%.

The winner in this section will also qualify for a year's free subscription to the Genisys Information System from MBM.

With JSE prices softer with the All Gold index underperforming and Eskom E168 rates up last week, the underlying portfolio lost ground.

The leaders held and improved their positions, anticipating the bear move and hedging against the fall. Contestants who ignored the underlying portfolio suffered losses last week.

THE NEW LEADING LIGHTS

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<th>Annualised return</th>
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26 • FINANCIAL MAIL • MARCH 20 • 1991
Deregulation is going to be an expensive business if government's revised privatisation budget is anything to go by.

For starters, government has set aside R22bn — the largest item in its new budget — for a probe into how SA Airways should be restructured for deregulation.

As part of the study, Mineral & Energy Affairs and Public Enterprises Minister Dawie de Villiers instructed his department in May to hire a consultant to investigate the most efficient structure for SA in a competitive air transport market.

Price Waterhouse was chosen and its work is now almost complete. Privatisation unit head Pieter van Huysteen says "certain recommendations have been made and we are conducting further studies."

He adds that the point of the study is to determine what barriers exist that prevent other airlines from competing with SA on domestic routes and how they should be removed.

"Most of the barriers have gone," says Comair MD Pieter van Hoven. "The biggest problem is how to attract private enterprise to what is essentially a loss-making enterprise. No one shows a profit (on domestic services)."

Trek Airways MD Jan Blake disagrees. "The marketing approach will determine which airlines survive as profit-makers." This, however, does not mean that SA will have an airline price war such as in the US after deregulation in 1978, he believes. "Local airfares are low compared with other parts of the world," he says (Business May 22)." Blake believes that SAA's monopoly on internal major routes is the biggest barrier facing prospective airline operators. "SAA must undertake to make services available to other airlines and allow access to their support facilities." These vital facilities include the central reservations and communications systems, cargo and baggage handling facilities, and training programmes.

Independent airlines are eager to see the results of the SAA probe and whether the regulatory measures De Villiers said might be necessary will in fact be introduced. De Villiers could not be reached for comment on what regulatory measures he had in mind. Price Waterhouse declined to comment.

Van Huysteen says he does not know when the minister will make findings in the report public; the entire report will not be released because it contains confidential information about SAA. "We normally play these things openly but in this case the recommendations are being considered internally," he says.

The final cost of the probe will, it is hoped, also be played openly.
Brokers worried about JSE trading

The Johannesburg Stock Exchange's integrity is running

...as probe intensifies

232

DEFER TOPIC

THE WEEK OF AUGUST 17

Brokers worried about JSE trading

The Johannesburg Stock Exchange's integrity is running
Cabinet looks at deregulation

PROPOSALS to deregulate the petroleum industry are being studied by the Cabinet, writes CURT VON KEYSERLINGK.

A Government source says no announcement on whether the industry is to be deregulated, and if so to what extent, will be made. But he does not expect it for at least another week.

Deregulation could bring price competition at both refinery and filling-station level and more freedom for imports and exports of refined and unrefined products.

Some observers are surprised that the matter is before the Cabinet now because they believe there will be no deregulation until the United Nations oil embargo on SA is lifted. Some of the regulations have been helpful in countering sanctions.
Bank shares looking good

ABSA SHARES will be good value for money, says Martin & Co director Richard Jesse.

The new Absa shares should attract considerable institutional attention and cost about 700c each.

They should be easily marketable, says Mr Jesse. Last year UBS Holdings stood at 800c. In the takeover bid for Allied the price hovered about 750c, but has since dipped to 720c. UBS Holdings shares will simply change in name to Absa.

Growth

Analysts believe the institutions will look to Absa shares to outperform the market in the next two years. Bank shares in general should be attractive to institutions looking for current value.

Earnings growth in the banking sector is likely to be strong compared with several big industrial companies. Banks' price earnings ratios have been consistently below the average market PE of 11.

One analyst says: "The forecasts one year ahead put most banks on a PE of about 7 and institutional fund managers should be comfortable with this rating."

He says there are certain arguments why bank ratings should not be so demanding: "First, it is a tight margin business, with a return on assets of about 1%. Margins can be rapidly squeezed, tending to cause volatile underlying earning series."

Dave Borkum, Hare banking analyst Graham Baille, is also bullish about Absa shares and believes they will offer good value. "Bank shares are very different from retailing and not trading. They are a growth business."

Risk

He says the downside risk is small. "Institutions have been increasing their weighting in this sector because of the attractive nature of these stocks."

Mr Baille expects the 0.75% tax on interest income and finance charges to lessen the attractiveness of bank shares slightly.

Had the tax been in place for the 1990 financial year, Standard Bank would have paid R52.2-million on R5.1-billion interest income. First National would have paid R35.7-million on R5.2-billion and Nedcor R38-million on R6.1-billion.

Mr Baille says the added cost will add pressure to banks to raise capital requirements. "Unless the cost is passed on increased retention and lower dividends to cause additional capital are likely."

Earnings forecasts for 1991 for First National Bank show a 20% to 25% improvement. Nedcor is looking for growth in the high teens and Standard Bank about 20%. The main factor, correlated with relatively low PEs, is the ability of banks to make bank stocks a good buy. Standard shares are believed to be overvalued, driven by speculation of a rift between Rembrandt and Liberty. They hit a high of R6 last week, but have dipped to R4.5. This is higher than the R3.5 about a month ago. Standard is on a P/E of 11.3 and an earnings yield of 8.7%. The share was boosted by strong results in February. Good market spread and management are other factors that appeal to investors.

Deliver

First National's share price, which stood at R30 before its offer for Allied, is R37.5 and on a PE of 8. Earnings yield is 12.4%. Nedcor is on a PE of 8.6 and yield of 11.6%. Industrials like SA Breweries on a PE deliver a 5.1% earnings yield. Nampek is on 12.3 PE, but has an earnings yield of 7.8%. Woolworths is on a PE of 19 and a yield of 5%.
WB Holds picks a bumper fruit crop

By JULIE WALKER

Momentum disclosed a tax loss of R8.8-million — 14% higher than in the six months to December 1989. Earnings a share of 11.4c were 12% up, as was the 6.7c dividend.

The directors say rationalisation between Momentum and Lifeforce has been completed.

MobiTel raised turnover by 38% to R21.1-million in 1990, and earnings a share were 25% up at 50.6c. The W&A subsidiary reports pressure on margins on general economic factors and a cut in the metallurgical-sector demand. But the directors expect a further increase in earnings in 1991.

Carats

Engen pushed turnover, earnings and dividends more than a fifth higher in the six months to February. Cost inflation rose slightly faster than selling prices in spite of the benefit of including the Tracor petrol system in Mobil's network.

The Persian Gulf crisis generated inventory or windfall profits, of which R120-million before tax has been excluded because they could go into reverse.

Management is confident that the rate of profit growth will be maintained in the second half-year.

A handful of companies reporting this week achieved higher earnings only Abercorn missed an absolute loss — Rd-million, but much lower than the previous interim shortfall.

The recession made its mark across the economy. Malbax food and meat company Namby's earnings fell by 13% to 31.9c a share in the six months to February.

Office furniture group Math Ash's earnings fell almost 76% in the six months to December to 8.2c a share on an easing in turnover to R83-million.

Chairman Wysky Ringo expects the group to 'continue to perform satisfactorily in the period ahead'. It has opened OfficeMart to compete in a market sector previously not touched.

Winky Ringo: New market for the period ahead. It has opened OfficeMart to compete in the market.

The share price is 275c, close to the peak.

Eroded

Industrial holding company Malbax raised fully diluted earnings by 9% to 55c a share by the same percentage rise in sales to R4.2-billion.

Higher tax eroded some of the increased earnings, but the shareholders generally did well. The directors hope there will be a modest increase in earnings for the year.

This is an improved outlook — at a presentation last year, chairman Grant Thomas foresaw a slight downturn.

In the 12 months to December, Grainde adopted a more conservative method of accounting premium income. Premiums have been demutualised and are now accounted for when they become payable.

Cruft is now part of the Angleva group and its year-end has been changed to June.

Costs led to a bottom-line loss of 63c a share.

Benguela bought Dows Diamonds for shares. Dows holds title to a mining lease over neighbouring sea concessions.

Kudu Granite incurred a R738.000 loss at the December interim because of depressed prices for Rустenburg material and poor production performance from the Bengal quarries.

But major customers have accepted a large price increase for Rустenburg granite from March and foreign buyers are looking for more material.

Kudu's directors expect to restore profitability in the next six months.

Dogs

Tollgate — formerly Duros — lost almost R25-million in the year to December. New management says it inherited a group with high borrowings, lack of direction and accelerating losses in some divisions.

The group's profitable divisions' earnings were eclipsed by the dog, which have been sold. Tollgate is negotiating an acquisition in the United Kingdom.

Of the 14 companies reporting preliminary results this week, half made more than in the previous period, but only two grew at a faster rate than inflation.

Two incurred losses, two earned less than before and the rest were not comparable.

But five interim results of the 29 reported were in the red. A dozen raised earnings, and a trio outpaced inflation.
A hard road to the broker's R295,000 a year pay packet

THE AVERAGE 47-year-old stockbroker in his own employ makes R295,000 a year, according to the Human Sciences Research Council.

Needless to say, this puts them among the top professional earners.

But most other professionals are not the subject of unlimited liability — in other words, only stockbrokers lay everything on the line. Risk is linked to reward.

One stockbroker wonders whether this trend continues along the recent spate of fraud cases and the possibility of more to come.

"It is a career of peaks and valleys," he says. "In bad years stockbrokers not only cause drawing a salary from the firm but put money in chartered accountant's business, for instance, is personal.

A stockbroker's package does not include executive perks such as cars, housing loans, pension fund and share options.

The pros could outweigh the cons though.

Membership of the JSE is gained through passing examinations and the purchase of rights. The rights are in limited supply.

Usually, an existing partnership will buy the rights for a new director and hold them on his or her behalf until he or she passes the examinations.

But passing the examinations is not a passport to a directorship — there are several examples where corporators or have been offered to a successful candidate.

In theory, a member of the JSE can start his own firm, but the capital outlay is prohibitive.

There are currently 50 member firms. Their income comes from brokerage generated as agents between trading parties, from portfolio management fees, corporate finance, and from trading on their own account.

Jobbing is played down by stockbrokers because it can present conflicts of interest — is the stockbroker acting in the best interests of his client, or himself?

Latest official figures show that own account trading represents 15% of all trade. There is the firm's own book, and each partner has a personal account. Members of the firm do not pay brokerage.

JSE rules do not allow stockbrokers' employees the opportunity to job with 14 days' grace on payment, in their own name, but this exclusion can be avoided by establishing close business interests.

Brokers have money to make recommendations about shares to clients.

That the bastion of free enterprise goes for non-negotiable commissions is an anathema to many. In the same way that giant pharmaceutical companies fight cheaper generic substitutes on the grounds of their high research costs, do the biggest stockbrokers object to negotiated commissions?

It could be expected that smaller stockbroking firms with low overheads — because they offer no research to clients — would be the downers.

The theory is that share traders would consult researching brokers for recommendations, yet buy and sell through the downers.

It is also argued that commissions are fixed in many other agency transactions, such as those by estate agents and insurance brokers.

Equity and gilt-edged research is a relatively recent business. Deposition of bigger firms pay six-figure salaries to the top people to make recommendations about shares to clients.

With the advent of research and client service, the JSE has a market of stockbrokers. The JSE's own computers have been bogged down by problems and is relatively costly to users.

Smart brokers have installed their own systems to keep costs down. Partnership terms vary from firm to firm. Some give equity participation and voting rights to new members in exchange for service contracts or capital injection.

Working partners have no voting rights and next to no equity, relying on the whim of the controlling partner to share the profit.

One form of association is the 50% partnership — a partner keeps for himself half of the brokerage he generates. Even then, some now contribute to the costs out of their cut.

Poor partners are few and far between, but stockbrokers' employees, especially back-staff, earn ordinary salaries. They have a chance of three bonuses a year — depending on how well the firm does — and a share in new scrip issues.

There is little job security — thus trading volumes mean less administrative work and a lower income. Jobs are lost in bear markets, and there is no pension fund.

Other than having to be over 21 and a South African citizen, theoretically anyone can write the examinations and set up in competition with members of the JSE.

"The fat-cat image is becoming a bore," says one stockbroker. "The guys with the Masaruta have been here a long time, but the younger guys have yet to live through another year like 1987."

Second-tier rating for small fish

SMALL investors are miffed when they read that the JSE overall activities index has reached new highs and their own few shares are barely moving.

Reiner Buss of the JSE's research department tackled the task of developing a second-tier index which would monitor the performance of medium-sized companies.

Mr Buss gave a presentation to the Investment Analysts Society to invite comments on his proposals.

Mr Buss showed that the top 20 companies on the JSE constitute 50% of total market capitalisation.

The performance of the top 20 is virtually a carbon copy of the JSE overall index.

A second-tier index might do two things monitor medium-sized companies, and provide investor understanding and participation in the wider market.

Companies whose market capitalisations fell between 20% and 7% of the market — between R1.4 billion and R0.46 million were considered by Mr Buss as being representative of the second-tier market.

Excluded were all non-gold mining houses, real estate companies, Mr Buss lumped together all the Wits basin gold mining areas into one and the non-Wits mines into another.

The banking sector was split among companies whose main income source was from deposit taking and those which do not. Motor and transport were humped together, as were food and fishing.

Otherwise, two shares each were chosen from the sectors as they stand.

Surprisingly, Mr Buss' personal selection of shares for the second-tier index actually outperformed the top 20 index by 12%.

Discussion was invited from the audience, all suggestions being considered.

Tradeability of shares such as Potcham was one problem, the validity of taking two shares from the Venture Capital market another.

Some were worried that certain second-tier index shares already formed part of the overall index.

As Mr Buss says, it is open for refinement.

He welcomes constructive comments from investors, and can be reached at the JSE.
Ownership & Control — 1991

April — June
Sage likely to benefit most from Absa deal

By Ann Crotty

That Sage seems set to benefit proportionately more than any other participant from the creation of Absa is indicated by figures released for the 12 months to December.

They show that a knock on the income statement has been more than countered by the impact on the balance sheet of the ABSA merger.

In addition, the Absa merger helps the Sage Holdings balance sheet cope with the effect of the R55 million write-off of foreign borrowings relating to US financial services interests (This amount was charged against reserves in the end-December balance sheet).

The total effect has led a few analysts to wonder what the major players in the Absa deal believe Sage is bringing in.

As a result of the creation of Absa, Sage Holdings' financial year-end has been changed from end-December to end-March.

The figures just released relate to the 12 months to December.

Pre-tax profit was up 19.6 percent to R40.9 million (R40.9 million). The tax rate dropped from 36 percent to 31 percent, the effect of which was to lift the taxed profit increase to 32.3 percent — up to R33.7 million from R26 million.

There was a 26.5 percent drop in income from associates — down to R3.2 million from R12.5 million. This reduced the rise in taxed profit to 11 percent — up to R42.9 million (R38.5 million).

Doubling in profit attributable to outside shareholders (up from R7.1 million to R14.3 million) resulted in attributable earnings dropping six percent to R24.8 million (R25.5 million). This was equivalent to earnings on a fully diluted basis — dropping from 115.23c to 104.07c a share.

An interim dividend of 22c (20c) a share has been declared.

Referring to the approval of the Absa merger, the directors say detailed comments of the effects will be contained in the report for the 15 months to end-March.

The figures contain a pro forma balance sheet, reflecting the position of the balance sheet at January 1.

This balance sheet shows total shareholders' funds up 26 percent to R45.5 million (R33.9 million) from the pre-merger position at end-December 1990.

The directors say "Taking into account the values established in the recent sale of part of the group's interest in subsidiaries and applying realistic values to other investments, the net asset value per share exceeds 1 000c" — down from 1 205c.
Deregulation proposal set to ignite coal exports

CAPE TOWN — Coal exports, SA’s second biggest foreign exchange earner after gold, are likely to be boosted by deregulatory measures proposed by the Coal Advisory Committee.

Cabinet has accepted the committee’s finding that it is no longer necessary for government to control coal exports, and has implemented recommendations to scrap regulations which enforce control with immediate effect.

The repeal of various laws and conditions affecting coal exports — including parts of the Import and Export Control Act and Coal Resources Act — will remove the export allocation system and should boost exports by making it easier for new exporters to enter world markets.

Mineral and Energy Affairs Deputy Minister Piet Welgemoed said last week the deregulatory measures would “remove all remaining impediments to the operation of free market forces in the conduct of coal exports, including possible participation by new coal exporters.”

Coal and coke were declared export control commodities in 1973 as a result of the international oil crisis. Since then, the coal export industry has grown into the largest in the world.

The Coal Advisory Committee found that government had played a significant part in building up the industry but its role in ensuring the optimum use of coal resources, protection of the domestic market requirements, regional development, orderly marketing and environmental protection had been overtaken by market forces.

— Lesley Lambert

Recommended government monitor and influence the industry through other statutory measures in the event of coal shortages in the domestic market.

But it found the long-term requirements of the industry’s main domestic customers, such as Eskom and Sasol, were unlikely to be affected by an increase in exports. Coal was exported from the higher quality reserves and Eskom and Sasol used low-grade coal.

In another development, a Bill proposing the repeal of coal levies paid by the industry and government to the Central Energy Fund was tabled in Parliament.

Coal mines pay levies of up to 3c a metric ton on coal sold or used for industrial purposes and government contributes an equal amount to the fund for research purposes.

See Page 7
Absa for JSE listing

Financial Editor

The saga of the UBS takeover of the Allied Group has now finally been consummated and soon both Allied and Volkskas will no longer be quoted on the JSE.

Their prominent quotations will be replaced by that of the Amalgamated Banks (Absa), their adopted parent controlling nearly R30bn in assets, says Issy Goldberg, chairman of the Shareholders Association of SA.

Goldberg says the drama of the confrontation disappeared into the bowels of formality, following an agreement reached between UBS and FNB.

Competition is the essence of the matter, says Goldberg, which "rebounced to the benefit of Allied shareholders from UBS's initial price offer — by about 25%.

The latest state of the game requires Allied shareholders to surrender 260 Allied shares for an entitlement of 100 ABSA shares.

Further, Allied shareholders can elect to receive cash in respect of half their ABSA shares — an effective price of 275c an Allied share. The original offer was 240c a share.

Elected half the ABSA shares as cash must be made by no later than Tuesday, 23 April, 1991. A shareholder who has not done so by that date will receive only ABSA shares and no cash.

Goldberg therefore suggests that Allied shareholders should make sure that these documents are received timeously, failing which they should immediately contact the share transfer secretaries.

FNB received a consolation prize from UBS of about R16m to cover their "out of pocket expenses"

UBS itself won the first prize (at considerably extra expense) and Allied shareholders can be thankful to both the UBS and FNB and to the Securities Regulation Panel.

It is interesting to note from the consolidated pro forma balance sheet of Ahm — UBS paid a goodwill of approximately R216m for Allied which represents the excess of the total purchase consideration paid for the Allied assets over their net tangible net asset value.

At the meetings of UBS and Allied shareholders held recently an ordinary resolution (a bare majority required) ratified the disposal by Allied to UBS of the total assets held by Allied.

Goldberg makes the submission that the absurdity of section 238 of the Companies Act is highlighted when a simple majority of those present in person or by proxy at a general meeting can ratify such a vast disposal in contravention to a special resolution being required (75% of those present or by voting by proxy) for a simple reduction of capital.

Goldberg says that he will endeavour to pursue the possibility of an amendment to section 238 so that effectively a special resolution would be mandatory for disposal of more than 50% of the assets or the undertakings of a company.
Cheque book clue opens new line in Kahn investigation

By Ann Crotty

Stockbroking firm Ed Hern Rudolph retrenched 23 employees at the end of last week as the adverse publicity surrounding the Kahn investigation into irregular transactions took its toll on the firm’s broking activities.

The news came amid reports that the investigation by Advocate Frank Kahn was helped considerably by the discovery of a cheque book used by Guernsey-based brokerage firm AW Bradshaw.

AW Bradshaw is run by former Zimbabwean broker Peter Rawson. Four weeks ago a warrant was issued for his arrest.

The warrant was issued in respect of alleged fraud at the same time that similar warrants were issued for two Old Mutual employees Marco Celotti and David Schapiro.

None of these parties has been arrested and all are currently out of the country.

Two stockbrokers - Greg Blank, a director of Frankel Max Pollak, and Kenny Fouche, a dealer at Ed Hern Rudolph - were arrested and subsequently released on R500 000 bail each.

According to market sources, the cheque book was seized at the offices of AW Bradshaw at the beginning of March, shortly after the investigation was handed over to Mr Kahn, the Cape attorney-general.

Reports of the existence of the cheque book surfaced in the market last Thursday, just days after the dismissal of top Momentum employee Dr Christo Auret.

It is now thought that the cheque book was used by AW Bradshaw to pay parties involved in the alleged irregular transactions being investigated by Mr Kahn.

It was not possible to substantiate this line of speculation because Mr Kahn was yesterday on his way back to Johannesburg from Cape Town where he spent most of last week.

Because the investigation is now under Mr Kahn’s control and the judge no other party was prepared to make an on-the-record statement in connection with the cheque book’s existence.

(JSE president Tony Norton was out of town on holiday, as were many of the JSE committee members.)

Ed Hern did confirm the retrenchment of 23 of his staff but emphatically denied rumours that his firm or any member of it had signing powers over the AW Bradshaw cheque account.

If the cheque book exists, and much more important, if it is in the hands of the Kahn investigation team, it presumably provides the sort of crucial hard evidence needed to take the firm action that has been the hallmark of the Kahn investigation.

At the initial stages of the investigation, it was felt the complexity of the deals under scrutiny (many of which allegedly included an overseas leg) and the circumstantial nature of the evidence would militate against successful prosecution of the case.

As Old Mutual’s chief operating officer Gerhard van Niekerk said at the time: “The transactions that came to light individually appeared completely normal, but collectively showed a suspicious trend.”

Assuming that the stub of the cheque book carries names and amounts paid to various parties involved in the irregular transactions, then Mr Kahn will have very strong supporting evidence for his case.

It had previously been thought that Mr Kahn’s investigation had been helped by a supply of evidence from a number of the implicated parties.

However, if such a cheque book is in his hands he would have less need for this sort of help.

This means that the chances of any party implicated in the investigation receiving a favourable hearing in exchange for information are considerably reduced.

Referring to last week’s retrenchments, which were effected across the board, Mr Hern said that when many other broking firms were retrenching people towards the end of last year, his firm was holding its numbers steady.

He acknowledged that the current investigation had seen trading volumes drop away recently.

It is understood that volumes at Frankel Max Pollak have also eased.

Ahead of the investigation, Frankel Max Pollak and Ed Hern were reported to have accounted for as much as 25 percent of the daily trade on the JSE.
Safegro trust sheds holding in Barlows

By Magnus Heysteck

Fund managers at Safegro Unit Trust seem to have taken the view that Barlows has lost its blue-chip status and have disposed of their entire shareholding in the company.

Although the shareholding was not large in relation to the entire portfolio, it could possibly reflect shareholder concern that Barlows' earnings could be dragged down by its gold and stainless steel interests.

This emerges from the year-end report of Safegro released yesterday.

However, the fund did increase its stake in Safmarine and Rennies (Safren), controlled by Barlows, which indicates that the fund managers possibly prefer a more focused investment.

"We preferred the underlying interests, rather than the holding company," Kevin Cockcroft, managing director of Safegro, said last night.

"We sold our Barlows into strength at around the R50 mark when the market was rallying. The subsequent decline in the Barlows share price seems to have vindicated our decision," he said.

Safegro, one of the newest unit-trust funds on the local scene, sharply reduced its liquidity levels in the March quarter from 32 percent at end-December to 19 percent.

The buying programme centred on topping up most of the fund's existing holdings.

The Safegro report covers its first nine-month period and reveals that while the JSE overall index declined by 6.5 percent in that time, Safegro yielded a total return of 7.5 percent.

However, includes a second income distribution of 3,74c per unit for the six months to March, payment will be made at the end of April.
Senbank to acquire stake in Adcorp through rights issue

SENABANK is to acquire a 15.25% stake in professional services company Adcorp Holdings through a rights issue of 1.4-million convertible debentures which it is underwriting, Adcorp says.

In its year-end profit announcement yesterday Adcorp said Senbank would achieve its stake through a rights issue of the debentures of 99c each, on the basis of 10 debentures for every 100 Adcorp shares held.

Major shareholders in Adcorp had undertaken not to follow their rights.

In anticipation of formalising the association through the rights issue, Senbank senior GM Estienne de Toum had been appointed to the Adcorp board.

Adcorp chairman John Barry said Senbank had materially assisted Adcorp in achieving its growth and development objectives.

Senbank CE Henne van der Merwe said the bank had been close to several Adcorp companies for some time, particularly TWS Communications.

Adcorp reported a slender 7% increase in earnings to R1,4m (R1,3m) as tighter margins eroded a 40% boost in turnover to R45m (R32m) for the year to end-December 1990.

Earnings a share fell 10% to 18c (20c).

The number of shares in issue increased from 6,520 to 7,700.

The dividend payout was reduced to 7c (9c), covered 2.6 (2.2) times.

Barry said "Our strategy of diversifying within the professional services sector, which commenced in mid-1989 with the acquisition of TWS Communications and JSA Design International, was fully justified when these companies exceeded their joint profit warranty."
Toco acquires 100% of Alzac

MARC HASENFUSS

INDUSTRIAL products manufacturer and supplier Toco Holdings has acquired a 100% holding in Alzac Holdings for R2.9m, the companies said in a statement yesterday.

The settlement will be made half in cash and half in shares, through the issue of 1.7-million new shares in Toco at 115c each.

Toco shares, at 115c, were offered at their last trading price of 120c yesterday, with no buyers in sight. The share bottomed at 88c in July last year.

Toco initially had a 24% holding in Alzac in April 1989, which was increased to 49% in September that year. The acquisition of the remaining 60%, values Alzac at R6.5m.

Toco MD Adrian Goodman said Alzac sourced from Toco, which was the sole manufacturer of vitreous enameled steel components for post-office蛔ents in the southern hemisphere.

It also undertook further processing and distributed the value-added products.
Old Mutual trusts improve distributions

Finance Staff

The Old Mutual Investors' Fund has declared an income distribution of 69.95c a unit to bring the total for the past 12 months to 120.25c. This is 13.7 percent more than in the previous financial year.

The Industrial Fund, which was launched last year, has announced a distribution of 7.8c a unit, which is 43.3 percent higher than the maiden distribution in October last year.

The Income Fund's distribution for the past 12 months totalled 16.05c, which includes the March-quarter's distribution of 4.02c a unit.

The sound performance of the Old Mutual Investors' Fund is illustrated by the return on a five-year investment of R10 000 made on April 1 1986. If the distributions were reinvested the investment would be worth R28 383 as at March 31 1991.

The overall return during this period (capital growth plus distribution) is 23.2 percent. This is particularly impressive as it includes the stock market crash of 1987.

The Investor's Fund is by far the largest unit trust fund in the country and had assets of R2.3 billion at end-March.

The Income Fund, on the other hand, is geared towards capital preservation while generating some income through quarterly distributions.

An investor who put a lump sum of R10 000 in this fund on April 1 1986 would have earned an income of R1 547.50 over the past 12 months. This represents a total return of 15.17 percent.
A TOUGH new regulatory environment for the JSE involving an independent monitoring authority with strict powers of enforcement is necessary to stamp out alleged crooked dealing and corruption, says the ANC.

A statement by the ANC's Department of Economic Policy, issued yesterday in response to questions about the investigation into trading irregularities at the JSE, spoke of corruption "at the highest levels".

"There may be a need for a special monitoring authority appointed specifically to oversee operations of the stock exchange. Strict laws would also be necessary to curb any underhand dealings, undue concentration of ownership and excessive favours."

The Securities and Exchange Commission (SEC), which polices financial markets in the US, was mentioned as an example of such a special monitoring authority.

The statement also spoke of the need for more rigorous and independent auditing of brokers, proper accounting and reporting mechanisms to ensure that all transactions entered into were clean and legal.

"Penalties should, by definition, be heavy for any infringements of the laws governing the stock exchange."

The statement laid out the ANC's view of how a stock exchange should function in a post-apartheid SA. It should be an institution armed at directing investment into the most profitable channels yielding the highest long-term returns for investors — but these should include a large measure of social responsibility.

"Sadly, we have observed certain developments in the past few months which indicate a serious problem, in how the stock exchange functions in this country," the statement said.

The gains of the JSE had been directed outside the traditional role of a stock exchange.
Institutional buying pushes industrial index to new high

By Magnus Heystek
Finance Editor

The industrial index continued its relentless upward march yesterday, rising to a new high of 3419 as institutional investors scoured the market for good-quality scrip that was in short supply.

However, analysts are worried that the market has run too far ahead of itself and that a correction is overdue.

Correction
Since bottoming out at 2640 on October 1, the industrial market has risen by almost 30 percent, with only one fairly major correction in January, when the Gulf war broke out.

This pushed the index down from 3018 on December 30 to a low of 2629 on January 18, the day after the war started.

At current levels, the average price earnings ratio (P/E) of industrials shares is 11.4, which, although lower than average P/E of 15.5 immediately prior to the stock market crash in 1987, is higher than the long-term average of 10.

This, say analysts, suggests that the market is entering an expensive area and calls for caution.

However, other analysts suggest that South African equities are being re-rated to bring them closer into line with international standards.

The sharp rise in industrial prices since October has been accompanied increasingly by reduced earnings, with no improvement in sight.

One industrial analyst says the outlook for earnings of industrial companies is being badly affected by high interest rates, increased overseas competition in certain industries and depressed demand.

The manufacturing sector is hamstrung by the low level of inventories being maintained by wholesalers and retailers.

Aggressive

This indicates that the fund managers have been heavy buyers of industrial stocks in particular, as the weakness in the gold share market has tended to frighten them away.

According to stockbrokers, the other mutual funds have also been aggressive buyers of industrial stock, not wanting to stay behind in the face of a major run-up in prices.

Although most analysts do not expect the current bull market to last, they warn, however, that a correction in the short term has become inevitable.
12-month high of 850c

Main elements of the interim report for the 12 months to end-December include a 10.7% drop in EPS and a R35m charge against reserves as a provision against the exposure to offshore interests which have been sold. Pro forma accounts show the boost to shareholders' funds that results from the Absa deal.

The foreign financial services interests have been disposed of for about US$22m, and the group has an option to re-acquire joint control of these interests within seven years, for about $600,000. The charge against reserves was to cover both guarantees given in respect of foreign borrowings, resulting from the US financial services interests, and the total carrying value of these interests.

The charge relating to guarantees of $15.5m was calculated at the financial rand rate. A balance sheet for December 31, and a pro forma version for January 1 showing the position of Sage Holdings after the Absa merger, include effects of the R55m charge.

With the value of investments held by the insurance subsidiary rising by R180m — attributed by executive director Bernard Naccan to growth during the year by Sage Life — and fixed and other non-current assets increasing by about R20m, total value of shareholders' funds end up higher by some R34m on the end-December balance sheet.

When the Absa deal, whose terms were favourable for Sage, is included, the pro forma accounts show total shareholders' funds of R456m compared with the year-ago R318m.

The group estimates net worth at more than R10 a share (including convertible prefs) based on the values established in the sale of part of the interests in subsidiaries, and applying "realistic" values to other investments. Even so, some 201c a share has been lost by the charge against reserves. Also, the last accounts included goodwill of R65.8m, when this is excluded, NAV drops by about 24c. Naccan says a considerable part of the goodwill relates to Sage Life, of which 49% has been sold. This reduces the deduction for intangibles to about 12c a share.

Based on the pro forma shareholders' funds of R438.6m (excluding R7m redeemable prefs), Sage Holdings appears to have a debt-equity ratio of around 30% While that does not indicate a strained balance sheet, in cash-flow terms the group would certainly benefit from a reduction in debt held by the top company. That seems to be borne out by the announcement, which states that, despite the strengthening of the holding company's financial structure during the year, its results remain affected by high interest rates.

However, fuller disclosure of the offshore exposure, and adoption of a conservative approach to dealing with the problem, enables a more favourable rating of the share. Based on fully diluted EPS of 104.1c, the share now stands on a P/E of 7.1.

Andrew McNulty
Malbak's Thomas pleased with the margin

Advance in turnover was thus maintained at the bottom line.

Borrowings dropped from £1bn over a £1bn to R951m, a reduction which Thomas attributes mainly to shrinking working capital, with average debtor days dropping to 52 and average stock days to 66. Gearing declined from 62% to 49%, and Thomas expects it will be about 40%-45% by the year-end. That, with the cut in rates already announced (the group's debt is mainly short-term), would imply a further fall in the interest charge in the second half.

But Malbak's second-half trading result will depend on how well markets - particularly spending on consumer products - hold up. A recession in which suppliers of consumer durables and semi-durables keep growing strongly in real terms remains improbable.

Management is forecasting a modest earnings improvement in the second six months, and the group is almost certainly looking at a maintained dividend for the year. Underlining the market's expectations of at least stable results, the current 875c share price is about a third above the February 28 NAV - at the end of August, the price was only 60c compared with NAV of 671c.

Andrew McNulty

EDGING UP

<table>
<thead>
<tr>
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<th>Six months to Feb 28</th>
<th>Aug 31</th>
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<tr>
<td>Dividends (c)</td>
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</table>

Among Malbak's listed companies, the strongest performers were suppliers of consumer durables, particularly 96%-held Tedelex and Ellerine. Packaging and paper increased its contribution to group earnings by 9%, with help from another outstanding result from Carlton Paper.

Abercom, the vehicle for expansion abroad, remains a loss-maker, though its attributable loss fell from R6m to R3.8m.

Unlisted companies achieved with about 20% of Malbak's income, and on the whole these operations roughly maintained or improved their earnings. Chairman Grant Thomas sees no cause for concern about any of these operations. Malbak Motors was hit by shortage of stock from Mercedes, but some of the unlisted saw good growth.

In Thomas's view, the most pleasing aspect of Malbak's interim figures was the maintained operating margin. The debt equity ratio fell, without help from sales of problematic companies, and the interest bill was down by R2m. Benefits of the reduced finance charge were broadly offset by a slightly higher effective tax rate, and the 5%
Stodgy Image

The restructuring from July of FSI’s myriad operations into one operating company, W & A (with Wascor, FSI and FS Group becoming pyramids), was intended to improve cash flow, increase administrative efficiency and provide investors with a clearer picture of the operations.

Investors will be able to judge the effects later this week when W & A and its three pyramids announce results for the year to end-December. Until now the restructuring has done nothing to bolster market sentiment.

At 585c and 475c respectively, shares of W & A and FSI stand on historical earnings multiples of 5 and 3.6, with dividend yields at 7.8% and 7.4% — much poorer ratings than those accorded other industrial conglomerates such as Amcor, Barlow Rand and Murray & Roberts. Shares of Wascor and FS Group have fared no better.

The reorganisation was expected to help bolster EPS for these four groups listed subsidiaries — Gentrye, JD Group, Mac-

FSI's Liebesman will debt come down?

Phaid and London-listed AAF — have posted good results. But analysts canvassed this week were expecting little, if any, improvement from W & A and FSI (3-2).

EPS forecasts ranged from a drop of 10% to an improvement of 5%, with most expecting flat earnings. This follows a 6.6% advance in the earnings at W & A and almost no growth at FSI at the June interim. This would put W & A’s EPS at 103c-120c, with a dividend of 38c-44c, assuming cover remains close to last year’s levels. FSI’s EPS would be between 119c-137c, with a dividend of 32c-37c.

It’s possible these forecasts underestimate effects of poor performances by some of the footwear and hosery operations. EPS declines of as much as 15%-20% have, in fact, been mooted for W & A and FSI.

Though Gentrye, the largest single earnings contributor to W & A, lifted attributable earnings by 58% — helped by a slide in its effective tax rate from 34.5% to 0.3% — the concerns relate to certain of W & A’s unlisted operations, such as Edworks, as well as finance charges at operating and group level.

Delisting of Teamcor, Hunts, Homemakers and Citizens Holdings following the restructuring, as well as the sale of the 37.3% stake in Rockmans, means far fewer of the operations report separately. The group has long been secretive about its offshore interests. Reduced contributions from listed subsidiary Vektra and associate Elecentre also have not helped.

Aside from the earnings, investors will be seeking answers to two big questions: has the overall efficiency improved, and have cashflow improvements affected gearing and interest cover?

At July 1 FSI had long-term debt of R190m, with redeemable pref of R111m, which were together expected to cost R46m to service this year. Offsetting this was R34m in interest from convertible debentures issued to FSI in exchange for FSI’s assets, and R14m from prefs issued to FSI Chairman Jeff Liebesman emphasises that FSI is an investment holding operation, while trading debt is held by W & A.

There is now little expectation that W & A’s long-term debt of R850m at July 1, against shareholders’ funds of R1.3bn, will have been reduced — in which case, interest cover probably will not have changed much from last year’s multiple of about two. To achieve that may require sales of assets.

Of course, if FSI should favourably surprise the market, that could presage a reattracting for the share. Even the critics accept there are some good assets in the group.

Simon Cashmore
Costs of reconstructing Tollgate Holdings (TGH) continue to mount. Since 1989, no less than R91.6m has been written off in abnormal and extraordinary items. Now this has been capped by an after-tax loss of R34.5m for the period to end-December.

Still, with the new consortium having wrought sweeping changes since it effectively took control in June last year, there is hope that the bleeding is nearing an end.

Julian Askin, chairman of the consortium, sums it up by saying it "acquired a group with high borrowings, absence of direction by senior management and accelerating losses in certain divisions — but with other divisions having valuable assets and sound growth potential." Askin is now devoting his attention to these other divisions, though some loss-makers, like Gant's, have still to be disposed of.

In late 1989, when the consortium bought control of Duros, then holding company of TGH, shareholders were warned that the organisation was in a perilous state. With interest-bearing debt at its peak, standing almost four times higher than shareholders' equity, the priority was to reduce borrowings to a realistic level. Askin has moved swiftly as the recession would allow to sell and close loss-making entities and to restructure. This accounts for many of the write-offs.

The five JSE-listed subsidiaries of the Duros pyramid, one of which was the London-listed TGIl, have been consolidated as wholly owned entities under one holding company, Duros, which changed its name to TGH. The London listing has been retained.

Norths Industries and some of the unprofitable bus commuter divisions have been sold and the FM learns that the sale of Gant's is likely to be consummated for about R25m in the next two months. This sale will apparently exclude assets, valued at R90m, which are being realised for cash.

Even so, with R204m interest-bearing debt remaining, there may be more write-offs if borrowings and interest costs are to be cut to manageable proportions. Sale of Gant's and associated assets could reduce debt to below R100m. That would still be excessive, with permanent capital at R163m, but the group should be able to operate with debt at around R90m.

Askin says the poor profit performance in 1990 was caused mainly by large losses in the devious fruit processing of Gant's, in certain of the commuter bus divisions, in the car rental division, and by interest costs incurred in the acquisition and funding of these loss-making divisions. All these, he says, have been turned around, sold or closed — or full write-downs have been made.

A strategic 24.5% shareholding has been acquired in Hosken Consolidated Investments, whose operating subsidiaries include IG1 Insurance and Safriean Life. The group has also announced that an offshore acquisition has been concluded in principle. No details are available, but Askin says the purchase will be funded by issue of new TGH shares.

He is emphatic that group profitability has been restored. One must hope this proves correct, as any unfulfilled promises would again dampen credibility. No details are given about the value of goodwill and trademarks in the provision results, so it remains difficult to estimate tangible net worth. Including intangibles, net worth is about R80c.

The share traded last week at 600c, after standing at 450c-470c for some weeks ahead of the results. The market may thus have discounted the worst. But with no indication of prospective earnings, the share must still be considered high-risk.
Sanlam trusts show faith in market by cutting back on liquidity levels

By Jabulani Sikhakhane

The five Sanlam unit trusts steadily reduced their liquidity levels in the March quarter to an average of 14.4 percent, compared with an average of 28.8 percent in December.

Sanlam general manager, unit trusts, Otto Jackel says the reduction in liquidity levels indicates Sanlam unit trusts' confidence in the market.

Prospects for sustained economic growth in SA have improved in expectation of an end to trade and financial sanctions.

liquidity levels in the five unit trusts were Sanlam Trust 19.7 percent (20 percent), Index Trust 12.7 percent (20 percent), Industrial Trust 15.6 percent (24 percent), Mining Trust 12.3 percent (27 percent) and the Dividend Trust 9.1 percent (23 percent).

The Industrial Trust produced a return of 13.2 percent for the quarter, equal to growth of 9.9c per unit.

Index Trust was up 6.5 percent (89.9c per unit), Sanlam Trust was up 4.7 percent, or 113.9c, and Dividend Trust was up 12 percent, or 40.2c, per unit.

Although the Mining Trust's growth was 2.2 percent, it compares favourably with a decline of 18 percent in the JSE gold index and a rise of only 1.9 percent in the mining financials index.

The five unit trusts concentrated mainly on blue-chip shares, with important new holdings in Anglogold, JCI and Wahlens.

Over 2,238 million Iscor shares were bought by the five trusts.

The Board of Executors' Growth Fund is making its first payout - a distribution of 2,84c a unit, Tom Hood reports from Cape Town.

The unit trust reported excellent results for the March quarter, yielding a total return of 9.4 percent for the quarter, which is sharply higher than the 6.8 percent yielded by the JSE overall index.

John Winship, senior general manager, says the BOE fund experienced a net inflow of R4.8 million in the quarter, increasing the total market value to more than R200 million.

The effective liquidity in the unit trust was about 20 percent at the end of March.

"The March quarter proved to be one of the most difficult quarters from an investment perspective. Market sentiment gyrated from euphoria to pessimism throughout the quarter."

"We considered it prudent to maintain a high level of liquidity and are delighted with the performance, despite liquidity of 20 percent on average."

The top five holdings are Anglog, De Beers, Richement, Remgro and Sappi. The trust holds no gold shares. About 43 percent of the trust is invested in the financial and industrial sectors, while 22 percent is invested in mining shares. Additional exposure to equity is through Transnet Efl, Ball stock.

Mr Winship says the share market, after bottoming in October last year, was in a clear bull market.

"The market in the short-to-medium term is currently overbought and is thus undergoing a correction. Weak company results over the remainder of the year might keep the market from running too far ahead."
Sage Fund-distribution

Total assets under the management of the Sage Fund, the country's oldest unit trust, rose to a record R781.4 million at end-March this year while the Sage Resources Fund, a specialist unit trust, also showed record growth to R54.1 million.

In the 12-months to end-March the Sage Fund recorded a total return of 11.2 percent and five-year compound growth of 20.4 percent.

Following the change in the year-ends from December to March, income distributions have been announced for the quarter.

Sage Fund's distribution was 23.6c per unit and Sage Resources 2c per unit, increases of 20 and 7.3 percent respectively.
Deregulation of meat industry ‘not likely for at least two years’

SHARON WOOD

THE deregulation of the meat industry, stressed by the Meat Board as a priority in its latest annual report, would not take place for at least two years, Meat Board information spokesman Ernst Janovsky said yesterday.

The board said in its 1998/99 annual report it had made important decisions in the year under review regarding deregulation but it differed with the Minister of Agriculture regarding the approach and was "working on the matter".

The privatisation of the state-controlled Abattoir Corporation (Abakor) would be a key element in the deregulation of the meat industry.

The report did not mention it but Janovsky said abattoir privatisation was still being considered within the framework of deregulation.

Critics say the highly controlled nature of the meat industry has resulted in the widening divergence between producer and consumer prices of meat.

The board said the auction floor price for meat, determined according to a new market-related method, had been accepted but not approved by the Minister. The floor price is the minimum price at which the board removes a surplus from the market.

The board reported progress in the abolition of restrictive registration. Meat traders are required to register with the Meat Board, which in the past controlled the number of traders allowed in the market.

The board had recommended to the Minister registration should be abolished and that trade factors should be registered purely for administrative purposes.

The board said the distinction between controlled areas and outside areas might be abolished. "The Meat Board controls the meat industry in the urban areas, which comprise about 58% of the meat industry," Janovsky said.

The abolition of the distinction between areas would be subject to a new basis for price formulation, grading/classification and hygiene requirements.

The board plans to do away with the meat grading system and replace it with a classification system.
Govt may privatise health services – report

The Government is considering the privatisation of health services as a means to reduce costs and reduce its role in the provision of health care.

This is according to a report entitled “Finding a Cure” published by the Institute of Race Relations.

The report comments that although the privatisation issue was rejected by some anti-apartheid medical professionals and trade unions, some health care workers had begun advocating a subtler view, in the form of embryonic health care systems which could serve as models for a national health service.

“The evidence of the strategy is the new tariff structure introduced in provincial hospitals,” the report says.

“It eliminates free services and imposes higher tariffs on patients as their income increases,” the report says.

“The aim is to increase the proportion of recoverable costs from patients and to discourage patients able to afford private services from using State services,” the report says.

The Government would be wise in encouraging independent private health care groups and assisting them financially.

“The lack of effective liaison between independent groups and the Government is proving to be a stumbling block for the adequate provision of private health care,” the report says. — Sapa
Liquidity builds up at UAL unit trust

By Jabulani Sikhakhane

The UAL unit trust lifted its liquidity level in the March quarter to 33.7 percent from 26.4 percent.

The fund managers believe that at this level there is scope to take advantage of value situations emerging in the months ahead.

Clive Turner explains that the portfolio was managed quite actively during the quarter. A good net inflow of funds coupled with switching out of certain shares resulted in liquidity building up.

During the quarter, UAL's four unit trusts reached a market value of R930 million from R823 million. This is attributed to growth in asset value and a good net inflow of funds.

UAL unit trust declared an income distribution of 25.84c for the quarter, taking the total distribution for the 12 months to 105.86c—an increase of 31 percent on the previous 12 months.

Entire holdings in Samancor, Kersaf, NEI Africa, NEI Holdings, Robor Industrial and Iscor were sold, while the stake in Pick 'n Pay was reduced significantly. New holdings were taken in First National Bank and Engen.

The Mining and Resources fund declared an income distribution of 4.95c, making a total of 19.1c for the 12 months, an increase of 9 percent.

The value of the Selected Opportunities Fund rose to R60.3 million from R64 million and investment performance was satisfactory due to the rerating of heavily weighted second-liner industrials. An income distribution of 36.13c for the quarter was declared.

The UAL Unit trust has declared an income distribution of 83.41c for the half year, bringing the total distribution for the year to 170.6c. This is lower than in the previous year.
FINANCIAL MARKETS

JSE vs BANKS

Discussions are under way to "synchronise" the Stock Exchanges Control Act and Financial Markets Control Act, with important long-term implications for the JSE and other financial markets. Discussions began in earnest when the Competition Board asked the Financial Markets Advisory Board to express an opinion on stockbrokers' fixed commission system.

The board, which consists of representatives from all financial markets and is chaired by Reserve Bank Deputy Governor Chris de Swardt, is expected to complete its reply by its next meeting at the end of this month. But discussions have been described as "sensitive" as they once again raise the conflicting views of two powerful interest groups — banks and stockbrokers.

JSE executive president Tony Norton was not available for comment, but acting president Paul Ferguson says: "At this stage, we do not support any change in the Stock Exchanges Control Act."

Others argue that SA is too small to allow so many self-regulated markets. The longest established self-regulated market is the JSE and the newest the SA Futures Exchange. The bond market is still not officially a self-regulatory body.

Bankers argue that the markets should be rationalised under one Act because of problems such as dealing in options on equities. "Banks need to hedge themselves in the equity markets," a banker says. "It's already happening informally."

Other arguments for rationalisation are the capital constraints of stockbrokers and to facilitate cross-market risk management. Obviously, stockbrokers want to protect their territory and their single capacity trading status. "The stock exchange has always been a self-regulatory body and would not fall under the Financial Markets Control Act as it was not designed to incorporate the JSE," Ferguson says.

"Synchronising" the Acts would probably make it easier for the single capacity rule, fixed commission and unlimited liability status of stockbrokers to be changed, though the JSE would still be responsible for setting its rules and determining its structures.

Changes to the Acts could take some time, mainly because of the heated debate between the JSE and the banking industry during the initial consultation process.
Senbank has recently been taking equity in clients such as Undev and Cortech in an effort to relieve the debt burden of these groups. But its decision to acquire an effective 12%-15% interest in professional services group Adcorp was based on strategic considerations rather than any concerns about debt.

Senbank CE Henne van der Merwe says closer ties with Adcorp will improve the services the group offers its merchant banking clients. "We have worked together for a long time but I believe the warmer relationship we will have with an equity stake will give us improved access to the group's services," he says.

Senbank senior GM Estienne du Toit has been appointed to Adcorp's board. Subsidiaries of Adcorp include TWS Communications, Admark Recruitment Advertising, JSA Design International and research firm Qualitative Consultancy.

Senbank will acquire its interest in Adcorp by underwriting a rights issue of 1,3m compulsorily convertible debentures of 90c each, with 18 debentures issued for every 100 Adcorp shares held. These are convertible on a one-to-one basis before January 1994. The issue price is equal to Adcorp's current share price and management, which holds 64% of the equity, have agreed not to follow their rights. Senbank will thus secure at least an effective 12% of the equity at the conversion. If none of the minorities follow their rights, this will rise to about 15%.

At face value, the transaction favours Adcorp. It provides the group with institutional support, raises R1,2m and ensures management retains control. Adcorp director and former TWS Communications MD Richard Wagner says the funds raised will be used to support the group's acquisition programme.

Last week, Adcorp announced a 6,5% improvement in attributable earnings to R1,4m for the year to end-December, but an increase in issued shares reduced EPS from 20c to 18c and the dividend was cut from 9c to 7c. Neither the results nor the Senbank deal has had much effect on the share, which last traded at 103c.

Simon Cashmore
DEBT STILL A BURDEN

W&A's slide in EPS for the year to end-December has done little to improve the market's already depressed rating of the consumer goods and industrial conglomerate and its pyramids, Wacor, FSI and FS Group. EPS at W&A, which became the holding company for the group's worldwide interests after a major restructure effective from July, fell 13.6% after the earnings dilution that resulted from the issue of convertible debentures and prefs at mid-year At FSI, the bottom-line earnings slumped by 16.6% — well down on the expectations of analysts canvassed by the *FM* last week, most of whom expected W&A and FSI to maintain earnings.

Chairman Jeff Liebesman argues that expectations for the group's performance were unduly high and failed to take full account of the recession's effect on its industrial operations as well as earnings at the interim that the turnaround at loss-making footwear company Edworks was taking longer than management had expected.

At the interim FSI's earnings showed almost no growth, while W&A's had advanced 66%. W&A's full-year operating margin slumped significantly compared with the previous year, when the former structure was in place and trading conditions were more buoyant.

Last year's reshuffle has again made direct comparisons problematic. But it is plain that debt has remained a major bugbear. W&A's operating profit increased, from R294m to R317m, but the gains were swamped by a 79% rise in the net interest bill, to R117m. At the 1989 year-end, trading profit was covering the finance cost 4.5 times, last year it was only covered 2.6 times.

Liebesman reckons the performance of the three holding companies this year will be more in line with that of W&A. He attributes much of W&A's drop in EPS to difficult trading conditions at Edworks and at the toy supplier Hygenna, as well as restructuring costs at associate company Elcentre. Trading losses of R1.4m at Edworks and of R4m at Hygenna, and a R1.7m drop in Elcentre's earnings contribution cost W&A 15c a share.

Contributions from operations that supply the mining and motor industries, such as Williams Hunt and V&R Engine Spares, as well as the heavy-vehicle operations, were also down.

Major earnings generators were the listed operating subsidiaries Gentleyc, JD Group, MacPhail and UK-based AAF, as well as unlisted Form-Scaf, National Bolts and Housewares Offshore operations generated 17% of group earnings. Foreign earnings rose to 25% if exports are included.

Earnings at Gentleyc, the biggest single profit contributor, were up 58% at R68.8m. But much of this improvement was due to a fall in the tyre firm's effective tax rate from 34.5% to almost zero, because of changes in capital allowances. Thus, with assessed losses, reduced W&A's from 28% to just over 10%. Liebesman expects it will take several years before W&A's effective rate creeps up to what he considers sustainable levels of 25%-30%.

There is no change to the philosophy of using high gearing to acquire and improve what are seen as underperforming assets. FSI, which Liebesman now calls an investment holding operation, retains long-term debt of R174m and reissueable prefs of R111m, and its interest charges are offset by income from convertible debentures and prefs it holds in W&A.

### Diluted Profit

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Long-term liabilities at W&A — which holds the operating companies — climbed from R639m at December 1989 (based on pro forma figures issued during the restructure) to R942m at the end of financial 1990 because of capital expenditure and acquisitions totalling R300m. Liebesman points out that total assets climbed from R2.7bn to R3.1bn over the year. Revaluation of plant and equipment added R539m to W&A's asset value and effectively reduced gearing from 67% to 48%.

Liebesman says he sees no reason to change the debt structure. Cash flow, he says, remained positive before acquisitions and capital expenditure, and interest cover has improved from 2.2 times at June to 2.7 for the full year.

Though trading will generally remain difficult, management expects benefits from the restructure, such as better cash flow and improved efficiency, to be felt this year. But Liebesman offers no forecast on earnings.

Investors continue to take a bleak view of the group. W&A's share price of 480c — down from 585c last week — reflects a p/e of 5.1 on the latest results. The rating is unlikely to improve significantly until investors can see a more encouraging and consistent performance.

*Simon Carlinmore*
Naive shareholders have lost millions

Creation of cash shells and sale of their listings has become a racket, says Issy Goldberg

NAIVE hordes of greedy shareholders have lost millions of rands on the Johannesburg Stock Exchange through the reckless promotion of mediocre companies, some of which have gone into liquidation, says the chairman of the SA Shareholders Association, Issy Goldberg.

"The creation of cash shells and the sale of their listings has become a racket," he said at the association's annual meeting in Cape Town this week.

"I am proposing to the JSE and to authorities that the creation and selling of such cash shells must be halted far more decisively and effectively than they have been hitherto."

"I hope we will find a listening ear."

The rise of the JSE industrial index, which has to disney heights, has been accompanied by the sale of thousands of shares by phone contact or by appeal of promises of rich overnight gains and a promise of a JSE listing in the near future. Records show that in most cases neither of these promises eventuated.

"The public has subscribed millions of Rand over the years and under the present law the police are virtually powerless to intervene."

Mr Goldberg said the association was also trying to get section 298 of the Companies Act amended so that companies were required to pass a special resolution for the disposal of assets.

This section allowed a board of directors to dispose of most of the assets and undertakings, ratified only by an ordinary simple resolution at a general meeting.

In contrast, a simple reduction of capital, required a special resolution and a 75 percent majority.

"The abuse that can be perpetrated with this absurdity must be evident. The Allied Group experience, however, has thrown this absurdity into the areas of reality."

LOSERS: Look at it this way, if Issy can change the system we're on the rebound.
Investigation ordered into Sarc Investment in CIB
Bullish sentiment lifts stock market activity

By Derek Tomney

Hopes of better times and fears of continued inflation are making investors turn increasingly to unit trusts to secure their financial future, figures issued by the Association of Unit Trusts show.

In the March quarter the unit trust movement had the second-highest gross inflow of funds in its history of R777.8 million and its third-highest net inflow of R330.7 million.

The movement, responding to the huge cash inflow, made its biggest quarterly investment ever, according to Reserve Bank figures.

This has contributed to the 12.7% increase in industrial share prices in the March quarter and the 18.6% jump from the end of the Iraqi war to the end of March and to the 10.4% increase in industrial revenues of unit trusts to R433.8 billion.

The inflow was only bettered in the March quarter of 1990 when the release of Nelson Mandela generated so much euphoria about the future that investors put R330.6 million into unit trusts.

The net inflow in the March quarter was R132.3 million more than in the December quarter of 1990.

But it was below the R364.7 million in the March quarter last year and the R453.6 million in the September quarter of 1987.

Unit trust officials say the upward trend is the result of several factors. Among the more positive ones are:

- Hopes that the ending of Iraqi war will lead to an improvement in the world economy;
- Expectations that interest rates will fall another one or two percentage points this year;
- Hopes that sanctions will be lifted and that a political settlement will clear the way for strong long-term growth.

But there are some negative factors. One is the apparent failure of the Government's anti-inflation policy.

General equity trusts - Performance %

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Specialist equity trusts - Performance %

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The performance of some unit trusts, particularly specialist unit trusts in the 12 months to March, was disappointing, as this chart based on figures supplied by the Unit Trust Association shows. It shows that in March 1991, the unit trust movement had the second-highest gross inflow of funds in its history of R777.8 million and its third-highest net inflow of R330.7 million.

A contributing factor may also have been the Government's failure to implement the proposed single withholding tax on interest income.

But some of the money that was to have been invested in fixed deposits is now likely to be going to the share market.

Many unit trusts sat on the fence during the Iraqi war. But they had to jump into the market when the war suddenly ended and the heavy inflow of funds developed.

The result was that the percentage of the industry's funds in liquid assets fell from 23.8% at the end of December to 20.9% at the end of March.

Clive Turner, chairman of the Association of Unit Trusts says this reduced liquidity, together with the R330.7 million inflow of funds, indicates that the industry invested almost R400 million in the share market in the March quarter.

This is well up on the R185 million net investment in the December 1990 quarter and the R187 million in the first quarter of last year. It is also above the R350 million invested in the September 1997 quarter — the last time the share market boomed.

Some analysts have criticized the investment policies of the unit trusts, claiming they have been buying shares which are already over-priced.

But other analysts say it is a matter of opinion and not fact whether a share is over-priced.

Investors will have to wait and see which view is the correct one.
NSB ready with public share issue

By Jabulani Sikhakhane

The privatisation of National Sorghum Breweries moves into second gear next month with a public share issue which will finally place the sorghum brewing industry in black hands.

It is expected that the shares will be offered at 100c each. NSB executive chairman, Mohale Mohanye, announced yesterday that it is envisaged that the share issue will open on May 17 and close on June 14.

Mr Mohanye said approximately 30 percent of the issued shares will be reserved for the company employees. Each employee will get 200 shares for free and the rest will be sold at 30 percent discount.

NSB's distributors, estimated at 500,000, will get 50 percent of the issued shares and 20 percent will be offered to the communities which consume sorghum beer.

In terms of the issue no shareholder either directly or indirectly will be allowed to hold more than 10 percent of the company's shares.

He added that NSB shares will initially not be listed on the JSE. But Mr Mohanye said NSB would create an informal market for its shares.

According Sam Msikili, NSB's managing director, the sorghum beer market is estimated at five to six billion litres (including the homebrew market) and NSB has 86 percent market share.
Management buys out Arwa Leisurewear

By AUDREY D’ANGELO
Business Editor

ATLANTIS-based Arwa Leisurewear has been taken over by its management, backed by Senbank, for an undisclosed sum. It will be removed from the Arwa group and renamed.

An announcement yesterday said Senbank would have a majority shareholding and would be represented by five non-executive members on the nine-man board. Management would have four executive directors.

Senbank senior GM Etienne du Toit will be the non-executive chairman.

The new company will retain the Hang Ten franchise for Southern Africa. It will also continue to market underwear under the Arwa label.

The announcement by Senbank said management would have a “substantial” shareholding.

“The management team is led by MD Peter Richardson, supported by financial director Johan van Tonder and marketing director Ian Mostert.”

Richardson said that in spite of the recession, which had hit other local clothing companies, “our end of the market has held up remarkably well. We have full order books up to the end of November.”

Discussing plans to build up the company’s export market, and possibly seek a listing on the Johannesburg Stock Exchange in two years’ time, he said “We have had three years of solid profits. After another two we will look at the possibility of a listing on the JSE.”

He said at present between 7% and 10% of the Hang Ten garments produced by the company went to other countries in the Southern African region including Malawi, Botswana, Mauritius and the Seychelles.

But the market in neighbouring countries was still “largely untapped and there is a lot we can do there.”

“The local market has been enough to keep us moving, but two or three years down the line we plan to expand into other countries.”

However, Richardson emphasised, “it is very important to us to continue giving satisfactory service to our existing customers. We shall not allow that to deteriorate in order to penetrate new markets.”

He said Edgars was the company’s biggest customer.

“We are one of the few companies to have been given an Edgars’ citation for good service and we are very proud of it.”

“It is extremely important to us to maintain these standards of service.”

Discussing the takeover, he said there was a clause restraining him from disclosing the size of management’s stake or the price paid for it.

“We are very excited — and a little apprehensive.”

Etienne du Toit said the takeover was part of Senbank’s restructuring of the Arwa group.

“Leisurewear is a sound company with a good profit history and a strong management team.”

“When management came to us and suggested a buy-in we were happy to support it on those grounds.”
Directors' duties 'ill-defined'

The ill-defined duties of company directors must be addressed in order to improve the position of the minority shareholder and enhance the image of free enterprise in a new SA.

This was the central message that emerged yesterday from a conference on Duties and Responsibilities of Directors in the New SA, hosted by the SA Institute of Chartered Accountants and the Institute of Directors.

"Directors cannot have extensive obligations imposed upon them without being informed of the content of those obligations", said tax advisory committee chairman Michael Katz.

Neither the present Companies Act, nor any of its predecessors, had tried to exhaustively codify the duties of directors, he said. Both the fiduciary duties of directors and their duties of care and skill had their source in the common law and in extensive case studies, he said.

But the task of educating directors would not be achieved by amending existing company legislation because it would not be exhaustive and would allow loopholes to develop, he said. Instead the task should be fulfilled by organisations such as the Institute of Chartered Accountants and the Institute of Directors, which should arrange symposia and publish guidelines as to the duties of directors.

JSSE executive president Tony Norton differed with Katz on how the duties of directors should be clarified. He said a clarification would possibly be best achieved through statutory amendment and in serious breaches of standards of care by directors, a director should possibly become personally liable for his actions.

In his speech, Norton focused on the need to improve the position of minority shareholders. "The protection of minority shareholders is particularly important given that the corporate environment is characterised by the existence of a majority of companies controlled by stated interests," he said.

He added that although minority shareholders had good theoretical legal representation, this was not as attractive in practice.

Norton said the appointment of a shareholder ombudsman to screen and process small shareholder grievances is worthy of discussion and debate.

Norton added that this could be dealt with under the Securities Regulation Panel.

Most speakers at the conference expressed concern about insider trading and questioned whether the new legislation introduced to deal with insider trading would effectively combat it.
Postal workers continue strike over wages Bill

By SHARON SOROUR, Labour Reporter

THOUSANDS of postal workers — demanding a "people's post office" and protesting against the voting in parliament today of the Post Office Amendment Bill — are still on a wildcat strike.

About 6 000 workers, including 1 000 in the Western Cape, stopped work yesterday to demand a "living wage" of R1 300 a month and an across-the-board increase of R500.

Parliament is set to vote on the Bill today, which provides for the South African Posts and Telecommunications (SAPT) to be divided into two totally State-owned companies.

A SAPT spokesman said the capital-intensive telecommunications sector and the labour-intensive mail services would be managed separately "on business principles for greater productivity."

The Post and Telecommunications Workers' Association (Potwa) has strongly rejected the Bill as a "covert step towards privatisation" which would lead to potential job losses and the inability of lower income groups to afford services.

Potwa believed the Bill was untimely, and the government had no mandate to pass it, as the union believed restructuring and privatisation would have to be discussed with "all the people of South Africa."

"We demand a people's post office, the continuation of the Bill is a recipe for upheaval," the union said.
Higher liquidation figures invoke gloom

GILLIAN HAYNE

The number of liquidations rose from 103 cases in December to 147 cases in February, reversing the previous optimistic trend and prompting economists to paint a gloomy forecast for the coming months.

Central Statistical Service figures show liquidations for the three months to end-February were 7.5% higher than during the previous three months, although only 1% higher than for the corresponding period of 1998.

Credic Guarantee Insurance Corporation (CGIC) economist Luke Doig said the figures were in line with CGIC's statistics for the period, which had showed record highs in the number of claims paid out.

The worst-hit sectors were construction, which showed a 20% rise, and the wholesale and retail trade, which experienced a 7.1% increase in the number of liquidations for the three months to end-February, compared with the previous three months.

Doig said CGIC's statistics showed the building, clothing and textiles, and computer industries were the worst hit.

Although February is traditionally a slow month for companies suffering from cash flow problems caused by overstocking during the Christmas period, liquidations were 15% up in February compared with the same period last year.

He said the large decrease in liquidations in the last quarter of 1998 and the drop in the number of debts outstanding over 90 days made them hope the economy was improving. However, latest figures indicated companies were still having to tighten their belts, he said.

In January the number of companies which failed to pay their debts—the default and consent judgment figures—had rocketed 30% compared with January 1998, with the value of the debts up 120%.

Doig predicted that no improvement could be expected until late in the third or fourth quarter of this year.

Doig said the JSE industrial index's record highs were an anomaly and could not be justified.
Global entrepreneurial revolution flourishing

Owned Correspondent

GENEVA — A new study by the Geneva-based International Labour Organisation (ILO), says the world is in the midst of its third entrepreneurial revolution, far bigger than those of the 1880's and 1920's, because this time it is truly global.

The economic advantages of entrepreneurship are visible everywhere, the ILO study says.

Large bureaucratic institutions are reeling under the impact of smaller, innovative, fast-moving, market-driven entrepreneurial organisations.

In the US venture capital outlay to fuel new businesses registered a 200-fold increase in 10 years. While 1,000 of the biggest US companies shed a million jobs.

Smaller companies added 20m in the same 10-year period.

The recent flight of young Japanese managers to small entrepreneurial companies has been attributed to the inability of bureaucratic industrial giants to reward bright young managers with a flair for entrepreneurship.

Large Swedish companies have also noted a similar brain drain.

In China, since 1977, a million private businesses have been created.

The replacement of bureaucracy by enlightened enterprise, and the transformation of bureaucrats into entrepreneurs, are signs of the times, the ILO says.

As fewer upward opportunities become available in the big organisations, ambitious people start to think about going elsewhere or starting up on their own.

The trend towards decentralisation, privatisation and labour flexibility requires a completely new set of managerial skills, and new training to produce managers who are more customer-oriented and less boss-oriented.
Postal workers in mass protest

JOHANNESBURG. — Countrywide mass protests by Post Office workers are to mark the tabling of the Post Office Amendment Bill in Parliament today, unions said.

The Posts and Telecommunications Workers' Association claims the law, which aims to split the post office into two state-owned companies, is a step towards privatisation, strongly rejected by the union due to fears of job losses.
Shareholders try to increase Stanbic stakes

MAJOR shareholders of the Standard Bank Investment Corporation (Stanbic) have asked the Registrar of Banks for permission to increase their stakes in Stanbic, a spokesman for the Registrar said yesterday.

He declined to confirm market talk that permission had been requested by all three of Stanbic's largest shareholders — Rembrandt (11%), Liberty (33%) and Old Mutual (22%) — or say whether it had been granted or refused.

He said any shareholder with a stake of 10% and larger in a bank when the Deposit-Taking Institutions Act came into effect in February had to obtain official permission to increase its stake.

Talk is that Rembrandt's greater power in the financial services sector through the formation of Absa triggered a plan by Liberty and Stanbic to increase their combined power. Liberty apparently wants to see Rembrandt and Old Mutual lose influence in Stanbic while its own control grows.

Speculation is that the plan hinged on Stanbic pushing through an increase in its share capital at its AGM on Tuesday. Old Mutual, believed to have engineered the block on the special resolution to increase the authorised shares by about 20%, apparently thwarted its rival's plans.

An analyst suggested that Stanbic and Liberty were planning a share swap, with Stanbic increasing its stake in Liberty and vice versa. Such a move would considerably reduce the influence of "outsiders" such as Old Mutual and Rembrandt.

Stanbic's statement after the AGM this week said the possibility of issuing shares for acquisitions "cannot be excluded" and noted that only acquisitions greater in value than 30% of a company's worth needed shareholder approval.

This means a share swap between Stanbic and Liberty could have taken place without Old Mutual and Rembrandt voting on it.

It is unlikely that the Competitions Board and the Registrar of Banks will allow Old Mutual or Rembrandt to gain a significantly larger stake in Stanbic, as Old Mutual already controls Nedcor and Rembrandt has Absa.

If they are allowed to increase their shareholdings up to a point, they will buy Stanbic shares as a defensive strategy against Liberty.

The run-up in the Stanbic share price this year — a 70% rise from the beginning of February to its peak of R31 on March 28 — was widely attributed to buying by Rembrandt and possibly Old Mutual.

Amid speculation of tension between Rembrandt and Liberty, talk is that Rembrandt was sending a signal that it would protect its interests in Stanbic.

The share price has since slipped by about 35% but Stanbic is still rated more highly than UBS. The latter will be re-listed as Absa.

A senior Stanbic source said Old Mutual's move to block the increase in share capital was a form of "negative control" from the controlling shareholder of Nedcor, one of Stanbic's competitors.
Unit trusts could be just the thing

WHEN most people, especially black businessmen, think of the JSE, they see a palace where only the rich can enter.

Not so, says Mr Stafford Thomas, senior portfolio manager at Sanlam. “Unit trusts open the door for ordinary people - both black and white interested in investment.

Shares in South Africa’s public companies are bought and sold on the stock exchange. Some of these shares are excellent investments - as the companies grow and prosper, their shares become more and more valuable while in bad investments shares lose value.

Taking a risk

So, buying shares means you take a risk. Investors play it safe by spreading the risk. They buy shares in several different companies.

Such collection of shares is called a portfolio. If some of the companies in a portfolio fare poorly, the chances are that the others will do better.

Obviously, a lot of money is needed to buy a portfolio of shares. This will allow one to predict safely; if one company fares badly, chances are the others may not.

So how will ordinary people be able to afford these shares? And how will they be able to buy many different shares? This is where unit trusts come into the picture.

Unit trusts sell share units at reasonable prices. The minimum investment is R100 or R200 a month. When the money of all these investors, big and small, is put together, the total may be millions of rand.

This money, says Thomas, is used to buy shares and build a profitable portfolio. Managers who make a full-time study of the stock exchange, manage the portfolio. They are assisted by highly qualified researchers and other experts.

Investors should remember that share prices do not only go up. They may also come down. The market - meaning all the shares on the stock exchange - usually up if measured over several years. But sometimes the market goes down.

Sanlam portfolio offers two advices:

* Invest only the money left over after food, clothing, shelter and other essential purchases have been made;
* Do not regard unit trusts as a get-rich-quick scheme. Invest money that you will not need for about four to seven years.
Pep set to buy Harties stores

Business Staff

PEP, the country’s biggest low-income clothing retail group with more than 900 stores, is negotiating to buy Harties from recently listed Hcor.

Harties, which has just over 200 stores, also sells clothing, footwear, blankets, and household goods for cash in the same market segment as Pep.

There is another link between the two Cape-based groups. Harties’ executive chairman is Mr Renier van Rooyen, 34-year-old son of the Mr Renier van Rooyen who founded Pep.

Hcor owns 90 percent of Harties’ shares and was listed last November.

In addition to its store interests, it also has a clothing manufacturing division that makes schoolwear, and children and men’s clothing.

Harties needed a R3 million capital injection last year to ease tight financial constraints.

Rapid growth curbed its ability to generate positive cash flows, the directors said in the last financial report.

Harties planned to continue its stores expansion, but the rate of growth was expected to taper off.

Hcor’s operating profit increased 244 percent to R12 million in the year to February 1990.

However, it is expecting only a small increase in operating profit in the year to February 1991 and earnings a share to decline from 9,1c to 8,1c a share.

Harties, started by Mr Renier junior, grew from five stores to 180 and kept profitable.

The shops are basic in fittings and appearance with gaudy decor, bright colours and simple furnishings. Average shop size is 220 square metres.

Harties has more than 20 shops outside South Africa, most of them in Namibia and others in Lesotho, Bophuthatswana, Transkei, Ciskei, Venda.
Rise in fees will ensure standards are maintained

Fees charged by South African unit trust managers are among the lowest in the world but this situation is set to change.

And while the increase will be too small to have any meaningful impact on the investor, it will ensure that standards of service within this highly competitive industry are maintained.

Charges currently allowed in terms of the Unit Trust Act amount to only 0,5 percent a year — well below the 1,2 percent common in the United Kingdom and the United States, and absurdly low when compared with the fees of professional managers of private portfolios.

“We are living with an historic situation — the fees were established when the Act was promulgated in the ‘50s, and they are long overdue for change,” says Bernard Nackan, managing director of Investors Mutual Funds at Sage.

“Costs of technology, management skills and administration have risen steeply.

“And this is especially hard to bear in a small fund, where the basic outlay is similar to that of a larger fund.

“If the industry is to continue to employ top-flight professional fund managers, we need to see an increase in fees to around 1 percent a year.”

Unit trust investors pay an initial charge of up to 5 percent, which just covers the cost of sales commission and administration.

Thereafter, the only fee levied is an annual 0,5 percent on the market value of the fund, calculated monthly.

Bernard Nackan, managing director of Investors Mutual Funds at Sage.
Boom expected as market is un

A growth surge is expected for the unit trust industry for the next few years as the investing power of the increasingly sophisticated black market is unlocked.

But, in the short term a great deal of work needs to be done by the industry — both in educating its market, and in packaging its products to meet the market’s needs, says Tony Gibson, portfolio manager at Syfret's Managed Assets.

"Management companies will have to train staff who, in turn, can train advisers able to identify with and operate within the black market," he says.

"It is difficult to explain the concept of unit trusts to people who have not had the benefit of quality schooling, and to whom the concepts of saving and investment are totally foreign."

"At the same time we will have to win the trust of the market — to persuade people that it is not a 'white man’s plot' to take their money, and to show them how they can use the capitalist system to further their own interests."

He predicts that the black market will, for some time, remain risk-averse. Once it has been reassured that investment in unit trusts — once the basic principles have been understood — is a relatively low-risk proposition, it is likely to favour straightforward general equity portfolios.

The size of the potential market is virtually impossible to estimate — but Mr Gibson points out that the stokvel market, an important element in the informal sector, is worth about R700 million.

To start with, he suggests, stokvel clubs — semi-formal group savings schemes — could invest in unit trusts and so enhance the returns paid to their members.

"This would be especially appropriate, for instance, to organisations like funeral societies, where constant cash liquidity is not a major issue but ready access to funds is important," he says.

This, says Mr Gibson, is the route that needs to be followed by unit trust firms aiming for maximum growth. "The South African unit trust industry has a good way to go, but the top end of the market is now fairly mature. Living space is badly needed — of the 17 funds on the market, only seven are making a real profit."
Fedgro Unit Trust, launched on February 14 this year, initiated its portfolio on December 3.

Since then it has grown significantly and at the quarter end had total assets of R15.8 million — compared with R5.8 million at December 31.

The performance for the period has seen an increase in the value of the unit price, outperforming the JSE Actuaries All Share Index, despite the fact that as a new fund it featured high liquidity levels.

"During the quarter we have seen strong growth in the JSE industrial market, a lowering of interest rates and continued weakness in the gold bullion price and — consequently — in the gold share market," says Ian Fraser, GM investments.

"We perceive continuing value in the shares of selected major corporations and together with substantial institutional cash flows, leads us to expect a recovery in industrials."

On the international front, he points out that the Gulf War was shorter and more successful than expected — while international share markets have brushed aside fears of continuing recession.

The managers took advantage of attractive share prices in the early days of the fund, while cash and deposits enjoyed high interest rates.

"We will continue to build up a mix of high quality industrials as well as companies which we believe to have above-average growth potential, while restricting our direct exposure to gold producers."
Industrials beckon foreign investors

By Neil Behrmann

LONDON — South African industrial shares are likely to be supported by international investors in the coming year.

The proviso, of course, is that Wall Street, London and other international bourses remain in a bull trend.

If they do, growing numbers of international investors are expected to buy leading SA industrial shares, particularly when sanctions are lifted and South Africa begins raising funds on international capital markets once again.

Illustrating the change in mood, James Capel has published a report recommending the shares.

Analyst John Taylor says the market is cheap for foreign investors.

They can buy the shares via the financial rand market on a prospective P/E ratio of eight.

"The South African market, with a market capitalisation equivalent to £124 billion, is not trivial," says Mr Taylor.

"It comprises 12 percent of the Morgan Stanley Capital International World Index and is the 10th largest stock market in the world.

"Both in size and sectoral flavour, it resembles the Australian market.

"If social tension affects the economic situation and a period of stagnation follows, SA industrials still offer fair value.

"If high growth rates of the Sixties and Seventies return, SA industrial shares will be perceived to be ridiculously cheap.

The problem, however, is liquidity. With their billions of dollars, international investors will find it difficult to buy SA shares.

So far, wealthy German, Swiss and French individuals, rather than institutions, have been the main buyers of SA equities.

With the surge in the financial rand in the past year, they have made huge profits on SA bonds.

Instead of switching all the funds back to their own currencies, they have been buying SA industrial shares.

"Investors who are confident about South Africa's future want to participate in growth by buying industrial counters.

"Despite the isolation of South Africa in recent years, the domestic market is prey to the same worries and fears as the major stock markets."

There may well be consolidation over the next few months, but there is only a slim chance that there will be a sharp correction.

South Africa's return to international capital markets will in the end overcome any market setback.

James Capel favours consumer-related stocks because of rapid growth in the buying power of blacks.

Building and construction are now in recession, but the housing backlog will ensure a revival.

Shares on the buy list are Barlow Rand, Edgars, Tongaat-Hulett, Iscor, Gencor, Sappi, Engen, Malbank and Anglo Alpha.

But James Capel advises sales of Amic, Tiger Oats, Highveld Steel, Sasol and Plate Glass.

"I know Iscor has its problems, but for the international investor the P/E is three, compared with 16 for British Steel," says Mr Taylor.

He is advising clients not to chase shares, but to accumulate them during periods of weakness.
Six new trusts launched last year

The unit trust industry experienced comfortable growth during 1990, according to chairman Roy McAlpine's statement in the latest yearbook of the Association of Unit Trusts.

Six new unit trusts — four general and two specialist equity trusts — were launched, increasing to 37 the number of unit trusts in operation.

The total assets of the industry grew from R6,6 billion to R7,7 billion — a decrease on the previous year's rate of growth from R4,4 billion to R6,6 billion — while the number of accounts rose from 568 000 to 736 000, the chairman states.

During the same year, R2,1 billion worth of units were sold — a 50 percent increase over the R1,4 billion recorded in 1989 and an all-time record.

"Although repurchases amounting to R195 million showed a meaningful increase over the previous year, the net inflow of R1,12 billion is also a record."

"These figures are particularly gratifying when it is considered that they were achieved against a background of an overall decrease of 1,5 percent in the unit trust Capital Index from 164,7 to 162,3," Mr McAlpine says.

The Income Index — which rose by 38,8 percent in 1989 — also reflected a substantial increase of 24,8 percent in 1990, rising from 1 917,01 to 2 394,30.

"This surprisingly large increase can be attributed to three factors," Mr McAlpine says.

"First, most of the blue chip companies declared increased dividends in 1990.

"Secondly, interest rates were, on average, higher in 1990 than in 1989, thereby enabling trusts to obtain a higher return on the fixed interest component.

"Thirdly, by the end of 1990 the majority of trusts had a higher equity content and a higher fixed interest content than was the case at the end of 1989," he says.
Specialist company opened up market

The launch a year ago of Consolidated Fund Managers (CFM) — the first specialist portfolio management company in SA — introduced a new approach to unit trusts to the market.

The company's objective is to give members of the public impartial, professional advice on all aspects of investing in unit trusts.

"Equity unit trusts are linked to the performance of the stock exchange, and therefore an investor's timing of a unit trust investment is critical," says MD Clive Fox.

"Those investors who were drawn into the market in mid-1997, and again in early 1998, soon realised the importance of timing. The long-term returns on units can be substantially enhanced by buying at the right time, and by exiting the market when the risk of participation becomes excessive."

Equity unit trusts recorded an excellent average performance of 44.3 percent in 1989 — but the same cannot be said of 1999, when these funds returned an average performance of 6.63 percent owing to the emergence of a bear market.

"With investors now having nearly 40 unit trusts to choose from, there is also the need for professional advice on which unit trust to invest in," Fox adds.

This situation is complicated by the fact that unit trusts are grouped into three basic categories.

The largest amount of money has been invested in general equity funds, whose investments are spread across a broad selection of shares.

Specialist equity funds, on the other hand, have more focused share portfolios, where investments are concentrated in specific sectors of the market. These may in turn be relatively spread within that sector — for instance in mining funds — or very focused, as in gold funds.

The spread of options available from different investment houses can also be confusing.

Some industry observers argue that all unit trusts established on the market have performed well, and that it is relatively unimportant which fund the investor chooses.

But, says Mr Fox, in the five years ending December 1998, the difference in annual performance between the best and worst performing funds was a staggering 16.34 percent a year.

An investment of R20 000 each in these two funds would, at the end of the period, have shown a difference of R37 467.

"Few investors have the time or expertise to investigate each fund in making this decision — and that is the service we offer," says Mr Fox.

In addition to analysing the performance of the various funds, CFM monitors investment markets to advise clients on appropriate timing of investments.

"Last year was not an easy year for investors in general," says Mr Fox. "The JSE declined nearly 10 percent during that period, and gold shares fell on average by 40 percent."

"We managed to achieve significantly better returns for our clients through a highly conservative approach to the market."

Consolidated Fund Managers managing director Clive Fox.
Dawie to disclose Foskor's fate

THE privatisation of Foskor is likely to be a major focus of next week's departmental budget speech by Public Enterprise and Economic Co-ordination Minister Dawie de Villiers.

Government sources disclosed yesterday that the parastatal's privatisation was likely to be shelved, bolstering a similar statement made by Industrial Development Corporation (IDC) MD Carel van der Merwe.

A ministerial spokesman confirmed yesterday that the issue of privatising Foskor would be one of the main features of the Minister's speech.

There would also be references to SAA and Postis and Telecommunications, he said.

The spokesman said it was likely the Minister's speech would allude to the volatile nature of the world phosphate market and that "more than likely" put the privatisation of Foskor on the backburner.

Foskor has been widely suggested as government's next candidate for privatisation.

Privatisation Unit head Peter van Huysteen said the cyclical nature of the phosphate market detracted from the attractiveness of Foskor as a private business.

He said while he did not want to give anything away that might be in the Minister's speech, the issue of Foskor would not deviate much from what Van der Merwe said earlier this week.

In a speech to the Investment Analysts' Society, Van der Merwe said Foskor would not make a suitable stock for "widows and orphans" and at the same time selling to the bigger investors would raise the politically sensitive issue of concentration of power.

Van Huysteen said the Minister would also deal with SAA as the Privatisation Unit had just completed a study into the airline as a prelude to the July 1 deregulation of the industry.

The conclusions of the study would be made known.
operations.

At 1 600c, the share price has almost doubled from a year ago. The final dividend of 36c brings the total to 43c, which puts the share on a yield of 2.7% and a p/e of 15.6. For a counter that looks capable of doubling its earnings every three years, the price is not excessive.

Gerald Haskett

UNIT TRUSTS

INDUSTRIAL BULLS

Investors looking to unit trusts for signals about the future of the high-riding industrial sector are not likely to be disappointed.

While at face value there was a split in attitudes among fund managers in the past quarter — general equity trusts such as Momentum, Southern Equity, Safefi and Syfrets Growth significantly increasing their holdings of industrials, in contrast to declines at UAL, for example — sentiment remains reasonably bullish.

As a percentage of the total value of general equity trusts, industrial shares edged up to 20% to 41% (R2.7bn). Much of this appreciation reflects reduced liquidity, though improved market values also helped.

The biggest mover into industrial equities, in rand terms, was Syfrets Growth, which increased the value of its industrial portfolio by R39m to R137m (44% of its total portfolio). The trust raised its investment in Ber- zack and moved strongly into Unitrans.

However, Syfrets Managed Assets fund manager Anthony Gibson is cautious about the prospects for industrial equities and suggests that the surge in the industrial index reflects buyers' anxiety of being left out of a market recovery. "This fear has superseded conventional investor logic, which would suggest that investment fundamentals do not justify present prices," he says.

Safegro Unit Trust director Kevin Cockcroft is not widely bullish about the industrial sector and says the depressed mining industry and sliding interest rates limit other opportunities. Most industrial groups are much better managed than during the recession in the early Eighties, he says, and expects selected industrials to deliver 15% growth.

Though Safegro pulled out of Barlow Rand and cut stakes in Rembrandt, Tollgate and SA Breweries, it jacked up holdings in industrial stocks from 38% to 48% of its portfolio, moving into Safren and buying more Anglovaal Industries, C G Smith, Tiger Oats, Africo and Rembrandt Beh.

Momentum had the biggest percentage exposure among general equity trusts to industrials, at 60% of its portfolio. Momentum Asset Trust MD Peter du Toit says exposure is likely to remain high. He believes government will have to stimulate the economy in the latter part of the year and adds that there is a serious shortage of investment opportunities. The fund built up holdings in SunBop and SA Breweries and moved into W&A (though Du Toit now calls that a mistake).

At the other end of the scale, UAL's general equity trust cut investment in the sector by R21m, among other things moving out of Kersaf, NEI Africa, NEI Holdings, Robor Industries and Iscor. Contrary to the trend, but in common with general equity trusts such as Norwicht NBS and BoE, liquidity rose.

UAL Merchant Bank senior GM Michael Eustace says these moves do not reflect a decision to limit exposure to the sector but are rather part of a shift in the portfolio mix. Liquidity is likely to come down to around 25% in the next six months as the fund moves into other investments — some of which will be in the industrial sector.

"The industrial index has had a good run and is due to level out, but I doubt it will come off much," says Eustace.

Similarly Metfund equity manager Hendrik du Toit says the value of the trust's industrial holdings was maintained, as it was fully invested.

Sanlam increased the exposure of its Dividend and Industrial specialist funds to industrials, which make up more than 40% of the portfolios of its two general equity trusts. Senior portfolio manager Stafford Thomas says that while the group is a strong supporter of industrials it has tried to maintain a balance and has probably retained a greater investment in mining stocks than most rivals.

Some mining stocks, particularly in diamonds, still have much to offer, he says.

"The industrial market is still in a bull trend but I don't think our exposure can go a lot further," says Thomas.

With high liquidity no longer attractive as interest rates ease, portfolio managers are likely to channel increasing funds into industrials — last quarter's R331m net inflow was the third highest ever. This in itself could bolster the sector.

Simon Cashmore
SHARE PLAN REBUFFED

A bid for control of Standard Bank Investment Corp (SBIC) — or at least a fear of this on the part of major shareholders — now looks a real possibility.

It is difficult to avoid that conclusion after Tuesday’s shareholders’ meeting, when a proposal to increase the authorised capital by 25.9m shares — or 20.5% — was not passed. This follows unusually high trading in the tightly held stock recently, just over 2m shares or about 2.1% of issued ords changed hands last month (Companies April 12).

Proposing the motion, the directors said the additional reserve capital was intended to provide for growth (possibly a major acquisition), issuing scrip in lieu of dividends, and issuing shares to management under the option scheme.

It failed to gain the required minimum 75% of shares represented. There are 98m issued ordinaries, and votes representing only 47m were cast in favour. About 10m abstained and about 19m voted against.

MD Conrad Strauss says it’s unclear who objected, as one shareholder exercised his right to request a secret poll, instead of the usual show of hands. There was no debate and nobody had put forward any objections.

“It is a mystery to me,” says Strauss. “These shares would have been under the directors’ discretion. Is somebody querying the board’s independence?” At present 22% of the authorised capital is not issued. Had the resolution been passed, unissued capital would have amounted to 33.5% of authorised ordinary capital, of which 2.4% would have remained earmarked for existing options.

The remaining 31.1% unissued and non-earmarked capital would thereafter have been steadily eroded by scrip dividends and further options.

Strauss contends this would not be out of line with local or international standards — Barclays Plc, for example, has about 25% of authorised shares under board control.

Market talk is that Old Mutual was the main dissenter. This is plausible, given its 20.3% stake (about 19m shares) at SBIC’s December 31 year-end. It is not known whether Mutual was buying last month — Rembrandt almost certainly was — but Mutual could have lifted its stake slightly. Asked to comment, Mutual chairman Mike Levett simply says the policy is never to comment on any particular company or situation.

There have been two main lines of speculation about recent buying. Either somebody was accumulating shares as part of a plan to gain control; or an existing shareholder was seeking to build up a blocking stake to prevent such a bid. Small though the recent sales were, it may not be impossible to acquire enough stock to tie up the balance of power — depending on what alliances form.

Apart from Mutual, major shareholders at year-end were Liberty Life 32.2%, Rembrandt 10.7%, GFSA 10.3%, Standard Bank Pension Fund 5%, SBIC Executive Investment Trust 2.6% and Mine Officials Pension Fund 1.1%.

As noted previously, when Donald Gordon vacates the Liberty chair, SBIC will appoint the next executive chairman of Liberty.

If Mutual is concerned about other major shareholders gaining control of SBIC and, perhaps, Liberty, the blocking stake theory may have gained substance at the meeting. Registration of shares bought last month should provide more clarity. But a large bloc of shareholders has effectively expressed a lack of confidence in the board of the leading — and most successful — banking group, leaving little doubt that a far-reaching game plan has been put into action.
unlikely that they could be realised in a
market as tight as the JSE without depress-
ing prices.
The Iscor shares cost R609m, more than
their current value, so the IDC would be
reluctant to sell, particularly as it has under-
taken to market the bulk of the shares as a
pro rata rights offer, implying a discount to
market value. "At the price the IDC would,
like," says Van der Merwe, "the offer might
be one an Iscor shareholder could refuse."
The IDC also feels that its overhang has
depressed the Sasol price, which at about
R12 is thought by some analysts to be well
below value. But this of course is circular —
as long as the market thinks the IDC shares
may be sold, the discount may continue.
A problem with such a large rights offer is
that four or five institutions would have to
take a large portion. The IDC hopes to find
other solutions, which could arise when State
pension funds enter the equity market.
Sappi and Sentrachem are relatively small
parcels that could easily be placed. But there
are seen as important "partnership" shares.
Though the IDC controls Indsels and Natsel,
it has limited room to manoeuvre with these.
The big unlisted holding is Foskor. Van
der Merwe says any decision to sell would
have to be taken by the State, as this would
be in the nature of privatisation. The IDC
feels that Foskor is not suitable for widows
and orphans — it is a single product com-
yany, operating in difficult, cyclical markets
(sounds just like a gold mine?)
Van der Merwe reckons it could fit well in
diversified institutional portfolios. "You
then enter the debate on the concentration
of economic power, and other politically sen-
tive subjects, so it's a difficult decision."
The IDC has two large operating subsidi-
aries, Atlantis Diesel Engines and Sapoko.
The former is not doing well, is being re-
structured and is not expected to be a can-
didate for sale of control for many years.
The latter, an agricultural development
arm, is not deemed suitable for a sale because,
while it yields positive returns, there is no poten-
tial for adequate cash yields to private investors
— though that surely depends on the price.
Borrowings and cash flow will remain the
first source of finance for new projects. Van
der Merwe says sales will, however, have to
be made if only a small proportion of the
projects are being considered get the green
light — but there is no clarity on when this
point will be reached.
One or more of Van der Merwe's objec-
tions, of course, could be applied to virtually
any privatisation — or, indeed, most flota-
tions. Any decent merchant bank could get
around them in five minutes, some can be
proved or disproved only by being put to the
test. It should be more important to mobi-
se capital — in the process, making the JSE a
more liquid market — than hold on to listed
shares indefinitely, waiting for a "right" mo-
ment to sell — that may never come.
The whole performance smacks more of
self-justification for refusing to dismantle an
empire which the IDC really has no business
to maintain than of economic logic.
Genbel looks to Engen and UK holding

COMMODITY prices will dictate Genbel's fortunes in the next two years, but this year's growth is already secured.

Managing director Anton Botha says he would have liked to reduce even further the gold content in Genbel's R3-billion portfolio of mineral and commodity investments, but it is difficult to do so.

The gold holding is about 14% much of the offloading from the 70%-plus content in 1997 has been done off the stock market because it is not easy to place large lines of stock through the JSE without depressing the share price.

Mr Botha is confident of competitive growth from Genbel this year because of the expected contributions of major investments Engen and TransAtlantic, and from the benefits of restructuring various holdings.

TransAtlantic is more readily associated with Liberty Life, but Genbel's 65% interest was acquired last year. The stake was initially offered to Gencor.

Mr Botha says: "Thirty years ago, Union Corporation owned 30% of Capital & Counties, now one of TransAtlantic's biggest investments.

"The Capital & Counties holding was put into TransAtlantic in the early 1980s. It was diluted over the years to 8.3% and raised to 14.6% in 1990," says Mr Botha.

TransAtlantic accounts for nearly 11% of Genbel's investments.

The biggest single holding is in Genbeheer, which represents 17% of the portfolio. Impala accounts for 13% Engen 11% and Sappi and De Beers each another 6%.

Genbel has autonomy from major shareholder Gencor in the constitution of its investments. But there is an understanding that Genbel will have the first right of refusal over a part of Gencor's acquisitions.

The two worked together replacing 28-million Engen shares with institutions. The energy group used to be 95% held between the pair, and a rights offer to raise outside capital for expansion became almost meaningless.

The shares were placed at a 20% discount to the ruling price of R31 because it was worthwhile to offer large lines this way. Some smaller lots were placed throughout the stock market.

Mr Botha says that in both bull and bear markets, share prices are only an indication of true value. He believes that negotiated commissions would go a long way to solving the problems besetting stockbrokers.

Wholly owned Unisech, which formerly housed Genbel's short-term investments, now includes those made in the five-year time horizon.

In addition to R200-million cash, Genbel also controls Randex, which holds exploration interests and mineral rights.

Randex has diluted some of its gold interests and will diversify.

Genbel's share price has been around R550c recently, a 16% discount to the net asset value of its investments.

The shares were 700c a year ago and 450c in January.

Active portfolio management has done the share good, but as Mr Botha says, Genbel cannot buck the downtrend indefinitely.

Genbel is one to watch when the economy recovers.

ANTON BITHA Shedding gold is in Genbeheer, which represents 17% of the portfolio. Impala accounts for 13% Engen 11% and Sappi and De Beers each another 6%.

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Genbel is one to watch when the economy recovers.
UAL launches new products for investors

By Jabeulani Nhlekhane

UAL has launched two flexible unit trust-linked investment products, the Equity-Linked Provident Fund and the Capital Access Plan.

The Equity-Linked Provident Fund enables investors to build up a capital sum at retirement by investing in any one or all four of the UAL unit trusts.

In terms of the prudence requirements of pension and provident funds, 35 percent of the contributions will be invested in the UAL Gilt Unit Trust.

However, the investor may choose whether to invest more in the Gilt Fund or any amount up to 65 percent in any other equity unit trust.

UAL Management Company director Peter Anschutz says this effectively gives the employer, to whom the contributions represent a tax-deductible investment on behalf of the employee, the opportunity of building up a capital sum for his employees at retirement at a discount of 48 percent provided by the Receiver of Revenue.

The UAL’s other new investment product is the Capital Access Plan, which provides an opportunity for the investment of capital sums such as the commuted one-third of retirement annuities and pension funds which previously had been invested in growth funds.

Investors may now use the Capital Access Plan to invest capital sums in a plan with potential for capital growth, enabling them to make tax-free capital withdrawals to supplement their income.
Consumer markets are set for a change

A combination of a deregulated competitive environment, growth in black buying power and the return of the multinationals will alter the nature of business in local consumer markets in the '90s, says Perry & Associates MD Neil Ross.

"The informal sector has developed as a direct consequence of deregulation — but the established captains of industry and commerce do not understand how it operates or how this can be used to their companies' advantage.

"For instance, white businessmen need to understand black ways of doing things, and the functioning of the burgeoning black distribution networks.

"It is not enough for white businessmen to be aware of such developments as spaza and stockists when the integration of their business with the informal sector can give them a competitive edge in the new SA," Ross says.

"Much has been said about the size and importance of the black market — but Ross says it will be open only to companies with access to the networks that reach the consumers.

"Not only is the informal sector complex — but the situation is made more so by the rate of urbanisation.

"Another factor which will impact on the local scene is the imminent lifting of sanctions and the return of multinational competitors.

"Local businessmen must keep an eye on global as well as local competition.

"They need to consider the advantage that could be obtained by a multinational competitor with regional domination of Southern Africa.

"Multinationals will require instant distribution networks to launch their products — especially in the consumer sector.

"Regional dominance will start with dominance of South African distribution channels," he says.

"Because of this, it is essential for local companies to select and develop their distribution channels."
The MINISTER OF PLANNING, PROVINCIAL AFFAIRS AND NATIONAL HOUSING

(1) No

(2) Falls away

Minning at St Lucia

*13 Mr R F HASWELL asked the Minister of Environment Affairs

(1) Whether he has received an environment impact study on proposed mining on the shores of Lake St Lucia, if so, when the study was made public;

(2) whether he supports the creation of a park which incorporates and links Lake St Lucia with the sodwana lake forest and the Mzumbe Game Reserve;

(3) whether he will make a statement on mining activities within the boundaries of our national parks.

The MINISTER OF ENVIRONMENT AFFAIRS

(1) No. The environmental impact study currently under way will only be completed in the beginning of 1992. Any individual or organization who still wishes to contribute to the study is free to do so. Interested and affected parties are also given regular updates on the progress of the study. It is also the aim to produce a draft report before the end of this year, which will be made available to the public for comment.

(2) I support the creation of such a conservation area. However, before the area can be declared a conservation area all parties who have vested interests must be consulted. Such consultations are already under way for a considerable period of time.

(3) Legally no mining activities may be undertaken within the boundaries of declared national parks and I subscribe to this. Regarding the St Lucia environment, I wish to restate that the area in respect of which mining rights exist is not situated within the boundaries of a national park or any other park, conservation area, but that the mentioned environmental impact study covers a water area than only that to which mining rights are attached and thus also includes conservation area.

Myburgh Park development project

*14 Mr J VAN ECK asked the Minister of Planning, Provincial Affairs and National Housing

(1) Whether the Cape Provincial Administration recently approved a housing development project in Langebaan known as Myburgh Park Phase 2 (and Extension), if so, when;

(2) whether the area scheduled to be developed to the south-west, south, and north-east of Stompwagons was proclaimed a nature area in 1984 and deproclaimed in approximately 1989, if so, why, or if not, why not;

(3) whether he will comment on the opposition to the development of this nature area for residential purposes expressed by a Prof Retief, particulars of whom have been furnished to the Minister's Department for the purpose of his reply, if not, why not, if so, what are his comments.

(4) whether it was brought to his notice that no objection for the rezoning of this area from a nature area and/or land for agricultural use to land for residential use had been submitted and that the legal requirements for rezoning this land had allegedly not been met, if so, what steps does he intend taking in this regard;

(5) whether the alleged marketing of this land up to the high-water mark is being effected in accordance with the provisions of Plan 069 in terms of which the permit for this housing development project was granted, if not, what steps does he intend taking in this regard.

The Cape Provincial Administration is not responsible for rezoning with the jurisdiction of white local authorities. It falls within the area of responsibility of the Administration House of Assembly. Because of the above
Trafalgar reopens battle for Saaambou

By Ann Crotty

It looks as though the control position at Saambou may be thrown wide open with the news that Trafalgar is coming back with a second offer pitched at 180c a share.

In January Trafalgar surprised the market with a conditional offer to purchase 30 percent of Saambou at 140c a share. Ahead of that offer the share had been trading at 130c.

The offer resulted in Trafalgar building up a stake of only three percent.

More significantly, the offer precipitated a counter move by Fedsure aimed at establishing a 30 percent stake in Saambou.

This would give it effective control and protect it from another unsympathetic bidder. There were also believed to be some longer-term operational benefits.

The Trafalgar offer may unhang Fedsure's attempt to play the white knight.

The Fedsure/Saambou deal, struck on January 31, involved the sale of a Fedsure asset (Planet Finance) to Saambou in exchange for the issue of 39 million convertible debentures (CDs) at 140c a CD.

The CDs were convertible over a three-year period to March '94 at the election of Fedsure. On full conversion of the CDs, Fedsure would have a 30 percent stake in Saambou.

The fragmented nature of the share profile meant this stake would give it effective control at 140c a share.

A general shareholders' meeting was apparently planned for mid-May to approve the issue of the CDs. Approval needs at least 50 percent of those present (or submitted proxies) voting in favour.

Given the shareholder profile and the fact that the Saambou management and board supported the transaction, initially it seemed that support for the deal was guaranteed.

More recently strong buying of Saambou encouraged the view that a third and unknown party might be attempting to interfere with the plan.

Now, amid this speculation, Trafalgar has announced it will be making an offer to acquire 30 percent of Saambou at 180c a share. Apparently one of the conditions of this offer is that the Fedsure deal is not implemented.

Trafalgar's Pieter Hougard says the offer is based on the existing number of shares in issue, but adds that Trafalgar reserves the right to waive this condition.

The offer will be open until mid-June, which means it will overhang the shareholders' meeting due in mid-May to vote on the issue of the CDs.

Depending on how many shares it picks up between now and the meeting, Trafalgar could determine its outcome and therefore the future of the Fedsure/Saambou deal.

One important factor working in Fedsure's favour is the 45 million of the 85 million shares are held by a large number of small investors who are unlikely to be sympathetic to a vote against the deal.

But the recent strong buying of Saambou suggests there could be scope for Trafalgar to tie in with another party in order to interfere with the Fedsure deal.

The bulk of the recent buying has been done in the name of Main St — a nominee company which is associated with Old Mutual, Nedbank and UAL.

The identity or motives of the buyer is unknown (it is not Trafalgar), but aggressive buying since December has resulted in the nominee lifting its stake from four percent to 13 percent, making it the largest single shareholder.

Other significant shareholders include Investec with 10 percent (there is some uncertainty over a link between this stake and Prestas), Sanlam with 9 percent, Metropolitan with four percent and CC Exchange (thought to be Prestas) with four percent.

On the basis of short-term prospects and current asset valuations, analysts caution against shareholders looking to an August-type battle.
FOCUS

Special payout raised taxpayer hackles

was being made at taxpayers' expense because of state subsidies which Putco had been receiving. The company itself has never disclosed the extent of the subsidies it received from government but they are substantially more than the operating losses and include amounts which provide for the replacement of the bus fleet based on an estimated vehicle life of 15 years. An estimate of each year's subsidy can be made from the Transport Department's annual report but even that does not specify what Putco gets. In all, government pays out about R493m a year in taxpayers' money to subsidise transport. Putco constantly pleaded poverty and cited rising fuel costs, smaller loads and strikes and resultant higher wages as the rationale for raising fares.

The special dividend payments were made from reserves of R172m built up from cash flow earmarked for fleet renewal. The company said that reserves were far more than needed to replace buses even at 1990 prices and the money was made over to shareholders, who the company said had earlier forgone full dividends to build up the reserves. Given the state of the people transport industry and with no improvement in sight, the company argued the dividend was the only choice.

A spokesman for Putco said the bus company was controlled ultimately by the Carleo family of Italy through controlling shareholder Carleo Enterprises. He argued that as Carleo Enterprises — which at last count held 52% of the shares — was a private South African company, none of the payout would leave the country. Analysts say the remains to be seen.

When the special dividend was paid, Putco MEC Jack Visser went on record saying this did not signal withdrawal from the bus market. The company remained confident of the need for buses.

Share-watchers have since been keeping a close eye on Putco Properties in case there was a quick profit to be made from another such move.
Great earthquakes or upheavals are sometimes foreshadowed by unexpected small shudders — such as the one that occurred last week when Old Mutual’s man unexpectedly raised his hand at Standard Bank Investment Corp (SBIC)’s AGM and succeeded before he left in blocking the banking group’s attempt to increase its issued share capital.

Certainly it had to be seen as a public rebuke by a large shareholder, especially as three SBIC directors who are also Old Mutual directors retired that day from the bank’s board. It smacked, too, of bad manners. For, at first view, it was no more than a routine and prudent provision that was being blocked.

Shareholders’ meetings in this country are usually quiet affairs at which dissension rarely occurs. It is not often that the giant institutions disagree publicly. Differences are more likely to be settled in private. Until last week, SBIC was no exception. Nobody has outright control of SBIC, but the big shareholders — some of whom compete directly with one another — have for years seemed to get on well enough.

The puzzle that investors and customers are trying to piece together now is what this sudden and rather petty public demonstration either means or masks.

One clue is that Donald Gordon, chairman of Liberty Life, which is SBIC’s biggest shareholder with about 33%, is tartly criticising Old Mutual, a direct competitor of Liberty Life. But are Gordon’s protestations justified? Could Mutual’s vote have been more of a defensive nature — to protect its own (20.2%) SBIC interest, or the competitive position of Nedcor?

What is interesting in the circumstances, is that Mutual was not the only shareholder unenthusiastic about the proposal, which could be seen to have the potential to upset a delicate balance of power. Holders of about another 10m shares took the same polite, but equally effective, route of abstaining. A special resolution requires the support of at least 75% of shareholders represented at a meeting, either in person or by proxy. Rembrandt, holder of 10.5m shares or 10.7% of SBIC, has that honour — its abstention ensured the proposal would fall flat.

That raises another possibility. Have longstanding relationships between powerful institutions and their shareholders been altered by the recent formation of Amalgamated Banks of SA (Absa), the new and giant financial services group in which some of the institutions and their shareholders already mentioned have interests? Could this have raised dormant susceptibilities and subtly altered allegiances?

Cross-holdings between SBIC and Liberty, as well as the role the former will play in anointing Gordon’s successor, mean that these two groups have grown increasingly like Siamese twins. When Mutual and Rembrandt chose to snub the SBIC board’s plan to increase the authorised share capital by about 20% more shares, leaving 33.5% of the shares under the discretion of the directors, they were snubbing Gordon too.

Until recently, that would have been almost unthinkable Mutual and Liberty, of course, are old rivals. But Gordon and the Rupert family (controlling shareholders of Rembrandt) are personal friends. Each has supported the other in their financial activities. Richmont, for example, has about 20% of Liberty’s UK company, TransAtlantic, Richmont and Rembrandt are among Liberty’s major portfolio investments. Both parties participated in the GFSA deal when Coss Gold sold out.

But both Gordon and Rembrandt have let it be known that things are no longer the same between them. A rift occurred some time ago and deepened when Rembrandt consolidated most of its other interests in the financial services sector in Absa, thereby creating what could turn out to be a tough competitor for SBIC and, potentially, Liberty, when substantial insurance interests are also brought together.

Gordon says he felt that, as he had been instrumental in Rembrandt acquiring its stake in SBIC, Rembrandt should relinquish its SBIC shares when Absa was formed. He proposed an arrangement which would have resulted in Liberty buying the SBIC shares, while Liberty would sell its 7% holding in UBS.

Rembrandt did not find the terms of the proposal attractive and retained its SBIC shares. Liberty lodged a proxy supporting the Absa resolution, but Gordon says he remained concerned that a competing interest was holding a powerful position in SBIC, which was not far short of the stake held by the SBIC-Liberty axis.

He made his concerns and criticisms known around town. When this reached Rembrandt, especially deputy chairman Johann Rupert, his reaction was swift and pointed. Immediately before the shareholders’ meetings of Absa, Volkskas and Allied on March 26, Rembrandt started buying...
considered now, acquisitions could be made.

This sounds reasonable but it is also rather open-ended. At least one significant shareholder feels the proposed issue was simply too large without having the purpose clearly specified. It is noted that UK company law has special provisions to protect shareholders in the event of shares being issued beyond a specified level. This does not apply to the same extent under SA law.

In the UK, an increase in capital requires only an ordinary resolution (with approval of a simple majority), but in SA it involves a special resolution, which enables votes to be blocked by a minority shareholder.

De Villiers says without the intended increase in authorised capital, the group is left with surplus capital of about R15m. "That is all right for now, and our growth should not suffer, but sooner or later we will have to go back to shareholders," he says. "Some water will have to flow under the bridge first." There is no need for a rights issue for the next several years, though De Villiers points out that the issue of shares instead of dividends is in the nature of a rights issue.

The planned share issue was not unduly large. After rights issues and mergers by other banking groups, the surplus capital would have been above the local average, but not necessarily out of line with international banks. A merchant banker says many local companies have a larger proportion of shares under control of the directors, and clients are often advised to increase their capital to avoid signalling plans such as a rights issue. The financial flexibility and, in this case, improved ability to ensure compliance with the capital ratio requirements of the Depositor-Taking Institutions Act, may be a further consideration.

Clearly, though, the veto of the share plan emphasises the sensitivities of shareholders in the present context. For that matter, Gordon, in combative mood, does not quite give the impression that it is business as usual. As the Sun Life board would attest, he is no stranger to shareholder battles.

But it is questionable how much room Gordon or the other protagonists really have to manoeuvre in the current climate. The Takeover Code would almost certainly be a constraint for Liberty, as it already owns more than 30%, an acquisition of a further 5% during a 12-month period would trigger the requirement for a full bid at the highest price paid.

It is easy to speculate on motivations. If Mutual could take control of SBIC, that would raise the possibility of merging their insurance interests into a mega-assurer, while Nedcor, a Mutual subsidiary, could be moved into SBIC. From Rembrandt's standpoint, a successful move on SBIC could enable a deal between Absa and SBIC, with Liberty and Momentum put together.

At present this all sounds like fantasy. The idea of the Competition Board allowing such megamergers sounds preposterous. But perhaps in five or more years such restrictions will have vanished, and strategic positions taken now will become crucial.

Mutual chairman Mike Lovett simply says Mutual's policy is never to comment on particular companies or situations. That may be all right as an investment tactic. But other SBIC shareholders deserve to be told just why the share plan was vetoed — and whether concerns about Nedcor's competitive position was a factor.

Before deciding on its next move, SBIC's board wants to rebuild some bridges. This will be done partly through discussions with other shareholders. It could also be achieved partly through new board appointments.

At last week's AGM, three directors retired — former GFSA chairman Adriaan Louw, Safren chairman Alistair Macmillan and former Barlow Rand chairman Mike Roodt. These, interestingly, are all members of the Mutual board. However, De Villiers emphasises that they were SBIC directors before joining Mutual, company rules require directors to retire at the AGM after their 70th birthday. New appointments will probably be announced in about a week. Rembrandt does not have a director on the SBIC board, apparently out of concern about conflicts of interest — though SBIC regards Joep de Loor in that light.

But then virtually none of the big players in corporate SA is disinterested, or can easily avoid conflicts of interest. That is the essence of the drama to which Old Mutual's protest last week points. Even if bruised relationships are repaired soon, the advent of the DTI Act and its redistribution of competitive advantage and the emergence of Absa, and the new relationships it has forged, makes certain that the financial services sector is in for a period of flux and there will be more surprises.
As expected, Rainbow Chicken has announced a rights issue to fund its large acquisitions from Premier Group. It remains to be seen how many of the shareholders will take up their rights. But for Rembrandt-controlled Hunt Leuchars & Hepburn (HLH), which owns about 25% of Rainbow, the effects will include an increased exposure to the poultry industry, with its low margins and fluctuating earnings — though the long-term growth has been good.

HLH maintains an almost ungeared balance sheet but is raising R223m in its own rights issue to underwrite Rainbow's R252m issue. Rainbow's shares will be increased by 34%. The ultimate underwriter is Rembrandt, which will inject more than R100m into Huntco, which controls HLH. Other increases are the rights of C Methven, which owns 68% of Rainbow. The Methven family realised some of their interests in Rainbow at the time of the listing, and HLH considers the family "less than likely" to take up their rights in this offer. Should HLH take up its own rights and those of the Methven family, this will increase its shareholding in Rainbow to 42%.

The Rainbow year-end will change from June to March, to bring it into line with the Rembrandt stable. HLH will continue to equity-account Rainbow. But HLH executive Andrew Gallow stresses that the group intends to increase its holding in Rainbow but not to take control.

This is the second time HLH has held a rights offer to fund its investment in Rainbow. In June 1989 it issued shares worth R148.8m at a price of 77.5c, when it acquired 29% of Rainbow. It was almost fully subscribed with just 0.5% of the shares not taken up. The HLH price has risen to 1.30c, so shareholders have not done badly since then.

HLH has evidently proved to be a useful partner which gave full backing to two key Rainbow moves: the decision to integrate backwards into feed mills, and the recent acquisition of Rainbow's main competitor, Bonny Bird, and 50% of Epol animal feeds. The present rights issue is designed to fund this deal.

However, the new Rainbow shares, at 270c, are being pitched 15c below the June 1989 issue price of 285c. Because of the legendary reputation of the company's founder, Stanley Methven, and Rainbow's reputation for efficiency, it was awarded an instant blue-chip status. The issue at the listing was 92% oversubscribed, though most brokers considered them expensive at a p e of 19.9 on the forecasted earnings.

But Rainbow's performance as a listed company has been bumpy. EPS for financial 1989 of 26.8c exceeded the forecast of 26.1c, but Rainbow was 1c short of its 1990 EPS target of 22.3c. More significantly, earnings declined by 1% at the December interim compared with the December 1989 interim. Analysts agree that Rainbow's offer at 270c does not offer value in the short term. One broke firm predicts EPS of 20c in the year to March 1991 — giving a p e of 13.5 — and 23.6c in 1992, well down on 31.3c for the year to June 1990.

But there is disagreement about Rainbow's long-term prospects. One analyst argues that Rainbow is at the bottom of its earnings cycle and will enjoy the benefits of the Bonny Bird acquisition by 1993. "Much of Bonny Bird's older capacity had been shut down before it was sold to Rainbow," he says. "Rainbow's tight management systems should ensure the former Bonny Bird operations make a full contribution by the beginning of financial 1993 (April 1992)."

The long-term growth in demand for white meat, which has grown almost as rapidly as the demand for red meat has declined, underpins the optimistic view. The pessimistic view, held by Ed Herr, Tudor's Sid Vianello, is that Rainbow's decision to build its own feed mills for R273m — instead of continuing to buy feed from Tiger subsidiary Moura Feeds — has turned Rainbow from an interest earner to a borrower. He says the potential profitability of the mills is difficult to assess.

Rainbow's strong cash position has enabled it to ride out economic downturns in the past. Says Vianello: "The key to Rainbow has always been that it has been a highly-diversified business which concentrates on just one product."

As for HLH, analysts fear that its earnings from Rainbow will be of lower quality than from those in its interests in sugar, spices and timber.

Nevertheless, Vianello believes the HLH offer is more promising than is Rainbow's largely because a diversified portfolio should have better long-term prospects than a counter dedicated to the volatile poultry industry.

Laing departs

In an unexpected and sudden parting of ways, Consolidated Mining Corp (CMC) MD Glenn Laing has split from the group's controlling consortium led by Norman Lowenthal, Gerald Rubenstein and his original Southgo partner, Roy Flowerday.

Laing has formed a new mining company called Revere Resources SA, with an overseas partner he declines to identify. He intends building a mining group concentrating on surface and opencast mining operations, but will not provide further details of his plans at this stage.

Reason for the split, according to both Laing and Consolidated Mining director Norman Lowenthal, was an irreconcilable difference of opinion on how CMC should be managed and on the group's longer-term objectives. Both stress the parting is amicable.

Says Laing: "The essential difference between me and my former partners is that I turn 40 this year while the rest of them are aged between 53 and 60. In my planning I'm looking 20 to 25 years ahead, while they are looking five to 10 years down the road.

"I want to go for long-term growth while they are looking at setting-up the group to cash in their stakes in about five years," adds Laing. "I am not prepared to stay with the group if it's going to be sold out from under my feet in five years' time."

Lowenthal confirms this difference in viewpoint but denies the group would be sold in five years. "Five years is a long time in SA," says Lowenthal. "We've been through a rough time and the group cannot simply keep on growing. We have to consolidate and make money for the shareholders. In five years we can reassess CMC's future.

Laing says the structure of the Wolhuter...
SAA to go it alone as a commercial airline

Political Staff

SOUTH AFRICAN AIRWAYS is to be restructured as an independent commercial venture, competing with other airlines for airport facilities.

The Minister of Public Enterprises and Economic Co-ordination, Dr Dawie de Villiers, said yesterday that he had told Transnet to begin restructuring SAA as a self-sustaining business. Transnet would also open its facilities to other airlines.

Repeating his department's vote, Dr De Villiers suggested SAA's international and domestic services would be separated to remove cross-subsidisation.

The decision to commercialise SAA is based on the findings of consultants appointed last year to investigate its role in a deregulated market.

The airline would be independent of Transnet and would present financial statements, Dr De Villiers said. It would no longer receive preferential treatment. Airport infrastructure and facilities — including central reservations and training facilities — would be opened to other airlines.

"I believe the public can look forward to an improved service," Dr De Villiers said.

At an aviation conference earlier this week, SAA's chief executive, Mr Gert van der Veer, recommended the scrapping of government control of international air fares and said other SA-based airlines should be allowed to compete on international routes.

Before Dr De Villiers's announcement in Parliament, Mr Tony Leon, DP, Houghton, slammed SAA's price fixing and bilateral agreements. He said SAA fares had risen by 160% since 1985 as a result of the government's "protectionist practices".

"Perhaps an alternative would be for SAA to lease out its aircraft on the overseas route until such time as sanctions are over. At least this would enable our consumers to have affordable overseas travel," he said.
Govt plan for better economic structure

Political Staff

The Minister of Economic Co-ordination, Dr Dawie de Villiers, yesterday announced a new expanded economic restructuring programme rearranging government spending to place more emphasis on safer economic reform.

He said the economic restructuring announced by the late Dr Wim de Villiers was already reaping benefits and the revised plan agreed to by the cabinet involved economic policy directives that included:

- Increased competition through further deregulation
- Cutting growth in state spending after a review of its responsibility in the economy.
- A determined application of business principles such as cost-benefit and other evaluative techniques in the public sector
- The elimination of the practice of funding part of government consumption spending through loans

He said a much more co-ordinated approach had to be followed. Job creation and economic growth were the highest priority for SA and "we must guard against straying after other objectives, such as regional development, in a manner that is at the cost of economic growth and job creation."

He also indicated that he was investigating appointing a group of consultants from the private sector rather than one adviser to assist with economic policy formulation and co-ordination (as announced recently by President F.W. de Klerk)

With the greater stability in exchange rates, greater wage stability over the past few months and the recent decrease in the petrol prices there could be a lessening of price rises in the foreseeable future

This would enable business to cut costs, be internationally more competitive and have lower price increases, resulting in a lowering of inflation.

During the next two years the government's programme for curbing inflation would be scrupulously supervised and provide for a variety of measures to promote a more efficient functioning of the market system.
Brewer rolls out shares barrel

By LUCIANA LUTY

AFTER campaigning for 80 years for more say over the sorghum beer industry, the black community is now poised to control it.

The black-controlled National Sorghum Breweries (NSB) - which has an annual turnover of R350-million - this week announced a share issue.

The NSB share issue opens on May 17 and closes on June 14. Company employees will get preference, with about 30 percent of the issue being reserved for them.

The remaining 70 percent will be offered to distributors and consumers. Runners, retailers, and shebeen and tavern owners will get special consideration.

During the share issue period there will be an intensive "enlightenment" programme for prospective shareholders. As a back-up to the programme toll-free phone lines will be available. Advisers will man them for 12 hours a day.

The company, run by a two-man board under the chairmanship of well-known businessman Mohale Mahanyele, will not go for listing on the Johannesburg Stock Exchange for the time being.

Shareholders will not be allowed to hold more than 10 percent of the company's shares, said Mahanyele, so takeover bids by big companies can be avoided.

Group managing director Sam Moskuli said he hoped the enlightenment programme would dispel suspicion and ignorance about shares in the black community.

The sorghum beer industry accounts for more than a third of all alcoholic beverages consumed in South Africa and has been under government control since 1908. NSB took over control from the government last year.

The directors hope the privatisation of the company will mean it will be wholly-owned by employees and members of the community.

"If we are to even out the disparity in the economy we must ensure that we give opportunities to black people," said Mahanyele. "Without meaningful black involvement in business the much-vaunted new South Africa may never become a reality."

NSB has 18 breweries. The largest division is Juba in Natal.

"I hope traditional supporters of the sorghum beer industry will seize this opportunity to obtain control of this, their industry," said Mahanyele.
R100m Putco payout looms

By DON ROBERTSON
and DAVID CARTE

PUTCO shareholders are in for their second bonanza in a year after board decision to sell the company's buses and other assets.

The board is dominated by the Carleo family who hold 52.5% of the shares.

Shareholders are expected to receive R100-million or more from the sale. They pocketed a special dividend of R82-million over and above a normal R12.5-million last year after tax on dividends was scrapped.

The share price nearly trebled from 80c to R2.50 on Thursday after Wednesday's decision.

If values placed on buses and properties by stockbrokers' analysts are realised, the price could have added upside potential.

For years Putco has crept poor, publishing minimal profits or large losses in spite of big but unquantified State subsidies.

Putco's assets were stated after depreciation provision - R140-million last year and R235-million the year before (see table on Page 3).

Offer

Strong cash flow in spite of poor profitability has seen it to that resinal asset value has stayed sky high.

The possible asset strip announced this week has been expected by many analysts for years.

Net asset value, says managing director Jack Visser, is at least the published R100-million, or 97c a share if buses do not fetch acceptable prices.

The Southern African Bus and Taxi Association (Salta) has indicated that it could be interested in buying Putco if it looks profitable.

Dr Visser does not take the offer seriously.

"They can't raise the finance last time we spoke," he says.

In consultation with the Department of Transport, Putco has identified parties who could be approached to buy divisions of the company.

Off 600 workers and withdraw 200 buses.

This followed a boycott after fares were increased on April 1.

Putco decided in 1985 to stop buying new buses and to shrink its fleet because numbers transported had fallen from 353-million in 1984 to an expected 120-million in the current year.

Bus subsidies in SA increased from R159-million in 1980 to R345-million in 1989. Operators say the R540-million represented only R127-million in 1989 money, and that subsidies rose to R238-million, but only after the Southern African Bus Operators Association (Sabo) warned that unless they were increased the industry would collapse.

I n the current fiscal year, the subsidy will rise to R165-million, which Dr Visser says is still not enough to cover inflation of about 20%.

Dr Visser says the company plans to have only 2,000 buses in operation by the end of June, with another 600 in "mothballs". This compares with 2,650 last year.

Shrink

In the six months to December, Putco lost R15-million, but by introducing cost-cutting measures, a profit of R900,000 was earned in February.

Dr Visser says Putco has reached a stage where it has become difficult or impossible to shrink the company any more.

It is a miracle that we have stayed alive for so long, he insists that the decision to sell the company or close it down is not a "threat" to the Government.

Transport Minister Piet Welflemoen has assured passengers that the Government will see to it that Putco's services are not disrupted.

Putco has bought few new buses since 1985, but has renovated 300 a year in its own workshops. Each renovation costs R110,000.

Dr Visser says the renovated buses leave the workshop worth R200,000 each.

The renovations couldn't be worth R30,000. One analyst says the 1,650 older buses still in operation could be worth R600 each, making another R96-million. The 600 in "mothballs" are reckoned to be worth R250 each or R150 each.

It wants to sell without disrupting services or laying off staff members, whose numbers are down from 10,000 in 1985 to 6,000.

Dr Visser says some operations would fit in with those of competitors, notably in Durban and Pretoria.

These operations could be profitable after rationalisation. The Soweto-Dodsonville service is barely profitable and could be difficult to sell.

Dr Visser has been asked by Putco chairman Albino Carleo to complete negotiations within two months.

Dr Visser attributes Putco's decline to inadequate fares and subsidies - and failing load factors because of inroads by minibus.

"Buses are more economical than minibus, provided they are fairly full.

Unfortunately, our city layouts usually mean each bus can do only two peak hour trips a day.

"Unlike the minibus, we are heavily regulated. We set fares annually in consultation with the department. Taxies can change fares when they like. We are roughly seen by our customers as part of the Government or the system. Min buses have more public sympathy.

"They can load and get about more quickly. They can also get closer to destinations. They can go right into city centres. We can't afford efficient blacks prefer them and don't mind paying the higher fares.

"Putco is not alone in its plight. Last week, Bophuthatswana Transport Holdings (BTH) said it would lay
Tax uncertainty lifts industrials

By CURT VOR KEYSERLINGK

The government's failure to make clear rules for taxing profits on share dealings has helped push the industrial share index to a record high, say brokers.

The index hit 3 552 points on Friday for a gain of 34% since last October.

"Prices are rising because there are few sellers," says Dawed Meades of Meades de Klerk. "Many people are holding on to their shares because they do not know if they will be taxed on the profits they make if they sell."

"I have a client who bought shares for R100 a piece last year," says David Cobbeite of Simpson McKie. "He wants to sell now, but fears he may be taxed because they are now quoted at R210." 

Receiver

The confusion over tax has arisen because the government has not yet given guidelines to distinguish between a person who buys shares in the expectation of selling at a profit in the short term and one who is classified as a dealer and therefore taxed on his profits - and an investor who manages his portfolio to maximise his long-term gains.

All that is known for sure is that the Receiver will not tax profits on shares sold after the 10-year limit. There is less clarity on the tax implications of dealings with shares that have not been held that long.

Mr. Meades says that, by world standards, the value of shares traded on the JSE is a small percentage of total market capitalisation.

Quoting from a recent presentation by the Old Mutual, Mr. Meades says shares are so tightly held that it would take an investor between three and six months to acquire R10-million worth in companies such as Nedcor, Liberty, UBS, Amcu, APOL, Sappi and Safren if he were able to get 25% of those shares coming on the market.

It would take between 12 and 18 months to build up a similar position in companies such as First National, Stanbic, Fedsure, Murray & Roberts, Frenster, Pick n Pay and FNB.

It would take more than 18 months to do so in NCB, Volkskas, Afrox, Dohby, Ellerine, McCarthy, SA Druggists, Consol, Edgars and Pachino.

"There is such a shortage of scrip that Sappi's share price has hit an all-time high, even though it reported a 28% drop in earnings earlier this month," says Mr. Meades.

Mr. Cobbeite says "SA Breweries is a good share, but its price seems high because it will soon face competition in beer."

Other factors in the market's rise are strong institutional cash flows; a dearth of right issues; an improved political outlook and better economic prospects. Lower inflation trends have given hope of further interest rate cuts in the next quarter.

Consolidated Fund Managers says the fact that few big rights issues are likely soon will put more pressure on fund managers to buy industrials.

"Gold shares are no longer in fashion," says Sanlam senior general manager Ronnie Mason. "So a lot of institutional money is flowing into industrials. Industrial shares are becoming expensive, but I do not expect a crash - perhaps a minor correction."

Nervous

"Foreigners have for some time been net sellers of SA stocks, but recently it seems that some are shifting out of golds into industrials. Others, who have never done so before, are asking about industrials.

"It is perhaps because they are considering investing in SA, but are still nervous about setting up their own factories here. They are dipping their toes in the water, by buying shares that they can get out of at short notice."

Mr. Masson says the gold share index was higher than the industrial index before the October 1987 crash, but the opposite is now true.
Turnaround planned for cash-strapped NCI

DESPITE market speculation that New Company Investments (NCI) has serious liquidity problems, chairman Mike Clarke remains optimistic about the group's future.

"There is no disputing that times are tough, but this venture capitalist is not running away."

Clarke said at the weekend that the group would be embarking on a very specific turnaround strategy. Details of the strategy were not disclosed by Clarke, but letters would be sent to shareholders this week.

The group's last interim report showed a net loss of R3.5m for the six months to end September 1990, resulting in an accumulated loss of R12.4m.

The JSE has been a major stumbling block in NCI's growth path. Clarke maintains that the JSE's rules and regulations made it virtually impossible for NCI to get an underwriter for a rights offer.

He said the JSE had come to a point where a major attitude shakeup was necessary. "The JSE has degenerated into a vehicle that no longer encourages entrepreneurship but instead promotes risk aversion."

The share has not come close to its 23c high in June last year after contradictory market rumours pushed the share down to well under 10c. It moved from its 1c low to 2c on Friday.

Initially shareholders perceived that the share would reach 40c-50c after listing, and tried to persuade the market to rate the share by feeding the market with information, Clarke said.

He said his agenda was long-term, and he did not want to hype the share before NCI consolidated its businesses.

Clarke said because the share never performed to expectations, resentment became apparent among those shareholders.

This resulted in other, mostly inexperienced, shareholders being phased by anonymous sources claiming to have inside information about NCI, causing the share price to fluctuate in recent months.
Three-month trial phase for proposed JSE second-tier index

The JSE research department's proposed second-tier index will be put on a three-month trial phase beginning next month, said spokesman Reiner Buss.

He expected the index would come on line by the beginning of September with no additional costs passed on to JSE members. However, it would also have to be put before the JSE's general committee for approval.

With over 80% of the market's total capitalisation tied up in about 77 companies out of a total of 783 counters, Buss said keen interest has been expressed by brokers and investors to establish a reliable actuarial monitor on medium-sized companies.

The JSE overall actuaries index is driven largely by the true blue chip stocks, about 20 companies controlling over 50% of total market capitalisation, which therefore determine the index's movement.

Although the response to the JSE's second-liner index proposal last month was generally positive, Buss said uncertainty on the selection of the companies represented in the index has come up, and the JSE has requested interested parties to submit recommendations. "I will be meeting with Johannesburg parties who responded, over the next two weeks".

Cornerstone

However, he added that the trial run, consisting of three different indices from the upper, middle and lower end of the market, based on market capitalisation, will be monitored until the end of August. "The final selection of 100 companies from these indices will then be chosen for the index."

Buss said the "cornerstone" in selection will be the marketability of shares. "The liquidity of the shares will have to be above the market average. The financial well-being and performance of the companies would also be a determining factor. However, he conceded that low capitalised companies would be automatically ruled out in the selection process.

While most brokers commented that the introduction of a second-tier index would stimulate both institutional and small investor interest in medium-sized companies, a senior partner at a leading firm felt it would just create confusion in the market. He said there are already two indices monitoring the industrial sector and a third would complicate the issue.

"Furthermore, he said the existing indices are determined on a weighted capitalisation basis, which has also been proposed for the second-tier index, which distorts the true picture of the market. He also felt it would be a long time before the index would be accepted by traders.
Premier scoops Score, Metro in R300m deal

28.5% increase in turnover to R2.14bn (R1.73bn).

Following the completion of the rights offer, the entire issued share capital in Score Foods — 15.1-million shares — will be exchanged for shares to be issued in Metro, thereby merging the businesses of Metro and Score. All transactions are subject to the conclusion of formal agreement.

Premier CEO Peter Wrightson said yesterday the reason for the acquisition was that Premier believed that effective distribution to smaller customers was important. Premier was “also expecting an increase in social spending which would benefit the Metro and Trador markets”, Wrightson said.

Cash and carry group Metro’s rights offer — estimated at over R136m — will be undertaken in order to reduce the debt. Metro’s interest-bearing debt increased by 47% to R124.6m (R86m) in the 26 weeks to end-December, contributing to the group falling into the red. It reported an attributable loss of R342,000 (earnings of R13.6m) on a

JOHANNESBURG. — Food giant Premier Group is to acquire Score Food Holdings in addition to Tradegro subsidiary Metro in deals estimated to have a value of about R300m.

The transactions will see the merging of the businesses of Metro and Score Food Holdings.

The Metro acquisition — estimated by analysts to be at 306c a share — will be followed by Metro undertaking a rights offer underwritten by Premier for more than R100m.

In an announcement today Premier, the Score Food group, the Tradegro group and Metro say that agreement in principle has been reached for Premier to acquire 70% of Tradegro’s 36% shareholding in Metro. It will extend an offer to acquire 70% of each minority shareholder’s holding.

This would leave Premier with an effective 50% to 60% holding in Metro.

Cash and carry group Metro’s rights offer — estimated at over R136m — will be undertaken in order to reduce the debt. Metro’s interest-bearing debt increased by 47% to R124.6m (R86m) in the 26 weeks to end-December, contributing to the group falling into the red. It reported an attributable loss of R342,000 (earnings of R13.6m) on a

Last year Pepkor subsidiary Shoprite acquired 27 Grand Supermarkets from Score for R40.4m, leaving the group with wholesale grocery chain Trador, as well as Score discount food stores.

Score Food MD Carlos Dos Santos said yesterday that the deal would see Score Food taking control of the retail interests, including Metro’s Fairways stores and Score discount food stores. Turnover for the retail interests would be about R750m to R800m.

He said that control of the retail and wholesale interests of Score Food and Metro would be held by Score-Clicks and the Premier Group.
Investors in scramble for Putco shares
By Sven Lamsch

Putco's share price surged 180 percent last week, from 80c to 225c, in the wake of the announcement that it would sell its six operating units.

Buyers have so far not been forthcoming, but analysts estimate that the units are worth the published net asset value of around 330c a share, giving them a combined value of R100 million.

If all the operating companies were sold, the cash would be paid out to shareholders — hence the buying wave.

However, it is questionable whether a bus company is a profitable investment these days, given the competition from the black taxi industry.

On the other hand, Putco's has about 2,000 buses on the road, and while they are generally in poor condition, their replacement value is about R300,000 each.

To avoid the cost of starting new services, municipalities or Regional Services Councils could well be tempted to buy the operations...
Premier in huge deal with Metro and Score-Clicks

By Ann Crotty

Industrial/food conglomerate Premier has announced its intention to acquire control of Metro and the Score-Clicks group in a massive deal that will involve a rights issue by Metro and the merging of the country's two largest cash-and-carry operations.

If the transaction is concluded, it will give the food-manufacturing group control over the biggest cash-and-carry operation in SA.

There are no details about the price at which the deal will be struck, but at this stage market sources believe the Metro leg of the deal will be priced at around 300c a share and payment is likely to be effected through Premier shares Metro is the country's largest cash-and-carry wholesale operator.

Score-Food, which owns Tradegro, the country's second-largest cash-and-carry operation, had a net asset value of just over 300c a share at end-financial 1990.

Today a joint cautionary was issued by the seven companies involved in the deal — Premier Group, Hi-Score, Score-Clicks, Score Food, Tradegro and Metro.

It says Premier will acquire 70 percent of Tradegro's shareholding in Metro and will extend an offer to acquire 70 percent of each minority holding.

A rights offer will be undertaken by Metro to reduce debt. And the entire issued share capital in Score Foods will be exchanged for shares in Metro.

The third leg of the deal will result in Premier getting effective control of Hi-Score, which is the listed controller of Score Foods and Score-Clicks.

(Premier's interest in this group has been built up over the last ten years and at end-March '90 it included a 20 percent stake in Score Foods, a 24 percent stake in Score-Clicks and a 25 percent stake in Score Discount Food Holdings — an unlisted company that has ultimate control of the group.)

The size of the Metro rights issue will not be known until Premier has got a better hold on the debt position of the company.

This will involve completing a due diligence and identifying divisions of Metro that will not fit into a much more focused operation.

Indications are that Premier will focus on the cash-and-carry wholesale outlets of both Metro and Score.

For Metro this means the possible disposal of Frasers, Trade Centre and Fairways.

For Score it means the possible disposal of its retail outlets. These operations may be sold off or given a separate listing.

It is likely that the rights issue will be around R100 million and be pitched at about 300c a share. The issue will be underwritten by Premier.

The enlarged Metro operation (including Tradegro) will have more than 200 wholesale cash-and-carry warehouses and be headed by Score's Carlos Dos Santos.

Premier chairman Peter Wrighton said at the weekend that the group had been planning a deal of this sort for some time.

He referred to the one 1c redeemable preference share in Tradegro which was issued to Premier in the late Seventies as part of the conditions surrounding a R9 million loan made by Premier to Kimet (Kimet was a predecessor of Tradegro).

The share carries considerable rights in the event of a break-up of Tradegro.

In addition, Mr Wrighton noted the steady investment that Premier had undertaken in the Score group over the past 10 years.

It is unlikely that any of the other manufacturers will make much fuss about a manufacturer (Premier) getting control of a distributor (Metro).

There is a great need for a strong cash-and-carry market in SA. Metro and Tradegro are major customers of some of these manufacturers. The deteriorating management situation at Metro and Tradegro has been the cause of considerable concern among the manufacturers.

As Mr Wrighton pointed out "For us the effective distribution to smaller retail customers is becoming more important as manufacturing."

Because of the relative ease of entry into the C&C market, Premier will not be able to abuse its control position.

For Premier, the move will add a new division to a group that some analysts believe is becoming too dependent on the manufacture of mealie meal and bread.
Deregulation of fuel industry 'unlikely'?

GOVERNMENT is believed to have been advised not to go ahead with the full deregulation of SA's fuel industry.

The authorities declined to comment yesterday, but Mineral and Energy Affairs Minister George Bartlett is expected to make an announcement in his departmental budget speech in Parliament on Friday.

A source said it was found deregulation would not work in a small country like SA, but added that some streamlining could be expected in the fuel industry.

Department of Mineral and Energy Affairs director-general Pat Hugo said certain recommendations had been made to Cabinet by the National Energy Council (NEC).

Cabinet had made a decision on these in Wednesday which would be confirmed by its minutes today. Hugo and an NEC spokesman declined to comment on the decisions.

It has been reported that deregulation could bring about some price competition at the refinery and filling station level. It could also create more freedom for imports and exports of refined and unrefined products and lead to some retrenchments in the industry.
Genbel helps boost flagging Gencor

GENBEL, Gencor's investment arm, confirmed its position as the rising star in the group as six months of large transaction surpluses offset a 16% drop in Gencor's operating income and boosted earnings by almost 3c a share to 62.6c.

In the six months to end-February, attributable income from Genbel and investments rose from R17m to R33m, while attributable income for the group as a whole rose to R73m (R70m). In 1990, Genbel and investments contributed 25% of the group's income, a contribution which now stood at 45% at the interim stage.

However, Gencor executive chairman Derek Keys said that over the year "the level of operating income is likely to be in line with that reported during the first six months". Transaction surpluses would be modest in the next six months and earnings would fall below last year's levels (R14bn).

Keys said in a statement yesterday the upgrading of Genbel's portfolio in recent years was bearing fruit, and "together with substantial transaction surpluses arising principally from disposals of gold mining shares in July 1990, this resulted in a sharp rise in its contribution". In contrast, performances of most of Gennim's businesses were badly affected by lower commodity prices and a stronger rand.

The group's gold mining, platinum, and ferrochrome operations all suffered reduced earnings, and while TransNatal weathered lower coal sales volumes, attributable earnings from Gennim fell to R220m (R276m) in the interim.

Engen, the group's fuel and energy arm, and Malbak, which holds the group's industrial interests, turned in stable but relatively weaker contributions. Better refining margins in the wake of the Gulf war helped Engen improve earnings, but Keys said its contribution to Gencor was damped by higher North Sea exploration expenditure.

Malbak pulled through the unfavourable local economic climate, and Keys said "profits at a pre-tax level showed a pleasing rise in the circumstances. Earnings on an increased number of shares were marginally higher".

However, Sapp's contribution to earnings fell by R52m in comparison with the first six months last year.

There would still be a "modest increase" in the year-end dividend, and the interim dividend was raised a cent to 15c a share.

Gencor Beherend, whose only asset is a 54.8% interest in Gencor, earned 56.9c (54.7c) a share in the interim, while its dividend rose to 13.3c (12.5c) a share.
Public’s need to know ‘secondary’

JSE president Tony Norton yesterday reaffirmed the exchange’s general policy of not making public its disciplinary proceedings, saying these were an internal matter for the JSE.

“We are a membership body, and therefore discipline is a membership issue,” said Norton in an interview. “The public’s need to know is secondary.”

He was reacting to an editorial in Business Day yesterday calling for the JSE to be more open about its disciplinary procedures in the interests of the investing public.

The JSE did not want to add the “external dimension” of media publicity, said Norton.

“All the public needs to know is that we take discipline very seriously,” said Norton, adding that the JSE had a code of ethics.

While he understood the argument that the public wanted to see the discipline working, he did not feel the JSE was obliged to “parade individual cases”.

Section 230 of JSE Rules and Directives states that the JSE committee “may in its discretion and in such manner as it may deem fit, notify or cause to be notified to the public” expulsions or suspensions.

Asked what criteria the committee used, Norton said, “Each case is unique. We use our discretion.”

Norton dismissed talk that the committee only made public cases involving small broking firms, while bigger firms, whose members were often on the committee, went unpunished.

“Discipline is exercised without fear or favour. Committee membership does not come into it.”

Meanwhile, the JSE inspectorate confirmed that it had alerted the JSE committee as far back as January 1999 about the case involving the now suspended Karen Claassen of prominent stockbroking firm Kaplan & Stewart.

From that point onwards, said inspectorate head Ian Fullerton, it became a matter for the committee.

Asked why it had taken the committee 18 months to follow through, Norton spoke of the normal time-lags involved in settling a case. “Proper justice takes time.”

The JSE would use its annual address on May 15 to give more details on disciplinary cases brought during the course of the year, Norton said.
Anomalies dog financial markets

THE new urgency in the ongoing debate on the need for change at the JSE has brought into focus an uncomfortable realisation: the SA financial market regulatory structure is, to use a Marxist phrase, finally coming face to face with its own contradictions.

Overtaken by the financial innovations of the past decade, it reflects neither the interconnection of different financial markets (shares, bonds, derivatives) nor the broad worldwide movement towards level playing fields.

Although they are all essentially offering the same services — speculation and investment — the referees in Pretoria have yet to get all the players onto the same field with a competitively neutral set of rules.

Last week a Reserve Bank deputy governor, Dr Swanepoel, commented on the unacceptability of restrictive membership requirements being entrenched in enabling legislation like the Stock Exchanges Control Act. He was speaking as chairman of the Financial Markets Advisory Board, the body discussing the future of the SA financial markets.

Dr Swanepoel did not rule out the merging of the Stock Exchanges Control Act, which governs the JSE, and the Financial Markets Control Act, which governs derivatives (futures and options) and bond trading.

Merging these two acts necessarily means harmonising, among other things, the membership requirements in order to create a level playing field. Since there can be no question of the open bond and derivative markets becoming restrictive, the restrictive JSE would have to become more open.

This would end one anomaly members of the JSE have — and have become members of the SA Futures Exchange (SaFex) and the Bond Market Association (BMA). However, BMA and SaFex members may not join the JSE.

There are other anomalies. The JSE has an advantage on price information because its members are on the equity trading floor where shares trade. Before the advent of futures and options, this was not an issue. But it is now that the JSE is a Member of SaFex, and in direct competition with other futures participants in broking firms, banks and institutions.

Exposure

Share index futures do not exist in a vacuum but derive their value from the underlying shares. Trade in these instruments is therefore dependent on knowing what the underlying share market is doing — and vice versa. The problem is that JSE floor members are privileged to see where the market is coming from and where it is going. Everyone else, trading on screens around the country, has to wait until the prices are flashed on Reuters.

Another anomaly is that the tax treatment of futures transactions is different. Futures transactions are not futures have an unfair cost advantage, because a share transaction can often be replicated by means of a synthetic position in the futures market.

For example, instead of buying a De Beers share, you make use of the fact that De Beers is heavily represented in the All Share Index and you buy an equivalent number of All Share Index futures. You gain exposure to the JSE by trading on SaFex — a concept investors have already cottoned on to.

Another anomaly is unnecessary fragmentation of exchanges and product overlap. This in itself is not bad — the US has a number of competing exchanges which works wonders for innovation and choice. But it can hamper liquidity in a small, closed, limited resource market like SA’s.

Thus we have SaFex offering options on share index futures, and the soon-to-be-launched TOM offering options on the very same indices as well as on shares, merchant banks offering forwards on shares — on which options can be written, and so on.

This results in a muddling of options products which, depending on the ones you choose, are cheap or expensive, guaranteed by a clearing house or over the counter, available everywhere or only at JSE stockbrokers.

Another anomaly is the absence of a cross-market risk management system that recognises the interdependence of the markets. The result? Millions of rand are often tied up in guarantees non-existent risk.

As an example, an investor could have a shares position with the JSE and a futures/options position with SaFex and be perfectly hedged (that is, a loss in one market will be offset by a gain in the other, implying no risk).

Yet, because the JSE and SaFex each operate under their separate rules, financial guarantees have to be lodged with each.

It is for this reason that the Universal Exchange Corporation (Unexcor), the body owned by the merchant banks, is working towards the integration of all clearing, computer and service activities of the JSE, SaFex and the BMA. This will compute the net risk position, as well as reduce clearing and trading costs.

But perhaps the most serious result of this non-integration of our financial markets is that the exchanges could end up working against each other in a serious market crash instead of together.

In the October 1989 crash, for example, US futures exchanges suspended trading in accordance with their own pre-set circuit breakers, but the New York Stock Exchange, under its own rules, stayed open.

Problems

Harmonising the SA financial markets along the principles of competitive neutrality, cost-efficiency and liquidity will not be easy.

The JSE is right in saying there will be immense problems with a dual capacity system stock exchange. But it is wrong to use this as an excuse to preserve the status quo. Theonus is on all concerned to come up with the requisite legislation — for example, tough anti-cartel rules, audit trail technology — to smooth the way towards a new dispensation.

See page 17
**Speculation Lynxet may owe up to R30m**

Troubled DCM-listed Lynxet Transport Exchange (Lynxet), now in provisional liquidation, has creditors clamouring at its door for an amount that sources say could be in the region of R30m.

Industry sources believe its creditor includes Volkskas Bank, Trust Bank, Commercial Bank of Namibia, Shell, BP, MAN, Overland Express and Imperial, among others.

Lynxet MD Tony Teixeira did not comment on the claims, and said the application for liquidation had been prompted by the fact that Trust Bank had called in Lynxet's overdraft.

On Tuesday, he said it was "a sad day for Lynxet" and that for many of its 230 employees it would be the last working day.

He said that as he had a 71% stake in the company, he personally stood to lose between R14m and R16m.

The Trust Bank moved followed the disclosure earlier this month that Lynxet was being sued by at least five firms for more than R16m.

**Airport**

Part of that includes a claim by Overland Express for R12,000 from Lynxet subsidiary Totex Management Services and Interceptor Carriers.

Teixeira and chairman Eugene Marais were apparently confronted at Jan Smuts Airport on Friday by creditors who thought Teixeira was trying to leave South Africa. Teixeira denied he had any such intention.

Overland Express's Manny Silva, however, stuck to earlier claims that he confronted Teixeira and Lynxet chairman Eugene Marais at the airport last Friday and that a fracas ensued.

He said another, unnamed creditor also became involved. Silva said he had since land assault charges against the two directors.

Since its listing in December 1987, Lynxet boasted as its chairman the controversial Joe Berardo, who was appointed in early 1988 and who left Lynxet, and most of his SA connections, in 1989 in the wake of a parliamentary investigation into the exportation of a R2m collection of rare cycads to Madera.

At 10c, Lynxet's share price is not even remissment of its 77c high in February 1988.

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**UK millionaire missing: SA men sought**

**IAN HOBBS**

LONDON — Kent detectives are investigating two unidentified South Africans following the disappearance and suspected kidnap or murder nine days ago of shipping container tycoon Simon Law.

Kent's CID said it feared Law, 36, might be dead and is grave danger and it "very urgently" needed to contact the two South Africans.

The alarm was raised by Law's common-law wife of 16 years, Tarn Phillips, 36, who is convinced that he was murdered after a kidnapping attempt went wrong.

Detective Superintendent Owen Taylor said members of a 50-strong team of detectives he was leading would fly to SA soon.

He said Law disappeared from his R3,5m mansions farmhouse in Elstateden, Kent, on April 22.

Hours earlier, the two South Africans had visted Law's house.

Police have ascertained that the two men flew out of London the following day, April 23.

Phillips said Law's shipping container business started about 18 months ago, had extensive SA involvement. She said there had been "hitches".

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**Blacks' bid to reclaim land fails**

**TANIA LEVY**

About 150 people from Ohrwana in northern Natal yesterday tried unsuccessfully to re-occupy the land at Chardestic from which they were removed in the 1970s.

They will now meet Natal Provincial Administration MEC for Local Government Val Volker on May 6.

Yesterday police prevented the group from re-occupying the land and holding a ceremonial funeral to honour ancestors whose graves remain at Charlestown.

They were taken to the Chardestic police station where some were handled roughly by police, the Association for Rural Advancement (Asra) said in a statement yesterday.

At the police station, the group handed a memorandum to the Social Security Services assistant director, Philip du Toit, who undertook to schedule the meeting with Volker.

The memorandum called on government to immediately restore the people's land, and noted their objection to its proposed sale.

The province's sale of the land had strengthened their resolve to return before June, the memorandum said.

The group said they would continue trying to return to Chardestic if the issue was not resolved satisfactorily during the meeting on May 6.

Asra said the plight of the Chardestic people highlighted the need for government to urgently address the issue of re-storing land rights to black people.

Although the Chardestic people had title deeds to their land, they were forcibly removed after the passing of apartheid legislation.

The association said there was an urgent need for mechanisms to be established to arbitrate and negotiate land claims.
Control of Imperial shifts

Almost 6-million Imperial group shares worth R127.5m changed hands yesterday on the JSE as control of the group passed from the Abellkop family shareholders, many of them non-resident, to a group of seven of SA's largest institutions and Imperial MD Bill Lynch.

On the market, about 3.3-million Imperial shares were sold at 1.250c each to the institutions in a separate transaction off the market Lynch bought 2.7-million shares at the same price.

Commenting on the transactions, Lynch said that there would be no change in the day-to-day running of the group or to the board of Imperial.

"Today's transaction means that control, that is 30% of the company's shares, now rests in the hands of management with about 60% of the shares spread amongst the institutions," Lynch said the non-resident family members felt that it was appropriate for control of Imperial to be in local hands and when buyer interest was expressed, family members elected to accept the offer of 1.250c.

Imperial, a diversified industrial holding, owns 78% of Imphold, the company controlling Imperial car rental, Imperial truck hire, Imperial Motors and Regent insurance.

Bargain

In the interim period to end December, Imperial reported a healthy 20% increase in earnings to R99.8m (R8.1m) or 1.750c (1.460c) a share with all divisions performing solidly.

Before yesterday's special bargain deal the share had doubled in value to 1.225c from 610c in May last year.

Imphold shares were offered at 500c yesterday with no takers. The share has climbed to a high of 475c from its 210c low in May last year.
Imperial family sells out

By Ann Crotty

In a number of deals done on and off the market yesterday, almost six million Imperial Group shares — representing 43 percent of total equity — changed hands at a price of R12.50.

According to an official announcement, a group of seven of SA's largest institutions and the MD of Imperial, Bill Lynch, were the buyers.

The sellers were the family shareholders, many of whom are non-resident.

Mr Lynch bought 2.7 million of the shares off the market at R12.50.

Although the R12.50 represented little advance on the week's trading level, it is sharply ahead of the level of 73c that was dominant a few months ago.

Control has passed from the family shareholders, but there has been no mention of a change of control or an offer to minorities.

This suggests that the seven institutions and Mr Lynch did not act in concert.

It seems that the previous controlling shareholders were holding out until the share price reached a level at which they were prepared to sell.

When the R12.50 level was reached, they quickly offered their shares to the institutions.

After yesterday's transaction, Mr Lynch has around 25 percent of the group's shares. Ahead of yesterday's deal, Momentum had around 25 percent. It is not known if Momentum was involved in yesterday's buying.
Miranco offers to buy Canadian company

By Andrew Dangel

Miranco is a company located in China. It has been expanding its operations into various industries, including renewable energy and technology. The company has expressed interest in acquiring a Canadian company, which would allow it to expand its footprint in the North American market.

The proposed acquisition would provide Miranco with access to new markets and resources, potentially boosting its growth and profitability. The company has been actively seeking opportunities to expand its operations and diversify its portfolio, and the Canadian acquisition aligns with its strategic goals.

The transaction would involve significant financial considerations, including due diligence, negotiation of terms, and regulatory approvals. Miranco would need to conduct thorough due diligence to ensure that the Canadian company meets its criteria and that the acquisition is financially viable.

The proposed acquisition would be subject to approval by various parties, including the Canadian and Chinese governments, as well as relevant regulatory bodies. Miranco has already started discussions with the Canadian company and is working closely with its legal and financial advisors to finalize the details of the transaction.

If the acquisition is successful, it would mark a significant milestone for Miranco, positioning the company as a leading player in the global renewable energy and technology sectors. The company is committed to investing in sustainable and innovative solutions, and the Canadian acquisition is a testament to its commitment to long-term growth and expansion.
Until trusts make money for managers too
Activities: Property and engineering subsidiaries and a portfolio of listed investments
Chairman: C van der Pol, Executive director
W J Swan
Capital structure: 9,92m ordinary shares, Market capitalisation R53,8m
Share market: Price R60c Yield 3,7% on dividend, 6,9% on earnings, p/e ratio, 14,5
cover, 1,9 12-month high, 700c, low, 480c
Trading volume last quarter, 21,000 shares
Year to Dec 31 '87 '88 '89 '90
ST debt (Rm) 0,6 1,8 1,4 2,4
LT debt (Rm) — 1,2 3,9 1,9
Invest income (R000) 2 001 2 470 2 920 3 612
Trading profit (R000) 1 464 2 516 3 416 1 449
Pre-tax profit (R000) 3 430 6 866 8 065 5 782
Net profit (R000) 2 384 2 584 4 069 4 106
Earnings (c) 23,6 25,9 40,9 41,3
Dividends (c) 15 17 21 22
Net worth (c) 568 657 904 891

TRADING TRAUMA
Taxed profits as % of total

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CONGELLA FEDERATION

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<td>Net profit (R000)</td>
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<td>Eps (c)</td>
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<td>Dividend (c)</td>
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About R900 000 attributable profit, or just under 25%, came from 72%-owned subsidiary Congella Federation, whose own investment and property interests had an even less eventful year. Van der Pol fears the operations division will no more than break even this year, but group earnings "should show an improvement." As a non-recurring special dividend of R500 000 was received last year, this is not as cautious as it sounds.

The yield pattern is not exciting, but there is a strong asset base. A quarter of the R62,7m share portfolio is in Tongaat Hulett, 16% in Specialty Stores/Storesco, and 27% in...
Brokers ask JSE for screen trade in gilts

JSE gilts brokers, concerned about dwindling trade on their floor in the Annex, are lobbying the exchange for permission to deal directly on screen — like banks and other institutions.

JSE chairman Peter Redman confirmed a petition had been presented to the JSE by all its gilts brokers — estimated at 27 — and that a meeting would be held on Monday to discuss the issue.

He was reluctant to comment on the JSE’s position on floor-versus-screen trading in gilts until he had studied the “motivation for the brokers’ request.”

It is commonly acknowledged in the market that banks and institutions account for about 60% of all gilts trade.

Spokesmen from three JSE broking firms prominent in gilts trading said the reason behind the request was concern at dwindling floor trade in gilts.

They said that when the floor was quiet, JSE gilts brokers had to watch helplessly while trade continued on screen among the banks and other institutions.

One said trading on screen would broaden his client base, enabling him to deal with clients he could not even see from the floor. He made the point that JSE brokers dealt on screen in futures, and wondered why this should not be so with gilts.

All three brokers expressed concern that this could be the thin end of the wedge.

They said that with floor trading in futures already discredited, and floor trading in gilts now in doubt, obvious questions would be raised about the need for continued equity floor trading.

The long-term implication of this was that automated screen trading would eventually come to dominate the entire SA financial market.

A Standard Merchant Bank spokesman had no problem with JSE gilts brokers competing with banks on screen. “Good luck to them.”

Defaults

“But we would want their risks to be covered.”

An Investec Merchant Bank spokesman also welcomed the move in principle, but expressed concern over undercapitalised smaller brokers and the extent to which the JSE guarantee fund covered defaults.

A JSE spokesman said the guarantee fund was limited to R1m per broker per claim.

An average size gilts deal is estimated at R5m.

The Investec spokesman said if undercapitalised JSE brokers ended up on screen, no one would deal with them — and this would distort the overall price structure.
Premier seeks Competition Board nod

PREMIER Group has approached the Competition Board prior to agreement on its acquisition of Tradegro subsidiary Metro, and Score.

Competition Board chairman Pierre Brooks confirmed at the weekend that the board had been approached by Premier on an informal basis for clarity on restrictive competition.

The board's preliminary assessment, based on information at its disposal, had been that there would be no problems with the deal in terms of restrictive competition, he said.

MARCIA KLEIN

"There are many other players with a substantial share of the market," he said. These included Woolworth, Makro and Shield Trading.

In areas where the businesses of Tradegro subsidiary Metro and Score's cash and carry operation Trador overlapped, the board had found that in each area a major competitor still remained.

In terms of the deal, Premier would become a dominant player in the wholesale industry.
Remember's mining star is on the wane

Companies

Breit von Metztele

BUSINESS DAY, Monday, May 6, 1991

8
Splits remain over benefits of dual trading on the JSE

MAJOR reforms to the JSE would worsen the concentration of power enjoyed by dominant companies by encouraging them to buy up brokerages, the JSE has said.

Some bankers say if brokers were allowed to trade in shares with their own clients and if financial institutions dealt directly on the JSE, business would be boosted and everyone would benefit.

JSE chairman Peter Redman responded: "Who do you think would be the predators of the brokering firms? The subsidiaries of the big institutions."

"Within reason you cannot increase liquidity in a market simply by being a market maker."

The JSE is the world's 12th largest exchange in capitalisation, and its overall index was one of the top five performers last year. But it ranks only 206th in its ratio of turnover to capitalisation. Liquidity is 6%, whereas the ratio for major markets is typically 50%.

The 51 brokering firms with 343 senior exchange members work as "single capacity" agents buying and selling shares for clients in open call on a trading floor.

Under dual capacity, brokers could buy and sell shares to and from their own clients.

Financial Markets Advisory Board chairman Chris de Swardt said last month laws which exclude banks and institutions from the exchange might have to be amended.

He said the JSE had to "adapt to worldwide changes".

The board was discussing whether a negotiated commission system could replace the present sliding tariff of 0.2% to 1.2% of trades and whether it would be compatible with the JSE membership which excluded corporate bodies, he said.

UAL Merchant Bank MD Geoff Richardson told Finance Week he was cautious about becoming involved in broking, saying no London banker who had gone that route had "done much else than lose vast sums of money." But he added, "I think there is some role which merchant banks can play in the trading of equities and I'd be surprised if this didn't happen in the next five to 10 years."

JSE chief operating officer Mike Thompson said "Five or six companies control 80% of the shares listed on the market and in each of those groups is a bank."

"How would it (the bank) draw the line between its own dealings and its dealings on behalf of its client? That's something we fear."

He said discipline would be more difficult if the JSE changed to a dual system and automated trading presupposed "that the person pressing the button on the computer is acting ethically." — Reuters
Hoechst invests R2.5m in the SBDC

CHEMICAL giant Hoechst yesterday announced it had bought a R2.5m share in the Small Business Development Corporation, the largest single capital investment by an international company in the SBDC so far.

Hoechst SA MD Reinhard Traub said the company viewed the investment in the SBDC as a continuation of its involvement with small businesses development since 1997.

Hoechst, a subsidiary of the German multinational Hoechst AG, sought and received permission from the mother company to make the investment, SBDC PRO Dawie Crouws said.

In terms of the investment contract with Hoechst, the SBDC also bought Hoechst's previous head office site and buildings in Industria for R3.772m.

The contract also covered the conversion — estimated at R1.5m — of buildings on the site to provide premises, services and training for small business entrepreneurs, said Crouws.

Completion of the complex — to be known as Tower Hive — by the end of the year would provide 79 additional lettable units, totalling 3,500m² of floor space.

This would bring the SBDC's total floor space for its small business facilities nationwide to 8,560m² (equal to 170 football fields) with 3,170 units, Crouws added.

Conversions at the Tower Hive had already started and some units were already occupied. The aim was to accommodate small business entrepreneurs in fields such as metal work, woodworking, electronics, service and chemical industries, upholstery, clothing, appliance repairs, light manufacturing, printing and signwriting.

Accepting the R2.5m cheque, SBDC MD Ben Vosloo said he was optimistic the investment would mark an upsurge in foreign investment in southern Africa.

"The SA economy would benefit greatly if other SA subsidiaries of big international companies could follow this example. They are on the scene and can best advise their mother companies on the most suitable opportunities for investment that will encourage economic growth in the region," said Vosloo.
The crisis in the bus industry is underscored by the liquidation of the Eastern Cape's CTC Bus Company.

The liquidation of the company has meant the disposal of 237 buses, the retrenchment of around 124 employees — on the books for the 1994 financial year — and buildings and other assets worth millions of rands.

A boycott sparked by a fare increase in May 1999, followed by strikes in December that year, crippled the company, which ceased operations in April last year.

The company operated in East London, Mthatha, Bhuto and Alice.

Managed by the South African Development Trust Corporation, it was jointly owned by the SADT and the Civic People's Development Bank. The SADT 1999 annual report shows CTC has had operating losses of millions of rands every year for the past four years. In 1999 spending exceeded income by R13 million.

According to the official newsletter of the SADT, the company incurred considerable losses over the last five years because of:

- Passenger resistance to fare increases
- A big drop in the number of bus passengers, who switched to the burgeoning taxi industry
- Escalation of operating costs faster than fares
- Industrial unrest in the company
- Passenger boycotts, "enforced by outside political intimidation"

In recent years the company has received government grants to help it with its cash flow problems, but this was not lasting remedy.
HLH smiles in recession

Finance Staff

Hunt Louwars and Hepburn (HLH) has raised its attributable income by 28 percent to R118 million (R100 million) in the year to end-March.

The larger number of shares in issue reduced the increase in the per share level to 12 percent at R1.51c (R1.46c). The total dividend was raised by 12.8 percent to R3,2c (R2.8c) a share.

Commenting on the results, chief executive Neil Morris says the results are most satisfactory given the difficult trading conditions experienced by all companies, particularly in the second half of the financial year.

Turnover in subsidiary companies increased by 28 percent to R597 million (R464 million), but income from associated companies fell by four percent to R54.1 million (R53.3 million), largely due to the effect of pressures facing HLH's timber markets and higher sell-through prices in the broiler chicken industry.

"Sales by spice producer Robertson showed a 30 percent increase over last year, which was an excellent achievement given the difficult trading environment," Mr Morris said.

"It was also noteworthy that, despite the acquisition of Bovril, Marmite and the Monate brands and businesses, as well as the expansion of the milling and citrus activities at Transvaal Sugar, borrowings only increased by R50 million."

Referring to the acquisition by Rainbow Chicken of Bonnie Bird Chicken Farms and a 20 percent interest in the Epol Feed division of Premier, Mr Morris says details of the rights issue to fund the transactions were being circulated to shareholders.

The expected benefits of the Bonnie Bird acquisition will only be felt in the second half of the year and this will result in added pressure on 1992 earnings, he said.

"We therefore expect that earnings will not rise at the same rate as in prior years," Mr Morris said.

Huntcor, HLH's investment holding company, improved net income from R77.5 million to R91.3 million, while the total dividend was raised to 65.5c (58.1c).
Following some large transactions last week, the Apelkop and Wilder families have relinquished their effective control of the Imperial Group. Yet no offer has been made to minorities, nor is any offer envisaged.

The two families collectively held some 45% of the issued shares in Imperial Group, whose sole asset is a 74.88% stake in Impel's diverse interests include car rental, truck hire and Toyota vehicle and Hino truck dealerships.

Most of the shares held by the families were sold in transactions both on and off the market. Seven institutions bought 3.15m of the shares (amounting to 22.4% of the issued capital) through the market on Thursday, at a price of 1.250c. This compares with the previous trading price of 1.225c.

At the same time, MD Bull Lynch acquired 2.7m shares off the market. Lynch already held 700,000 shares, so his total stake has increased to 24%. He says he bought as many shares as he could afford, also at 1.250c. All the families' shares except 500,000 (or 3.6% of the equity) held by the Wilder family have been sold. About 2% of the shares are held by other members of management. A holding of 30% is the level which normally triggers a mandatory full offer under the Takeover Code.

Lynch says the shares that went to the institutions are widely spread between them, and there were no agreements between any of the buyers. He contends that there is no concert party and nobody now holds effective control. In view of that, it was felt that there was no need to refer the deal to the Takeover Panel.

"I wanted the shares to be widely spread," he says. "I did not favour the Big Brother approach. The institutions concerned have seen fit to back the management, and we would be quite prepared to take the consequences if they are not satisfied with our performance.

When the FM asked the Takeover Panel for its view, acting executive director Hermine Engelbrecht said that, until the panel makes an official statement, no comment could be made if a matter had been referred to it, and nor could he say whether the panel was in fact looking at the Imperial case. He also could not comment on the principles which may be relevant should the controlling shares be sold to a wide range of shareholders.

This would be in line with the attitude shown by the panel during the Allied bid.
Shareholders in Pinnacle Holdings, who lost their investment when the company was put into liquidation late last year, are to sue the directors, auditors and share broker Share & Property Brokerage for misrepresentation, says shareholders’ committee member Tony Lewis-Williams. The action will be among other things under Section 160 of the Companies Act, which states that anyone involved with putting together a listing prospectus can be held liable for untrue statements in it.

Pinnacle, an investment holding company with interests in property, mining and banking (including 10% of Alpha Bank, which is now in curateureship), issued its prospectus on July 1 1988. Its directors’ activities have been the subject of a Section 417 inquiry presided over by Judge Oscar Galgut, a retired judge of the Appellate Division.

Evidence that certain statements in the prospectus were misleading and information was omitted has been presented.

Among the claims is that the directors placed 1m shares privately before the listing at R1 each, but failed to mention this in the prospectus. Three days later, shares were sold to the public at R2 each. Shareholders argue that this was a material omission and a contravention of Section 160.

They allege also that shareholders who bought at R1 sold shares to subscribers at R2 once the subscription limit had been reached. This could contravene Section 169 of the Act which says that, if shares are oversubscribed, the amount oversubscribed should be repaid to subscribers.

A newsletter sent to shareholders alleges that directors and other purchasers of privately placed shares were able to “double their money in a couple of weeks.” Evidence was produced at the inquiry that Pinnacle chairman Attie Botha, who was also an executive director of Alpha Bank, sold around 899 000 shares, realising a net profit of R1.4m in four days.

A further example of misrepresentation in the prospectus alleged in the newsletter is the claim that two portions of Grootboom farm were bought in 1987 for R200 000 each. The directors’ valuation in the prospectus, which they said was based on a peri-urban valuation, was R1.8m. The shareholders’ newsletter states that, had it been properly valued at cost or cost plus a reasonable appreciation, Pinnacle would have been insolvent when the prospectus was registered.

In addition, evidence indicates the property was bought in April-May 1988, and the peri-urban valuation was obtained in 1982. The balance sheet annexed to the prospectus was for the year ended February 28 1988, so Grootboom should appear for the first time the following year. Both portions of Grootboom were sold by Pinnacle’s liquidators for a combined R250 000.

Another misrepresentation claimed in the newsletter is that the prospectus said funds raised from the listing would be used to capitalise the company, the main object being “to fund an investigation into obtaining a merchant banker’s licence.”

Such an investigation had however already been done. Minutes of general meetings long before July 1 record the company had been given the green light to register as a merchant bank.

There is also a possible contravention of the Act, which says funds obtained from a listing should be put into a trust and cannot be used for business expenses. Evidence suggests that parts of the shareholders’ funds were used to repay loans and for business expenses.

During the inquiry it also appeared that the investment in the Flamingo Lake Development “was an extremely unfortunate if not reckless and/or negligent decision of the directors, possibly making (them) liable for losses which the company suffered in terms of Section 424 of the Companies Act.” So directors can be held liable if it appears that any business of the company was carried on recklessly.

Botha won’t comment “as the matter is sub judice and all evidence has not been put to the inquiry.”

Another director accused of misrepresentation, former Alpha Bank CE Reinhold Joubert, who formed the bank (then called Pinnacle Merchant Bank) with Botha, also has no comment.

Nor will shareholders’ attorney David Le- viathan comment, other than to say summons will be issued on various parties.

The inquiry was expected to be completed this week but has now been postponed until July. Transcripts will be sent to the Attorney-General.
Top broker lobbies for 'big bang' on JSE

A LEADING stockbroker on Wednesday circulated an informal proposal within the JSE calling for institutional shareholding in stockbroking firms and dual capacity trading.

The circular also calls for stockbrokers to be allowed to charge separately for research, and wants banks to help the JSE write off its debts by end June 1991.

The circular lists the following reasons for its recommendations:
- Strategic errors made by the JSE,
- The JSE's substantial level of debt, and
- Poor economic conditions and unhelpful taxation legislation.

"Many of the JSE brokers are in any event facing run by financial strangulation Therefore they might as well take their chances in a big bang," it says.

It also asks for a moratorium of five years during which the number of stockbroking firms will be limited to a maximum of 50.

Commenting on the circular, JSE president Tony Norton said "It does not reflect the views of the JSE committee From calls I have received, it does not reflect the opinion of the majority of brokers ."

He said he would have preferred the matter discussed in private, but said no action would be taken against the stockbroker involved.

Asked if the exchange was worried by the circular, Norton said "Some members have different views That is normal in any large group of independently minded people"
THE sour taste of apartheid lingers in South African sorghum beer, which is about to make capitalist shareholders of thousands of black drinkers.

The black businessmen who run state-owned National Sorghum Breweries Ltd (NSB) - the world's biggest sorghum beer company - plan to sell shares in the firm from Friday.

But apart from the company's white staff, only blacks need apply.

The colour bar on ownership is the latest twist in the politically owned history of the brew.

For many years the Government used it to help pay for apartheid.

"We are now in the final throes of ensuring that this industry will return to its rightful owners, the black community," NSB executive chairman Mohale Mahanyele said.

Policy

"Our company policy is aimed at black economic empowerment and addressing an historical wrong."

Blacks have been brewing sorghum beer for about seven centuries, but in 1908 Natal barred them from distributing it so white municipalities would have a monopoly.

The monopoly was extended to other white municipalities, including those around Johannesburg.

They set up beerhalls and used the proceeds to pay for services in black townships.

With the creation of so-called black homelands in the 1960s, beer profits were diverted from the townships to the territories which apartheid dictated were the real homes of South Africa's blacks.

Police raids on illicit home brewers were part of daily township life.

Beerhalls became symbols of apartheid and were attacked in anti-Government protests.

The official names which whites gave sorghum beer reflected changing racial labels - from "kaffir" beer, to native beer.

Since the Government set up NSB with a board of independent directors in 1970, brewery products have been given names like Zebra, Leopard, Country Brew and Kalahari.

Nutritious

Sorghum beer is packed with protein, carbohydrate and vitamins and is low in alcohol.

It is as nutritious as an invasive dpr, and for the non-traditional consumer, equally palatable.

Mahanyele said white staff of NSB, including some top executives, would also be able to buy shares so ownership would not be exclusively black.

Target

"This is not regarded as a privatisation. It is regarded as returning something that has been taken away from the black community," he said.

"The share offer is particularly aimed at consumers of the product, who are 96.9 percent black."

"It stands to reason the people who benefit from this offer should be the black community."

But the blacks-only policy has come in for criticism.

Business Day newspaper said in an editorial: "It's fine that employees and distributors be offered preferential allocations.

But the blacks-only policy has come in for criticism."

"What sticks in the craw is that the remainder of the shares are reserved for what NSB coyly describes as sorghum beer's traditional consumers. What's wrong with openly offering the shares to everyone?"

Critical

The paper also criticised the NSB decision not to offer the shares on the Johannesburg Stock Exchange initially but act itself as trader in the stock.

Mahanyele said this was to protect the share buyers, who would generally be small investors with no more than R100 or R200 to spend.

"Their equity would be guaranteed for the first year,

"Why must the 'traditional consumers' be treated as juveniles?" asked the newspaper.

"Are NSB's managers to decide who will own the company's shares after privatisation? Will prospective shareholders need to carry a pass classifying them as 'traditional consumers'?"

The cost

Mahanyele said he expected hundreds of thousands of people to buy shares.

Shares will be priced at R1 each but the number on offer will be disclosed only on Friday.

The company, with an annual turnover of around R300 million, employs 3,500 people and runs 18 breweries - Sapa-Reuter.

Sowetan's cartoonist Len Sak is on leave. His work will reappear when he returns.
Eersteling shares suspended

THE JSE yesterday suspended the listing of Eersteling, the gold mining company managed by Severn Mining Development (SMD), which was placed in provisional liquidation last week.

At the time of the suspension, Eersteling’s shares stood at 4c, down 81c from a high of 65c in May last year. The mine’s market value was R3.2m — but borrowings at end-March were R5.3m.

SMD directors Steen and Franka Severn could not be contacted for comment yesterday.

Frankel Kruger Max Pollak analyst Rob Gillan said Eersteling was valueless. Not only did the mine’s debt exceed its market capitalisation, but it had no break-up value. Although the mine had a modern gold recovery plant, which some suggested was worth about R20m, in today’s depressed conditions in the gold mining industry there were unlikely to be buyers.

He said the mine had important but worthless gold reserves, as Eersteling’s working costs were so high that it needed a gold price of R43 000/kg to break even. The current gold price was about R32 000/kg, and there was no sign the dollar price of gold was going to reach the necessary $60 mark in the near future.

The company’s other options were to swap its debt for equity, or to sell the mine off although conditions in the industry

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Eersteling

militated against a barely lucrative deal being struck. SMD sold its 81% controlling stake in its second gold operation, Rand Leases, in December.

Severn said last week Eersteling was no longer able to borrow the money it needed for essential development work. Without this the mine lacked the flexibility to fight the low gold price and rising costs.

New development work needed about R5m. Severn said she could not advise shareholders to sanction this after an appraisal of Eersteling’s position.

Analysts said the mine had been over-capitalised, crucial development work had been neglected when the mine began operations, and directors had banked on over-optimistic expectations of the gold price.
CAPE TOWN — Supplier of building materials Pennypinchers Holdings (Penpin) plans to delist its subsidiary Pennypinchers Boards (Penboard) as part of a reorganisation of the group into separate retail and wholesale divisions.

In announcing the poor final results of the two companies today, directors say the need for a separate listing for a subsidiary specialising in timber boards and related products no longer exists.

"It is felt that the interests of shareholders of Pennboard will be best served if they are afforded the opportunity of either realising their investment or becoming shareholders of Pennypinchers Holdings," the announcement says.

Final results for Pennypinchers Holdings for the year to end-December were ravaged by lower margins and a higher interest bill.

These had the effect of converting a 32.4% rise in turnover to R232.3m (R172.5m) into a slightly lower operating income of R6.1m (R6.15m). The situation was little helped by a rise in the tax rate to 41.6% (35.5%) which contributed to the 13% fall in attributable profit to R3.2m (R3.6m).

Earnings as a share from aggregate operations fell 25% to R15.21c (R20.49c) and the total dividend dropped to 7c (8c) after the declaration of a final payment of 3c.

Rapid expansion took its toll on the group and management has now focused its strategy on the core business.

The group plans to swing to cash sales instead of credit and has invested over R2m in refurbishing nine retail stores.

Subsidiary Penboard fared little better with its 46.5% rise in turnover to R68.8m (R47m) translating into a 35% drop in operating income to R1.7m (R2.5m) due to the start-up costs of the Transvaal operation, reduced margins and high stock levels.

A higher tax rate saw attributable income fall 45.3% to R3.95m (R6.4m) and earnings by 31.3% to 8.15c (11.87c). A final dividend of 1.5c brought the total for the year to 3.5c (6c).
Norton announces operating shortfall of R6,65m for JSE

JSE president Tony Norton yesterday reaffirmed his faith in the exchange's self-regulatory, single-capacity agency structure and warned against introducing "seducive elements" from other markets.

Norton was delivering his presidential address on the release of the JSE's annual results, which showed an operating shortfall of R6,65m compared with a surplus of R372,000 last year.

The shortfall consisted of about R2m on the purely operational level, with the balance attributable to costs on the Traded Options Market and other related items.

"No market will ever be perfect, but it can be demonstrated that the JSE takes the most relevant form for the community it serves," said Norton.

"It has evolved to meet the needs of the investment and business communities, ever ready to adapt to new circumstances, but guided by the experience won over the 103 years of our existence," Norton strongly defended the JSE's disciplinary procedures, and disclosed that 20 investigations had resulted in formal charges against members or their staff during the past year. In 15 of these cases, the parties had been found guilty, with penalties ranging from reprimands and censure to suspensions and expulsions. No names were mentioned.

"We take self-regulation very seriously," said Norton, adding that it was more cost-efficient and effective than leaving regulation to government officials.

"No matter how diligent and competent they may be, they cannot have the same knowledge and understanding as those drawn from within the industry who are driven to create and maintain clean markets," he said.

The appointment of the government task force under Cape Attorney-General Frank Kahn received the exchange's full blessing and co-operation.

"To those who have pointed to this development as justification for radical changes in the way the JSE operates, I must issue a reminder that it was our team that picked it up first, and the JSE which reported it." The JSE had no doubt that its agency-based system of independent natural persons acting as agents for clients on a fixed commission basis was fundamentally an honest one, Norton said.

"It is not a time for experimenting with untried ideas from elsewhere. Rather, we need to hold in reserve every ounce of our hard-won experience."
Bankers ‘in no rush’ to join JSE stockbrokers

Robert Gentle

Bankers have welcomed the idea of being allowed to have a shareholding in JSE stockbroking firms, but said they would not necessarily rush in if the proposal was adopted.

They were reacting to a suggestion made by JSE stockbroker John Cutten of Haynes Cutten calling for banks to be allowed to hold up to 50% of a stockbroking firm and help the exchange wipe out its debts.

Allied Bank deputy treasurer trading Charles Buchanan said a banking presence among stockbrokers would usher in the kind of better risk management associated with well-capitalised firms.

First National Bank assistant treasurer Mike Law said that while he welcomed the proposal in principle, he would rather wait for deregulation — “which is going to come anyway” — and set up a separate trading arm.

He said the London Big Bang experience had shown that it was expensive for banks to buy up stockbroking firms.

Standard Bank MD Mike Vosloo said that while he opposed fixed commissions and barriers to entry, he felt the JSE was functioning adequately and that there were benefits to its single-capacity structure.

“We would not resist an evolution towards dual capacity, provided it was an orderly process,” he said.

Vollkaps Merchant Bank senior GM Jan de Kock said the value of banks as shareholders would only be realised in a screen-based, dual-capacity market.

Rand Merchant Bank (RMB) chairman G T Ferreira, a vocal proponent of a more open JSE, said RMB had no ideas about moving into stockbroking firms, especially if the aim was just to help settle the JSE’s debt problem.

“It is not that we particularly want to get into the JSE, but that the JSE should be open to whoever wants to get in so that liquidity and cost effectiveness can be improved,” he said.

Meanwhile, Sidney Frankel, CE at Frankel Max Pollak Vanderine, confirmed this week that about two years ago, his firm had come within a day of signing a deal that would have resulted in it gaining control of a small bank.

However, the firm called it off after realising that the resulting risk profile would not have been to its liking.
JSE spells out hopes for 'cash generation'

THE JSE has ended one of its most difficult years with an operating shortfall of R6,65m (surplus of R372,000 last year) and borrowings of R5,2m, an increase of R1,2m on the previous year.

The exchange has had to dip into reserves and effect a transfer from the year's income on the Guarantee Fund to help square the shortfall.

The income statement shows expenditure for the year moving up from R47,6m to R61,4m, an increase of 29%. These were mainly in administration (up 37% to R18m), computer back-up site cost (up 27% to R3,11m), interest charges (up 78% to R8,52m), depreciation (up 42% to R9,35m) and operating costs on buildings (up 37% to R8,3m).

In addition, there was R3,44m provision for doubtful debt arising from slow payment of rent in respect of the JSE's trading floor in the Annex. The futures section of the floor was closed during the year, leaving only the bond trading section, now occupied by JSE gifts brokers.

A key item in the balance sheet is the continued computer systems development work on projects like the soon-to-be-launched Traded Options Market (TOM) and the broker dealer accounting system (BDA).

This was reflected in the notes under Software and New Market Developments in Progress and increased by 36% to R22m (R16,1m).

Commenting on the results in an interview, JSE president Tony Norton said the exchange was now peaking on its cash flow and that the "conservative" budget for the coming year showed it generating cash.

While the debt of R5,2m was not insignificant, Norton said, it constituted "prudent gearing" when viewed against the R100m-plus market value of the exchange's two buildings.

Moreover, the debt was not an overdraft but a 13-month notice facility which meant the JSE always had 13 months to refinance.

He said the presentation earlier this week during which the JSE Committee presented brokers with the picture behind the increases in expenditure had seen a "healthy and constructive" exchange of views.

"We have bitten the bullet," said Norton, alluding to the fact that the exchange had had to dip into reserves "if we have a good year, we might claw back a bit of the surplus."
What can be predicted is that beverages, alcoholic or not, will remain the mainstay of group attributable earnings, which were generated by the unlisted Beer Division but, in years in which the rest of the group is weaker, this can be up to 60%. Beer sales have been growing annually by 10% by volume.

The other star is the 67.5% held soft drinks interest, Amalgamated Beverage Industries, with earnings growth of 25%. The Coca-Cola franchise is the core of this business, with volume growth of 6% a year. Real earnings growth is expected from other beverage interests, which include 30%-held Distillers Corp and Stellenbosch Farmers’ Winery, Traditional Beer Investments and Apple.

Overall, beverages account for more than 70% of group profit.

Results in general retailing and manufacturing subsidiaries were more mixed than usual, manufacturing and OK Bazaars (see separate article) dragging down the rest. Outside drinks, only Edgars’ earnings beat inflation. Southern Sun, now an unlisted subsidiary, looks unlikely to show real earnings growth, though it still has a lucrative 20% stake in Sun International.

Two other unknowns are the additional replacement cost depreciation, a form of inflation accounting which took R 45m off taxed profit last year, and foreign earnings, which added R 45m, and could exceed R 60m if previous growth is repeated.

If OK’s 26% earnings fall took analysts by surprise, that at Da Gama Textiles was more predictable. Textile companies have been reporting either earnings declines (Romax) or losses (Unispin and Frame).

Despite a 30% decline in earnings, Da Gama remains the star of the sector and maintained an operating margin of 19%. Da Gama remains almost ungeared and is a net earner of interest. It has borrowings of less than R 2m on shareholders’ funds of almost R 200m. With this kind of balance sheet and profitability it does not have to justify its place in the portfolio.

Earnings of Afcol’s managed interests grew by 1%, but it was dragged down by a 27% drop in earnings from equity-accounted interests, mainly 23% of the troubled textile company, Romatex, and the office furniture interests owned jointly with M+A Afcol’s overall earnings fell by 14%. There was no turnover growth in the last quarter and management is looking for only modest growth in earnings this year. Fortunately, gearing was reduced from 41% to 37%.

In line with the relative resilience of consumer spending, Lion Match pushed profit after tax up 20%. The bottom line increased by just 10% as there was no contribution from the equity accounted associate, Chet.

The match interests, Wilkinson Sword razor blades and Interpak packaging all did better. Earnings fell only at the appliance division, which includes the Pine and Rowna brands.

Outside beverages, Edgars stands out. Earnings growth is not quite as high as at credit competitors like Foschini and Woolnet’s Specialty Retail Group of 30% and 35% respectively. But 22% growth in a recession is welcome.

Edgars is not strictly comparable with competitors, smaller credit chains. It has a much wider customer base, is not so exposed to high-margin, high fashion and is held back by continued problems of its cash chain, Jet. The Edgars chain itself achieved a 33% growth in after-tax profit.

Its marketing-led strategy is still gaining market share — in clothing, footwear, textiles and accessories, from 15,5% to 16,8%.

Sales growth by 25% to R 25m, compared with average growth in the sector of 14%. Operating margin was squeezed, so operating profit rose by 23%, because of a 31% increase in finance costs, partly offset by a lower tax ratio. Attributable earnings increased by 22%.

Edgars has confounded criticism that it was growing on the back of easy credit. Gearing has fallen from 64% to 59%, despite the pressure of managing the growing debtors’ book. Cash flow before investment activities changed from a net R26m use to a R39m retention. Group MD George Beeton says more emphasis will be put on cash flow.

Amrel has stayed aloof from the boom in retail furniture, which led to such spectacular results — and high debt — at such as Rusform, the JD Group and Proform. For the fourth year running it emphasised asset management and the quality of debtors in preference to sales. Attributable earnings grew by just 6% on sales growth of 21%.

Amrel, however, accounts conservatively and unlike most provides comprehensively for deferred taxation, more than R 18m was provided for current and deferred tax. An additional R 5,7m was set aside as an abnormal item to cover increased bad debt.

It has gearing of 75%, low in the world of retail furniture, and not much higher than 71% at OK Bazaars, which is an 85% cash business. It looks better placed than most furniture companies for the downturn.

Unless some unusual numbers are brought out of the hat this week, SAB is unlikely to repeat last year’s earnings growth of 20%, but will still be well ahead of most industrial companies, where earnings on average have dipped by almost 10%.

Stephen Crouch
Bigger role for private enterprise, says FW

IN his opening address to the conference, State President, Mr FW de Klerk said South Africa was on the threshold of a new housing policy in which private enterprise would be on an equal par with the public sector.

"The South African Housing Advisory Council has also been instructed to propose a new housing policy for South Africa. Its report is expected this September and we hope it will enable us to implement an acceptable and practical national housing policy to replace the present fragmented and outdated one."

The country had enormous housing problems, he said.

Between five and seven million people could be regarded as squatters.

Approximately 70 percent of the black population could not afford a house for as little as R10 000.

Before the end of the century the metropolitan areas would have to house a further nine million blacks.

At 2.9 percent a year the country had one of the highest population growth figures in the world.

The population was doubling every 30 years while the country's natural resources could maintain only 80 million. "[...]

The government placed a high priority on housing, but exclusive State control and responsibility for the provision of housing was outdated."
JSE is floored by R3,4m provision

IN ADDITION to an operating loss of R8,7-million for the year to February 1991, the JSE made provision for doubtful debt of R3,4-million against the non-equities trading floor. It made a profit of R372 000 in the previous year.

These figures were disclosed this week by Tony Norton in his annual presidential address to members of the JSE.

JSE introduced a dual floor and screen system in spite of opposition from other operators in the bond and futures markets, such as banks and discount houses, because the JSE wanted a floor.

The floor has failed. The JSE has been obliged to provide against possible non-recovery of expenditure on and rent recoverable from the trading floor.

Mr Norton spoke of the cost efficiency of self-regulation.

"Government officials, no matter how diligent and competent they may be, cannot have the same knowledge and understanding as those drawn from within the industry.

"They are placed for surveillance in a way that outsiders could never hope to be. The system works because members and their staff report on matters. And their staff are the only ones who really observe in this open market.

Mr Norton said it was not considered sound policy to comment on disciplinary proceedings. But in the past year 25 investigations resulted in formal charges against four members or their staff and 13 were found guilty. Penalties ranged from reprimand to expulsion.

"He referred to the shock disclosure by the JSE itself of alleged dealing irregularities.

"It is a pity though that Mr Norton was unable to convince all at the exchange that it is not a time for experimenting with untried ideas from elsewhere/

Referring to computer expansion costs, Mr Norton lamented that "this expenditure has not always been commented on with a full degree of understanding of its role".

"There is no sense in importing seductive elements from other markets merely because they work elsewhere.

The speech was delivered on the JSE equity-trading floor. Many modern brokers long since switched to screen trading, particularly in non-equities, to keep costs down.

Perhaps the hard-pressed stockbrokers cannot understand why almost R3-million has been wasted on the development of computers for the Traded Options Market (TOM) which was to be phased in mid-1990.

The theme of his speech to members was that the JSE was not perfect, but it took "the most relevant form for the community it serves".
Another R33m in AA Mutual payout

By DIRK TIEemann

CREDITORS and policyholders with claims against the defunct AA Mutual's short-term insurance business should ensure their whereabouts are known to the liquidators.

They are in line for a R33,2-million payout, to be posted in 164-165 cheques on May 31. But if experience is anything to go by, at least 10% of that amount will not be claimed.

When the first dividend payout (but third liquidation account) of R9c in the rand was made in November 1989, creditors were sent cheques valued at R32,3-million. But cheques for more than R5-million were returned.

The first two liquidation accounts were payments to the Receiver of Revenue and preferred creditors, but apparently involved only minimal amounts.

The total payout from the liquidation amounts to about R70-million if all the equalisation dividends paid to late claimants are included.

There have been three equalisation dividends, totalling about R4,1-million. Creditors and policyholders who have missed both major dividends are entitled to 55c in the rand if their claims are accepted by the liquidators.

About 45,000 people will not get a cent because their dividends are less than R20. They may stand in line for a dividend later if the accumulated dividends due to them exceed R20.

Underwriting

The money left over after the final distribution will be paid into the Guardian's account six months after the final distribution late in 1992. Claims can still be made on this account, but any left-overs eventually go to the State.

The liquidators claim the final dividend will be about 86c in the rand. This amount includes revenue from the sale of the AA Life building at 27 Diagonal Street for what the liquidators hope will be about R70-million.

The final dividend will be reduced by 54c because of a secret "overall settlement agreement" reached among a few major creditors in February. The liquidators will pay Fedlife R12-million from the assets of the estate to be distributed among AA policyholders and other creditors.

This means that Fedlife will be refunded for part of the R33-million it paid Natsie Kirsh for a major shareholding in the AA Mutual. Fedlife cancelled the deal after it discovered that the AA had huge underwriting losses. In terms of the settlement Fedlife will get R27,5-million.

The liquidators say they opted to settle and so discount potential claims against the business totalling R200-million to expedite the dividend payment and to save legal costs.

The liquidators were at one time worried that three claims for about R75-million might be decided against them. That could have cut the final dividend by 3c and bring the total payout to 70c in the rand.

Mr Kirsh will repay only about R10-million of the R35-million he received, a fact which has raised a few eyebrows.

This settlement was reached five years after the AA Mutual was put into liquidation.
Sorghum workers get free shares

By DON ROBERTSON

THE GOVERNMENT'S promise to privatise the sorghum beer industry is being fulfilled with this week's issue by National Sorghum Breweries (NSB) of 45 million shares at R1 each.

The proceeds will be used to repay a R44-million loan in full to the Government. It is effectively the purchase price of the company.

The offer, which opened on Friday and will close on June 19, is aimed at employees, distributors, retailers and consumers. Should all the shares not be applied for, the balance will be offered to the public.

Each of the 3,500 employees will be given 200 free shares out of an allocation of 13.2 million, which will be bought by the NSB Employees Share Trust to finance this. The trust has borrowed R13.2 million from the State, repayable, free of interest, in three years.

After the allocation of about 700,000 free shares to employees, the 12.5 million balance will be offered to them at a discount of 50%, or 70c each. The 30c a share discount must be repaid within three years. The 30.8 million shares remaining will be offered to selected public groups.

The same price looks attractive. Forecast earnings for the year to June are 20c a share and a dividend of 11.5c is expected, based on 2.5 times cover. In the following year, earnings are expected to decline to 20c and the dividend to 10c.

Shareholders will not qualify for a dividend in the current year and can expect to receive the first payment of 10c in September 1992.
Long-term prospects for the JSE 'hothouse'

THE JSE should be viewed as a financial "hothouse" which will continue to move up in the long term, says Consolidated Fund Managers (CFM) MD Clive Fox.

Speaking on personal financial planning at a Price Waterhouse conference last week for foreign residents, Fox said the JSE could be viewed as such because it was known that the market was highly illiquid where a severe shortage of quality script prevailed.

It was also believed that institutions held in excess of R50bn in liquidity, with an annual net cash flow of nearly R25bn. During 1996, the JSE traded about R33.7bn worth of equities.

The situation would continue until exchange controls were lifted and institutions were free to invest on a global basis. "Should there be any improvement in the operating climate through the normalization of international relations and a renewed accessibility to foreign capital markets, a substantial improvement in equities over the longer term may be anticipated."

BRENT VON MELVILLE
Company offers 44 million shares

THE offer of nearly 44 million shares in National Grain Sorghum Breweries Limited marked an important and significant milestone in South Africa's economic history.

This was said by Dr. Dawie de Villiers, Minister of Economic Co-ordination and Public Enterprises, at the weekend.

"This company should pave the way into a new socio-political and economic era in South Africa where blacks and whites participate fully on equal terms to enrich the total community." - Sapa
Pep Ltd share sales to help group earnings

CAPE TOWN — Last week’s sale by Pepkor of 3-million of its Pep Ltd shares for R81m will offset the diluting effect which the conversion of debentures will have on this year’s group earnings, chairman Christo Wiese said in an interview yesterday.

“The sale will have a major impact on Pepkor’s earnings this year,” he said, adding that it was possible that growth in operating profit might flow through to earnings a share growth.

Wiese said Pepkor, which owned 95% of Pep Ltd, had been approached with a bid by a major institution which Pepkor wished to have as a shareholder. The sale, concluded at R27 a share, increased the spread of shareholders in the group.

The conversion of debentures in Pepkor and Peggro, triggered by the final dividend to be paid in June, will mean that earnings a share will be calculated on the basis of 15-million shares in issue as opposed to 11.7-million.

Wiese would not commit himself to a real increase in group earnings this year, but said there would be real growth in dividends.

Real growth in earnings would depend on the performance of the group’s core businesses — Pep Stores and Shoprite — and the contribution made by recent acquisitions, namely Super Eencentre, Frasers’ mine stores, and Hartes.

Wiese said it was important to note that Pepkor management believed its tax rate had stabilised at about 41-42% and would remain there for the next three years.

The impact of the rising tax rate was evident in Pepkor’s attributable earnings for the year to end-February which rose 17% to R78.4m (R67.8m) on a 20% increase in pre-tax profit.

Contributing factors to the stabilisation in the tax rate were the group restructuring, the fact that the group operates in a number of tax regimes and the increase in export concessions. Exports were expected to grow to about 1.5%-2% of total sales this year, and perhaps to a substantially greater amount thereafter.

Once the new UK operation had been tried and tested, steps would be taken to expand into Eastern Europe. Political stability and improved relations with Africa north of the Limpopo could also see a growth in exports.

Wiese said Pepkor, which has cash resources of about R200m, was examining other acquisition possibilities at the moment.

Organically the group, which has about 1,500 stores, would continue to open about 100 new outlets annually.

As regards trading conditions Wiese said “We hope the economy has bottomed out but it is definitely at a very low point of the cycle. We planned for 1991 being a very tough year, but it could be tougher than anything we imagined. However, there is a general consensus that there will be an upturn by year-end and we are planning accordingly.”

In the longer term Wiese believed the group was well placed to take advantage of the fact that in the emerging SA the disposable income of the low wage earners was going to increase faster than that of the elite.

He said there had been a tremendous increase in credit sales, despite the recession and that the group wished to increase its credit sales until they represented between 15%-20% of total sales. Presently, credit sales represent about 8% of the total
Industrial shares adjustment ‘likely’

CAPE TOWN – The bull market is in full swing, although a correction in industrial share prices which have climbed strongly during the past few months is likely, says Old Mutual portfolio manager Adrian Allardice.

The fundamentals look good for a soundly based long-term upward movement in share prices, he says. Some have started to fail back as part of the correction, but Allardice says prices could remain at current levels if market sentiment improves.

“All the signs point to the start of a recovery of the economy by the end of the year though there is uncertainty as to how long the current weak performance will last. I think share prices have already anticipated the favourable forecasts for the economy in 1992, namely growth and a decline in interest rates.”

However, Allardice says the downside in the market is clearly limited with investors likely to view any easier trend as a buying opportunity.

“Industrials continue to offer sound growth prospects. In addition, prices are underpinned by the scrap shortage which is likely to worsen.”

“Even in the current market where historic dividend yields are low at just above 3%, several shares are offering above average profit potential.”

He expects reasonably good corporate profit growth in 1991 with the primary sectors of the economy starting to pick up later in 1991 or 1992.

Allardice, who manages Old Mutual’s Industrial fund, says it is normal in the first run up to a bull market for prices to shoot ahead of the fundamentals and a correction or sideways movement thereafter is normal.

While some analysts believe the market has become too expensive, he thinks that prices are reasonable and that they will maintain their ratings.

Old Mutual’s chief economist Dave Mohr says while the performance of the economy in 1991 will be largely an extension of that of 1990, there will be an improvement in 1992.

“The corporate earnings cycle is picking up and interest rates are coming down. This is good for the share market.”

“Uncertainty about the political situation may dampen but not kill off the development entirely.”

Mohr says the critical factor for the economy is foreign investor confidence as it is vital that the improvement on the capital account he maintained to keep the balance of payments in a comfortable position. This will depend on the level of violence, the progress in negotiations, and the normalisation of international relations.

If the capital account takes a knock it is likely the Reserve Bank Governor will increase interest rates, placing great strain on the economy. However, Mohr says foreign investors are taking a reasonably optimistic view of the SA economy.

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**Graphic:** LEE EMMERTON, S source: ITERT
Market surges despite violence

From MERVYN HARRIS

JOHANNESBURG. — When bad news of continued violence, explosions in Johannesburg and the breakdown in negotiations between the government and the ANC failed to shake Diagonal Street on Monday, people decided that the market could go only one way — up.

And there were good gains across all sectors yesterday as investors scrambled for scarce quality shares in an extremely tight market to lift the JSE overall index 1.5% or 49 points to 3 081.

"Demand was for the highly capitalised, tradeable shares but there was little scrip on offer and investors had to bid up prices to obtain stock," a dealer said.

A slightly firmer gold price encouraged London as well as local buying of gold shares and the index rose 2% to 1 173. Dealers reported strong demand for selected lightweight gold shares and good trade in Krugerrands.

The strength of industrials — the index rose 1.2% to 3 547 to come within range of the end-April peak of 3 559 — was reflected in Barlow Rand shares. The shares rose almost 4% to R41 a day after reporting a 14% decline in interim earnings. Analysts said the company was seen as able to weather a downturn.

*Golds lead rally on JSE — Page 14*
Bull run could be prolonged

By ARI JACOBSON

The bull market currently underway on the JSE could be prolonged throughout this year and into 1992, said Simpson McKie market strategist Peter Trengove-Jones, at a market view seminar at the Newlands Hotel yesterday.

Trengove-Jones pointed out that certain areas of the stock markets were highly valued "and therefore a bit daunting" but, he said, with the shortage of scrip coupled with a surplus of cash from the institutions and riding on good fundamentals with the improved outlook for the business cycle — would surely make an impact on share prices.

Looking into the future, Trengove-Jones said shares that would grow with the new SA, and this included the capital goods sector, would provide sound value.

Economist Graham Boyd said a partial economic recovery can be expected by the end of 1991, with a 3% growth in gross domestic product (GDP) forecast for 1992.

Boyd said the early part of the recession which has endured for 26 months had been brought on by two sectors, agriculture and mining.

Only from the middle of last year did we see a more normal type of recession from tight monetary policy domestically and slackened demand from overseas.

He said the economic oddity was the sharp decline in production, while private consumption and investment expenditure remained firm.

As for 1992, Boyd pointed out that gold and foreign exchange reserves were strong as is

the liquidity in the money market.

In addition, he said SA could expect a boost from exports in the coming year.

All these, he said, should help "steer the economy out of a recession and into positive growth in 1992."
Industrial shares offer sound growth prospects

By Pieter Coetzee
Financial Editor

Long-term prospects for industrials are encouraging, even though the market could take a breather in the short term, says Adrian Allardice, portfolio manager of Old Mutual’s industrial unit trust.

While not ruling out a correction, Allardice says market downside is clearly limited to between 5% and 10% with investors likely to view any easier trend as a buying opportunity.

Although the short-term economic growth outlook is far from encouraging, investors’ time horizons will be pitched well beyond 1991.

He, nevertheless, expects an upturn in the economy at the end of the year or early next year.

The market is also taking the present situation of violence in its stride and is looking ahead with reality.

"Most of the bad times are behind us and we expect an upturn in earnings and dividends in about six months’ time and in 12 months’ time they will certainly be better."

Allardice says positive real interest rates have a negative and positive side for the share market.

On the positive side, good returns can be earned on cash.

On the negative side — and it outweighs the negative side — good monetary policy will lead to higher real growth rates for the economy as well as companies. Sound monetary policy is good for shares over the medium term.

"Industrials continue to offer sound growth prospects."

In addition, prices are underpinned by the supply shortage which is likely to worsen.

"Even in the current market, where historic dividend yields are low at just above 3%, several shares are offering above average profit potential. Superior share selection will be the key to maximising returns."

He says share selection rather than timing remains the foundation of the industrial funds’ investment philosophy and since its launch a year ago the fund has shown impressive performance.

A R10 000 investment in the fund when it was launched in May last year is now worth at least 80% — a net total return (capital appreciation and dividends after all costs) of 28.69% against the industrial index’s rise of 26% over the same period.

Allardice says in addition to a wide spread of blue chips, the fund has been most successful with its selection of “near blue chips” as well as second liners.

Holdani was bought as a recovery stock at R14 and now stands at R31. Clicks rose 72%, Dadata 40%, Foschini 110%, Sunbop and Trench doubled while Mighty added 67% and Safret 46%.

"Research had indicated that the retail sector was likely to perform relatively well while manufacturing would have margins squeezed by the economic downturn.

"This led to some 13% of funds being allocated to retailing in the past year. However, manufacturing could recover when the economy picks up."

"In line with the investment philosophy the fund remained virtually fully invested and unit holders benefited from the low liquidity."

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JSE Industrial Index Over the Past Year

[Graph showing JSE Industrial Index from May 1990 to May 1991]
Raging bulls push up industrial index

THE bulls continued to rage on Diagonal Street yesterday as investors piled into blue chips to lift the JSE industrial index to another record high.

The index advanced 35 points to surpass the April 26 peak of 3 559 and close at a new high of 3 591, but off the session high of 3 591 as leading shares succumbed to profit-taking.

Dealers said share prices had gone ahead too fast in hectic morning trading and the market had become overheated and top heavy. But with demand ranging across all sectors, the JSE overall index rose 32 points or 1.1% to 3 116 to lift its gains to almost 3% over the past two days.

Some dealers said market expectations were too high and urged a little caution but others said any correction in share prices would encourage renewed buying.

"Demand for shares was mainly from local institutions but a major London institution was also said to be in the market looking for gold shares. The all gold index rose 27 points to 1 200 although the gold price retreated after failing to breach the $358 level."
Privatisation taken too far has its own economic pitfalls

By Buddy Hawton

Why would the ANC apparently ignore evidence that privatisation is a generally effective way of improving national economic performance? Why are some black leaders who are candidates for participation in a future government still talking nationalisation when it is in retreat around the world?

To me there are three reasons:

- They cling to an ideology which, although discredited, has been the backbone of their struggle for years and has brought them thus far. This, of course, is a bad reason to keep any discipline, but it is understandable.
- Although they now see the failure of a command economy, they have so far been unwilling to support their supporters in slogan propaganda that they run a serious political risk in trying too quickly to reverse this thinking. The so-called "masses" might be confused if the ANC suddenly told them communism was a good strategy for acquiring power but a poor way of implementing it, and
- Thirdly, because centralised economic control provides opportunities for a new government to consolidate and perpetuate its power — by more direct control of wealth creation, and by providing jobs directly under the government wing, and ultimately creating an entire middle class of parasitical people which enriches their position.

In regard to these reasons, there is not much we can do about the sentimental attachment to communism other than continue to illustrate its failure, preferably without the arrogance that some, have indulged in. It will fade as the real challenges of the future take hold.

SA is not in the same situation as some other countries that have already begun in the February issue of the ANC journal, Mayibuye, where an apparently even-handed analysis of the pros and cons of nationalisation was presented in simple, easily understood terms.

It is, however, the third reason for maintaining a command economy that is the greatest challenge. Especially to a new government, the attractions and security of a command economy are sufficiently strong to warrant sacrificing some economic performance. Simply having a great deal of people acting out of your policy is reassuring to a new leader Robert Mugabe doubled the 40,000-strong civil service when he took power in Zimbabwe.

Moreover, in adopting this approach, a new SA government would simply be following a very persuasive example set for them by the NP government, which ran SA for more than 35 years along these lines.

A great part of the NP's success was due to the fact that it developed a massive public sector which provided employment for NP voters, generated a desirable and stable middle class community for those voters, and generally amassed for themselves a power and control which enabled them to carry out their political objectives.

It is not surprising that candidates for a future government would consider retaining control over the parasitasts for the same reasons. Of course, it did not work in the long run for the NP. And that's the point.

How do we contribute to a better understanding of the economic requirements critical to this country's development and success?

Firstly we have to adopt an "in-continuity" attitude to economic strategy, rather than "you versus us". Thus we must concede to freezing all privatisation until political settlement has been reached. To push anything through now would be provocative. Privatisation will succeed only if it is the agreed policy, not a unilateral decision by the present government.

But we should continue to promote these economic instruments by saying "Let's not repeat the entire learning curve of the previous government. Use their experience." Peak economic performance is the best way to secure a widely accepted political settlement, because it will create enhanced prosperity across a broad base.

The paramount lesson of the second half of the 20th century has been that no ideology and no system can prevail against the general will of the people, nor against the natural state of systems, social or economic.

SA is embarking on a journey of transformation from a command society to a participatory society. The impact of this is likely to be almost inconceivably vast. It will re-fashion the character and structure of our society at level.

Like all profound social developments, it is neither created nor controlled by the political leaders of the day. It is an evolutionary process from deep within the society, and the wise government does not resist it, but tries to ride and refine it, and channel it for maximum benefit.

This liberalisation is occurring across the whole frontier of our society, and economics is just one aspect of this. That is why the ANC and others like them must understand that the force which has brought them to the negotiating table is the same force that is driving economic liberalisation and deregulation.

Deregulation is clearly the more important of the two in terms of unleashing the economy. Its impact will be felt right down to grassroots level.

Deregulation will release the latent capability in the economy, it will channel resources and talent away from tax-dodging, away from monopolistic price and profit seeking, away from the bureaucracy, and mainstream these resources and talent available for creative application in business and industry.

Finally, the challenge in this country is not the redistribution of wealth, but the creation of wealth, and that is what privatisation and deregulation are about. However, for the moment they are not at the top of SA's political agenda. Without economic and political restructuring to attend to which require government intervention, before we reach the stage when the market forces can propel us forward.

Hawton is chief executive of Safren. This is an edited extract from a recent speech to the SA Institute of Chartered Secretaries and Administrators.

23 May 1991

BUDDY HAWTON (232)
Minimum fee put brewery off JSE route

The JSE's R30 minimum fee on share transactions was an important reason in not choosing the exchange for the sale of shares in National Sorghum Breweries (NSB), Finansbank executive director Willy Ross said yesterday.

The 44-million shares of R1 each that the NSB is offering to its predominantly black employees, distributors and customers, will instead trade in an over-the-counter market free from transaction fees.

A second reason, said Ross, was the need for "a certain education process" for what was a large body of first-time investors.

Finansbank, merchant bankers to the NSB, had structured the share issue around the need to keep it simple and ensure it succeeded, he said.

"It gives holders of the shares a level of comfort for one year in the event the shares fall below R1," said Ross. He expected the shares to trade above their R1 issue price.

Another aspect of the Finansbank approach had been to offer the shares in affordable tranches of 100 for the "hundreds of thousands" of expected shareholders.

Buyers and sellers will eventually trade by communicating their orders by telephone to an audited PC-based system which will match supply and demand on a first-come, first-served basis. Transfer of ownership will be monitored by transfer secretaries, Mercantile Registrars.

He conceded that the shares were destined first and foremost for the people most closely associated with NSB though there was nothing unusual about this.

Certain UK privatisation issues such as British Gas and British Telecom had also given special incentives to account users to take up shares, Ross said. It did not mean everyone else was excluded.

He did not rule out NSB moving to the JSE once the initial aims of the share issue had been achieved.
JSE urged to structure new industrial index

By PIETER COETZEE
Financial Editor

THE chairman of the Shareholders' Association of SA, Isay Goldberg, urged the JSE to structure a new industrial index separately from the 30 or 40 blue chips currently incorporated in the industrial index.

In the association's latest monthly newsletter, Goldberg says the industrial market of the JSE—according to the index—is capturing new heights. But this is not reflecting the truth.

The index is, in fact, in essence influenced by market capitalisation and the price of the "heavyweights".

The average "middle of the road" share and the real laggards contribute virtually nothing to the index.

He says it is interesting to note that 20 or 20 shares, the "blue chips" commonly held by all major investing institutions, have thus a dominant effect on the index.

It is common cause that large institutions, awash with funds from contractual savings, until recently distanced themselves from the stock market, for some time now vie with each other to purchase substantial holdings of these blue chips.

"Of course, the price of these shares inevitably rise. And therefore the index and the laggards lag.

"This index rise to dizzy heights, represents salt in the wound to thousands of shareholders who have invested since 1986 in hundreds of mediocre shares, promoted and acclaimed by analysts and sponsoring brokers as being pregnant with promise."

"The promises were never fulfilled and, in fact, have been aborted by circumstances. Several of these have succumbed to liquidation. Many are teetering on the edge of the precipice, and the index rises."

Goldberg says an industrial index for these shares would provide the cold douche of reality to the naive hordes and greedy shareholders who have lost millions in the market as a function of their greed, gullibility and the reckless promotion of such shares.

He also says that the creation of cash shells, and the sale of their listings, have become a racket.

"I am suggesting to the JSE and to the authorities that the creation and disposal of such cash shells must be controlled far more incisively than they have been hitherto."

On prospects for the market, Goldberg advises investors to apply their minds to further investment in the JSE, with dividends still being exempt from tax.

"I would suggest that to compete in the market for blue chips, some of which may have had a rise over the last few months of up to 35% off their lows, would be risky.

"On the other hand, it might well pay to investigate neglected second-tier counters.

"If these parameters are regarded as reasonable, particularly as to size of the debt, such second liners might well prove to be fruitful purchases."
Industrial shares reach record highs

By PIETER COETZEE
Financial Editor

The industrial index of the JSE yesterday again reached record levels, surpassing the new high reached on April 26, in spite of SA's current political uncertainties.

Stockbrokers said there was limited demand for quality blue chip shares but a shortage of sellers of quality shares pushed the industrial index to a new record level.

They, however, warn that although there is long-term value in certain shares, a correction seems to be overdue.

Old Mutual portfolio manager Adrian Allardice does not rule out the possibility of a correction but says the downside is limited to 5% to 10%.

The industrial index gained 34 points or 1% yesterday from 3,547 to 3,581 (the previous record level on April 26 was 3,550), bringing the total rise in the past two days to 2,2%.

Gold shares again moved higher yesterday in spite of the fairly stable gold price of $356,50 and the gold index gained 26 points or 2,2% from 1,173 to 1,199.

This brings the total rise in the gold index over the past two days to 5,3%.

Perceptions that world bullion prices are unlikely to fall much further kept gold shares on the boil, and the bullish sentiment spilled over to most other sectors.

Gold analysts, however, warn that the upside potential of the gold price, based on fundamentals, is limited and they expect the gold price to trade between $330 and $400 for the rest of the year.

The strong industrial and gold markets caused the overall index to surge to 3,117 from the previous day's 3,091 closing.

Heavyweight gold share Vaal Reefs gained R2 to R20 and Benfri also R2 to R22, while mining financial Anglos ended R2 firmer at R108,25, reports Reuters.

Diamonds had De Beers 85c firmer at R78,60, while industrial leader Richemont gained 50c to R26.
Banks take over clearing of all JSE brokers’ futures deals

ALL JSE stockbrokers now clear their futures trades through the banking sector, Safex said yesterday, a move interpreted in some quarters as a growing sign of co-operation between the banks and the exchange.

This follows a decision taken last year by the JSE to stop acting as a clearing member of the SA Futures Exchange (Safex) and allow its brokers to clear through any Safex clearing member of their choice.

The reason given by the JSE at the time was that it would result in a much safer risk profile, because the exchange would no longer have to put its money on the line to stand good for its brokers’ futures deals.

A Safex spokesman said yesterday that the transformation was now complete and that all JSE brokers trading in the futures market cleared their trades through banks.

Rand Merchant Bank (RMB) ended up with the lion’s share of this new market, and now clears the futures trades of about 11 stockbrokers.

An RMB spokesman said “Ours was a tried and tested system,” alluding to the fact that RMB had been a clearing member in the informal futures market long before Safex was licensed. “They were happy to come back to a system they knew.”

While the price of RMB’s clearing services was material, the spokesman added, it was not the primary factor.

The other major clearing member to benefit from the JSE move was Financial Instruments Clearing Company, a wholly owned subsidiary of First National Bank (FNB). It now clears the futures trades of four JSE stockbroking firms.

Two other JSE stockbroking firms use the clearing services of Discount House of SA and Standard Bank.

JSE stockbrokers now form a significant part of the overall futures market, accounting for 22.9% of overall activity in April, the most recent month for which statistics are available.

Meanwhile, futures volumes continue to show signs of strengthening. A total of 8330 contracts worth R138m traded on Wednesday.
Barlow Rand has softened the bad news accompanying its 1991 interim results with its announcement of a plan to list Middelburg Steel & Alloys (MS&A). It remains to be seen whether the flotation will add value for Barlow shareholders in the short term. But the intention is to distribute MS&A shares for free, so investors could be better off once the stainless steel and ferro-alloys producer's profit has recovered.

The highly cyclical MS&A was the main beneficiary for Barlow in the six months to end-March. In the full 1989 year MS&A made an after-tax profit of R216m (contributing 22% of group attributable profit), but in 1990 this dropped to R52m, with virtually all coming in the first half. In the latest six months, MS&A posted R12m. That was the main reason Barlow's earnings were down by 14% had MS&A been excluded, Barlow's EPS would have been up 3% — a creditable enough result at present.

When the stainless steel and chrome markets were booming, MS&A was a major driving force for the group. It benefited from hefty capital projects, including the chrome division's R260m CDR (chrome direct reduction) plant, though some of these investments have yet to achieve the hoped-for returns. However, chairman Warren Clowes says the company now has too big an impact on Barlow's profit — in upswings and in downturns.

As a first step towards lightening the group's holding, shares are expected to be distributed in specie to Barlow's shareholders, probably around October this year. A flotation of about 20% of the issued shares would be needed to give the share a reasonable marketability. One reason for taking this route rather than listing MS&A through a Barlow rights offer, is that the profit volatility and the current loss have made the company extremely difficult to value. Another consideration is that MS&A's markets remain difficult to forecast; Barlow's management has no wish to be involved in earnings forecasts that could go awry.

Once the shares have been given to the Barlow shareholders (who of course already own 100% of MS&A), it will be up to the stock market to place a value on the company. Later, when the performance has improved, Barlow may list its holding further, probably through a rights offer by MS&A. It would, however, continue to manage, and be responsible for, the company.

This plan may help to bolster Barlow's share price in the short term, though the extent will depend on whether the market feels the MS&A holding is undervalued by the present share price, and whether a separate listing will result in a markedly better valuation. Based on Barlow's current share price, Steve Rubenstein of Fergusson Bros, Hall Stewart estimates that the stock market is now valuing MS&A at around R575m, or about R3 per Barlow share.

It is probably fair to assume this is a conservative valuation. Profitability can be very good and management estimates replacement value of the assets at R1,5bn. Assuming the market capitalises a separately listed MS&A at, say, R750m, then that could add around 10% to the Barlow price ahead of the listing. As the FBM went to press, the price had gained 150c to trade at R41 — so the market appeared to be taking a similar view. More important for investors, though, is the longer-term potential.

It seems the listing will take place when the company is at or close to the bottom of its business cycle, and the major capital programmes have been completed. Profits will remain linked to demand for stainless steel, a long-term growth market. The stainless steel operation has already seen an "excellent profit turnaround," but the ferrochromium division is in the red because of effects on exports of a worldwide oversupply and stronger rand. There have also been operating problems with the new furnace, which presumably will be resolved.

As far as Barlow's 1991 earnings are concerned, much will depend on the second-half contribution from Rand Mines, which is forecasting lower earnings and dividends (see this page). The group is taking firm action to resolve problems in the mining division, but it is unclear how long it will be before a turnaround is achieved. Rand Mines will, if the deal with Impala is concluded, assume about R200m of Barmines' debt.

Aside from the capital requirements, Rand Mines hopes that by forming a joint venture with Impala, it will have a stake in a better quality platinum operation that could benefit from production and other synergies. Rand Mines' other non-core assets will be disposed of, leaving the group essentially a coal house. Restructuring will be expensive. Conclusion of the Impala deal will result in a R430m write-down for Rand Mines, with Barlow absorbing R220m of it.

Most of Barlow's other divisions did fairly well in the first half. Offseting the 27% slide in the contribution to after-tax profit from the mining and mineral beneficiation division was a dip of only 3% in the industrial operations, a 1% improvement in packaging and textiles, a 16% increase in food and pharmaceuticals and a 14% advance from the international interests (helped by the exchange rate).

Management is looking for a broadly similar trend in the second half. If MS&A's second-half loss is assumed to be around R20m, that would be a considerable improvement on the steep slide to a profit of only R2m in last year's second half, and could compensate for deterioration on the mining side.

Capital spending is being curbed where possible. Even so, the interest bill is rising sharply, with the interest cover down to 3.4 times, and will probably rise further. Clowes forecasts that the full-year results will show a decline "similar to that of the first six months." Assuming EPS are down by, say, 16% at 39c, the current R41 share price offers an earnings multiple of 10.5. The annual dividend will almost certainly be maintained at 17c, giving a yield of 4.2%. Investors should be encouraged by the steps being taken to deal with problems. The share is now looking fully priced, but could be worth buying at lower levels, such as below R40.

Andrew McNulty

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**Barlow Slides**

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<td>Investment income (Rbn)</td>
<td>166</td>
<td>286</td>
<td>151</td>
</tr>
<tr>
<td>Attributable profit (Rbn)</td>
<td>403</td>
<td>463</td>
<td>348</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>217.7</td>
<td>244.8</td>
<td>187</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>51</td>
<td>119</td>
<td>61</td>
</tr>
</tbody>
</table>
Rand Mines firm in spite of poor omens

RAND MINES defied gravity on the back of a buoyant stock market to hold firm at R70 a share after going public with its troubles this week.

The Barlow-controlled mining house hinted at a commendable halving of the year's dividend At the interim to March, it announced.

Satisfied

- It would assume R200-million of subsidiary Barlows debt in addition to its current loan if a deal with Impala Platinum was reached.
- A share would result.
- It pegged the profit forecast to R100-million write-down plus platinum investments.
- The market value of its stated investments was 42% lower than at the same time last year.
- Its equity ratio stood at 14c, and net asset value was 27c R7 a share R155, and could fall by another R5 to 75c if the Impala-Barlows deal went ahead.

Nevertheless, chairman Tommy Watt is satisfied with results.

The results of the coal and forestry operations were "particularly pleasing," says Watt. There will be a lot of assets to try to meet some of the cash costs.

Cold

Fedfood's frozen food brought the group in from the cold, and the last line 12% in 1989/90.

The directors do not expect early improvements in domestic or foreign economies and Rand Mines and Middelburg will continue to eat away at the bacon any industrial company might bring home.

Weak

Rainbow Chicken squawked that weak consumer demand and excessively high production volumes led to depressed selling prices.

Reporting for the audited nine months to March 1991, the group also made annualized comparisons. Sales grew by only 8.7% in the year to March to R690-million, and profit margin fell by a third to 18% Operating profit dropped 27% to R71.1-million.

Shareholders approved the acquisition of Bonny Burd and 50% of Epoil from Premier, effective from April. Ann Barlow will have to shell out R25-million to pay for them.

The board does not expect growth in the current year but remains positive in the long term.

Datakor

Datakor shares were offered at 15c lower than prevailing and interest-bearing debt to R42.5-million interim to the year.

At the March 1990 yearend, borrowings more than halved to R42-million.

Chairman Nick Frangos said that the interim that operating margins had increased. The profit rise was offset by investment in new and emerging business units and the costs taken up.

The group's main contributor to the improvement was that it achieved a small fall in turnover to R51.1-million and a more normal level of profit was made.

Datakor's own 40% of TR
The banking system was part of the eco

Nationalisation — the right route?
JSE looks at new index of shares

THE JSE is looking at formulating a new index of shares to provide a more useful tool for institutions and futures trading.

An alternative to the current index could be along the lines of the FT-100. The JSE has called for input from the broking community to examine the feasibility of such an index.

Listing and equity markets division research analyst Reiner Buss said the idea for a new index had come from various people and organisations, especially the Actuarial Society.

"We propose to form a steering committee to evaluate different models. The committee would comprise representatives of the broking community, the Actuarial Society, the Investment Analysts Society, Safex and the JSE," he said.

The first committee meeting was planned to take place early in June.

The existing JSE overall index consists of about 140 companies, but only a small number of companies make up most of the index. In April, 30 companies made up 72% of the index.

Buss said the steering committee would decide on what basis, such as market capitalisation, to weight the new index.

"It would be up for discussion whether the index would be based on 100 companies, which would not be much different from the present index, or between 30 or 40 companies," he added.

JSE GM, listings, Richard Cronjé, stressed that the proposal was still at an embryonic stage.

"We want to ensure that this will be an index most suited to users. "It could still take quite a long time before it comes into being as we want to look at the functioning of various systems being used overseas," he said.
Sage Property meets forecast

SAGE Property Holdings (SPH) has met its forecast of increased profitability, reporting net income of R12.9bn for the 15 months to March compared with R7.7bn in the previous year.

This increased profit was achieved despite a recessionary environment and particularly difficult conditions facing the housing sector.

Earnings per share, now diluted after the conversion of all the preference shares, reflect an increase of 42% on an annualised basis to 23.7c, despite the 32% increase in the issued ordinary share capital. The final dividend amounted to 9c (7c), bringing total distribution for 15 months to 13c (11c).

In the last annual report, the directors stated that if economic conditions did not deteriorate further, and interest rates began declining, the group's homebuilding activities could look forward to improved results.

In the event, recessionary conditions intensified and interest rates remained at penal levels throughout the review period.

Nonetheless, the homebuilding division achieved much improved results. That being so, and with the group's diverse property activities making further progress, SPH as a whole met its forecast.

SHP directors caution that it is expected that profits for the coming year will reflect the burden of a recessionary environment, continuing high interest rates and a possible higher effective tax rate.
Metro rights offer to follow Premier deal

Premier Group’s purchase of Metro and Score, concluded yesterday, will result in Metro raising about R142m in a rights offer to cut its borrowings.

Metro will also write off R170m, relating partly to losses from the proposed sale of Frasers, details of the acquisition published today show.

In addition, Score’s holding companies Hi-Score and Score-Clicks could possibly disappear.

In terms of the deal, Premier will acquire 70% of Tradegro’s 47% holding in Metro by way of exchange of shares in the ratio of one Premier share for nine Metro shares. Premier has also agreed with the current market price of Metro shares. In addition, a similar offer will be made to Metro minority shareholders.

This will leave Premier with a 54% holding in Metro if all Metro shareholders accept the Premier offer and follow their rights. Management control of Metro is being assumed by Premier immediately.

Premier deputy CEO Gordon Utan says the deal is “strategic to the SA distribution

Metro (28/07 29/1 1)

industry and to Premier” and it will benefit shareholders of Premier, Metro and Score.

Metro will raise about R142m in a rights issue aimed at reducing borrowings, and will acquire the entire issued share capital — 151 million shares — of Score Foods.

Utan says the deal will create a more focused company operating in two areas:

One will be a large wholesale distributor of food and allied products, incorporating Metro Cash and Carry, Trador and Trade Centre, and the other the merged retail supermarket operations of Score and Fairways.

These will operate independently in separately listed companies.

Premier will have an approximately 54% holding in Metro and in Score depending on the outcome of the Premier offer and the Metro rights issue.

Score group CEO Carlos dos Santos has been appointed CE of the cash and carry operations and Score retail operations CEO Chris Burgess has been appointed CE of the merged retail operations.

Utan says the deal will unlock “a large amount of wealth.” Metro’s reorganisation and recapitalisation will result in it operating profitably.

The elimination of intermediate holding companies in the Score Foods group Hi-Score or Score-Clicks is being considered following the deal. This could affect Premier’s shareholding in Clicks.

Negotiations for Metro to dispose of its interests in Frasers, Greenstein and Rosen to a consortium of investors have reached an advanced stage.

Utan said the other minor divisions of Metro would also be disposed of to ensure focus on the core cash and carry business.

He said during an investigation of Metro, about R170m was required to be written off relating to losses from the proposed sale of Frasers.

Metro human resources director Piet Strydom said over 800 jobs should be saved by disposing of Frasers.

VERA VAN LIERES reports that an SA Commercial, Catering and Allied Workers’ Union (Sacca) spokesman confirmed yesterday that the union had received notice of the withdrawal of retrenchment notices affecting more than 1 000 workers.

He said although the union was “pleased”, it believed Tradegro management needed to guarantee workers’ jobs in terms of the sale.
Employees are allotted shares in grand plan for community to control the industry.

The 1350 employees of the NSB (90 percent of whom are black) have been allotted 700,000 shares for free - which works out at 300 shares per employee.

They have also been offered the other 15.5 million at 90c per share - a discount of 25 percent to the issue price of 1.00c. Shares not applied for will be held in trust and offered again in July 1993 to NSB employees at the 1.00c nominal price.

To enable the Trust to acquire and subscribe for the said shares, the State has made an interest-free loan of R15.5 million for three years to the NSB Employee Share Trust.

The State will also bear any fringe benefit tax liabilities arising out of the 300 free shares.

According to the proposal the State has made numerous occasions to place NSB in the hands of the community which supports the serious beer industry.

In terms of the scheme employees have a period of three years to pay for their shares. Payment could be made on a monthly basis or a lump sum payment at the end of the three-year period.

Dividends will be paid to employees only in respect to the shares that have been paid for. With respect to shares not yet paid for, dividends will be credited to the individual employee's loan account.

The Trust will dissolve after three years. Any shares or cash left after the period will revert to the State, which will also be responsible for any losses or profits.
Shareholders challenge merger deal

JOHANNESBURG — Two major Saambou shareholders yesterday launched a Supreme Court challenge to the validity of the merger deal which gave Fedlife a 31.5% stake in the building society.

Saambou shareholders Suid-Afrikaanse Prinsipale Beleggings (Pty) and The CC Exchange (Pty) brought an urgent application for an order declaring the agreement between Fedlife and Saambou on January 31 void.

Suid-Afrikaanse Prinsipale Beleggings holds 8,5m Saambou shares and The CC Exchange 3,2m.

The two companies are also seeking an order declaring invalid approval for the merger deal given by Saambou shareholders at a meeting on May 15.

The court was told that Fedlife and Saambou concluded their agreement one day before the new Depository Institutions Act came into effect on February 1.

Part of the merger deal involves the sale of Planet Finance Company by Fedlife to Saambou for R55m in return for converting debentures worth the same amount.

Counsel for Suid-Afrikaanse Prinsipale Beleggings and the CC Exchange, Schalk Burger SC, told Justice Ralph Zulman yesterday that the agreement would increase Fedlife’s stake in Saambou from 2.6% to 31.5%.

Suid-Afrikaanse Prinsipale Beleggings and The CC Exchange contend that 6,7m of the 12m votes in favour of the Fedlife-Saambou agreement on behalf of Eighty One Main Street Nominees were invalid.

They also claim that the provisions of the merger deal are invalid and unenforceable in terms of the new Act.

It is alleged that Main Street Nominees’ representative at the May 15 meeting, Charles Rheeder, did not have the authority to withdraw a proxy to cast the 6,7m votes against the agreement and instead voted in favour of the Fedlife-Saambou deal.

Burger submitted that those votes should be added to those against.

Burger also argued that in making four simultaneous applications to increase its 2.6% stake in Saambou to 31.5%, Fedlife had contravened the provisions of the new Act.

The Act, he said, stipulated how a shareholder could increase his stake in a building society in stages and the required periods between each new acquisition of shares.

A shareholder could obtain up to 10% without permission from the Registrar, said Burger.

Permission to increase shareholdings from 10% to 30% needed the Registrar’s permission.

More than 30% needed Ministerial approval.

Fedlife had made four simultaneous applications to increase its share in Saambou from 10% to 17.5%, 17.5% to 25%, 25% to 30% and 30% to 31.5%, he said.

The Registrar had informed Fedlife by letter that the Minister had granted permission.

Burger argued this was ultra vires because the Registrar and Minister could shorten the period between each acquisition, but had no power to completely waive the required interval.

Applications for permission to acquire a larger shareholding could not be done simultaneously as Fedlife had done, said Burger.

In terms of the Act’s provisions, he argued, shareholdings had to be acquired incrementally.

The case continues.
Market speculates on Wooltru-Dion deal

By Maggie Rowley

A big jump in the share prices of Wooltru and Rusfern has fuelled market speculation that Wooltru is poised to take over Dion Stores.

The Wooltru share price has jumped more than 500c since May 17 to a high of R32 while Rusfern shares have risen more than 22 percent from 93c to 110c after reaching a high of 120c on May 24. However, that is still well below its high of 166c in February.

Wooltru chief executive Colin Hall yesterday declined to confirm whether Wooltru had entered into negotiations with Rusfern.

“It is pure speculation and I cannot comment,” he said.

Speculation has also involved other companies in the Rusfern stable, which includes Furniture Fair, Harmony, Montanna, Wanda, Frasers Furniture, Arrow and Guddy’s.

Geoff Austin, chairman and chief executive officer of Rusfern was not available for comment.

Rusfern reported a five percent increase in earnings to R64.8 million at the December 1999 interim stage, partly due to the “nightmarish time” it had had with the acquisition of Furniture Fair in late 1999.

At the release of the interim results, Mr Austin said extensive discussions and investigations were taking place to restructure the group’s capital base.

A 138 percent increase in interest charges to R3.7 million for the six months, he said, reflected funding needs of the debtors book, which had a gross value of R1.1 billion.
Airport privatisation probe

AN in-depth investigation into the commercialisation of SA airports was announced last night by the Minister of Transport, Piet Welsemoed.

The move could result in the privatisation of the airports by the end of next year.

Management consultants Price Waterhouse, assisted by Lexetran, had been appointed to undertake the investigation into the commercialisation of state airports and air traffic services, Welsemoed said in a statement.

The investigating team would be led by international experts, such as John Wright, and Jeremy Coleman of Price Waterhouse's London office, and would be assisted by local expertise under the guidance of Vic Prins and Colin Beggs.
Rupert's take a billion

and Donny's relieved

ST. LOUIS (AP) — Rupert Murdoch's
Liberty Media Corp. said Tuesday that The
Walt Disney Co. on Tuesday agreed to buy
its prized sports network for $7.1 billion
in cash and stock, a deal that would give
Murdoch control of the network.

The companies said the deal would
be completed by the end of the year.

"We are excited to be able to
acquire the network, which is a
very important part of our
business," said Murdoch, who
has been a partner in the
network for years.

The network, which is based
in New York, has been
profitable under Murdoch's
leadership. It has rights to
broadcast the NBA's
Golden State Warriors,
among other sports teams.

In a statement, Disney said
the deal would be financed
with cash and stock.

"We are thrilled to have
acquired a major
component of our
business," said Bob Iger,
Disney's chief executive.
Black staff make a mint in Putco

By DAVID CARTE

Many blacks have made small fortunes through owning shares in mass-transport operator Putco. But they fear to be identified lest they suffer a similar fate to one of their number who was hanged to death in the township riots of 1984.

Having acquired Putco shares in 1967, he sold some at a profit of thousands of rand, then bought a store in the late 1970s. Then he made a mistake. He was elected to a local government council. He was murdered by a mob and his stores were gutted. His widow was left penniless and his children had to leave university.

He cannot be named because his destitute widow fears reprisals.

Apartheid

Today, with its buses and properties about to be sold, Putco's share price is treble its level of a year ago.

One shareholder says, "We don't want to be branded as speculators on apartheid." In 1970 Putco had more black shareholders than any other company on the JSE. The company was years ahead of Anglo American and other enlightened companies that have given their employ-

ees shares in the past few years.

A stark difference from latter-day employee share schemes was that Putco staff members asked for and paid for their shares.

Most blacks who had shares after the Carleo family bought control of the company from Leyland in the early 1970s have sold them.

But even those who held their shares for 10 years to the present are worth thousands.

Unbeknownst to many analysts, Putco has been one of the best-performing shares on the JSE in spite of a poor published profit record.

Its performance is not widely appreciated because of an atrocious published profit record and two share splits in the past 15 years.

Shareholders today have 10 shares for every one held in 1970 plus one in property arm Putco Properties.

One analyst has calculated that shares worth R600 in 1967 (they were 2c, allowing for share splits) would today have been worth R1-million if dividends had been reinvested.

Even without reinvestment of dividends, returns have been spectacular. R1 000 growing to R22 600 from 1970 to 1989. Depending on prices obtained for the buses and properties, there could be even greater profits in the asset disposal.

Putco's black staff is still share-conscious Putco unions, one under ANC influence and the other influenced by the PAC, last year demanded 10 shares a staff member to be paid for – plus 10 additional ones donated by the company.

In the period that the shares have moved from 79c to 270c, the entire staff was given 600 000 shares in 1981. Those shares are now worth R4,97 million.

On behalf of commuters, Putco was paid huge amounts in government subsidies – R876-million in the six years to 1989, according to Transport Minister Piet Wellgemoed.

Family

The biggest beneficiary of Putco's proposed asset strip is chairman Albinus Carleo, who has 62% of the company.

His family collected R46-million in a special dividend last year and could get another R56-million to R108-million when the asset strip is completed. Estimates of the value of assets vary from R100-million to R300-million.

Taco Kunper, publisher of PACIS Investors Guide, has called on Putco to provide more information so that shareholders can value the company more accurately.

Although there has been controversy about shareholders profiting from subsidies, the Government has repeatedly checked the method by which they were calculated and found them to be in order.

Mr Wellgemoed has no objection to the proposed asset strip.
All fall down as the recession bites deep

A CROP of losses reported this week underlines the depth of the recession.

The losses came from a broad spread: Steel-maker Usko lost R14.4-million in the six months to March. Two weeks earlier, Middelburg Steel & Alloys announced a R17-million loss in the same period.

Insurer and engineering group Rentmeester's turnover in the six months to December 1990 fell 22% to R73-million, and the pre-tax loss was R11.2-million compared with a previous profit of R400,000. The interest bill was a little lower at R3.1-million.

Rentmeester's share of 183c a share compared with earnings of 46c last time. It warned shareholders that negotiations were under way.

Office-furniture supplier Grant Andrews sales rose 1% to R29-million, but a pre-tax loss of R312,000 was incurred at the February interim. The directors estimate the market shrink by 35%, but they are optimistic about the second six months.

Property company Groenvale, which repelled a takeover bid earlier this year, lost R2.7-million before tax in the year to February. It also provided R1.4-million as an abnormal item against the affordable housing division and another R2.4-million extraordinary loss based on discontinuations and disposals and costs associated with repelling the takeover bid.

Financial and project management services group Dasa Development Corporation lost R11.3-million in the six months to February.

Handful

"The prevailing bond-boycott mentality has resulted in a reluctance by lending institutions to fund construction," in Dasa's market, says managing director T. Stienvangs.

In addition to five losses, another 13 companies out of 28 reported a loss. Of those, six of the rest changed the length of their reporting periods, making comparison irrelevant.

Among the handful, notable was Metkor. Its turnover edged up to R14.4-million in the six months to March, but higher income and lower interest and tax lifted net attributable earnings by 43% to R13.7-million. In spite of the economy's decline, Metkor aims to beat last year's earnings.

Premed's earnings a share rose by 43% to 22.3c on turnover growth of 32% to R11-million in the year to February. The group manages seven chalets and three hospitals, with two more to open this year.

Its annual compound profit growth in the five years since listing has been 63%.

Ahsa reported earnings for the first time under the new banner. Its earnings a share reached 93.4c - 14% higher than the notion sum of its separate entities before the amalgamation.

Chairman Herc Hefer says demand for credit is expected to slow further and the number of defaulters remains high. "Despite possible further declines in interest rates in the latter part of 1991,"

He says forecasting performance is difficult, but he expects an increase in weighted average earnings a share.

Financial services and plastics group Rubenstein Holdings' earnings a share reached 15.6c compared with the 4.6c in the previous eight months. The group bought back businesses from Compak and sold its holding in Compak. Chairman Jeff Rubenstein expects satisfactory results in the current year.

Sanctions

Several companies returned results down by more than half. They include Hypercentre, Leppan, Quorum, Minkan and Aida.

Computer group Ohio staged a recovery of sorts. Its permanent capital rose tenfold to R651,000 and net current liabilities fell by R50,000 to R30,000 after a return to profit.
AVI maintains status as a firm market favourite

TRADING at about a 125% premium to estimated net asset value compared to 75% six months ago, Anglovaal's fast-track industrial nucleus, Anglovaal Industries (AVI), has lost none of the lustre which pushed its share price to one of the most favoured on the industrial board.

On a comparable rating AVI is a tough act to follow.

It is trading on a high of R95 and boasts a near-sector high historical price to earnings ratio (p/e) of 12.7 times, and dividend yield (d/y) of 1.4%.

Blue chip Amcu's share price puts it on a historical p/e of 10.5 times and a d/y of 4.0%, while Malakal comes in with a p/e of 7.8 times on a d/y of 3.4%.

Even the rating of top industrial stock Barlowes has waned in relation to AVI's increasing market worth. Barlowes shows a p/e of 9.3 times and a d/y of 4.2%, while lesser-rated W & A comes in with a p/e of 4.5 and a d/y of 9.8%.

There is definitely no dispute that there is a healthy market respect for AVI, but most analysts feel it is probably a little over the top.

One analyst said that at its current rating the market had already discounted growth of about 30% a year over the next three years.

There is also agreement that a major motivating factor for the dramatic upsurge of the group's share price is the fact that it is extremely tightly held.

In a relatively healthy month volume-wise, AVI last month traded a mere 41 000 shares. This compares with a monthly trading average of 67 000 shares a month during last year for the rest of the sector.

Ferguson Bros, Hall, Stewart & Co analyst Steve Rubenstein said that AVI was correctly priced on its asset value although it was slightly overrated on its p/e.

Rubenstein forecast an earnings increase for the year to June 1991 of 6% in earnings to 656.4c (657c) a share.

He said the biggest hike in profits was likely to come from the packaging and rubber division represented by Consol, which would kick up profits about 44%.

Other healthy performances were likely to come from Grnak, with a 25% improvement, while F & J would increase its earnings 12% and National Brands by 10%.

Conversely the textiles and engineering division was likely to suffer from depressed market conditions to push its contribution down 20%.

A spokesman for AVI said last week that overall, there would be an increase in earnings for the year, but could give no further details.

Regardless, the market's enthusiasm with the industrial counter will go on. In the words of one investment analyst: "I've managed to accumulate a healthy section of AVI stock in my personal portfolio, and I cannot see myself selling it ... ever."
Broadcasting corporation braced for privatisation

THE Bophuthatswana Broadcasting Corporation is bracing itself for privatisation and deregulation ahead of a possible listing on the Johannesburg Stock Exchange.

In an interview in the latest Executive magazine, director-general Jonathan Procter says the corporation, or part of it, will eventually fall into private hands via a JSE listing.

The 100% state-owned station is capitalised at R360m and is partly dependent on a grant-in-aid. However, Procter says he is committed to setting up the station as a commercially successful concern.

Bop TV's advertising revenue — about R6m for the year to end-March 1991 — would swell more than tenfold if it were permitted to broadcast in all major urban areas in SA.

"Based on a million extra viewers, we predict we'd take in R50m a year," says Procter April 31, 1991.

A decline in its SA audience because of SABC sanctions saw the station earn less than 5% of M-Net's and about 1% of TV1's revenue last year.

Bop TV's signal has been all but completely obstructed in the PWV by technical baffles.

In SA only Soweto, where the Batswana population is dense, was not deprived of the service in terms of an agreement between Bophuthatswana and SA. 232

"Sowetans used to be able to get our signal with a bunny-ears aerial. Now they have to spend R150 on anennaes. That just shows how the signal has degraded," says Procter.

But he believes the time has come for the corporation to fight back against the SABC, especially since the latter disregards Bophuthatswana's sovereignty by beamimg into the homeland.

"The situation is untenable not least because it goes against the free-enterprise system.

"That it has been allowed to develop to the disadvantage of my balance sheet is what really bugs me," he says.
Sage Holdings decides to maintain its dividend

SAGE Holdings achieved net earnings of R29.5m for the 15 months to March compared with R28.5m in the preceding year but has decided to maintain its total dividend on an annualised basis.

Earnings a share for the 15 months amounted to 128.83c against 121.41c in the previous year, representing a decline of 5.1% on an annualised basis. Fully diluted earnings a share reflected an annualised decline of 11.6%.

In the preliminary report, the directors say it should be noted that the results for the 15 months include an element of distortion in that earnings of certain subsidiaries do not accrue evenly over the year.

Sage Financial Services (SFS), which reported earlier, issued the same warning and its earnings appeared to accrue more rapidly in the early part of each calendar year.

A dividend of 55c (38c) has been declared, making 75c for the 15 months. A total of 66c was distributed in the previous year.

Sage’s year-end was changed from December to March, allowing reporting with recently formed Amalgamated Banks of SA (Absa) — which contains certain interests of SFS. The 1991 results reflect the implementation of the Absa transaction.

As previously reported, the development of the group, particularly the build-up of strategic investments, has resulted in the partial funding of investments and holdings in subsidiaries with borrowings during a time of high interest rates, thereby adversely affecting results.

Shareholders’ earnings have absorbed this charge, allowing the group to maintain its strategic portfolio ahead of what the directors say are “anticipated opportunities.” The directors say the logic of this strategy has been clearly demonstrated in the Absa transaction. That involved the exchange of 49% of SFS’s insurance holdings for an indirect minority stake in Absa.

During the review period, the group “initiated a process of restructuring its funding profile” and hopes to complete the balance sheet restructuring soon.

The directors have not elaborated on the ill-starred US investments which have had to be written off. It appears, however, that much of the “restructuring of the funding profile” is to do with this.

An abridged balance sheet shows that group total assets increased by 20% to R2.4bn at the end of March 1991.

The group’s financial services division, Sage Financial Services, is reported to have met its forecast of increased profitability, with net earnings of R4.2m and earnings a share rising by 18.7% to 32.5c on an annualised basis.

Sage Property Holdings (SPH) — with property, homebuilding and construction interests — also performed in line with forecast, the directors said, and reported net income of about R13m for the 15 months compared with R7.8m in the previous year. Thus, the directors explained, was despite a recessionary environment and particularly difficult conditions in the housing sector. Fully diluted earnings a share increased by 4.2% on an annualised basis.

LIZ ROUSE
Remgro rich in cash after Liberty deal

SHARON WOOD

REMBRANDT Group (Remgro) will probably use the R510m it will receive for its 11.5% share in the Standard Bank Investment Corporation (Stanbic) to get rid of its debts or strengthen its investments, analysts say.

The deal concluded with Liberty Life on Friday ended the fight for control of Stanbic and increased Liberty's control over Stanbic to 40% with the purchase of 4.5-million shares.

Some analysts said Remgro's motivation for the deal was to increase its cash holdings and that it would probably use the money to strengthen its balance sheet from the group's unusual net borrowing position.

Others speculated that Remgro would use the cash to increase its interests in the Absa banking conglomerate or in other investments. At present Remgro owns about 28% of Absa shares but it may wish to increase this, they said.

Liberty Life chairman Donald Gordon said Liberty had entered into the deal because there were too many big shareholders in Stanbic and it was necessary to stabilise the shareholding level.

The deal involves the sale of 4.5-million of Remgro's Stanbic shares to Liberty for R200,000, based on a share price of R46.

In addition, Liberty Asset Management (Libam) would place 1.8 million of Remgro's Stanbic shares with parties which are not considered by the Securities Regulation Panel (SRP) to be acting in concert with Liberty. The shares must be sold at no less than R45 a share.

The remaining 5% (9-million shares) of Remgro's Stanbic holding will be placed by Libam with other pension funds and institutional investors.

If Libam fails to place the shares before the end of June next year, Liberty will be obliged to buy them from Remgro. If the number of shares bought by Liberty exceeds the 5% limit set by the SRP, Liberty would have to make an offer to minority shareholders of Stanbic.

Gordon said Liberty's position in Stanbic was now so dominant that it would be difficult for another party to overtake Liberty's position. He declined to say whether Liberty planned a further increase in its stake in Stanbic.

There has been speculation that the fight for Stanbic was ultimately for control of Liberty Life Controlling Corporation (Libcor) holds 22.5% of Liberty Holdings, which is held equally by Stanbic and Liberty's Gordon.

In another deal, Swiss-based Rembrandt associate Richemont sold its interests in the property group TransAtlantic Holdings to subsidiaries of Liberty Life and First International Trust.

The acquisition was funded through existing offshore banking facilities and remittances through the financial rand. The two subsidiaries now have a combined shareholding of 67% in the newly formed subsidiary TransAtlantic.

Richemont's subsidiary Twickenham Investments also sold its interests in TransAtlantic to Liberty Life.
end in a little bang
to the giants could
Opening up the JSE

Harold Edwinson
Storeco MDs gain full control in R18m takeover deal

STORECO Joint MDs Stewart Cohen and Laurie Chappuni have taken over the Durban-based clothing retailing group in a transaction worth R18m.

Cohen and Chappuni announced yesterday that they had increased their stake in Storeco, holding company of Specialty Stores, from 20.5% to 55%. This was achieved via the acquisition of 1.5-million Storeco shares at R200c each (equivalent to R600c per Specialty share) from the Board of Executors (BOE).

Cohen and Chappuni intend to retain the listings of Storeco and Specialty - the operating company which controls retail chains Milady's, The Hub, Mr Price and Footgear.

Because of the change of control, Cohen and Chappuni have made an offer to Storeco and Specialty shareholders to acquire their shares at R200c and R600c respectively.

BOE made it known that it wanted to concentrate its investments in the financial services area following the introduction of the Deposit Taking Institutions Act and the establishment of BOE Merchant Bank.

Chappuni said: "We are delighted to have achieved this deal which removes the uncertainty of control and simultaneously gives us the support of an experienced and committed management team." BOE MD Bill McAdam said the transaction ended "a highly successful partnership" between BOE and the two joint MDs, and he was confident Storeco would continue to show excellent growth.

Cohen and Chappuni had taken over the John Orr company in 1985 with BOE, and over the past five years Specialty achieved a 41% compound growth in attributable income.
Renewed interest in Transnet’s Elfi III

FOREIGN investors have shown renewed interest in Transnet’s Elfi III debt issue, says Investec Merchant Bank.

Investec was the merchant banker for the Elfi III issue, an Equity Linked Fixed Interest instrument which has raised R100m since it was launched last month.

Investec risk manager Mike Henegan said 30 prospectuses had been sent to potential clients in Europe and Australia.

He attributed the renewed foreign interest to the marketing effort, a reduction in the township violence and the good liquidity of the issue.

About R100m of the new Elfi III issue had already traded in the secondary market, he said, thanks to Transnet’s commitment to guarantee trade in the stock.

“Investors want to know that they will find a willing buyer if they decide to sell the stock,” Henegan said. There were indications certain investors who initially were uncertain about participating would soon put in an appearance. Prices for Elfi III will be quoted in the Business Day every day from today.

See Page 11
Strategic gains in sell-out by Remgro

BRENT VON MELVILLE

THE deal which ended the fight for control of Standard Bank Investment Corporation (Stanbic) achieved a number of strategic objectives for Liberty and Remgro.

The obvious benefits are that it cleared up outright control of Stanbic by Liberty and strengthened Remgro's balance sheet at the point where it can ease its debt load and strengthen its other investments.

Over the past few months the market has been witnessing not only a fight for Stanbic, but a battle for control of Liberty. That battle was given up by Remgro when it sold its full complement in Stanbic (11.3 million shares) to Liberty.

Analysts say that Remgro has now decided to give its full attention to banking group Absa, and consolidate holdings in other concerns such as HHL (held by Rahn
dow Chicken) and the mining sector.

Remgro still has a small holding in Liberty through its stake in GFSI.

The Remgro sell-out might also have been prompted by the possible attentions of the Competition Board and the Registrar of Banks into any further additions in Stanbic stock by Old Mutual (which holds 23% of Remgro).

A director at the Competition Board confirmed that the board had been aware of the situation with Stanbic but could not say whether it had investigated the matter.

Remgro, for its part, lived up to its tradition of not disclosing anything.

Spokesman Hans Knoetze refused comment except to say the group felt it had signed a good deal and that it was not yet certain what it would do with the profits.

Analysts have suggested that the related deal which saw Rembrandt associate Richmont sell 43-million shares of UK-based property and insurance holding group TransAtlantic to a Liberty UK subsidiary, could generate cash for overseas acquisitions by Richmont.

It has also manoeuvred Liberty into a position where it can increase its position offshore.

"Liberty will now have a direct stake in Transatlantic of about 14% (while overseas arm First International Trust (FIT) has upped its stake to 25%), enabling it to have a rights issue and allowing Liberty an outflow of capital with the blessing of the Reserve Bank," said one analyst.

The fact that the Remgro share price was sent spiralling to a peak of R51 in March, a rise of 76% since February, was attributed by the market to intensive buying by Old Mutual and Remgro.

That was then seen as defensive posturing to protect their respective stakes against Liberty, one of Old Mutual's long-time market adversaries.

Takeover

Old Mutual's next action was to block a resolution to increase Stanbic's share capital by 20% at its AGM in mid-April, thus thwarting a potential "share swap" between Stanbic and Liberty which would have diluted the influence of both Old Mutual and Remgro.

Analysts feel Remgro's aim was solely to push up the share price and that it never had any intention of a takeover of Stanbic. Liberty bought its latest parcel of stock from Remgro for R45, stock which was at R20 a mere three months ago.

Another wrinkle in the equation is that by selling its Stanbic stock to Liberty, Remgro has left Old Mutual out in the cold. While Old Mutual MD Mike Levett refused comment on the issue, analysts were adamant that Old Mutual could not possibly be happy with the deal.
Bid to block Saambou deal fails

TWO Saambou shareholders, NSA Investments and CC Exchange, have lost a court battle challenging the validity of the agreement giving Fedlife the option of obtaining a controlling 31.5% stake in the company.

Mr Justice Zulman dismissed their application with costs in the Rand Supreme Court yesterday.

The applicants asked for a court order declaring the agreement void and unenforceable because it contravened provisions of the Deposit-Taking Institutions Act which came into effect on February 1.

The applicants also applied for an order declaring that 6.7-million of the shares voted by Saambou shareholders on May 15 in favour of three resolutions giving effect to the agreement were invalidly cast.

In terms of the agreement Fedlife sold Planet Finance Ltd to Saambou for R55m.

Instead of a cash payment Saambou issued debentures to Fedlife which the company may convert into shares. Fedlife has until March 30 1994 to exercise its right to convert the debentures.

Shaik Burger SC, for the applicants, argued last week that Fedlife's four simultaneous applications to the Registrar of Deposit-Taking Institutions — for permission to increase its 2.6% stake in Saambou to more than 10% — contravened the provisions of the Act. It was also argued that the time periods specified in the Act before increasing a shareholding in a deposit-taking institution could be shortened on application, but not waived.

Burger submitted the Finance Minister had exceeded his powers by waiving the

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Saambou

Mr Justice Zulman accepted Fedlife's contention that it had not obtained permission to acquire a bigger stake in Saambou, but the "right to acquire the right to acquire" an increased shareholding if it elected to convert the debentures.

"The Act, as it could have done, does not render it illegal per se to enter into an agreement for the acquisition of shares," the judge said.

If Fedlife did not elect to convert the debentures then the question of obtaining or acquiring any Saambou shares would not arise.

"Fedlife has in fact not 'acquired' any shares," the judge said. "It has in truth acquired debentures which, if it elected to convert them, would lead to the acquisition of shares."

Until this took place, he said, there was no question of any acquisition.

On the face of it, it was also lawful to enter into an agreement and obtain permission for the acquisition afterwards, but before the shares were acquired.

This was exactly what had taken place, Mr Justice Zulman said.

He also found that 6.7-million Saambou shares held by Main Street Nominees on behalf of a principal were validly voted in favour of the Fedlife agreement on May 15.

A proxy voting them against the agreement was withdrawn at the meeting and they were voted in favour instead.

The applicants claimed that a Main Street Nominees representative at the meeting did not have the necessary authority to withdraw the earlier proxy and vote in favour instead.

Mr Justice Zulman said he saw no difference in principle between what had occurred and a situation where a shareholder did not attend a meeting himself but, prior to the voting, sent a messenger or notification that he wished to change his proxy and vote differently.

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(To Page 2)
Liquidations and insolvencies of businesses continued to rise as the recession deepened, figures released by the Central Statistical Service (CSS) show.

The CSS reported yesterday that in April 1991 liquidations took place, 30.4 percent up on the previous month.

However, for the first four months of this year, liquidations at 549 fell by about nine percent from 604 in the same period last year.

Credit Guarantee economist Luke Doug says that a clearer trend emerges when analysing longer-term trends.

Thus, over the last three months from February to April, liquidations of companies were 13.5 percent up on the number of liquidations from November 1990 to January this year.

The construction sector has been hardest hit, Mr. Doug says.

Liquidation in this sector in the first four months of the year hit 81, were 24.5 percent up on last year’s figure.

In the retail and wholesale trade, 207 businesses closed down, compared with 191 in 1991.

The manufacturing industry experienced a decline from 236 in the first four months of 1990 to 168 liquidations this year.

The CSS preliminary figures on insolvencies show that as of March they were 15 percent up on February’s restated 224.

For the first three months this year, 765 insolvencies were reported, about nine percent higher than 1990’s first-quarter figure of 707.
Focus on industrial
and financial sectors

INVESTMENT strategies should continue to be concentrated in the industrial and financial sectors of the JSE, but only on sector weakness.

This cautionary advice comes from Munny Pohl of
Davies Berkam Hare, whose analysts have compiled a review of all market sectors.

Gold shares have started to recover from enormous selling pressure and an oversold position. Selected buying of gold shares, such as Vaal Reefs, Kloof, Elandsrand, Dries and Joel, is suggested.

Sectors recommended on expectations of outperforming the overall index in the near term are banks, coal, diamonds, food, retailers and wholesalers.

Analyst David Bauldie says artificial interest rates during relatively high levels of liquidity and static demand for credit will provide the banking sector with an above average interest margin on funds advanced.

Because of positive fundamentals, such as large-scale spending programmes at collieries, investors can buy coal shares, Amcoal being the most tradeable stock.

The diamond market place is returning to normal and the outlook is more optimistic because of the expectation for improved economic growth.

Lindsay Lurr is recommending buying into food companies such as Tiger Oats, with a broader range of products, and carrying higher profit margins than Premier or CG Smith Foods.

In the retail and wholesale sector, retailers of semi-durables with credit-based sales are expected to continue to outperform cash-based food retailers.
JSE ups charges for gilts transactions

ROBERT GENTLE

THE JSE has increased the charges brokers pay to the Gilt Clearing House for gilts transactions, making it even more expensive to deal in gilts on the JSE than in banks.

Johnny Solms, of stockbroking firm Michael du Toit Solms & Co, said yesterday his firm had closed down its gilts department because it was not worth keeping it open given the expense and risk involved.

"Margins are too thin," he said, adding that the decision had been in the offing for at least six months and was not related to the recent round of price increases.

In a notice to members, the JSE said the increases — about 20% on average — would apply retroactively from March 1.

JSE deputy CE Mike Thompson, explaining why the charges had been made retroactive, said the JSE had only recently finalised its annual budgets for the financial year, which started on March 1.

The late completion was a consequence of the JSE committee's concern about the exchange's operating costs in the light of reduced volumes. An in-depth examination had now been completed.

He said that while JSE gilts brokers incurred service costs that their competitors in the banking sector did not, they gained from efficient clearing and settlement of their trades, plus the guarantee of performance by counterparties.

"This disparity in operating costs will be equalised when all traders are required to operate as members of the Bond Market Association, which will become the country's bond exchange from the first quarter of next year," Thompson said.

Last month, the JSE increased the members' charges for equity trades.
New turn in share investigation

Absa, Allied open books to police probe

Kevin de Villiers, said the initiative had been taken to rectify what they described as “distorted public perceptions” following Business Day’s report yesterday.

In another development, attorneys Bowman, Gwilliam acting for Absa and Allied, yesterday invited Business Day to disclose its sources of information within the Absa group. The law firm said its clients denied that information “furnished” to Business Day had come from Absa.

De Villiers said yesterday he was likely to take a decision on his business future next week. He had received several proposals in the past few days, and in the past three months, and was evaluating them.

In yesterday’s report on Kevin de Villiers’ resignation from Allied, we inadvertently referred to Piet Badenhorst as Absa’s chairman. Badenhorst is Absa’s chief executive Herc Hefer is its chairman.
The eleventh-hour withdrawal of Pepkor from a takeover of Storeco in January last year contributed to the R18.5m purchase of outright control of Storeco by joint MDs Laurie Chappini and Stewart Cohen.

The Pepkor talks generated insecurity for management and staff, and the MDs wanted to avoid repetition of such an event. The buyout of the interest held by their “partners” ensures there will be no passing of control to new shareholders, and the joint MDs will themselves retain control.

Until now, control has vested with the Board of Executors (BOE). In 1986 both the BOE and Chappini and Cohen bought John Orr’s (as Storeco was then called) as a long-term investment. The BOE’s investment was then about R2.5m. Since then it has increased its investment by following its entitlement in a rights issue two years ago. The market value of BOE’s investment in the group has since grown to the point where it is too large in BOE’s balance sheet (of R80m shareholders’ funds, the Storeco investment represents some R20m).

For BOE, it made sense to sell especially as, in BOE MD Bill McAdam’s view, it is a good time to be liquid. The sale will enable BOE to direct its resources to the financial services sector, from which most of its income is derived.

BOE will realise R18.5m from the sale of all its Storeco shares and R10.5m from the acceptance of the offer that Chappini and Cohen are to make to minorities of both Storeco and Specialty.

Both parties are satisfied with the transaction. BOE has realised a capital gain of about R20m in the five years it has held the investment. For Chappini and Cohen, the effective price of R6 a Specialty share and R12 a Storeco share is attractive. These prices are respectively R1 and R2 less than what Pepkor was asked to pay more than a year ago.

Though trading remains tough, Chappini is optimistic the group will achieve real growth in EPS this year. In the light of past performance — over the past five years Specialty has achieved a 41% compound growth in attributable income — this may be a conservative forecast. It’s hoped the fact that control of the group is in firm hands will help lift morale and increase productivity.

Gerald Hirschon
A PRICE FOR RETREAT

At the time of the shareholders' meetings to approve the creation of Amalgamated Banks of SA (Absa) last March, Rembrandt started buying shares in Standard Bank Investment Corp (SBIC) in so doing, it triggered a series of other deals that were to result in a further shift in control structures in the financial services sector.

This week's announcement that Rembrandt is selling its 10.7% stake in SBIC is a step in that process. At the same time, analysts are viewing that disposal, as well as the sale by Richemont of FIT (holding company for Liberty's overseas interests), as confirmation of the divorce between Liberty chairman Donald Gordon and the Rupert family - at least as far as business is concerned. Richemont executive director Farrell Sher, however, says the relationship between them remains "totally in good shape."

It remains to be seen whether the settlement will extend any further: Both Rembrandt and Liberty are still involved in the control structure of Gold Fields of SA (GFS), for example. However, Sher says there is no reason why Liberty should withdraw from the GFS arrangement. He contends that once the transactions as outlined in last week's announcement have been completed, that will be the end of the matter.

That may well be correct. Essentially, the issue blew up because Gordon felt it was not in his interest to see Rembrandt sell its 10.7% stake in SBIC, which holds the key to the control of Liberty.

When Old Mutual blocked a special resolution proposed at the SBIC board meeting to incinerate SBIC's authorised shares, that evidently added to the concern. Gordon claimed that Mutual had been an active buyer of SBIC shares (though in small quantities). Liberty feared that somebody might be building for SBIC, which holds the key to the control of Liberty.

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A month ago, Gordon was saying he felt R45 was a steep price to pay for SBIC. It seems that in the end his determination to secure control of the SBIC/Liberty axis could not be threatened by unwelcome predators outweighing concerns about the price.

Firstly, Liberty has agreed to pay R45 a share for 4.5m shares of Rembrandt's holding in SBIC, costing R202.5m cash. It has also agreed to place on behalf of Rembrandt a further 1.6m shares at R45 each, with certain places that are not considered by the Securities Regulation Panel to be concert parties.

The balance of Rembrandt's holding, just less than 5.1m shares or 5%, are to be placed by Liberty Asset Management at a formula price of at least R45, with other pension funds and institutional investors before June 30 1992. If these are not placed by then, Liberty may be obliged by Rembrandt to take the shares at a price of between R45 and R50.

If any of the shares placed do go to concert parties (as deemed by the panel), or if Liberty exceeds its relevant limit, then an offer will have to be made to minorities at the highest price paid by Liberty. Sher says he believes the placing will be achieved successfully.

"We will make absolutely sure they are placed in arms-length transactions to independent parties and do not go to any concert parties," he says.

By acquiring an additional 4.4% of SBIC, Liberty has almost certainly sewn up control. Its stake has been lifted to about 40%, which will be a tough target for any predator. In that respect, the agreement certainly works in Liberty's favour. But the terms might have been more favourable had the deal been done earlier.

Aside from the SBIC transaction, Richemont has taken the opportunity to negotiate the full disposal of its investment in TransAtlantic. A year ago, Richemont held 24.9% of TransAtlantic, which has 79.8% of the UK property developer Capital & Counties Pic and 27.7% of the life insurer Sun Life Corp Pic. Late last year this holding fell to about 21%, when Richemont declined to take up its entitlement in a rights issue.

Now Liberty, through FIT — and other holding companies — has acquired Richemont's 43m shares in TransAtlantic, for £150.6m, based on a price of £3.50 a share. It is difficult to evaluate that price, as the shares are listed only in Luxembourg. The UK property market, the biggest influence on TransAtlantic's performance, may now be at the bottom. But the property market has taken a hammering — Gordon would probably have preferred to have done this deal at a more favourable time.

Richemont has enjoyed a large cash injection in exchange for a low-yielding asset at a time when international economies are soggy. It can use this to bolster an already strong balance sheet, and invest in its own growth businesses in the luxury goods sector.

Overall, Rembrandt has satisfied Gordon by retreatin from the SBIC axis, which was probably the prudent thing to do, considering the extent of its holdings in the financial services sector. But the terms were tough, and raise the question of whether Rembrandt and Richemont executive director Johann Rupert has successfully green-lined Gordon.

Andrew McLarty
Rembrandt trio raises R630m in rights issue

RIGHTS offers by Rainbow Chicken, Hunt Leechars & Hepburn (H L&H) and Huntcor have been well received by shareholders of the three Rembrandt-related companies, with over R630m raised.

All three companies' shares peaked at their yearly highs at the close of trade yesterday following the closure of the offers.

Rainbow's share rose by 26c or 5.9% to close at a new high of 385c. The share has risen by 73% since its yearly low of 225c in August 1990. H L&H closed yesterday at a new high of 1385c, rising by 10c or 7% from yesterday's closing, and Huntcor also closed at its yearly high of 2 525c, rising by 25c or 1% from the previous day.

The rights offers, which closed on May 30, were for major chicken producer Rainbow to fund its R224m acquisition of a broiler operation Bonny Bird Farms from Premier Group, Bokomo and Sacca, as well as its R20m acquisition of 56% of Premier's Epol Animal Feeds division, and for H L&H and Huntcor to underwrite the issues and follow their rights.

The Rainbow offer, underwritten by H L&H, was the most successful, being 162.3% subscribed. Applications were received for 95.7-million of the 93-million shares offered at 279c a share.

Applicants for 2.6-million additional shares will be allocated sufficient shares to round their holdings to the nearest 100. Each applicant for additional rights shares will receive about 14.69% of the additional rights shares applied for.

H L&H's R223m offer — to follow its rights and to underwrite the Rainbow offer — was 99.7% subscribed, with 19,3m of the 19,4m new ordinary shares (offered at 1,150c a share) applied for. Applications for 407,010 additional rights shares were received and would be allotted on the basis of 14.8% of the number of shares applied for. The H L&H offer was underwritten by its holding company Huntcor, which would in turn raise R161m to follow its rights and underwrite the H L&H offer.

Shareholders of Huntcor applied for 6,98-million or 99% of the 7-million new ordinary shares offered at 2,300c a share. Applications for 130,926 additional rights were received and would be allocated on the basis of 51.7% of the number of shares applied for. The Huntcor offer was underwritten by the Rembrandt Group.
Insolvencies up as recession bites

Sven Lunsche
Weekend Argus Correspondent

Liquidations and insolvencies of businesses continue to rise as the recession bites, figures released by Central Statistical Services (CSS) show.

The CSS reported this week that in April, 150 liquidations took place, 30.4 percent up on the previous month.

However, for the first four months of this year, liquidations at 549 fell by about nine percent from 604 in the same period last year.

Credit Guarantee economist Mr Luke Doig says that a clearer trend emerges when analysing longer-term trends.

Thus, over the last three months from February to April, liquidations of companies were 13.5 percent up on the number of liquidations from November 1990 to January this year.

The construction sector has been hardest hit, Mr Doig says.

Liquidation in this sector in the first four months of the year at 61 were 24.5 percent up on last year's figure.

In the retail and wholesale trade, 207 businesses closed down, compared with 191 in 1991.

The financial industry experienced a decline from 236 in the first four months of 1990 to 160 liquidations this year.

The CSS preliminary figures on insolvencies, show that at 232 in March they were 19 percent up on February's restated 237.

For the first three months this year 766 insolvencies were reported — about nine percent higher than 1990's final-quarter figure of 707.
High growth 'could push industrial index to 9,000'  

ROBERT GENTLE  

The industrial index could reach 9,000 in five years and certain companies could see their share price increase tenfold over the same period, according to Board of Executives (BoE) boss, senior GM John Winship.  

Addressing influential business figures last week, at a seminar entitled Financial Markets in the new SA, Winship said BoE was increasingly optimistic about market opportunities once sanctions go.  

He foresaw a high growth cycle which would pull through to commodity prices and the share market. World markets were now entering a bull phase and the Dow had recently broken through its all time high.

"World growth in the '90s will be higher than in the '80s. Some of our shares could benefit immensely," Winship said, citing De Beers and Richmont as examples.  

Admittedly, certain markets had not yet reflected this, but the trend was there. "We are increasingly confident of our spending," said Winship.  

He said it was worth investing in SA over the long term, and that, "certain foreign investors had already realized this. Maybe South Africans were too close to the situation to see the potential," he said. "Maybe we can't see the wood for the trees."
Stockbrokers angry over Act's seven-day limitation

MANY stockbrokers are unhappy with an amendment to the Stock Exchanges Control Act limiting the period of settlement on share transactions to seven business days.

They say the change, which came into force at the end of May, could have disastrous consequences for trade, especially for the small broker who deals with the man in the street.

JSE president Tony Norton said: "The previous provision was not very clear. Some brokers waited seven days for settlement, and some for longer periods.

"There was confusion and all we were trying to do with the amendment is make clear the period of settlement unless a dispensation is given.

"In 1969, there was a huge credit expansion which overheated the market. People have to pay within a reasonable period if there is to be an orderly market."

Dealers said, however, that the new provision would kill private client business.

"Private clients will now go and deal through banks as payment is mostly on delivery of scrip," said one.

"About 80% of all small brokers will be put out of business, leaving only institutional trade.

"The JSE recently had a campaign to bring the small man back into the market, but this will destroy that."

Other dealers said the provision would result in lower volumes as a lot of the volume was through jobbing.

Another trader added that, under the previous provision, the settlement date was extended to 14 days if there was a problem with the scrip or in terms of collecting cash from a client.

He said that if the new provision was kept strictly to seven days, it could result in the elimination of speculators from the market.

Another broker said he did not see how settlement could practically take place in seven days, particularly if a deal was done on a Friday. "The posting of a broker's note could take a few days, and by the time a cheque is posted and received, the whole process will take longer than seven days."

MERVYN HARRIS
Safex goes for options on futures

THE SA Futures Exchange (Safex) announced yesterday it would be launching options on futures within nine months, a move which would put it in competition with the JSE’s soon-to-be-launched Traded Options Market (TOM).

Safex will be offering options on index futures while TOM will offer options on the underlying indices and individual equities.

"There could well be a degree of overlap," said Safex chair Stuart Rees in an interview, explaining that there was no fundamental difference between an option on an index and one on an index future.

"The greater number of choices the market is presented with, the better for the market," he said. However, Safex was not going down the options road with the express purpose of taking on the JSE.

It was part of an overall strategy decided last year, and which, in the longer term, would see the introduction of options on all Safex-listed futures contracts from bond futures to RA futures.

Rees said he was aware that the existence of the two almost identical products, competing under different regulatory regimes — the Stock Exchanges Control Act and the Financial Markets Control Act — could well raise the possibility of some sort of harmonisation later on.

In the UK, for example, the London

Traded Options Market (LTOM) and the London International Financial Futures Exchange (Liffe) had decided to merge their operations, partly in response to similar problems.

There was no reaction from the JSE.

Rees said: "Based on our experience with the introduction of the futures system where the software cost about R250 000, we do not expect options to be unduly costly. There will be no computer hardware costs."

Safex would explore all alternatives to ensure the finished product would be cost-effective, Rees said. This included looking at existing off-the-shelf systems.

On the finance side, the possibility of a consortium of software developers paying the development costs to avoid Safex members footing the bill was also being looked into.

Safex’s and the JSE’s moves are steps to formalise the burgeoning informal market in options, both on futures and on individual JSE shares.

A dealer said speculators would be drawn more to the market for options on futures, while institutional investors might prefer the TOM. With the TOM, speculators would not be able to buy the underlying instrument as they would with a futures contract.
Concern is growing that the narrowing discount between the financial and commercial rand, which stands at about 14%, will prompt investors to take profits.

Evidence of this emerged last week when the discount fell to between 12% and 13%.

Also, the yield on the benchmark Eskom 168 through the finrand has dropped substantially since the middle of last year, because of the strengthening finrand.

In the past two years only seven weekly net outflows have been recorded in the gilt market, as reported in weekly JSE statistics.

This compares favourably with the relatively steady outflows recorded on the equity market, with net weekly inflows since August 1990.

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Source: TDI/BISCH; South Het
Finrand’s drop props up golds

A sharp drop in the finrand towards the close of trading helped prop up gold shares on the JSE yesterday after they had come off highs in line with an easier gold price.

Gold closed $2 down at $371 in London.

The finrand slumped to R3.37 from R3.30 to the dollar came as a seller entered the market at the last moment. Dealers said the downturn was aggravated by the fact that SA banks had to square positions at the end of the day.

"The sale might have had something to do with the R150m payment in financial rands by Datakor for the purchase of US computer group Timeplex. But as it came at the last minute, not many rands went out," a trader said.

The awakening of gold from months of slumber saw renewed customer interest and only limited producer selling on bullion markets.

Profit-taking

Dealers said when early efforts to pull gold down failed, the metal rose to a high of $373.10 before profit-taking set in.

The JSE all gold index closed unchanged at 1.416 after rising to a high of 1.442 in the morning and dipping to a low of 1.412 in the afternoon.

Industrialists were steady with the index off two points at 3,632 but firmness in mining house shares lifted the overall index 12 points to 3,261.

Many local analysts were optimistic that if gold could hold at current levels, the price could be on the way to $380.

Heavyweight gold share Vaal Reefs closed R1.50 easier at R23.39 after rising to R23.99. Freegold ended unchanged at R28 after touching R28.75 but Southvaal closed R8 firmer at R100.

Mining financial leader Anglo gained R2.50 at R116 and diamond share De Beers R1 at R77.75.

Among industrial leaders, Barlows ended 25c firmer at R40.50 but Richemont eased 40c to R26.60.
Remgro results beat expectations

REMFRANDT Group’s (Remgro’s) end-March results were a testament to the group's adage that profits speak far louder than words.

The conglomerate, with interests in tobacco and liquor, as well as substantial investments in the industrial, mining and financial sectors, posted up earnings 15% to R55.8m (R44m previously) a share off net income from normal business operations of R106.3m (R75.4m).

The total dividend outlay increased 20% to R30.2m (R25m), reducing cover from earnings to 5.5 (6.8) times and increasing cash cover to 3.6 (3.5) times. Excluding equity accounted income from associated companies of R225.3m (R117.6m), earnings improved 24% to 107.4c (86.5c).

Remgro’s capital employed at book value increased 16% to R5.85bn (R4.87bn). Its net income before taxation (including dividend income of R225.3m) closed in on the R1bn mark — up 26% at R900.3m (R730.4m). Taxation remained at an effective 36%, cutting off R344.7m (R281.4m).

However, group spokesmen were unavailable to explain an extraordinary loss of R1.3m, compared with a R4.6m gain last year.

The results are slightly ahead of market expectations.

Market analysts said yesterday that the performance was strong in the recession, and indicated that Remgro had the right mix to ride out the recession.

It was difficult to make market forecasts for Remgro because of its traditional reticence in disclosing more than it absolutely had to.

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Remgro £100bn

Market observers had earlier speculated that Remgro might start suffering from the fact that it no longer had its foreign cow to milk since investing its overseas interests into Richemont.

Ahead of the results Remgro yesterday moved up 10c to its high of R19.50, putting it on a P/E rating of 11.8 times and a dividend yield of 1.5%. The share price equalled the level reached in April on speculation of an impending deal involving Remgro's holding in Standard Bank Investment Corporation (SBIC).

That deal bore fruit at the end of the financial year under review, with the sale of Remgro's 6.3% interest in SBIC to Liberty and other parties at R45 a share.

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Also reporting was Rembrandt Controlling Investments (Rembrandt), which holds just more than half of Remgro's ordinary shares. It posted net income of R442m (R341.4m), translating to earnings of 122.5c (106.7c) a share. The total dividend was raised 23.5% to 22.31c (18.51c).

Technical Investment Corporation (Tegkor), which holds about 41% of Rembrandt's issued share capital, declared a dividend of 19.3c (16.2c) off earnings of 107.4c (93.7c) a share.

Technical and Industrial Investments, with holdings of about 66% in Tegkor and 19% in Rembrandt, came through with a dividend of 20.7c (17.2c) on earnings of 114.2c (99.3c) a share.
Robert Gentile

JSE looks forward to lightening debt burden
Saflife ‘star performer’ in HCI group

JOHANNESBURG — Hosken Consolidated Investments (HCI) results for the year to end-March — incorporating mixed results from IGI Insurance Group (IGI), Safrican Life Investment Holdings (Saflife) and recently acquired Credel Investment Corporation — showed a 9.8% increase in attributable profit to R19.8m (R18m), and almost static earnings of 166.9c (166.2c) a share.

Short-term insurance company IGI reported a 13.6% drop in attributable earnings to R23m (R26.6m), and a 10.5% decrease in diluted earnings to 170c (200c) a share, in what chairman Michael Lewis described as “some of the toughest trading conditions we have seen in the insurance market in 30 years.”

The group was able to achieve a marginal improvement in its net income before tax to R23m (R22.4m).

The group increased its final dividend by 24% to 31c (25c) a share, bringing the full year dividend up by 14.3% to 48c (42c) a share.

Gross premium income rose by 23% to R557.6m (R455.9m) and net premium income rose by 23% to R466.3m (R382.6m).

HCI’s life assurance arm Saflife reported a 41% growth in attributable earnings to R13.7m (R9.7m) and a similar increase in earnings to 45.4c (32.8c) a share — the seventh year in succession that it has increased its earnings by more than 40%.

Its gross recurring premium income grew by 74% to R167.9m (R98.5m) and its net recurring premium income rose by 79% to R159.6m (R91m).

Investment income rose by 63% to make a R70m contribution, reflecting “the investment expertise of the group’s Safegro investment arm, which also manages the highly successful Safegro Unit Trust.”

The full year dividend was up by 38% to 28.5c (20c) a share, although the final dividend was maintained at 18c a share, to “eliminate the disparity between the interim and final dividends.”

Holding company HCI increased its final dividend by 42.8% to 30c (21c) a share, bringing the total dividend for the year up by 25% to 45c (36c) a share.

Results from Credel were brought in for the first time, reflecting its trading over the three-and-a-half months since the acquisition.

Lewis said Saflife was “the star performer”, while IGI performed “remarkably well in a highly competitive market.”

The insurance broking and reinsurance broking companies increased profits both in SA and abroad.

A 28.6% increase in income from associated companies and the foreign subsidiary to R5.1m (R4m) was “an important contribution that was received largely from our broking activities,” said Lewis.
portfolio was compiled by her husband, Mike, a CA who works at the Mines Pensions Fund and follows the stock market as a hobby

A year’s subscription to the FM goes to the runner-up, Johan van Zyl, of Kloof, Natal, whose portfolio gained 21.5% Van Zyl, who is executive director of the Education Foundation, also did his own research and describes himself as a “minute” investor.

If these results don’t sound too impressive considering the recent strength of industrial and financial shares, it is worth recalling the paltry performances of the portfolios submitted by six stockbrokers (and the FM) who entered the 1990 competition. The winner among them showed a gain of 7.4%, and there was an average decline in value of 20%.

The winning reader’s portfolio was notable for a generally consistent performance, with only two shares declining. It comprised Untrans (whose price gained 17.1%), UBS (up 28%), Metropol (up 30.4%), Hudaco (up 14.3%), GDM Finance (up 57%), Delta Electrical (up 27.1%), Distillers (up 27.4%), Cadwep (up 54.4%), Gencor (down 7.1%), and De Gama (down 27.1%).

Results of the runner-up’s portfolio were less consistent, but its overall result was improved by one of last year’s outstanding shares. This was the furniture retailer, Ellerine, whose price rocketed by 172.7% — enough to make up for several weaker selections. Others in the portfolio were Minanco (down 19.1%), Q Data (up 7.8%), AECI (up 21.2%), Southern Life (up 29.8%), Libest (up 20.6%), Fedsure (down 5%), Richemont (up 17.4%), Irvin & Johnson (up 4.2%), and Amshor (up 7.7%).

Results of the readers’ competition are based on the total capital growth of their portfolios over the calendar year, with no changes. This differs from the brokers’ competition, which is contested by six firms who may change their portfolios at midyear. Halfway positions in the brokers’ competition for 1991 — when the entries were dominated by industrial shares — will be published next month.
HIGH-FLYING retail chain Prefcor is coming to the JSE in the largest new listing this year.

The group seeks about R270-million in a move designed to remove control from the foreign consortium which supported a buyout nearly three years ago and to give line management a stake in the company.

Foreign control will be reduced from 33% to 25%. Investors who qualify to sell shares at a higher price have been starved of high-

The price of the shares and the number to be sold will probably be decided at a meeting this Wednesday.

Executive chairman Terry Rosenberg says: "We are working flat out on the plans. We would like to be listed by August.'

He says about half of the R270-million will stay in the company

The rest will be used to purchase other retail interests, including the listed group - Game Discount World stores, Game furniture stores trading through five well-known chains Barnetts, Nabwts, Furniture Group and Price and Links, and the Home Quotient clothing unit.

By IAN SMITH

Putting Prefcor's book to the separate company on April 26, the company has increased its credit data ratio without having the normal debt-equity constraints on its balance sheet.

Prefcor executives believe that the fact that Game has only three years to the Trandum where nearly 80% of the market is provided by the group's growth potential.

Game, headed by former Checkers managing director Clive Weal has aggressive expansion plans for the Trandum. Sales in May were 57% ahead of budget.

The furniture division, controlled by former Don chard executive Hyman Silber, also plans to open 56 stores throughout the country in the next two years.

The clothing chain will be expanded to about 40 outlets. Prefcor's listing is the largest since the R308 million Mainstreet Property last November.
Bidvest buys Sable subsidiary

FINANCIAL property-listed Sable Holdings has struck a R80.6m deal to sell its 60% stake in subsidiary Steiner Services to cash-flush industrial holding company Bidvest.

A statement released by Bidvest at the weekend said the company had also purchased the remaining 40% share capital of Steiner held by a management consortium.

The total value of the combined deal was in the order of R66m, said Bidvest's chairman Brian Joffe.

He noted that the transaction was based on Steiner producing a taxed profit of R11.017m for the financial year to end June this year — equating to a price earnings multiple of 7.8. Should Steiner produce a shortfall on the target, Joffe added that the purchase price would be reduced by R7.80 for every R1 below that target.

Joffe explained that the deal would be paid partly in cash, and the remainder through the issue of Bidvest debentures and ordinary shares at R27 each.

Steiner's businesses include the supply of continuous towelling, cabinets, garment manufacturing, industrial laundering, hotel supplies, garment and towel rentals and other related products. The Steiner title will be retained.

The Sable deal, subject to its shareholders' approval, has been struck at R80.6m with Bidvest acquiring Steiner's entire assets, businesses and liabilities. A Sable statement said the R80.6m, to be realised as a cash consideration, would be equivalent to 612c per ordinary Sable share.

Joffe noted that the deal would have boosted Bidvest's earnings by 4% to 271c.

Bidvest

from 259.5c a share for the last interim period to December.

Bidvest's net asset value would, however, have fallen by about 4% to 374c from 1016c a share for the same period.

But Joffe noted that the deal would have a significant bearing on Bidvest's future earnings. "Steiner's hotel division is a direct competitor of a business in the Bidvest group and certain rationalisation benefits will flow from having both businesses in the same group."

To Page 2

The Sable statement noted that, had the transaction been effective from June 30 1998, Sable's net asset value would have jumped more than 124% to 1290.5c from 574.2c a share while earnings would have climbed 15.5% to 129.5c from 104.7c a share.

Compared with the R82.6m Sable paid when it acquired 60% of Steiner in July 1988, the value of the Bidvest deal has brought more than an 87% return on the group's investment.

From Page 1
THE ANC has investigated the nationalisation of the pharmaceuticals industry, which is the formation of a state holding company to sell basic generic drugs. The country is the formation of a state holding company to sell basic generic drugs, of which have been used by the World Health Organization.
Traders angry as trickle feed fails

ROBERT GENTLE

There was anger in the futures market yesterday, when the JSE's electronic trickle feed, which transmits share price data to futures traders' screens, went down for more than an hour from about 9.30am.

This meant that non-JSE futures traders, preparing for a hectic day of trade ahead of the quarterly share index futures close-out, had to operate blind because they could not tell what the latest JSE prices were.

It was the third successive close-out — some claim the fourth — during which the trickle feed was down, prompting some traders to make allegations that the service failure was deliberate.

A JSE spokesman said there had been a "glitch", but it had soon been sorted out.

That it had occurred again on close-out was a coincidence.

The traders claimed it gave the JSE's own futures traders an unfair advantage in the crucial trading on close-out because they had direct access to share prices through their positions on the trading floor.

Non-JSE futures traders had to rely on share price information being transmitted by the trickle feed. Yesterday's problems were made worse by a glitch on the trading screens themselves, which prevented traders from accessing certain price data at about 4pm.

Safex CE Stuart Rees said the problems hampered volumes on what otherwise should have been a highly active day.
Bullion surge gives shares a lift

Mervyn Harris and Andrew Gill

A SURGING gold price in dollar and rand terms, amid buoyant sentiment on the political front, swept share prices sharply higher in hectic trading on Diagonal Street yesterday.

Ignoring the strength of a rampant US dollar, the gold price leapt $3 from $358 to $371 within a few minutes in early afternoon trading. The rise came on a rally in silver in early New York dealings and large buying from a Middle East player.

The rand plunged to its second record low in as many weeks, as it threatened to break through R2.90 to the dollar.

Demand for gold shares was fuelled by renewed dollar strength which pushed the rand gold price to R1.070/oz as the rand improved to R2.91/2 to the dollar after touching the record low of R2.9366.

The rand gold price is only R0.5 below its peak of R1.095 reached in November 1988, according to First National's data base, when the rand was then at R2.61/27 to the dollar and gold above $400.

Forex analysts said the dollar rally was likely to continue with recent figures reflecting a US economic recovery.

The rand could fall to R2.25 to the dollar in the short term, an analyst said. At the current dollar gold price of about $370, a rand gold price of R1.085/oz would be realistic.

The losses against the dollar have been countered by a strong performance against the cross rates with a 3% gain against sterling in just over a week compared with a 1.5% fall against the dollar over the same period.

Shares

A boon for dollar exporters would result if the low levels were maintained, an analyst said, on top of which inflationary fears resulting from the rand's fall would subside because the rand's performance against a basket of currencies had been "remarkably stable".

The JSE all gold index climbed 4% or 5d points to 1,372, while the industrial index maintained its run-up to fresh peaks with a gain of 18 points to 3,786 to lift the overall index 30 points to 3,312.

Analysts said institutional cash flows and positive announcements on the political front, including the possible lifting of sanctions, were creating a firm environment for the industrial market which was discounting fundamentals 18 months down the line.

"There is strong demand for quality stock but an absolute lack of sellers as nobody is prepared to release them," a dealer said. An example of the shortage of scrip on offer was the fact that Barlow's first traded yesterday only late in the afternoon when the price firmed 25c to R41.75.
Privatisation on trial as sorghum brewery goes public

Marcia Klein

NSB has said that one of its aims was to educate black people — its main customers — on the merits of owning shares, even if NSB will initially not be listed on the JSE. Analysis argues this will be effective only if sales and profits grow strongly and they justify pessimistic forecasts on the sorghum beer industry's 15-year record of flat sales. They see a low prospect of change, particularly as a rapidly urbanising black population is showing a preference for clear beers such as lager.

Barring a prolonged depression, sorghum was "an old Third World product doomed to die," an analyst said.

Wits Business School professor of business strategy Grant Robinson said NSB was taking a mature industry — with slow growth and a lack of sophisticated black shareholders — and "the mere act of privatisation would turn a mature business around."

He said NSB had not explained to its potential shareholders that the industry had long been mature and would need a reversal of consumer tastes to turn around. Shareholders could find themselves trapped in a business with no growth potential.

However, the company secretary and group strategy manager, Israel Skosana, disagreed with the analysts. "Our target market is one which is growing and is still going to grow in the future."

Skosana said sorghum had not been promoted in the past and had generally become associated with consumers in the lower economic brackets. NSB's major marketing drive of the past few months was starting to clear up some of the "misinformation" and was "putting pride back into the people".

And, they said, the costs of clear beer were becoming competitive compared to sorghum, and as prices moved closer, there could be a greater shift from sorghum to clear beer.

While there were few possibilities for sorghum in terms of new products and strategic growth plans, an observer said a shift from beer to food products could be risky, and NSB was not an experienced player in the food industry.

Another analyst noted NSB was issuing shares in what was a protected monopoly, so NSB is the only sorghum brewer that can operate within SA's borders. SAB has a sorghum operation which markets to the African countries, and there is also a sorghum producer based in KwaZulu.

Johnson pointed out that NSB's protected monopoly could fall away in 1996, leaving the market open to competitors, including SAB.
EDUCATIONAL publisher HAUM has been sold by the Nederduits Hervormde Kerk to a private consortium which plans to restructure it to encourage black economic empowerment.

The consortium, Educor, includes Idasa executive director Van Zyl Slabbert and political commentator Harald Pakendorf. Sources said yesterday the sale was believed to be worth tens of millions of rand, but this could not be confirmed. Pakendorf would not disclose the source of the consortium’s funding but said it would become apparent once the company was handed over at the end of the month.

He said Educor planned to recruit as many black individual shareholders as possible, through organisations if necessary, in the belief that black empowerment was vital to a future SA.

HAUM — the Hollandsch Afrikaansche Uitgewers Maatskappy — consists of academic, technical and medical bookshops, printers and publishers. It produces school textbooks for the pre-primary, primary, secondary and tertiary education sectors, according to HAUM MD J C Oelofse.

Pakendorf said HAUM would be better placed in a changing market by reflecting black interests across the political spectrum. He said a company tied to one of SA’s most conservative churches could not continue to publish schoolbooks in the new SA.

The church forbids black membership. Oelofse said he felt the church thought HAUM had become “a giant”.

Blacks would be recruited to the company’s board of directors, but Educor planned to retain the present management, Pakendorf said.

Educor’s initial bid for HAUM was rejected in favour of one by board member Johan Breytenbach. Sources said Breytenbach had been unable to sustain the deal. ANC spokesman Carl Niehaus denied ANC involvement in the deal after months of speculation about organisation’s role.
Fraser's closure likely, says Utian

THE Premier Group last night announced that plans to sell Fraser's wholesaling operations to a management consortium had fallen through and that the wholesaler would probably have to close.

Premier acquired a large holding in Fraser's parent company Metro at the end of June. Premier deputy CEO Gordon Utan said last night that the decision to close Fraser's had been taken by previous management of Metro prior to Premier's involvement.

The financial institution which would have financed the acquisition decided against proceeding with the transaction after a due diligence exercise.

Utan said "strenuous efforts" were made to avoid the closure.

"We tried to accommodate the prospective buyers as much as possible in the hope of protecting about 800 jobs," he said. The decision was "disappointing".

During the due diligence investigation of Metro conducted by Premier prior to acquiring 76% of Trade- gro's interests in Metro, Premier had identified that about R170m was required to be written off, R80m of which arose from the proposed sale of Fraser's to the management consortium.

Utan stated that while the cost of closure would be about the same as that accounted for as a result of the aborted disposal, it was not anticipated that Metro would incur any further losses.
Company directors 'paid R3 500 a week'

By Michael Chester

The average pay packets of the directors of South Africa's largest industrial companies have grown to more than R3 500 a week, according to a new survey of salary and wage trends.

The Labour Research Service, based in Cape Town, yesterday released survey results showing the 1 079 directors who controlled the top 100 industrial companies quoted on the Johannesburg Stock Exchange last year shared pay packets worth no less than R169 million.

The survey estimated that the directors awarded themselves average increases of 18.3 percent in 1990, equal to R560 a week.

Unions

These raises carried the average size of their pay packets to R3 840 a week.

A spokesman said a full report on the findings had been sent to Cosatu and all the major individual trade unions, which had financed the research.

The information was likely to be used by the unions as background material in their annual wage negotiations.

The survey underlined that the pay packets of directors were running 20 times higher than average weekly wages of labourers, which rose to R179 following 1990 increases of slightly more than 20 percent.

The R169 million paid out to directors of the top 100 industrial companies last year could have supported 14 547 families with a "living wage" of R1 140 a month.

Results had been gathered by an analysis of directors' pay as disclosed by corporate annual reports and also by calculations based on the size of total boardroom remuneration divided by the number of directors.

The exercise yielded the average size of pay packets.

No allowance was made for any additional income earned by many directors who collect dividends from share incentive schemes.

Directors of the big mining houses picked up even fatter pay packets, according to the survey.

Details of this will be released soon.

Among the largest industrial companies, boardroom pay packets were biggest at Malbak, where the average pay of directors was R9 616 a week.

The next highest weekly average was at Trencor, where the weekly average was R9 474.
In 1991, the market was recovering from its 1990 lows and the gold price had not yet risen to the levels seen in 1992. The gold index increased during this period, reflecting the market's confidence in the economy and the political situation in the country. The increase in the gold index was attributed to the resumption of sanctions, which had a positive impact on the share market. The resurgence of interest in gold shares was also due to the general economic recovery and the expectation of further sanctions. The increase in the gold index was also influenced by the rise in the gold price, which provided a strong positive effect on the overall market.
Unidev turns in a loss of R86.8m

MARCIA KLEIN

INVESTMENT holding company Unidev, which was recently taken over by Jon Brett and Alan Chonowitz (formely of FSI) and Senbank, yesterday announced an R86.8m loss in the year to end-December 1990.

The loss was attributed largely to losses on former subsidiary Corporate Technology (Cortech), which did not form part of the takeover deal.

Unidev and its holding company Unidev Consolidated Holdings (Unicon) also announced proposed rights offers to raise R23m and R13m for Unidev and Unicon respectively, and the proposed delisting of 80% held subsidiary Prestige from the furniture sector of the JSE to become wholly owned.

As part of its major restructuring and recapitalisation programme, the group has disposed of a large portion of its investment in property arm Equitor for R5.5m, and has continued to dispose of non-core assets.

The new Unidev is jointly managed by Brett and Chonowitz, who took manage-ment control following the acquisition of ultimate holding company Top-Hi Investments by the two MDs and Senbank.

Its key holdings following the restructure and rights issues would be 100% of houseware company Prestige, 33% of private hospital group Medicor, 33% of convenience supermarket retail chain Hiperette and 22% of furniture group Rusturn.

Chonowitz and Brett said in an interview yesterday their short-term plans were to

To Page 2

Unidev 86.8m, compared with a profit of R11.6m in the previous year, arising mainly from losses incurred by Cortech. It had contributed more than 40% to the losses.

Unidev reported an operating loss of R80.2m (previously, profit of R18.9m), and did not declare a dividend (a dividend of 14c a share was declared in financial 1989).

Unicon, whose results depend entirely on those of Unidev, declared a loss of 24c (earnings of 23.1c) a share, and no dividend was declared (33c in 1989).

Prestige reported an attributable loss of R1.5m (profit of R1.8m).

make these businesses tidier and more efficient and to dispose of peripheral companies.

In terms of the rights offers, underwritten by Top-Hi, Unidev shareholders would be offered 300 new Unidev shares for every 100 shares currently owned at 52c a share, and Unicon shareholders would be offered 300 new Unicon shares for every 100 shares at 21c a share.

Prestige shareholders would receive 100 Unidev shares for every 100 Prestige shares held.

Unidev's results for the year to end-December reflect an attributable loss of
SOARING costs, concern over the exchange's image and the Old Mutual affair contributed to a shake-out in yesterday's annual elections for the JSE committee.

Five new members came on board to replace three who were ousted and two who did not stand for re-election.

The new members include the head of a leading Cape-based stockbroking firm and three representatives from small stockbroking firms, the hardest hit by the exchange's dwindling fortunes.

Prominent among the candidates voted off was Malcolm Stewart of stockbroking firm Kaplan & Stewart. He was the head of the exchange's general purposes subcommittee, the body which helps police trading on the JSE's floor and which generally oversees stockbroking activities.

A number of brokers said that Stewart, more than any other JSE member, had been responsible for exposing irregular trading affecting the Old Mutual. They said he had determinedly pursued investigations of suspected irregularities from the JSE's side — investigations whose results had been combined with the Old Mutual's own to bring to light what is thought to be one of SA's largest share-trading scandals.

They added that without Stewart it might be difficult for the JSE to pick up the threads of the Old Mutual investigation.

A newcomer to the committee was Geoff Rothschild of Frankel Max Pollak Vindervine (FMPV), one of the firms to have suspended employees linked to the Old Mutual affair. Rothschild was apparently elected by the slimmest of margins, but beat his own firm's David Shapiro, who was standing for re-election.

Another committee member ousted was Strong (Simpson McKee), Norman Lowenthal (Lowenthal & Co), John Turner (Turner Paterson Faure), George Hyams (George Hyams & Partners) and Geoff Rothschild (FMPV). Re-elected members are Humphrey Borkum (Davies Borkum Hare & Co), Paul Ferguson (Ferguson Bros Hall Stewart & Co), Richard Lurie (Lurie, Johnston & Co), Peter Redman (Mathison & Hulledge), Rob Roy (Ivor Jones Roy & Co), Mike Sims (Anderson Wilson & Partners) and Francois Tolken (Martin & Co).

A JSE spokesman said the chairman and vice-chairman would be elected at the first committee meeting tomorrow. Humphrey Borkum, former vice-chairman, is widely expected to become the new chairman.
tion services, further acquisitions appear likely. As well as providing M-Net with an entry into the credit information business, the acquisition of ITC (formerly the local subsidiary of Dun & Bradstreet) is intended to improve operational efficiencies. But such improvements will take some time to reach the bottom line.

Postponement of the introduction of the new service is a blow to subscribers but probably comforting to shareholders, as the operation could have become a drain on resources. CE Koos Bekker says the news facilities, which will cost R20m, will meanwhile be used for production of TV programmes.

Pacak says the group's accumulated tax loss should ensure that it starts paying tax only in financial 1993. The conservative dividend cover of 4.3 is intended to ease the pain of these payments.

Pacak says it's difficult to forecast earnings growth for this year, as gauging demand for decoders has proved almost impossible. Introduction of the M-Net broadcasts to rural areas and neighbouring states via satellite is expected to give sales a fillip, and the group should meet its internal projection of earnings improvements of 25%.

At 430c — up from the issue price of 100c — the share looks expensive and may be due for a correction. But on the results so far its p/e of 14.4 is hardly excessive and the share may be worth buying on price weakness.

Gerald Hirsken

CHARTER CONS

HOLDING UP WELL

Nobody was expecting a good year from Charter Consolidated (CC), given its exposure to the UK construction industry and British Coal. New building dropped 17% in calendar 1990 and by 26% in the first quarter of 1991. And British Coal, facing drastic shrinkage as privatised electricity generators gain freedom to buy cheaper on the open market, slashed its investment by 22% — a savage blow for its biggest supplier, Anderson, which is one of the four pillars of CC. Hence, CE Jeffrey Healy had reason to feel satisfied when unveiling a 2.2% increase pretax to £77,5m for the year to March, after “the toughest trading conditions I can remember.” EPS are up by a similar margin to 44.6p and the dividend goes 8% higher to 21p.

The balance sheet is rock solid. Disposals raised £56m, boosting net cash by 48% to £133m — 26% of market capitalisation of £502m, with the share at 474p.

The star operating division was Pandrol (rail track equipment). Sales rose 43% to £83.7m, but with margins up to 12.9% (from 10.4%) profits jumped up 77% to £10.8m. Exports now account for 88% of the business.

Cape (building products and services) managed a healthy £182.3m (up 21%) but shaved margins left profits only 12.6% up at £17m. No early recovery is expected in UK construction but Cape has moved into the Far East and Europe, where now contribute 30% of business, which could rise to 40%.

CAST ( quarrying and coal mining in the US) had a flat year with a surplus of £2.7m (up 17%) on turnover 50% higher at £60.5m. Anderson (coal mining plant) is still not
Tradehold releases unbundling details

SHAREHOLDERS of Tradegro and Tradehold will be offered shares in Metro, Cashbuild and Premier, as well as cash, in terms of the unbundling of the two pyramid companies in the Sankorp stable.

Releasing details of their reorganisation, retail giant Tradehold and its pyramid Tradegro announced they would distribute the shares held in Metro, Cashbuild and Premier to their shareholders, and partially redeem and convert their convertible debentures and preference shares into ordinary shares.

This would result in Tradegro holding Checkers, Coreprop and the department stores (Stuttafords/Greatermans) as its only wholly owned subsidiaries, as well as about R72m cash.

Tradegro's major asset would be its 54.6% holding of Tradegro, and it would also retain shares in each of the distributed companies to fund the repayment of short-term liabilities. The unbundling would be completed by the end of July.

Directors said this would simplify and streamline the corporate structure, increase shareholders' wealth and provide them direct participation in each of the distributed companies.

Tradegro ordinary shareholders would be entitled to 5.2 Metro shares, eight Cashbuild shares, 1.3 Premier shares and a cash payment of R5.40 for every 100 shares held.

Tradegro convertible instrument holders would have their paper converted into Tradegro ordinary shares on a one-for-one basis and a cash payment of 8c for every convertible instrument, as well as interest and dividends.

Tradehold ordinary shareholders would receive three Metro shares, four Cashbuild shares and one Premier share for every 100 shares held.

Tradehold has agreed to sell 70% of its interest in Metro to Premier and Smart Centre and Frasers mine stores were sold to Pepkor for R31m and R12m respectively.

The group structure before the proposals — assuming conclusion of the Metro deals — sees Sankorp holding 73.6% of Tradehold, which holds 54.6% of Tradegro.

Tradegro's investments prior to reorganisation are 3.6% of Premier, 14.2% of Metro, 65.0% of Cashbuild, and 100% of Checkers, Coreprop and the department stores.

Le Roux said it was still Sankorp's intention to sell holding company Tradehold, which would result in a change in control of Checkers and Coreprop. He added that he was not talking to anyone at the moment on the sale of Checkers.
Much criticism has been directed at the hired officials of the JSE, often not without reason. But this week's election of a new JSE committee overshadows any controversy about the performance of the exchange's management — though the issues are not unrelated.

There are signs that the balance of power is shifting and the Old Guard may at least be challenged. If so, there could be enough new names on the committee to help bring some changes in the way the JSE runs its affairs. Stockbrokers should hope that is what happens. It has been common in the past to dismiss the election of the committee as a non-event. Last year, few, if any, new candidates came forward, there were virtually no changes and it was business as usual.

To outsiders, it has been easy to gain the impression that rising levels of criticism about the administration of the exchange were matched by equally high levels of apathy. Broking firms have, of course, had other problems to cope with, and senior members of the calibre required cannot easily spare the time to involve themselves in committee meetings.

But, after the events of the past year, including the sharp deterioration in the JSE's financial position, the level of discontent has risen high enough to generate greater interest. For this year's election, nine new candidates were proposed, including some who are well qualified and proven business managers. The list includes: Clarence Braun of V H Simmons & Co, Hilliary Crosby of HG Crosby & Co; George Huysamer of George Huysamer & Partners, Roy Lever of Lawyer & Co; Geoff Rothschild of Frankel & Pollak Vinderne Inc; Duxie Strong of Simpson McKie Inc, and Lufra van Rensburg of P L J van Rensburg & Partners.

With the new names added to those of the 12 brokers members of the existing committee, about 21 candidates were available for election. Not only was a wider choice available to those casting votes this year, but a number of members canvassed by the FM felt there could be enough changes in the voting pattern to bring perhaps four or five new faces on to the committee.

Each full member of the JSE — about 315 of them — is entitled to vote, but each is expected to vote for 12 people. Should the candidates standing not be sufficiently impressive, as some members believe is often the case, this requirement can discourage positive votes from being cast at all.

Nevertheless, this year there has been active lobbying by a group of Young Turks. Some have indicated that even though they may not be convinced that new candidates would be an improvement, they would vote to try to hasten the departure of some of the incumbents. This election had better bring into office a committee that is equipped to handle the problems facing the JSE. Its debt needs to be restructured, and a realistic and more creative approach must be taken to such issues as computer services, broking and corporate membership.

Change is not necessarily beneficial, there is a risk of undoing good that has been done. But it is no use simply clinging blindly to the status quo and blaming the failures wholly on the officials, who in any event report to the committee — that is where the buck stops. If the JSE does not get a committee that has the ability and the will to do what is required, that will be seen as an indictment not only of the exchange and its members, but also of the vaunted self-regulatory system.
DIRECTORS' SALARIES

COMPANY directors who control the Top 100 industrial companies on the Johannesburg Stock Exchange earned a total of R199-million in 1990 — enough to support 14 547 families, each with a "living wage" of R1 140 a month.

This is the finding of the Cape-based Labour Research Service's (LRS) annual directors' pay survey, involving 1 079 directors.

The directors' weekly pay — which works out to an average of R3 540 — was 20 times more than a labourer's average weekly wage of R179 in 1990. According to the LRS, mining bosses pay more than industrial companies. "The 12 directors of Johannesburg Consolidated Investments (JCI) gave themselves R6,9-million in 1990. Each director got R11 058 a week, on average. This is 70 times larger than the weekly wage of R157 paid to a Grade Four underground miner at a JCI gold mine."

HARMS COMMISSION

BARRING outstanding and legal expenses, the Harms Commission had cost R191 693,31, Minister of Justice Kobie Coetsee told parliament recently. (Harms)

POLICE TRAINING

BASIC police training is to be integrated from next January, deputy Law and Order Minister Johan Scheppers announced this week. He said police colleges would be open to all races, but "forced integration" would be avoided and freedom of choice, religion, culture and dietary habits would be respected. (Harms)
JCI directors the biggest earners

Randlords grab R500 000 a year

By Michael Chester

Boardroom pay packets of the countries two largest mining empires have climbed on the average to more than R500 000 a year, according to trade union researchers.

The Cape Town-based Labour Research Service, which is funded by Cosatu and major individual unions, claimed that the 12 directors at Johannesburg Consolidated Investments drew the highest average pay cheques — the equivalent of R11 058 a week.

Between them they earned R6.9 million last year, or 35 percent more than in 1989, according to survey results.

The calculation put average pay levels at R73 000 a year.

The next biggest earners were directors of Anglo American Corporation, who pad themselves an average of R10 897 a week.

LRS researcher Dave Moodley explained that boardroom pay packets had been analysed on a weekly basis to allow easier comparison with the earnings of blue-collar employees.

At JCI, for example, the average pay of R11 058 a week drawn by directors was shown to be 70 times more than the weekly wage of R157 paid to a Grade 4 underground worker at a JCI gold mine.

Mr. Moodley stressed that the analysis was based on the average level of director payments, leaving aside the probability that executive directors drew much more and non-executive drew less.

The research unit, which feeds all its findings to the trade unions for use as ammunition at wage negotiations, made its first disclosures this week.

It revealed that directors of the Top 100 industrial companies listed on the Johannesburg Stock Exchange were now drawing an average of R3 600 a week.

‘Living wage’

The survey, released by LRS earlier this week, and reported in The Star, showed that the 1,072 directors who controlled the top 100 industrial companies quoted on the Johannesburg Stock Exchange last year drew pay packets worth no less than R189 million — which could have supported 14 607 families with a "living wage" of R1 140 a month.

The industrial survey also underlined that the pay packets of directors were running 20 times higher than average weekly wages paid to labourers, which rose to R179 following 1990 increases of slightly more than 20 percent.

Mr. Moodley added fuel to the debate yesterday by pointing out that most directors of large companies also substantially boosted their income by dividend payments paid out of share incentive schemes.

Research found that directors at FI 247 million in average pay alone, and that pay of R1 600 every week by dividends from their shareholdings in the company.

The average weekly pay of R1 600 collected by directors at Malakal was boosted by dividend income running at an average of R2 967 a week.

In the top hierarchies of several companies, fortunes were made out of dividends alone.

LRS said that as an example, Aaron Searle, managing director of Steardal, the largest clothing manufacturer in South Africa, last year earned an extra R49 653 a week in dividends paid out on his personal 21 percent shareholding in the company.

Neil Jowell, chairman of Trencor, the transport giant, and other members of the Jowell family collected cumulated dividends at the rate of R83 280 a week from shares that represented a 24 percent control of the company.

Both JCI and Anglo American last night refused to comment on the research findings.
Shun the JSE

EVEN the better quality shares on the Johannesburg Stock Exchange can be regarded as over-valued in terms of most traditional yardsticks.

Yet this week strong local and overseas buying pushed share prices to record levels.

There are two major reasons. Firstly, the repeal of the Population Registration Act and other apartheid legislation is perceived in South Africa and overseas as opening the way for a sustained upturn in the South African economy during 1992.

Secondly, a scramble is taking place among Japanese and German businessmen to regain market share lost as a result of sanctions. US business leaders have fuelled the trend with statements that the maintaining of sanctions by the US Congress is undermining the competitive position of their companies in South Africa as Japanese and German businessmen are now free to re-enter the local market.

It appears the market is reacting with euphoria similar to that which greeted President FW de Klerk's February 2 speech after which he released ANC deputy president Nelson Mandela.

If this is so, one should be cautious, because the market upsurge at the time was followed by a painful setback. The reality is that the South African economy is in a difficult position with profitability down and internal business confidence at a low ebb.

Our market is overheated and we should take with a pinch of salt even the argument that big financial institutions have no option but to invest, because a large part of the public's savings are being channelled into their coffers.

We should bear in mind the JSE crash of October 1987. Stock market prices at the time fell dramatically and institutions did little to support prices. Unit trust portfolio managers took fright and moved to the sidelines in anticipation of a public backlash against stock market investment.

The moral: stay away from the market. It is expensive and risks are high. Wait for the inevitable setback to buy at better value.
Froth flies in sorghum beer row

By SEKOLA SELLO

BIG business is blocking the entry of black entrepreneurs into the mainstream of the economy, charges the executive chairman of National Sorghum Beer, Mohale Mahanye.

The NSB boss said this at a hastily-convened press conference where he criticised a report in a daily business newspaper which gave an unfavourable account of the sorghum industry.

Blacks were offered 44 million shares in the State-owned NSB at 100 cents each. The offer closed on Wednesday.

Mahanye said that, in terms of assets, NSB is the largest black-owned company in South Africa.

The newspaper report said the industry had no prospects for growth, that a mature industry was being placed in the hands of unsophisticated black shareholders and that sorghum was an old Third World product doomed to die.

In a strong criticism of the report, Mahanye said that apart from being factually wrong in many respects, it was also insulting to blacks and its main aim was to deny blacks entry into the mainstream of the economy.

Mahanye said it was not true that there was caution about the future growth prospects for sorghum beer or that the NSB's share offer has not been well received.

More shares had been bought than expected and they were expecting an "even greater flood."

"This week several companies were inquiring about our share offer. It was only on Wednesday, following the newspaper report, that some of the companies which had expressed interest in buying shares for their employees became reluctant," said Mahanye.

He admitted that in recent years the industry had neither grown or declined. However, he attributed this to the previous owners not marketing the product.

"We are marketing the product aggressively today and as a result are even beginning to penetrate markets in Namibia and Mozambique, which were previously closed to us."

Denying that the industry was now being given to unsophisticated black shareholders, Mahanye said some of them had held senior positions in white companies.

"It is strange that when (Sam) Moshikhu Mahanye holds a senior position in a white company, his sophistication is not brought into question. However, when he holds a senior position in a black-controlled company, he is now said to be unsophisticated."
Politics triggers panic share boom

By DAVID CARTE

INSTITUTIONS, positive about political and economic developments, bought shares "in a panic" this week, pushing prices on the JSE to record levels.

The JSE's financial and industrial index spurted 175 points from Monday to Thursday before profit taking halted its advance on Friday. Its rise since January has been 53% and in the past year 33%. The all gold index has gained 50% in the past three months.

There is some concern that the rise may have been overdone and a correction could be imminent.

But several investment managers told Business Times that buyers were looking past present problems to several years of good growth in a new South Africa taking place in the international economy.

Top quality "blue chip" major focus of buying SA Breweries, for instance, leapt from R93 to R103 this week - a 8% rise since January.

In the same period, Liberty has leapt 54% - from R22 to R35.

The JSE refuted reports that foreign investors were also behind the buying. The secretariat reports that foreigners were net sellers all week. In the past four weeks, their net sales of South African shares have totalled R306-million.

Stocks and the men who control SA's investment banks said the major factors behind the market's surge are:

- The waning international sanctions campaign
- Finance minister Baraend du Toit's statement that an upturn is likely to start at the end of the year
- Billions of rand in cash and short-term deposits in institutional coffers. Under-invested institutions are undergoing a clamour to get into shares before it is too late. The impending move by State pension into shares has heightened concern about the chronic shortage of good shares.

While Reserve Bank governor Chris Stals said on Thursday that it is still too early to cut interest rates, disagreement over policy between director general of finance Gerhard Crosser and Reserve Bank deputy governor Jaap Mager strengthened the impression that pressure is intensifying on the Reserve Bank to relax interest rates.

Some investors are taking refuge in the stock market, believing that if SA cannot win its fight against inflation.

Lower interest rates, the beginning of economic recovery and strong stock market overseas.

With share prices up and company profits down, the average share earnings multiple on the JSE has nearly reached the levels of October 1987 (see graph).

For the first time in years, South African shares are just as expensive in terms of PE as those in London. For average PE on financial and industrial shares is now 13.1, compared with 13.4 on the Financial Times 50-share index. The average PE on Wall Street is 19.

Richard Stuart, director of stock broker Martin and Co - who predicted the present bull market in November at the Financial Mail investment conference - said prospects for the new SA were excellent.

"As I said in November, the violence and the heated political rhetoric are largely short-term static. Once SA is re-integrated into the world economy, the potential is outstanding - and foreigners recognize that. That's why literally dozens of trade and investment missions are visiting this country.

Huge

"Until now, huge amounts of capital have flowed outwards. Imagine what a net inflow of a couple of billion a year could do to support and stimulate growth."

Rob Lee, investment chief at Board of Executors, said he was optimistic about growth, particularly since the world economy was recovering. He said most South Africans underestimated the positive effect of the lifting of sanctions.

But he cautioned that the market is already discounting fairly earnings growth and a correction is overdue.

Johannes van der Horst, head of investments at Old Mutual, said the market's response reflected panic buying by under-invested institutions. He said Old Mutual had been fully invested since late last year.

Marcus Daling, chief executive of Sandrop, attributed the market's rise to excitement about political developments. He said the ANC was beginning to sound more reasonable and the tempo of violence needed to be abating. He said SA is under-borrowed and in a more normal environment can grow fast.

Tony Gibson, who runs Syrets' top performing unit, said it was quite normal for the market to rise at the bottom of the economic cycle.

He said one sign of an expensive market was that people start justifying it by saying things have changed. He felt it was expensive but it could go much higher, in which case it would be subject to big falls.

Cautious

Alistair Colquhoun, investment director at UAL merchant bank, said: "DAL is not active in this market. I am not happy with the gap between dividend yields of less than 3% and the 17.1% we can get on a 12-month deposit. Maybe the outlook is better, but it's very fully discounted. I am very cautious."
Jury still out on effectiveness of SRC

By Ann Crotty
Investment Editor

There is little doubt that the jury is still out on the effectiveness of the Securities Regulation Code/Panel that was implemented on February 1. Investors must still be wondering whether, if put to the test, the JSE will emerge better than it did back in 1982 when non-voting minority shareholders of Greatermans were deprived of the R15 a share that Kirsch Industries had offered to the voting shareholders.

That Kirsch deal had enormous consequences. It was crucial to the creation of the Kirsch Group — Greatermans bought to the Kirsch camp the giant retailing Checkers chain, considered to be a highly successful operation.

Subsequent difficulties with Checkers were instrumental in the demise of the Kirsch Group and the creation of Tradegrol, which was a rescue attempt by Sanlam.

But for legal details, last week's unbundling of Tradegrol would have resulted in the disappearance of Tradegrol.

However, it seems that after years of trauma and losses, Tradegrol will continue to exist.

It will be significantly smaller, now having in its stable a successful Greatermans/Stuttafords department store operation and the still problematic Checkers Group.

Perhaps of even greater consequence was the fact that the Kirsch/Greatermans deal considerably fuelled demands that SA create a panel similar to London's Panel on Takeover & Mergers or the US Securities & Exchange Commission.

In 1982, the JSE came under criticism because it approved the Kirsch bid for Greatermans, despite the fact that non-voting minorities were being left out.

Subsequently, the Supreme Court overturned the JSE Committee's decision, ruling that the JSE had ignored its own regulations relating to the rights of minorities in cases of a change of corporate control. An appeal against the judgment was noted but never pursued.

A leading corporate attorney says the Kirsch/Greatermans case was a major weight tipping the scales in favour of the creation of a UK-type panel.

"Even before judgment had been given in the Dawnlaan (Kirsch/Greatermans) case, the state, in the form of the Statutory Standing Advisory Committee on the Companies Act, under the chairmanship of Mr Justice Cecil Margo, had been agitating for the creation of such a body.

"It came as no surprise, therefore, when on August 4 1983, Mr Justice Margo and Professor Stefan Naude produced a report to the Standing Advisory Committee recommending the creation of the Securities Regulation Panel.

"It took almost eight years for those recommendations to bear fruit and see the light of day as the Securities Regulation Code and Panel.

"Last February's inauguration of the Code and Panel was overshadowed by two controversial deals straddling the old and the new regulation systems.

"In both instances — the battle to bring Allied into the Absa block, and the bid to secure control of Saambou — the Panel was criticized for not applying the new code.

"The criticism was unfair to the extent that legally speaking both the Absa and the Saambou "battles" were instigated under the old system.

"In Saambou's case it does seem that the legal documentation underlying Fedsure's bid to get an effective controlling stake in Saambou was rushed through on the last day of January. This meant the bid fell under the old, less stringent rules.

"Policing the Fedsure/Saambou transaction posed myriad problems. Central to the Saambou control situation were 39 million convertible debentures issued to Fedsure by Saambou in payment for the acquisition of Planet Finance.

"On conversion, the CDs would have given Fedsure a 30 percent and controlling stake in Saambou.

"The panel seemed uncertain about how to treat the debentures because they were convertible at the discretion of Fedsure.

"If they had been automatically convertible, the panel would have regarded Fedsure as immediately having a 30 percent stake in Saambou.

"On the other hand, because it was uncertain about when it would convert the debentures, Fedsure had to be careful about acquiring Saambou shares in the market lest it trigger an offer to minorities under the rules of the new SRC.
Some weakness seen in current market strength

By Ann Crotty

The latest surge in the JSE has led to considerable unease among some investors and analysts.

On the basis of fundamentals, the current ratings of the top blue-chips seem to defy any attempt at rationalisation.

In the absence of fundamental support, it is difficult to see how these ratings can be sustained.

Last week's market euphoria was reminiscent of the mood that took hold of investors early last year at the time of President FW de Klerk's opening speech to Parliament.

At that time there was much talk of masses of capital coming into a more internationally acceptable SA. There was talk of socio-political developments fuelling strong economic growth.

And if neither of those were convincing, there was talk of the enormous institutional cash flows needed to find an investment home.

Last year the overall market index reached a high of 3377 on February 7 — just days before Nelson Mandela was released from prison.

At that time the gold price was comfortably over $400 and there were signs of international investors dabbling in industrial and mining equities.

Their interest in industrials sparked speculation that the P/E ratings of SA equities could quickly move up to match the levels seen in London and New York.

Within days of Mr Mandela's release the euphoria began to dissipate and to be replaced by considerable unease.

Local and international investors were obviously disturbed by Mr Mandela's talk of nationalisation of major commercial assets.

International investors began to see SA as a high-risk area more suitable to jobbing than investment.

This view was heightened by the increased level of violence.

A large and varied number of trade delegations have visited SA, but few have been sufficiently encouraged to talk in terms of hard-currency investment.

With the exception of a handful of local stocks that have long been favourites with overseas investors, the presence of these players on the JSE over the past 15 months has tended to be as jobbers.

During the second half of calendar '90 the JSE overall index was on a downward trend, which was not reversed until last February.

Last week it passed the February '90 high of 3377 with a closing level of 3390 on Thursday.

This higher level was achieved despite the generally weaker earnings results that have been reported in the intervening 15 months and expectations of continued earnings weakness.

Some analysts believe that after the close of the June month-end this Friday, the market may see some correction.

Others argue that inflation, cash-rich institutions and the very limited number of blue-chips will always ensure that these limited counters are unrealistically priced.
Simpson McKie opposes Safex options plan

STOCKBROKING firm Simpson McKie, a long-time member of the SA Futures Exchange (Safex), has strongly opposed plans by Safex to launch options on equity futures, saying the JSE’s Traded Options Market (TOM) will be able to do the job.

Elane Slot, head of Simpson McKie’s derivatives division, said in an interview that now was not the time for Safex to embark on such a new and potentially risky venture.

Safex has only recently overcome problems like low volumes, the default of futures broker Davy Ralph Sadler, the liquidation of Cape Investment Bank and the debacle of the futures trading floor, Slot said.

“It should start consolidating, build on its strengths and concentrate on its existing products. Options are an unnecessary duplication which could prove costly.”

Slot said Safex may be underestimating the complexity and cost of fully guaranteed and margined options.

Safex should learn from past experience and not try to reinvent the wheel by trying to develop options when it was clear TOM was already in a position to do the job, Slot said.

“This is precisely what happened when certain members of the futures market wanted a floor when it was already clear that screen trading was working to everyone’s satisfaction.

“Let us not make the same mistake again — it will cost the entire financial market time, money and liquidity it can ill afford.”

The issue should be sorted out now before any real money was spent, Slot said. “Let it rather be a battle of words than rands.”

In reaction, Safex-CE Stuart Rees pointed out that the options project was not merely for equity futures — which would compete with TOM — but for all of Safex’s futures contracts.

“It’s not a case of wanting to take on the JSE. People have the mistaken impression we are only an equity index futures exchange. We are not.”

Rees conceded that equity index futures accounted for the bulk of Safex turnover.

However, the exchange had to look to the day it did more business in other futures contracts like interest rate and bonds, Rees said.

“When that time comes, Safex will need to be able to offer options on such futures.”

Moreover, there was already a thriving OTC market for options on equity futures, Rees said, estimating it at as much as 50% of Safex turnover. “It’s not as if we would be starting from scratch. The market is there.”

Rees said he agreed with Slot’s observations on the need not to impose costly, unnecessary products on the futures market.

“If we find the cost of having options on futures outweighs the benefits to our members, we obviously will not go ahead with it.”
Union calls for nationalisation

JOHANNESBURG
The 100,000-member SA Commercial, Catering and Allied Workers Union (Saccawu) advocated mass nationalisation without compensation at its third national congress held at the weekend.

Saccawu said in a statement yesterday that the "working class" should control the economy through the eradication of "apartheid, capitalism", cheap labour and bad education — Sapa
International base keeps GDM Finance on track

INTERNATIONAL trade finance specialist GDM Finance had boosted its attributable earnings 15% to R8.83m for the year ended April, despite the "traumatic" economic environment which prevailed, MD John Cowper said yesterday.

As a result, earnings climbed to 33.7c (1996 29.3c) a share. A total dividend of 13.5c a share was declared. Pre-tax income rose 21% to R11.9m from the previous year's R9.81m.

Because of GDM Finance's international base of operations and tax losses incurred through acquisitions, the company enjoyed a relatively low tax bill of 20% at R2.4m. Although bad debt did not have any major effect on the company's performance, Cowper said the risk would increase in the next six months as the economy was expected to worsen further before improving. However, GDM Finance maintained stringent credit control policies on new business, and the company's bad debt risk was not expected to increase dramatically.

Cowper said growth in new trade credit business was satisfactory. "Trade finance activities continued to prosper and our gross assets have increased from R128m to just under R150m — we have managed our growth carefully and continue to take only sound business." Of the R22m jump in assets, Cowper said roughly R16m was achieved through the company's recent takeover of Repfin Holdings, a former competitor.

GDM Finance acquired troubled Repfin Holdings in the beginning of January this year. Cowper said this would provide a meaningful contribution to the group's profit during the current financial year.

GDM Finance also acquired a 64% stake in clearing and forwarding operator African Shipping in February last year. African Shipping generated about R1.4m in its first year in the GDM Finance fold, Cowper said.

There was no reason to believe that GDM Finance would not have an excellent year in the current trading period, Cowper added.
Support for black directors

The Institute of Directors in southern Africa (IOD) has backed the call by the National African Federated Chamber of Commerce (Nafecoc) for a sharp increase in the number of black company directors.

Nafecoc has called for a 30% increase in the number of blacks on the boards of listed companies within 10 years.

IOD chairman Brian Hawksworth said the IOD fully endorsed Sam Motsenenyane's call "for sharply increased black involvement in steering the affairs of SA's listed companies".

The call comes soon after the appointment of former KaNgwane chief minister Enos Mabuza to the Anglovaal, Standard Bank and TML boards.

However, this was possible "only if an increasing number of blacks are educated in the responsibilities and duties of directors".

He said the IOD had offered to provide Nafecoc members with training "and whatever other assistance is required".

The IOD has also asked Nafecoc to identify possible members for the IOD, thus providing continuing education and the opportunity to meet regularly with other directors of companies.

Concern

A further benefit was that IOD members had full reciprocal membership of the IOD in London.

Hawksworth said the IOD's support stemmed partly from its concern that only 1% of its members were black.

Ongoing recruitment efforts had met with little success, and Hawksworth said that Nafecoc's call would hopefully prove to be a turning point.
Move to calm fears over pension funds

GOVERNMENT has moved to calm market fears that it is to unleash a cash flow of R1bn a year on the JSE once its pension funds are freed from investment constraints.

A statement yesterday said the funds would continue to invest heavily in government stock and there was no question of plunging into equities.

Legislation was passed on June 14 to place five state pension funds on the same footing as private sector funds. A committee, headed by former Corbank MD Laurie Korsten, is investigating the phased entry of these funds into investments previously not allowed.

Korsten said in a statement yesterday that participants in the financial markets are concerned that the state pension funds' entry into the equity market will exacerbate the shortage-of-scrip problem. "The bond market feared the funds would become net sellers and would, therefore, put upward pressure on gilt rates."

"An irresponsible equity-buying schedule resulting in the acquisition of overvalued common stocks could be self-defeating and detrimental to the pension funds. In short, the equity accumulation programme will take time," he said.

Of the bond market, he said the state pension funds would continue to be net buyers of gilts.

He said the final report on the effect of the "privatisation" of the pension funds on the financial sector was expected to be in the hands of the Cabinet by end-September.

Government and the committee were aware of the lack of marketability in the equity market and the dangers of overvaluation were fully understood.

"Given the nature of the financial markets, the size of the funds' cash flows and the premium on stability in these markets, it is inevitable that the state pension funds' fortunes and performances will be geared closely to the bond market well into the next century."

Korsten said at present the Public Investment Commissioners' portfolio was skewed towards the short-term of the market. The funds have R1bn in cash.

"Consequently any diversification out of the fixed-interest securities could be comfortably handled without having to dispose of long-dated securities."

"But prudent asset management of any pension fund required diversification both to lower risk and to raise returns relative to the risk assumed," he said.

A separate board of trustees would be appointed for every fund, while the future management would concentrate on managing the actuarial shortages.
Govt moves to calm market fears

Own Correspondent

JOHANNESBURG — Government has moved to calm market fears that it is to unleash a cash flow of R10bn a year onto the JSE once its pension funds are freed from investment constraints.

A statement yesterday said the funds would continue to invest heavily in government stock and there was no question of piling into equities.

Legislation was passed on June 14 to place five state pension funds on the same footing as private sector funds. A committee, headed by former Corbank MD Laurie Korsten, is investigating the phased entry of these funds into investments previously not allowed Korsten became a consultant after Corbank was taken over.

Korsten said in a statement yesterday "Participants in the financial markets are concerned that the State Pension Funds entry into the equity market will exacerbate the shortage-of-scrip problem." He added the bond market feared the funds would become a net seller and will therefore put upward pressure on gilt rates.

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He said the final report on the effect of the "privatisation" of the pension funds on the financial sector is expected to be in the hands of the Cabinet by end-September.

He said that government and the committee were aware of the lack of marketability in the equity market and the dangers of over-valuation were fully understood.

Korsten added that the equity accumulation programme would take time and be handled "responsibly.

Korsten said at present the Public Investment Commissioners' portfolio was skewed towards the short-term of the market. The funds have R8bn in cash.

"Consequently any diversification out of the fixed-interest securities could be comfortably handled without having to dispose of long-dated securities."

A separate board of trustees would be appointed for every fund while the future management would concentrate on managing the actuarial shortages.
Spurhold’s rocketing share fuels speculation

THE dramatic rise in Spur Holdings’ (Spurhold’s) share price has not allowed speculation on the steak ranch franchise chain to rest.

Although the share eased off this week to close at R26c after climbing to its yearly high of 275c on Friday, it was still trading at three times the value of its yearly low of 90c in July last year. Excluding this week’s trade, Spurhold’s share had risen by a dramatic 63.6% in the last month.

Yesterday industry analysts’ speculation varied from a change of control to huge increases in Spur’s exports into Europe.

An analyst said that a special bargain deal on Friday indicated that 5% of the value of the company had changed hands while he had previously been convinced that Interleisure was set to take over Spurhold, “that rumour has been squashed”. However, he was sure that someone was taking a large stake in the company.

Another analyst said Interleisure would not be interested in Spur as it had recently decided to concentrate on its core businesses and had disinvested from some food interests.

Spur MD Gerd Topat yesterday attributed the rise to good performance, with Spur being “the flavour of the month” on the JSE.

“We run tight and lean and look to the future,” he said. He admitted that Spur did have “certain plans” but was “projecting for the future”, but could not be drawn further.

Spur’s new franchise operation Panarottis was running well, and Spur’s move into the export market was “going nicely”.

In the year to end-February, operating company Spur Steak Ranches increased its earnings by 48% to R22c a share and its dividend by 33% to 17c a share on a 25% rise in turnover to R177m.

Spurhold, with a 46% holding in Spur, increased its attributable income by 41.8% to R23m.

At the release of the company’s results, Topat said that although the export of beverage display coolers to Europe was a small part of the business, “hopefully this will take off in the coming year.”

One analyst believed the huge rise in the share price could be attributed to Spur “going heavily into the overseas market”. It may have expanded overseas and could be placing shares or selling them to an overseas consortium, the analyst said.

Similarly, the rise in CNA Gallo’s share has also sparked off some interest in the market. Analysts said while the rise could be attributed to a general rise in the industrial sector, some were sure that CNA Gallo was looking at an acquisition. An analyst said any acquisition would be in a related business, and it may be looking at increasing its stake on the entertainment side of the business.

It would make sense for CNA Gallo to look at the CD market, with the industry showing an 8% growth in the last year. During the year Gallo invested in 33.3% of Compact Disc Technologies.
Metpol expected to raise R220m in rights issue

CAPE TOWN — Metropolitan Life (Metpol), in the process of being unbundled by Sankorp, has announced a rights issue which could raise about R220m.

Details still have to be finalised but the issue will be on the basis of 50 new shares for every 100 shares held. With 463 million shares in issue, and assuming a price of R10, the total raised would be R222.5m. The share closed yesterday at 1.03c.

In view of the pending rights issue, Metropolitan has announced a special interim dividend of 18c a share to shareholders registered on August 2.

The shares issued in the rights offer will not qualify for the special dividend but only the final dividend for the six months to year-end on September 30.

The rights issue, which will strengthen Metropolitan’s capital base and serve as a foundation for its future growth, follows the sale by Sankorp and parent Sanlam of 19 million of their Metropolitan shares.

Their combined stake will drop from about 72% (excluding the 10% held by Sanlam administered funds) to 49%.

Most of the shares have been taken up by pension funds, fund administrators and other institutional investors although over 1 million are being made available to Metropolitan’s policy holders and employees at a discount price of 95c each.

Metropolitan chairman Willem Pretorius says the aim of the sale by Sanlam and Sankorp of their shares is to broaden the shareholder base of Metropolitan and increase the marketability of its shares.

Institutional investors have often complained that there is little point in acquiring an interest in Metropolitan because of the limited number of shares available on the JSE.

“By Sanlam and Sankorp reducing their interest, an attempt is being made to meet the expressed needs of these institutional investors,” Pretorius says.

Regarding the rights issue, he says the additional capital will enhance Metropolitan’s “ability to grow profitably in those important sectors of the market on which the company focuses” Most of Metropolitan’s business is derived from the black community.

Sanlam and Sankorp, as well as the investors who bought blocks of shares from them, have indicated they will follow their rights. Sankorp will underwrite the offer.
Whites buy African Bank shares

THE black-owned African Bank had approved applications for shares to the tune of R2m, more than half of this from whites, CEO Jack Theron said yesterday.

Theron said "We have had a steady stream of applications for shares since October last year. The interest surged from January this year after the shareholders' general meeting approved the purchase of ordinary shares by all races." Today's approval for an additional R1,2m ordinary share capital, he said, was due to "the Registrar of Banks last month." The bank said an organisation would "respond accordingly" to the creation of the new bank.

African Bank had "collared the northern Transvaal market", he said. "It had taken over all Lebowa Development Corporation bank agencies last year and had opened branches in Tzaneen, Thohoyandou, Queenstown and Bisho."
Acquistors keep eye on Rule 8
Oceana bids for UK fashion chain

By AUDREY D'ANGELO
Business Editor

OCEANA DEVELOPMENT INVESTMENT TRUST (Oceana), the London-based investment trust company in which the Lewis family — controlling shareholders of Foschini — have a 56% stake, is offering £37m (R470m) for 100% of British fashion chain Etam.

Oceana increased its stake in Etam from 6.6% to 26% last month, when it paid 185p a share.

Oceana MD Michael Lewis, who is also a director of Foschini, said then that Etam, with 250 outlets, had a small market share “but we see opportunities for substantial growth in the long term”.

His father, Foschini chairman Stanley Lewis, said at the time that there was no connection between Foschini and Etam, but there might be synergy later.

Yesterday’s announcement said that Oceana Retail Enterprises (ORE) had been formed specifically to make the offer for Etam.

The bid would be financed by a consortium of UK institutional investors (£31m), a debt facility of £45m and £45m from Oceana itself. Oceana would have 50% of the equity of ORE and voting control.

UAL Merchant Bank said Oceana would fund its share of the offer by the placing of up to 16.7m new ordinary stock units of Oceana at £3.25 a unit. UAL will underwrite the placing in full.

At the same time, Foschini will acquire an interest of approximately 36% in the enlarged equity of Oceana for approximately R153m in the event of an unconditional acceptance of the Etam offer, or approximately R131m if the Etam offer is not unconditional.

UAL Corporate Finance executive director Tim Sewell said that, in line with UK practice, the rights offer would be undertaken by a placing of the offer with UAL Shareholders would be entitled to claw back their rights if they wished.

Any rights not clawed back would be placed by UAL with institutional and other investors in SA.

Sewell said that if the bid was not successful, Oceana would probably lose its London listing.

London Stock Exchange requirements recently caused Donny Gordon’s FIT to surrender its London listing and move to Luxembourg.

Oceana could make a similar move if it loses its London listing. Its listing on the JSE would not be affected.
Elcentre wins Voltex shares goal

ELCENTRE's recent capital reduction achieved its goal of making its subsidiary Voltex's shares more tradeable and the group's spread of shareholding is now well over the JSE's minimum requirement.

An Elcentre spokesman said the group had met the JSE's spread requirement before March, but it released more than 33-million Voltex shares into the market to attract institutional investors.

The Elcentre and Berzack groups undertook to meet the JSE's spread requirements - which state that a company's shares must be spread between more than 300 holders who are not company employees - within a reasonable period when they transformed H & J Cables into Voltex last year.

Elcentre reduced its share of Voltex to 53% from 60% through the capital reduction and an interim dividend distribution in specie.

The company spokesman said Voltex had 600 public shareholders before the deal, and this figure had risen to 3,000.

Elcentre's share price initially dropped to 370c from 410c ex-rights and ex-dividend, but has recovered to 420c a share.
SHARE ARTICLES

ON A WING AND A PRAYER

PRICES LOOK A LITTLE OUT OF LINE WITH THE FUNDAMENTALS

Little more than six months ago, shares prices were going nowhere. The mood among investors was glum and few were willing to forecast an upturn.

There has been nothing in company results to make investors more cheerful. For most industrial groups, including many of the large ones that make up the index, the earnings trend this year has simply been a continuation of the one seen since the beginning of last year — earnings have been either flat or falling, with little or no growth in dividends.

Yet the JSE Industrial index has been regularly setting new records. At this week’s level around 3 900, it has gained 29% since the start of the year, 43% since the middle of last October — and 72% since the peak of October 1987. Even the Overall index has been climbing.

Fundamental measures of value have been pushed to levels that in the past have generally been seen at or near to the tops of markets. The average earnings multiple on the Industrial index has climbed to 13, on October 1987, it was 15.4. The average dividend yield has dropped to 2.8%, on October 1987, it was 2.5%. The gold price, still a key indicator for this economy, continues to churn in its trading range below US$370/oz.

As the accompanying graph shows, annualised growth in earnings being reported by companies reflected in the Industrial index has dropped to a negative figure of about 6%, while annualised dividend growth for these companies is running at only about 5%.

By these criteria, it is no surprise that share prices have dropped back over the past few days. Many of the leading institutional investors are running expensive when viewed against the present profit performance as well as the likely trend in earnings and dividends over the next 12 months. Bullish may say — using arguments heard before at the top of a market — that thin yields don’t matter if you believe capital appreciation lies ahead. But (see graph) corrections have generally occurred when earnings multiples and yields have not been far from present levels.

As Martin & Co director Richard Jesse points out, the bull market is essentially a rating based on future prospects — but it has occurred well ahead of the upturn that portfolio managers are assuming is now in sight. And this, incidentally, a market being driven primarily by the portfolio managers in large financial institutions, with relatively few participants.

Values have patiently increased, but, in contrast to the 1987 bull market, trading volumes remain slack and the number of deals each day is low. Over the past week, the value of shares traded each day averaged about R128m, but the average number of deals was only about 2 900. This is not enough to raise stockbrokers’ revenues to levels where the industry makes money on the present cost structure. They say about 4 000 deals a day are needed.

Various reasons are cited for institutions’ recent bullish mood. One is simply the passage of time. Some seven months have elapsed since share prices reached their lows late last year, so it’s argued that companies are that much further into an already-protracted recession and that much closer to the upturn.

A turning point came, it is said, as well as for world stock markets, in the early stages of the Gulf War. Fears of a $50 a barrel oil price were ditched and worries about a long and deep recession in industrial economies faded. The JSE has often moved closely with the New York stock market and, by late January, it was turning upwards, in step with the Dow Jones. But markets in New York, London and Tokyo are now drifting or turning downwards (see box).

Another factor seen as bullish is domestic policies — a major cause of last year’s gloom. Arguments here are based on economics as well as politics. The scenario shows produced by Old Mutual-Nedcor and presented to packed audiences since early this year have undoubtedly been influential. One of the conclusions — hardly new — is that SA simply must achieve annual GDP growth of at least 3% if it is to avoid falling into a worsening spiral of unemployment and violence. Social upliftment programmes are proposed as part of the solution.

Scenario shows aside, investors appear to have become increasingly sceptical that the battle against inflation will be maintained, or that the CPI will drop significantly. The muddily expansiory 1991 Budget, with its tendency towards redistribution of income, contributed to this thinking. So, too, have calls for more cuts in interest rates. There is no point expecting an upturn to be ushered in by the sort of interest rate cuts seen in the mid-Eighties, when prime fell from 25% to 12.5%. But there is a feeling among some investors that government will want to see the economy growing well before 1994 and inflation may be accorded a lower priority to achieve this.

If there is a perception that inflation will not be reduced significantly, a tendency on the part of institutions to increase the equity component of their portfolios is understandable. And many in that direction will run up against the JSE’s notorious shortage of good quality institutional stocks.

There has been no improvement in supply. As Simpson McKee’s Dixie Strong notes, there have been fewer large rights issues and capital-raising exercises. Last year’s 49 rights issues raised R4,2bn, compared with the R7,5bn in 1989.

At the same time, there are fears that demand for institutional equities will be intensified, particularly when the State pension funds enter the market. But, in mind comments by Laurie Korkie, chairman of the committee appointed by the government in March to investigate these pension funds (see Economy),

Korkes emphasised that government is “fully aware” of the lack of marketability in the equity market. He added that the equity accumulation programmes “will take time and will be undertaken on sound business principles, with due regard to acquiring stocks which afford sound investment value.”

Considering present price levels, a marked
correction must be expected, though the
dominance of the institutions may make the
risk of a steep slide fairly low. J D Anderson's Charles Booth feels that the investment
strategy at this stage should depend on the
type of investor. Individual investors and
small institutions, he feels, should stay out of
the market, as the risks are too great. But big
institutions may feel they cannot afford to
stay out for long.

Strong feels shares would be worth buying
after a correction. It's possible that prices
would then drift for some time, but renewed
buying of selected equities could make sense.

As Board of Executors' John Winship
pointed out recently, during a recession it is
easily forgotten how vigorously corporate
earnings and dividends tend to rise when the
economy is growing. The graph which shows
earnings growth now negative, also shows
that annualised EPS growth on the index
stocks averaged more than 25% between

Even so, it is difficult to accept that yields
of less than 2% on many of this year's favour-
ite stocks are realistic. Consumer-based
companies have shown resilience, but their
prices are particularly demanding. When an
upturn comes, some of the groups which
have been hit hardest over the best year
should benefit — particularly manufactur-
ers and exporters.

Manufacturers that can compete in a
more open economy and, particularly, those
that can build up a firm export base, could be
flourishing within a year or two. Shares such
as Barlows, Sappi, Amic, Sentrachem and
Highveld have seen some rating recently,
but they look cheap when compared with,
say, SA Breweries, Tiger Oats or Woolworths.

During a reassessment that is bound to
occur, rand hedge shares will become more
popular, especially among investors who do
not believe inflation will fall much. Already
the rand has depreciated this year against
the dollar, continuing inflation must event-
ually mean weakness against other curren-
cies too. Currency weakness will also swing
the attention to the mining sector.

The discount on the financial rand may
almost have narrowed to the point where it
will stabilise. This would strengthen the case
for shares such as De Beers and Lonrho.

Overall, share prices may well have run
too far ahead for now. When it is again time
to consider buying, different shares and sec-
tors should be targeted.

Andrew McIlroy
Numsa code for foreign investment

By GREG FORREST

The National Union of Metalworkers has spelt out its conditions for foreign investment in post-sanctions South Africa.

At its weekend congress, Numsa called for a code, to be jointly developed with the Congress of South African Trade Unions and canvassed with its allies, to ensure investment "benefits the working class".

The terms of foreign investment must be made public and open to negotation between the state and civil society, including unions, it says.

Numsa calls for investment to develop manufacturing, mining, agriculture and social services — and a ban on speculative financial or property investment. Investment on the JSE must be "limited".

"Investment must comply with the short, medium and long-term policies laid down by the state in negotiations with the mass organisations of civil society," the resolution says.

Investors must agree to support centralised bargaining and national and industry training programmes, and will also be bound by minimum labour standards. They will have to comply with nationally negotiated wage levels.
Richemont turns in another fine effort

BRENT VON MELVILLE

Swiss-based luxury group Richemont turned in another sterling performance to bolster net profits by 21% to £177.5m (f214.8m) for the year to end-March. The rise came off a 9% improvement in gross sales revenue to £56.8bn (f32.6bn) and net sales revenue of £6.3bn, a slight improvement on last year’s £6.2bn.

The tobacco and luxury goods group, which represents Rembrandt’s international investment interests, boosted its dividend per unit 23% to £25.65 (f36.12p). Off earnings per unit of £28.07 (f35.48p). Ahead of the results, its SA share price jumped 80p (2.9%) to R35.00 to close in on its 12-month high of R38.65. Shares in Richemont, also listed in Zurich, Geneva and Basle, were in parcels of 1000 undivided shares, known as deposit receipts. At the current exchange rate, the dividend a deposit receipt translates to 23.9c a share, putting the stock on a dividend yield of 0.9%.

The price-to-earnings ratio has moved down to about 19 from a historical rating of about 23 times. Analysts feel the results justify the strength and marketability of the counter on the JSE.

Richemont is invested heavily in the luxury goods industry through controlling interests in Cartier Moque SA, which includes Cartier, Piaget, Baume & Mercier and Dunhill Holdings, including Alfred Dunhill, Montblanc and Chloe.

JOHN CAJILL reports from London
Civil judgments are soaring as the recession bites

The rand value of civil judgments against companies soared 78% to R65,3m during the first quarter of this year compared to the same period last year.

The value of judgments against individuals rose 32% quarter-on-quarter for the same period to reach R66m.

Recession is biting into company turnovers and, in an effort to counteract this, businessmen are increasing the availability of credit.

Little more than lip service is paid to the concept that no customer is better than a defaulting customer. Salesmen, in an effort to drive up commission earnings, sell to customers whose accounts are already in arrears.

Kreditinform MD Ivor Jones says, "The high rate of interest is largely to account for the shortage of liquidity."

"When interest rates climbed sharply over a short period, consumers saw their disposable income drop, and sales followed suit."

"Years later, there is still no sign of a recovery."

"The rate of liquidations tends to follow the interest rate and so unless interest rates drop suddenly and radically we can expect to see liquidations increasing before levelling off."

"Retailers are squeezed from two sides. Not only have they been faced by shrinking markets, but they are also subject to the high cost of money."

Natural

Jones says these trends are a natural part of the normal economic cycle — with one abnormal and threatening factor:

"There is no sign of a leveling off in SA's economic cycle and the peaks and valleys are becoming more vicious and destructive to business," he says.

"There is an element of instability in the cycle and this is aggravated by the small entrepreneur, who serves to muddy whatever market he is operating in."

"By manipulating price, production rates and the like, he can create artificial supply and demand conditions but, being small, can rarely sustain performance."

"It is in the interests of SA as a whole, as well as individual businessmen, for standards of management to improve within the small business sector."

"Insuring the debtors' book is a neglected aspect of effective credit management, he says — and there are others.

"The most valuable tool any credit manager can have is information."

"The small business will be affected not only by the amount a customer can buy, for example, but also whether the customer will pay him on time."

"Two tips for managers are not to allow too few debtors to dominate their books, and to know each one of their debtors intimately," he says.

Knowing the debtors involves knowing who their key suppliers are, what market share they hold in their industry and the general state of the industry in which they operate.

"With information like this it becomes possible to assess how great a risk the debtor is," says Jones."

"A debtor's ledger is an asset and must be managed as an asset portfolio."

Spread

"The wise businessman will give himself a spread of low-risk customers who buy small quantities up to high-risk customers who buy large quantities — and a range of permutations in between."

A well-managed book will ensure customers pay promptly or, if they tend to allow their credit to extend beyond previously agreed limits, carry the burden of the cost."

"As much as a company needs a marketing policy, it must have a credit policy," he says.
Says Tager "The Act removes the barriers to entry into the economy without affecting existing laws, for example liquor law requirements or residential trading laws. People should be free to trade and policies should be easily enforceable". She says laws requiring hawkers to move a certain distance after a certain time - the move-on rule - were difficult to enforce and not easily understood.

Opposition to the Act runs deep. In an article being distributed to clients, Hanks says the Act is a radical departure from the traditional belief that licensing legislation generates revenue for local government level. He believes that licensing provides a necessary control over business activities by ensuring compliance with health by-laws, town planning schemes and other rules.

Hanks is particularly concerned with the deregulation of the informal street trade. He believes that the inability of local authorities to limit street trading to a demarcated stand and the abolition of the move-on rule will cause chaos. "We are not opposed to making things easier for the man in the street. But at the same time one has to guard against opening the floodgates to the detriment of existing business."

Tager says the Act is balanced: "Deregulation doesn't mean no regulation. Provisions in the Act prevent hawkers from blocking entries to buildings, public walkways, State buildings and churches. We need discipline, but we have to have freedom." She says confining street traders to a demarcated area would deny the reality that street trading is here to stay.

Much of the debate is a storm in a teacup. While established businesses want to prevent competition on their doorstep, the reality is that the street vendor serves a very different type of customer than the shopowner. Says an attorney involved in deregulation: "There's more to competition than the cost of overheads in fixed premises. The shopowner usually offers the client a wider range of goods, better quality, protection from the elements, and privacy. In short, the street vendor seldom diverts customers from existing premises but creates new clients."

Clearly the customer should be free to choose how and where to shop. Says the attorney: "The philosophy of control is an old policy that needs to be done away with. One doesn't need controls to regulate business."

Experience proves that controls have served only to keep people from starting new businesses."

Next up on the trading deregulation agenda should be the abolition of the laws prohibiting most types of trading on Sundays and public holidays as well as legislation preventing the showing of movies on Sundays. But this topic is traditionally a hot potato. Says one lawyer: "Government is still concerned with the Dutch Reformed Church's opposition." However, concerns like this might well be luxuries an underperforming economy can ill afford.
EXECUTIVE ATTITUDES

UNHAPPY DAZE

Clem Suster may not have got it all right with his now-famous Anglo-sponsored scenario for the future of SA, but he brought the low road/high road options into the language. A disturbing new survey has found that 70% of business leaders appear to accept the low road as inevitable and are planning (if that’s the word) for it.

The survey was conducted by the Decision Makers Group, a business and marketing consultancy. Though the sample of only 60 senior executives was small, it was representative of 80% of the country’s business power, according to Decision Makers’ executive director Tony van der Schyf.

The executives tended to split into two camps: the pessimistic 70% and the more bullish minority. The majority was found to be paralysed by fear and uncertainty and unwilling or unable to adapt to changing marketing conditions. The minority feels more optimistic and is more aggressive in adapting to and capitalising on change.

Even though most of the executives accepted that exports, the black market and added-value products were the major potential sources of growth, new products and markets were generally seen in the context of “getting back to basics,” as Van der Schyf puts it. Strategic imperatives were expressed in such terms as “sticking to the knitting” or concentrating on the core business. Big companies saw acquisitions and mergers as the major short-term opportunity for growth.

Instead of preparing for the changes ahead, they were obsessed with cost-cutting and staff rationalisation. Short-term thinking took precedence, a factor aggravated in listed companies that are under pressure to maximise short-term profits and return on shareholders’ investments.

“Organisations less exposed to investment scrutiny were more favourably disposed to current conditions,” Van der Schyf says. Thus the bullish minority was comprised of a greater number of executives of smaller and privately owned companies.

Other attitudes that he found worrisome included:

- The apparent inability or even unwillingness, especially among middle management, to recognise and adapt to changing market conditions;
- Procrastination and indecision about what action to take;
- A lack of consensus on the need for a focused strategy. Lip-service is being paid to

FINANCIAL MAIL • JUNE 28 • 1991 • 71

BUSINESS

strategic planning, new products and new markets, and

- A lack of understanding of the source of their companies’ true core competence.

Perhaps most alarming, the business leaders showed no commitment to stopping inflation. Virtually all the executives interviewed were highly critical of the financial authorities for their approach to inflation. Most felt the battle had now reached the stage of overkill and that a quick fix for inflation was not possible without severely damaging the economy.
After nine new candidates were proposed ahead of last week's election, five different faces have appeared on the 12-man JSE committee. Compared with many previous years, that looks almost like a palace revolution. But there is nothing yet to suggest that the Old Guard has been effectively challenged, nor that there will be any real changes in the way business is done.

New members are John Turner of Turner Paterson Faure (245 votes); Dixie Strong of Sampson McKie (239); George Huyssamer of George Huyssamer & Partners (193); Norman Lowenthal of Lowenthal & Co (181); and Geoff Rothschild of Frankel Max Pollak Vinderme (173).

Other members are Humphrey Bor- kun of Dawe Borkum Hare (263), who is also chairman; Rob Roy of Ivor Jones Roy (274); Francois Tolken of Martin & Co (215); Mike Sims of Anderson Wilson (200); Paul Ferguson of Ferguson Bros, Hall Stewart (196); Richard Lurie of Lurie Johnston (195), and Peter Redman of Mathison & Hollidge (191).

The newcomers will presumably be seeking to bring about some changes. Some brokers are hopeful that Lowenthal, for example, will give the small firms a stronger voice; George Huyssamer, on the other hand, may add his weight to efforts to persuade government that stockbrokers' fixed commissions and other privileges should not be meddled with. But even if all were to act together — which they probably won't — the new members will not have a majority on the committee. The JSE's clubby power structure does not get penetrated easily or swiftly.

Names of those who failed to gain re-election are perhaps just as informative as those who did. Among them are Malcolm Stewart, who had played a prominent role in seeking full investigations into alleged irregularities. Another was David Shapiro, who had also been involved in investigations. He was also seen as being more inclined to take an independent line on issues such as the JSE's computer services.

This committee doubtless comprises men of ability. But it bears repeating that this is a crucial period for the JSE: the buck stops with the committee, not management. Nobody should think problems will be resolved by improving the "image" and pruning some administrative costs. A more creative and incisive approach is needed.
Renovations and the war knock Karos

MARICA KLEIN

Abercom minorities offered 79% carrot

BRENT VON MELVILLE

Strong showing by lagging divisions revives Chubb

MARC HASENFUSS

Satisfactory profits from Columbia, Acrem

LIZ ROUSE

Big tax leap hits Musica

MARCIA KLEIN

EXTRA shares in issue and a huge tax hike reduced Musica's 46% rise in pre-tax profits to a 25% decline in earnings a share in the year to end-March.

The music retailer increased its turnover by 36% to $28.4m ($20.6m) Profit before interest was up 46% to $2.3m ($1.6m) and pre-tax profits rose 46% to $1.7m ($1.2m).

However, a 116% rise in tax to $8.9m ($3.9m) after past tax losses was offset by a 26% rise in earnings to $4.8m ($3.1m) due mainly to extra shares in issue from a new venture for one capitalisation issue.

A 20% higher dividend of 2c (1.6c) was declared, and cover lowered from 3.69 times to 2.48 times.

COLUMBIA Consultants and its rural retailing group, Acrem Holdings, both held profits at satisfactory levels in the year to March.

Columbia achieved a 1% increase in attributable profits to $2.5m (1990 $2.4m), and a 2.18c (1.9c) dividend cover has been increased to 1.9 times and with the declaration of a final dividend of 8c, the total is up to 12c (10c).

Acrem said its earnings per share has increased 3.9% to 137c from 132c, and the share price has increased 26% to 84c (69c), and directors have increased the dividend to 3c (2c). Dividend cover has increased to 1.8 times.

Acrem's balance sheet is healthy with a current assets/liabilities ratio of 3.61, but section 24 of the Income Tax Act has cost a share in four years' cash flow and income.

Cash flow is estimated to be badly affected by about $2.5m a year for the next four years. There will be no recourses to debt.

Acrem has consolidated five branches into the remaining 11!
The big question on the market at the moment is whether Jeff Liebesman’s W & A Investment Corporation will manage to get its annual report to shareholders before the group’s interim results are published.

The delay in publishing the report is coming close to contravening JSE regulations that annual statements be published within six months of the year-end. W & A’s year-end is end-December.

The JSE’s GM listings Richard Comellan says late publishing of financial statements is the bane of the JSE. He says the JSE will now insist that W & A gets a formal extension from the registrar of companies.

He said it was frustrating because the JSE is trying to run an orderly market and, in W & A’s case, the market was really dealing blind. The only sanction the JSE had was to suspend the listing — a step it would be loathe to take.

Wondering

There is also the consideration that the longer it takes to publish results, the less meaningful they become.

Analysts are wondering if it will answer the question of how W & A intends to alleviate its debt load, at present almost R1bn.

Liebesman blames the slow accounting of Elecentre for the delay.

However, Elecentre, as an associate, will not be consolidated into the results. Elecentre’s year-end is June and its annual report was out last December.

W & A’s financial director Neville Cohen insists that the Elecentre figures must be audited and incorporated in the results, which takes time.

Liebesman says the annual report should be mailed to shareholders between 9 and 14 July.

There has, in the meantime, been strong market speculation that Liebesman is considering handing off some of W & A’s underperforming assets, specifically, Elecentre/Edgro.

However, Liebesman this week denied that there were any intentions to sell the Elecentre holding.

W & A holds an effective 33.3% in Elecentre but has no management say.

To sell at Elecentre’s current market price of about 415c would net W & A R100m.

There has also been speculation that Liebesman may have tried to sell some of his stake in Genzyme.

Liebesman also denied this.

However, analysts say W & A must reduce its debt load somehow and Liebesman has discounted going back to the market. In addition, it could be hard-up for cash — senior bankers say Liebesman is not popular with his bankers.

W & A has also got the restructuring of the still loss-making Edworks group to take into account.

Its recently installed executive chairman Neville Howitz says Edworks will be selling its upmarket chain of stores and rationalising the rest.
Rand Mines about to sell its forests

NEGOTIATIONS were under way for the sale of Rand Mines' forestry and timber assets as part of the group's move to sell under-performing and non-core assets, chairman Dainy Watt said yesterday.

Wholly owned subsidiary Lotzaba Forests, valued at about R20m, was a non-core asset, which had a tenuous relationship with mining, Watt said.

He said negotiations were under way with "a number of interested parties" for the sale of Lotzaba. Its contribution to group profits in 1996 was more than R2m.

Meanwhile, an announcement concerning the Impala Platinum/Barmine deal was expected towards the middle of next week after several postponements.

Watt said the transaction being concluded was a complicated one, but he was convinced it was in the best interests of shareholders to see it through to the end.

Sources said Rand Mines and Gencor were waiting for government sanction on a tax issue.

Analysts said the question of tax holidays was likely to be Gencor looking at ways of offsetting expenditure through its current interests.

However, with no fencing still in place it would be difficult to strike a deal with government on the issue, one analyst said.

Watt said the sale of the group's listed investments was "going quite well".

A market source said a significant portion of the investments had been placed with a Cape-based institution, possibly Old Mutual.

Negotiations are still under way concerning the sale of Vansa. Watt said it was the subject of discussion with the likely buyer, Chromecorp Technology.
small brokers, investors
New rules are tough for

BY JUNE WALKER
Glasses raised over beer offer

By DERRICK LUTHAYI

RESPONSE to the offer of 44 million shares in National Sorgbun Breweries Limited, which closed on June 19, has exceeded the expectations of the company’s directors.

Over 90 percent of the offer has been taken up by more than 9,000 investors throughout the country. The remaining block of less than 10 percent of the shares has been taken up by the Industrial Development Corporation who are the underwriters of the offer.

However the IDC admitted the offer was only valid for one month-end and has agreed to requests from individuals, burial societies, black business and stokvels who said they needed more time to consult with members and arrange finance to sell their shares to applicants at R1 each until July 31.

NSB executive chairman Mohale Mahanyele, said: “We are the only company of this size that brings blacks and whites together, with blacks in a leading role. The company’s mission is black economic empowerment and this share offer is a cornerstone of this policy.”

“The entire offer was structured so as to enable black people to take advantage of a unique opportunity to participate for the first time in the mainstream of the South African economy.”

He said the offer was virtually restricted to members of the black community, that no single investor could own more than 10 percent of the share capital, and that the share price of R1 is guaranteed for 12 months.

NSB negotiated special arrangements with the Standard Bank and African Bank to ensure loans would be made available to prospective shareholders.

Mahanyele stressed that 30 percent of the offer had been set aside for NSB employees - by far the largest stake to be owned by workers in any major company in South Africa.

Mahanyele is pleased with the success of the public share offer campaign.