OWNERSHIP & CONTROL - 1992

JANUARY - MARCH
What plans for the cash?

Activities: Diversified conglomerate with major interests in packaging, consumer products, food and health care

Control: Malhold (40%)

Chairman/CE: G S Thomas

Capital structure: 206.8m ords Market capitalisation R2,59bn

Share market: Price 1.285c Yields 2.6% on dividend, 9.8% on earnings, p/e ratio, 10,1, cover, 3.8 12-month high, 1.300c low, 600c

Trading volume last quarter, 2.2m shares

Year to Aug 30

<table>
<thead>
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<th>Year</th>
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<td>Turnover (Rm)</td>
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Reviewing the preliminary results (Fox November 1) the FM commented that 1992 prospects would depend strongly on how quickly the group could put its newly acquired cash pile to full productive use.

The cash referred to was R400m from the sale of D&H and half the interest in Standard Engineering as part of the Sankorp asset shuffle. This question, however, has become of even greater significance after the R440m rights issue. This lifted shares outstanding by a further 16% to bring the total increase since the financial year-end to 42%

The worst-case scenario would be that the R440m spends the rest of the year in a bank. The after-tax return would probably be about 8.6%, when EPS applicable to the rights shares would be about 95c, compared with the 117c Malbak forecast before the issue. This was already 7c (5%) down on 1991 as a result of the Sankorp deal, so on these assumptions the rights issue could depress EPS by a further 3c, bringing the cumulative decline to 10c (8%)

Dilution would be lessened if the funds are temporarily used to replace outside debt in the operating subsidiaries. Using the present overdraft rate as a benchmark, this would increase the return to around 10.5% and EPS on the new shares would accordingly amount to some 115c, a basically neutral situation.

The most optimistic situation would be that, despite the rather vague reasons given for the issue, management in fact plans to invest the funds for a relatively short period, in a way that will not only yield better returns than tinkering with interest rates, but may also enhance performance of the group as a whole.

Fortunately, two factors favour this scenario. One is simply pragmatic without such plans, there was no need for the issue. The Sankorp deal had already effectively geared the balance sheet (the company's calculation of a 20% post-deal gearing ratio is based on gross borrowings and does not take into account cash resources of around R584m), and with a permanent capital base expanded over R2bn it would obviously have the financial capacity to cope with any normal expansion of operations.

The second is chairman Grant Thomas's obvious enthusiasm. Malbak, he says in his annual review, stands poised on a new threshold, facing fresh challenges, and ready to capitalise on the extensive and exciting opportunities that lie ahead.

Coupled with this is that the group now has a more "together" look about it than for some years - in fact, since the Gencom deal in 1987. Operating divisions have been cut from seven to five and in the process a number of minor operations have been sold, allowing management to focus more effectively on the main profit generators.

Just how much any of this can impact on 1992 results remains to be seen. In normal circumstances management's 117c EPS forecast could turn out conservative, especially as there were signs during the second half of last year that earnings were starting to recover despite the continued downturn in the economy. But this forecast did not take into account extraneous factors such as the prolonged strike at Ellerine and its impact on the Branded Consumer Goods division which, at 27%, was the largest contributor to earnings last year. Still, the market does not seem unduly worried. The share price has run up from a 1990 low of 450c to 1 255c, which is just 3% off its peak.

The Sankorp deal and rights issue have also had a significant effect on Malhold, whose stake in Malbak has been diluted from 56% to a shade under 40%. Since Malhold's issued capital and holding of Malbak shares are unchanged, the underlying relationship between the two share prices has not been affected and remains at a ratio of 2.81 in favour of Malhold. So at R35 Malhold is correctly priced in relation to its erstwhile subsidiary.
1991 RANKINGS

<table>
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<tr>
<th>Portfolio</th>
<th>Appreciation (%)</th>
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<td>Broker C</td>
<td>66.4</td>
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<td>FM</td>
<td>40.8</td>
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<tr>
<td>Broker E</td>
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<td>Broker D</td>
<td>28.7</td>
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<td>Broker B</td>
<td>16.4</td>
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<td>Broker A</td>
<td>15.9</td>
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<tr>
<td>Broker F</td>
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The FM also retained its mid-year position, ending the year in second place, with a gain of 40.8%. Ground was lost in the second six months, as the portfolio was up by 47.9% at the end of June.

At that stage, the main runners in the FM's portfolio were M-Net, up 115%, Mediclinic (68.7%), Momentum (60%) and Impala (33.6%). Among six new stocks brought in at the change, Pepkor and TSI did reasonably well, but Reganum, Clinics, Amgold and Keeley dragged down the portfolio. Outstanding counters for the full year were M-Net (250%) and Medi-Clinic (123%).

Elsewhere in the rankings, the second half brought some marked changes. At the end of June, Broker E was lagging in seventh place, with 27% appreciation, but had leapt into third position by the close, when its gain had increased to 34.3%. At the change, E brought in Amgold, Haggie and Mid Wits, though only the last of these was much help. E's overall best selections were African Life, up 107.4%, Libvest (75%), Richmont, up 46%, and Premier, up 43%

Broker D held on to fourth position but its appreciation diminished from the mid-year 44.4% to 28.7%. This was partly because D decided it was time to venture into gold shares. It included H J Joel, which promptly depreciated 59%. Best performers for D were Chemical Services, up 105%, Conshu (76.5%) and Carlocor (60.6%)

Broker B rose from the halfway sixth position, where the appreciation was 37.4%, to fifth even though the portfolio's growth slumped from 37.4% to 16.4%. The result was weakened largely by several mining and commodity stocks whose prices disappointed. Among these, Randfontein, Deelkraal, Doornfontein, Sapp and CMI showed losses, or small increases. Better results came from Premier (up 74.6%), Cashbuild (70.6%) and Royal Corp (70.6%).

Broker A was fifth at mid-year, with a 39.5% gain, but slipped to sixth, with appreciation of only 15.9%. A changed the entire portfolio at the end of June, with mixed results which were not helped by a market that had turned somewhat less bullish. Freegold, Jasco and Tradehold fell, best performers were Premier (67.5%), Kanhyem (49.5%), and Cashbuild (41.4%)

Broker F made eight changes at mid-year, and ended up with a portfolio heavily biased towards exporters and other rand-sensitive stocks Richemont (up 28.8%) and Anglo American (34.1%) showed good gains, but Lonrho (down 49.7%), Driefontein (down 12.8%), and FIT (down 30.2%) as well as some weak rises resulted in overall appreciation of only 0.2%

An important — and overdue — change is made to the brokers' competition this year. With stockbrokers now allowed to advertise, the six firms participating in this year's competition have agreed to be identified by name (the only of them took part last year)

This will obviously add spice to the results. It may also have influenced the selections to some extent. Though choices have to be made according to each firm's views on the various sectors of the market, the portfolios this year are generally more conservative and better balanced than some have been in the past.

Even so, the seven portfolio again reflect sharply divergent thinking. Some, such as Anderson Wilson, have again opted for a fairly strong emphasis on mining or other shares with a rand hedge exposure. Others, such as Martin & Co., have continued to avoid these shares.

However, there are two common themes running through the 1992 portfolios. After the powerful growth seen in prices of consumer stocks last year, these have been given only limited exposure this year. Those that do appear, tend to be potentially special situations, such as Fedfood and Kanhyem.

Whatever the quality of the company, it is difficult to buy shares which already stand on dividend yields of little more than 2%. Still, Richemont, yielding 0.8% and standing on a p/e of 20.1, appears no less than four times.

There are signs now of a swing towards industrial stocks which are exporters or manufacturers. These are evidently being chosen well ahead of the hoped-for upswing in their profits — but the JSE has been rising through 1991 in advance of the eventual economic upswing which, one hopes, has become a less distant event and could be based on sound fundamentals.

Also notable is that one has included more than one gold mine. Several have gained some exposure to a rise in the gold price through mining financials such as Anglo American, Gencor or Mid Wits. But, where gold producers have been included, they are solid mines, of medium to high quality. Nobody is yet willing to risk a high gearing to gold with marginal mines.

Readers should note that all these shares are chosen as part of our equity portfolio game. They should not be seen as recommendations or tips.
Tides in the affairs of men

Can 1992 be as eventful?

It was a busy year, quite apart from the Convention for a Democratic SA — probably SA’s most important political event since Union in 1910. In fact, there was an unusual sense of history. The disintegration of the Soviet Union finally undid the tyranny begun by the Boers in 1917: Yugoslavia slid into civil war, throwing up ethnic identities that recalled 1914, old bitterness surfaced with the 50th anniversary of Pearl Harbour, and old Springbok soldiers marked the 50th anniversary of Sudi Rezegh.

From a crowded 12 months, here are a few verbal snapshots from FM staffers to capture some of the flavour of 1991.

Biggest and most controversial deal of the year was the takeover of Allied Group and the subsequent formation of a new banking giant — Amalgamated Banks of SA (Absa) — in a deal worth about R1.6bn. Piet Badenhorst emerged as CEO of R5bn-asset Absa, after First National’s Barry Swart decided to withdraw from the battle for the Allied, whose MD Kevin de Villiers departed after selling his Allied shares for several million rands.

Another megadeal, though one which was completed with little fuss, was the purchase by the Columbus stainless steel consortium from Barlow Band of Middelburg Steel & Alloys (MS&A), for R1.1bn. The acquisition will provide a firmer base for the Columbus project but the new owners lost little time in cutting costs — and jobs.

Among the biggest loss-makers of the year was Frame Group. It posted an operating loss of R104.8m and wrote off R125.1m as a loss of R14.8m. Similarly, Sammbo wrote off as much as R96.5m, and chalked up a deficit of R72.7m over two six-month periods.

Andrew McNally
BROKERS' PORTFOLIOS

Gains and losses

Just over a year ago, when shares were selected for the 1991 brokers' portfolio competition, many investors did not believe the stock market was looking particularly inviting. The economy was still deeply in recession and there was little assurance that the bear market of 1990 was over.

In fact, 1991 turned out to be an excellent year for Diagonal Street — though the competition results were patchy when compared with the market as a whole. Only two brokers and the FM managed to outperform the market. Three lagged well behind the leading market indices.

As has been evident in the past, selection of 10 shares, with an opportunity for changes halfway through the year, can result in a complex and risky exercise.

Results of the brokers' competition are calculated on the capital appreciation of fictional portfolios of 10 shares each, based on share price movements between December 13, 1990, and December 12, 1991. Over that period, the All Share index rose 28.7% and the Financial & Industrial index 38.4% — making the JSE one of the best performing stock markets in the world last year.

All the portfolios showed at least some nominal growth. Percentage gains ranged from a mere 0.2% for Broker F, to Broker C's winning gain of 66.4%, far outstripping inflation and more than double the rise in the All Share index.

In the more successful portfolios, particularly during the first half of the year, emphasis was placed on consumer-oriented counters. As usual, inclusion of one or two high-fliers could make all the difference to the result. The opportunity to change the portfolio at mid-year may result in profits or losses, which means that the overall appreciation of the portfolio will not necessarily be the same as the average gains for the shares held at year-end.

During the previous year many investors had had their fingers burnt yet again for venturing on to the mining board. The 1991 contestants generally did not place much reliance on mining shares — though at mid-year some showed a tendency to delve into gold stocks, and then lost money as a result.

Broker C started the year* with a well-chosen selection, and was leading the field at the halfway stage, with an overall gain of 50.9%. Some fruitful changes were then made at mid-year, when M-Net and Caribou were included. Percentage gains in C's year-end shares were ABI (21.3%), M-Net (63.7%), Suncrash (80%), Afrox (56%), Genrec (165%), Eliterne (22%), Consol (52.2%), Caribou (54.9%), CNA Gallo (54.6%) and Trencor (99.4%).
1. SA's new Domestic Aviation Policy sees Flitestar take off as SAA's first competitor on domestic main routes.
2. Changes to SA's International Aviation policy look promising as international multilateral aviation agreements replace bilateral ones.

3. Passing of the Business Act sees the demise of trading licences and an end to harassment of hawkers;
4. Scrapping of the Land Act ends restrictions on land rights,
5. Abolition of the Group Areas Act allows for unburdened property ownership,
6. Death of the Population Registration Act sees the end of racial classification and all concomitant socio-economic restrictions;
7. Land Tenure Rights are upgraded to allow for a simple form of land ownership which doesn't require conveyancing;
8. The Less Formal Townships Estates Law Act provides for the swift establishment of townships,
9. The Department of National Health deregulates restrictions on Food Handling and controls become appropriate;
10. The earlier deregulation of financial institutions and banks sees the swallowing up of building societies.
JSE session one of 'quietest in decades'

THE JSE opened the new year with barely a whimper yesterday in what was seen by some veteran dealers as one of the quietest sessions of trading on the market for several decades.

Trading was expected to be sluggish in view of the fact that the big players will return from holiday only next week and Japanese and some other major markets are still closed. But the lack of activity surprised even the most pessimistic of brokers.

A sliding gold price on reports of German selling of the metal acted as a further dampener to trade. The softer trend spilled over from Europe to the US where at one stage the metal was down more than $4 in early New York dealings, to test resistance at three-and-a-half-month lows of just above $350. Gold closed in London nearly $2 down at $351.70, while platinum edged off six-year lows to the 53% level.

The JSE overall index, which started 1991 at 2,742 and rose 25.4% to end at 3,440, closed 134 points lower yesterday at 3,207, with only eight shares higher and 52 lower.

The industrial index, which began the year at 3,007 and climbed 38.67% to close the year at 4,970, slipped a marginal one point to 4,969. The record-breaking Christmas rally on Wall Street seemed to peter out last night but some analysts said the domestic industrial market could catch up when players returned to work on Monday.

The all gold index, which declined 10.6% in 1991 from 1,365 to 1,391, closed up 12 points to 1,391 yesterday.

Observers noted that in the absence of buyers, the market tended to take the line of least resistance and go lower. "Everybody here feels we have had two Blue Mondays in one week," a trader added.

A dealer said "People still seem to be evaluating how their portfolios performed last year. When fund managers get back from holiday, they will hold meetings to assess the potential for shares this year."
Beware the calls for rights money

The socio-political transition will serve to underline to South Africans that they should invest in real assets, such as equity rather than in deprecating cash savings," he says.

The 1992-1993 Budget, due in March, could herald significant change. There could be a trade-off, such as the introduction of a capital gains tax offset by a lower rate of corporate tax.

"Investing in equities is investing in the nation's factories and production lines. The nation's infrastructure is due for a kick-start and there are several mineral beneficiation projects on the horizon which, if mobilised, will help companies strong on gross domestic fixed investment," he says.

He warns, however, that turmoil associated with socio-political change is inevitable and the next few months will be characterised by a volatile climate for business.

Mr Blumenthal believes that an improvement in the supply-demand balance is causing the gold price to bottom out. But because the conditions necessary to spark a sustained rise in the gold price are not in place, portfolio exposure to golds should be kept low.

HENRY BLUMENTHAL calls the odds

Mr Blumenthal says foreign bourses are deliberately poised and their direction will continue to influence South Africa.

He favours a strong rand-hedge component in the portfolios of clients because the rand is vulnerable against major currencies. Increased exposure to capital-goods related companies and possibly to cyclical industries with strong recovery potential is also recommended.
Institutional cash flow seen propping up JSE

By Magnus Heystek
Finance Editor

The estimated R40 billion cash flow of South Africa's life and pension offices this year should underpin any correction to the Johannesburg Stock Exchange, says the latest issue of the Bank of Lisbon's Economic Focus.

A major proportion of these funds will find their way to the JSE, despite very high current share values.

While most equity analysts sound a note of warning about the historically high levels, with the average dividend yield on industrial shares now well below three percent, the shortage of good-quality scrip, coupled with the existence of foreign exchange controls, should underpin the market.

A partial relaxation of exchange controls could be a solution to the "damming up" of investable funds in the South African investment market, suggests the Economic Focus.

But while the debt standstill remains in place, this option is unlikely, the study suggests.

The total cash flows of SA's long-term insurers, unit trusts and pension funds are estimated to have reached about R35 billion in 1991. Despite some slowing down in certain areas, they are nevertheless expected to reach about R40 billion this year.

A major portion of these institutional cash flows is invested in local quoted equities, thereby contributing to the "hothouse effect" as more money chases a limited number of investment avenues.

This puts upward pressure on share prices, already at very high levels.

The situation is expected to worsen because of the newly granted freedom of state pension funds, which can now invest in equities on the Johannesburg Stock Exchange.

And if, as expected, banks start moving into the field of life assurance, this will boost even further the flow of cash looking for inflation-beating hedges.

One factor that could deflate the build-up of local capital would be to grant large financial institutions the freedom to invest money in foreign investment markets.

"Certain benefits could be derived from a dispensation in which local institutional investors are able to invest abroad," the bank says.

"Investment yields reaped should be boosted, while liquidity in the JSE would improve in the sense that the ongoing accumulation of domestic shares in the hands of financial institutions would abate, and some institutional holdings could be sold to finance foreign investments," the Bank of Lisbon says.

However, the article points out that there are problems associated with such concessions to domestic financial institutions.

For a debtor country such as South Africa, granting permission to these institutions to invest abroad, unless strictly controlled, would mean either the financial exposure of the country by borrowing more from abroad, or curtailment of the economic growth rate if the balance of payments position is not initially strong enough to finance new capital outflows.

While the authorities are still trying to build up foreign exchange reserves, it would be difficult to relax exchange controls.

The Bank of Lisbon adds that the authorities have indicated in the past that any dismantling of exchange controls will be piece-meal in nature, involving first of all the removal of exchange controls for non-residents.

The authorities are seeking to boost the economic growth rate, which requires higher levels of investment. This, in turn would be crucially dependent on new inflows of foreign capital.

The presence of the foreign debt standstill complicates any moves to relax exchange controls on financial institutions overnight, the bank says.
JSE industrial index powers on

The JSE industrial index soared 20 points yesterday to a high of 4250 at the close of trade.

The strength of the index reflects yet again the tendency of the JSE to track developments on Wall Street.

A dismal Christmas for most retailers appears to have quashed most hopes for even reasonable industrial corporate profit growth in 1992.

In the absence of this fundamental yesterday’s surge in the industrial index can be attributed to a number of technical factors.

Chief of these include the sustained strong performance on Wall Street over the past ten days, optimism about stimulatory measures to kick-start the US economy; the tendency for equity markets to move ahead in the early months of the year; the belief that hefty institutional cash flows will support current price levels and, the fact that yesterday’s increase in local industrial share prices was effected in small volumes.

Between December 20 and January 3 the Dow Jones industrial index soared 267 points or 9 percent to 3301. Over the same period the JSE industrial index moved up 72 points to 4174—equivalent to 1.7 percent.

According to some local dealers, yesterday’s advance was merely a case of catching up with the all-important Dow Jones. At the close of trade yesterday, the industrial index was showing a 3.7 percent advance on its December 20 level.

December 20 is a crucial date. It is when the US Federal Reserve cut the discount rate by one percentage point to 3.5 percent. This was interpreted as a sign that with ‘92 an election year, the US authorities would take whatever action necessary to get the economy on to a growth track. This meant improved corporate profits.

There was little sign of any institutional involvement in the market and it seemed to be jobbers and smaller investors chasing scrip that was in short supply.

Dealers also pointed out that the gold market was looking very vulnerable given the current situation in Russia.
Paper industry probe also complete

Competition Board may kill Arwa deal

THE deal which saw FSI take over Arwa Hosiery in 1990 could be in jeopardy following the release of a Competition Board report within the next month.

Board chairman Pierre Brooks said yesterday the board had completed its investigation of the FSI takeover which gave the conglomerate's subsidiary, Burbose, a 60% share of the panthose market.

"A report is expected within the next month," Brooks said.

"Depending on the findings of the board and whether its recommendations are approved by the Minister of Economic Affairs and Public Enterprises, it could lead to the FSI/Arwa deal being declared unlawful or left as it was with certain conditions attached to it," he said.

Should the deal be declared unlawful, FSI would be forced to dispose of the Arwa business, Brooks said.

The probe into the FSI/Arwa deal has been on and off and on again since 1990 when the deal was first proposed. In the first instance, when the Competition Board announced an investigation into the deal, FSI withdrew its offer for Arwa.

But after the board's preliminary investigations and an announcement in February last year that it would not launch a full-scale probe, the deal was restructured.

At the time the board reasoned that Arwa was in dire financial straits and the sale of its various divisions was necessary if the hosiery maker was to avoid liquidation. Brooks said that after the acquisition had been completed, several new factors emerged which necessitated a full-scale investigation.

One was the discrepancy in the price that FSI was prepared to pay for the acquisition of Arwa Hosiery and what other interested parties were willing to offer. Secondly, it transpired that FSI was in the second instance paying less than the original offer.

FSI's initial offer was pitched at R25m, but last February it was announced that the purchase price would be determined only after an audit of the net asset value of the Arwa Hosiery business and that the ceiling price would be R37m.

"It is understood that the actual price paid for Arwa by Burbose was closer to half that amount," Yesterday Brooks said that, after FSI's takeover of Arwa, the board received complaints from retailers that panthose prices had gone up and that their original contracts with Arwa had been changed. They also complained that FSI's Burbose effectively monopolised SA's panthose market.

Approached for comment yesterday afternoon, FSI chairman Jeff Liebesman would only say: "It would be premature to comment because I don't know the board's recommendations."

The board had also completed its investigation of the paper industry. Brooks said the board's report had been approved by the Minister and should be released soon.

He added that the release of the report had been delayed by the fact that some of the participants who made submissions to the board were private companies.

"The information regarding the balance sheets and profitability of private companies is confidential."

The board would probably issue only a resume of the report, he said. The thrust of the board's investigation was to determine whether any restrictive practices existed in firms which made paper or paper products, including packaging materials. The investigation looked at the extent, pattern and implications of price increases, as well as international prices and the relationship, if any, between the two.
Safegro fund boasts 31% return

IGI's Safegro Unit Trust has reported an average 31.2% total return on its repurchase-to-repurchase value for the 12 months ended December.

IGI Fund Managers fund manager Peter Lunnell said the return compared favourably with the inflation rate and beat the JSE All Share Index's 26% rise for the year.

The fund's total assets rose 34% to R31.2m while it boosted its stake in blue chip holdings for the quarter. The Safegro fund's main equity investments at the year end were Richemont, Sanbop, Safren, Sahlo, Anglo Gold, De Beers, Engen, SAB Breweries and ABSA. It added Investec Bank to its holdings while increasing its interests in Royston and Rembrandt.

Lunnell said the fund decreased its liquidity to 13.5% from 15.4% for the last quarter. He did not expect liquidity to change dramatically this quarter.

Although Lunnell expected the market to remain bullish in the long-term, he said its performance would probably be sluggish for the first half of the year: "A slower global recovery coupled with the fact that market ratings are near all time highs may impact on equity performances in the initial stages of this year," Lunnell said.

In the longer-term, Lunnell expected the anticipated drop in interest rates, the lifting of sanctions and the present scrap shortage would see the market move higher over the next two years.

The fund's main equity exposures were industrial holdings (17.83%), mining houses (9.51%) and beverages and hotels (7.24%).
Unit trusts continue on steady growth path

UNIT TRUST PERFORMANCE TO DECEMBER 1991

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<td>24.46</td>
<td>16.48</td>
<td>10.91</td>
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| Gold Funds             | All Gold Index              | —1.58| —0.15| —5.52 |
|                       | Old Mutual Gold Fund       | 7.90 | —     | —     |
|                       | Standard Bank Gold Fund    | —3.05| 2.72 | —1.84 |

| Industrial Funds       | Industrial Index            | 42.55| 33.15| 28.30 |
|                       | Old Mutual Industrial Fund | 42.51| —     | —     |
|                       | Sanlam Industrial Trust    | 44.59| 29.04| 23.07 |
|                       | Sanbank Industrial Trust   | —     | —     | —     |

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<td></td>
<td>Standard Bank Extra Income</td>
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<td>18.01</td>
<td>16.55</td>
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<td></td>
<td>Syfrets Income</td>
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<td>17.78</td>
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</table>

By Sven Lunsche

Unit trusts once again proved a safe haven for investments in the past year, with returns on general equity funds averaging about 35 percent.

This is well above the inflation rate of about 15.5 percent for the year and in excess of the 31 percent growth shown by the JSE's overall index over the same period.

The list of unit trusts topped by two funds in the Sanlam stable — the Dividend Trust (44.7 percent) and the specialist Industrial Trust (44.6 percent) —

The returns, which measure the change in the repurchase price of a unit trust, are contained in the latest quarterly survey by the University of Pretoria's Graduate School of Management.

Over a three-year and a five-year period the general funds are more in line with overall market growth.

Over three years the Syfrets Growth Fund tops the list with an annual return of 31.4 percent.

Over five years Old Mutual's Investors Fund shows an annual growth of 21.6 percent.

Specialist equity funds, with the exception of those focusing on the industrial market, did not match the returns of the general funds, with only UAL Mining & Resources reporting a return in excess of the 33.8 percent growth of the JSE's mining financial index last year.

Particularly hard hit were the two funds specialising in gold shares.

The Old Mutual Gold Fund and the Standard Bank Gold Fund showed negative growth of 7.9 percent and 3.1 percent respectively, worse than the 1.6 percent decline of the gold index.

Analysts point out that the strong correlation between the JSE indices and the performance of funds over a number of years is a clear indication of the selective investment policy pursued by most fund managers.

The indices comprise a few key blue-chip shares, generally those selected by fund managers for safety returns.

Given the generally low volumes on the market and the strong influence of institutional cash flow, it is not surprising that the indices and unit trusts show similar growth trends.

The trend is expected to persist in the year ahead.

Fund managers of the Norwich NBS Unit Trust, which reported its results yesterday, suggest that the economy is set for a more durable upward phase in the year ahead.

Traditional role

"The market will resume its traditional role of anticipating the future, once the current phase of uncertainty is over and institutional cash flows again become a powerful force, notwithstanding announcements of a number of rights issues."

Guardbank, which controls three unit trusts, is also optimistic about the current year's market performance.

"While in the short-term many sectors of the JSE are in expensive territory, the ending of SA's international isolation, combined with expected strong economic growth rates and the potential for SA to become the hub of a Sub-Saharan trade block, should ensure a longer-term positive outlook for the equity market," the fund managers say.

Guardbank has declared the following income distributions for 1991: Growth Fund 118.07c, Resources Fund 7.73c and Income Fund 18.47c.
Unit trusts provide safe hedge against inflation

CAPE TOWN — Investments in the R11.4bn unit trust industry provided the man in the street with a safe hedge against inflation last year — provided he avoided most gold, mining, high income and gilt funds.

The market value of all unit trust assets rose 51% to R11.4bn last year from R7.55bn in 1990, Pretoria University Graduate School of Management professor Hugo Lambrechts said yesterday.

And while the total number of unit holders has not been finalized, considerable growth is expected over 1990’s figure of 735 405.

Galloping industrial shares pulled the industrial index to a high of 42.2% last year compared with 1990’s 33.15% and ensured handsome returns for investors in the industrial funds which, on a yearly repurchase-to-repurchase basis, have generated returns of 44.5% (Sanlam Industrial Fund) and 42.51% (Old Mutual Industrial Fund).

Lambrechts’ survey of returns released yesterday showed that even a few general equity funds managed to achieve returns of over 40% well in excess of the 31.02% rise in the all-share index.

Sanlam Dividend Trust (44.6% on a repurchase-to-repurchase basis), Southern Equity (41.5%) and Syfrets Growth Fund (41.1%) were the top three among the general funds. Thirteen other general trusts trotted along in the 30-40% band, while only three trusts — the CU Growth Fund (formerly Allegro, 23.38%), Fedgro (26.87%) and Norwich NBS (24.56%) — meandered behind in the 20s.

Syfrets Growth Fund with a return of 31.22% is the best performing general unit trust on a three year term while Old Mutual Investors’ takes top spot in the five-year (21.59%), seven-year (29.29%) and 10-year (23.77%) categories. Guardians Growth Fund takes the honours over a 15-year term with 29.29%, the survey showed.

Most portfolio managers do not believe industrial shares have the potential for much further growth this year and have their eye on mining shares as the generator of good returns. Their view is based on the expectation that an upturn in western economies will stimulate demand for SA minerals and commodities.

However, they believe returns as high as 40% cannot be expected. Last year most mining funds just kept pace with or lagged seriously behind the inflation rate. The two exceptions were the UAL Mining & Resources Fund, which achieved a 24.46% return, and Guardians Resources with 20.38%. This compared with the rise in the Mining Producers’ Index of 17.13% and the Mining Financial Index of 23.58%.

The two gold funds turned in negative returns while the high income and gilt funds either did slightly better than the inflation rate or lagged behind it. Standard Bank Extra Income Fund was the best performing high income fund with a yearly return of 19.7% on a repurchase-to-repurchase basis.

**UNIT TRUST PERFORMANCES TO DECEMBER 1991**

<table>
<thead>
<tr>
<th>UNIT TRUST &amp; INDEX</th>
<th>1 YEAR</th>
<th>5 YEAR</th>
<th>10 YEAR</th>
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<td><strong>GENERAL EQUITY FUNDS</strong></td>
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<td>30.07</td>
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Market becoming overheated, warn fund managers

Consolidation

Lows eventually reported during the current week should see any further upside efforts fail in the face of weaker earnings and recession fears. The market has been under the influence of a strong dollar, which has made it difficult for companies to compete on the world stage. The current economic climate is also dragging down investor confidence. It is important to keep a close eye on the market and adjust strategies accordingly.
NEW LISTINGS

Even fewer

The number of companies coming on to the
JSE continued to drop last year. New listings
fell from 22 in 1990 to only 15.

But total capital raised, at R996m, was
52% higher than in the previous year. The
figure was boosted by Prefcor’s listing on the
Retailers & Wholesalers board, which
brought about R582m in ordinary shares.

Capital raised in rights issues, R5,6bn
until the end of November, was again much
higher than that raised by new flotations.

In 1990, new listings raised R586,5m,
while rights issues by companies already
listed stood at nearly R3,4bn.

When it is considered that R6,42bn was
raised by 211 new listings in 1987, the
decreasing number of new companies raising
capital through the market is painfully clear.

Of the total R996m raised in 1991, about
R344m was through rights issues and about
R652m from shares issued by prospectuses.

The share prices of 10 of the 15 companies
floated are now trading higher than the plac-
ing prices. At the same time last year, only
five of 1990’s 22 new listings were trading
above placing price.

The unbundling hinted at by some con-
glomerates, which was expected to result in
more flotations, did not materialise. Some
people now see the talk of unbundling as only
an option considered in the face of nationali-
sation.

While a large number of new listings is not
expected this year, 1992 will almost cer-
tainly be a year of rights issues, with a number
already planned.

Shaun Harris
A POST-CHRISTMAS shock is on the way for many businesses, according to Credit Guarantee Insurance Corporation.

Senior general manager Mike Truter says "it is traditional to see an increase in failures after Christmas when businesses wind down after the rush and are faced with commitments — wages, bonuses and normal overheads."

By January many companies are unable to foot bills carried over from the previous year.

Latest figures from Central Statistical Services suggest the economy is still a long way from emerging from recession.

The value of civil default and consent judgments shot up by a third to R1.94-billion (R1.66-billion) from January to September compared with the same time in 1990.

But the number of civil default and consent judgments rose by a smaller 9.7% to 397,475 compared with the same time in 1990. This indicates that the size of judgments continues to rise at a faster rate than that of business closures.

Close

Close corporations and companies were liquidated at an average rate of 157 a month between January and October 1991 according to CSS. The rate was 133 a month in 1990.

The number of liquidations between last January and October was 1,568, a 15% increase over the comparable months in 1990.

The number of individual and partnership insolvencies between January and September was 2,931 compared with 2,344 for the same months in 1990.

Credit Guarantee economist Luke Doug says reasons for the sharp rise in the value of default and consent judgments are the long recession and high interest rates.

"We thought that most businesses had learnt their lessons from the previous recession. They should have paid attention to cash flow and carried lower stocks. "But high interest rates must be the main reason for the increase in the number and value of business failures."

It was widely expected that the economy would bottom in the last quarter of 1991 and turn around in the first half of 1992. But economists have revised their forecasts, projecting an uptick in the second half of the year.

Mr Doug says "Economic conditions are still flat. Businesses will continue to fold at a similar rate for the first six months of this year."

Base

The rate of business failure usually rises when the economy peaks up because of the time lag in administrative processing and the increased demand on cash flows to finance inventory.

The increasing incidence of business failure and debtor delinquency has increased the demand for credit insurance, say Credit Guarantee and Credit Underwriting Agency (CUA). Credit Guarantee's insured turnover increased by 13% to R29.9-billion in 1991 in spite of an ailing economy.

CUAL managing director John Mansour says his company's insured turnover grew by 65% in the year to December 1991 off a relatively small base. But gross claims, which are not disclosed, were also sharply up.

Both companies expect claims to taper off in the second half of 1992.

A problem with credit insurance is that for statistical purposes, the books are left open for three years. Claims are generally made in the years after a policy is written.
ROBERT WICKS and
JABULANI SIKHAKHANE

UNIT trust management companies have been criticized for inconsistent and selective reporting of their annual performance figures.

Unit trust watchdog Hugo Lambrecht said comparisons of unit trust performances published by some unit trust management companies were misleading to the buying public.

Lambrecht, who has been publishing surveys of unit trust performances for years, is an associate professor at the University of Pretoria's Graduate School of Management.

He said that when publishing their performance figures, some management comp-

-unit trust reports called 'misleading'

-panes compared their unit trust returns, including reinvested dividend income, against the official value of the JSE's all share index.

Lambrecht sees a fair comparison would be to add the dividend return on the capital value of the all share index to achieve the benchmark against which to compare unit trust returns.

He said the graduate school took the dividend income on the date on which the dividends were paid and reinvested the amount in new units at the buyers' price.

To make fair comparisons with the all

To Page 2

Unit trusts 6109
13/11/92 232 From Page 1

Share index, the school also reinvests one-twelfth of the annual percentage dividend yield at the ruling current value of the all-

-share index value on a monthly basis as if the index is a unit.

Sources said the period of reinvestment in the index could be the cause of discrepancies which occurred.

Rand Merchant Bank Trusts executive director Ken Burns said the NAS Hallmark unit trust paid six monthly dividends and if dividends were reinvested monthly in the index, the total return would be higher than if the dividends were reinvested every six months or annually.

"We have assumed that the dividend yield is therefore reinvested in the index half-yearly, which will produce a slightly lower return than another fund managers who may have reported a total return including dividends reinvested quarterly or monthly," he said.

Lambrecht said the performance figures released by the Association of Unit Trusts indicated dividend income was reinvested at the repurchase price and not at the selling price. The repurchase price, which is the price at which unit trust management companies sell back units from the investor, was a lower price than the buyers' price.

"Dividend income is not reinvested at the repurchase price by any of the unit trust companies, with the result that their performance figures will always be slightly higher than ours, and this remains an unfair reflection of the position of any unit holder," he added.

Burns said there had been considerable debate over some time about the correct method of reporting performance returns.

"The unit trust industry has recently secured agreement for all its members from the highly influential University of Pretoria unit trust survey to report performances over periods of not less than one year," Burns said.

However, sources said at the weekend that some unit trust companies were not happy with the changeover.
Yields on the JSE likely to decline

By Ann Crotty

If investors keep pouring money into the JSE industrial sector as they did in calendar 1991, the average dividend yield of the sector could drop to as low as 1.8 percent by the end of 1992, with the average earnings yield going as low as 4.8 percent.

This drop in returns from industrial equity investments assumes that the industrial index surges by around 40 percent again this year, while earnings and dividends grow by an average of 10 percent.

These are three considerable assumptions, but none is unrealistic.

Only seven trading days into 1992 and the industrial index has already advanced six percent. This was achieved despite a very uncertain performance from gold which dipped below R350 at one stage last week.

It was marked by low volume trade, but dealers reported that institutions were in evidence as buyers where there were reasonable lines of blue chips available. They were not sellers.

The nature of investment in industrials remains unchanged with dealers stating that about 90 percent of listed equities are ignored in the rush for blue chips.

Blue chip status right now appears to have little to do with current earnings (recent past or near future) and everything to do with size and years on the JSE.

This is highlighted by the enthusiasm for Barlowes. That share has advanced 575c to R50 since Christmas.

Since November, when it announced a 6.8 percent drop in earnings for the 12 months to end-September the share has been enthusiastically bought at around its current level.

There has been no sign of any adverse response to the fall in earnings.

With the poor results came details of a major restructuring of the group's strained metal and mineral beneficiation operations.

Investors are not only falling over themselves to pick up Barlowes on an earnings yield of 7.8 percent and dividend yield of 3.1 percent, but have indicated they are keen to take scrip instead of dividends.

Since Christmas, SAB has advanced 50c to R50.50, which puts it on an earnings yield of 4.6 percent and a dividend yield of two percent.

A year ago SAB was trading at R40 — it has gained 30 percent, compared with an earnings increase for the 12 months to end-September of 10 percent.

A surge in corporate performance in calendar '92 might see earnings and dividend increases come more into line with price rises.

This is not on the cards. It is not a strong bet in any of the major international equity markets. A hesitant improvement seems about the best that's expected.

Alternatively, a slump in the flow of funds into the JSE could restrict price advances — bringing them into line with earnings and dividend increases. This is also unlikely.

The all-important institutional cash flows are expected to be considerably larger this year. The obvious investment options remain limited.

The various rights issues and the rapidly growing number of scrip dividends will not soak up much of what is available.

In the absence of any major developments — unforeseen at this stage — there seems little reason why it won't be more of the same on the JSE this year. With the occasional "correction" as investors get nervous about the pace of advance.

Institutional players justify their enthusiasm for blue chips by reference to the scarcity of investment opportunities giving real returns. They stress that they are long-term investors so that soggy earnings for a year or two do not significantly alter their strategies.
OM unit trusts bullish on JSE

By Magnus Heystück

Old Mutual remains bullish about the outlook for the Johannesburg Stock Exchange, despite a general consensus that the market is very high.

This is reflected in the low liquidity levels of its four unit trusts at end-December 1991.

Roland Chute, assistant general manager in charge of unit trusts, says investments rose in companies likely to benefit from an expected increase in Gross Domestic Fixed Investment.

This approach can be seen in the additional purchases of shares like Haggie, Chemserve, Toco, Reunert and Iscor.

Other sectors favoured include the banking, financial and insurance sectors.

Of interest was the more than doubling of the number of shares in GDM Finance, a company involved in trade finance.

The number of accounts in Old Mutual unit trusts rose by more than 13,000 to exceed 300,000 for the first time in the December quarter last year, making it the largest unit trust management company by far.

The Investors' Fund, the largest and most broadly based of all the funds, now has assets in excess of R3 billion.

Traditionally a front-runner when it comes to investment returns, it kept up the sterling performance in the year to December, with an overall return of 36.6 percent on a repurchase to repurchase basis.

The Investors' Fund has recorded overall performance figures over three, five, seven, ten and fifteen years of 25.8, 21.6, 29.3, 25.8 and 28.9 percent respectively.

The Gold Fund remained fully invested, with funds available for investment down to 5.62 percent.

Purchases focused on quality golds such as Driefontein, Vaal Reefs, Harties and Southvaal.

Oryx was included in the portfolio for the first time and there were additions to Unisel, Deelkraal and East Dagga.

The Mining Fund sold its stake in Sasol, while there was a partial switch out of Rusplats into Lydenburg.

The total market value of the Income Fund grew by 20 percent for the second quarter in succession and now stands at R61.7 million.

Overall returns, however, were below the inflation rate at 15.8 percent.
Outlook '92

Industrial market
M&R could get slice of Fedvolks

THE finishing touch to Sankorp’s re-
structuring of its industrial invest-
ment arm, Federale Volksbeleggings
(Pedvolks), would see the group’s in-
terests in the motor component in-
dustry sold to the Murray & Roberts
(M & R) group, a source close to the
company said yesterday.

Sankorp CE Marthinus Dalung con-
firmed that the industrial holding
group’s investments were being re-
viewed as part of a major restructur-
ing of the Sankorp stable.

However, Sankorp had no inten-
tion of selling off its manufacturing
interests in Fedvolks, which was be-
ing turned into the “service division”
of the group, he said.

Means of tidying up the group’s holdings were being examined.

“There is no question that the re-
structuring presently under way should be seen as disinvestment by
Sankorp,” Dalung said.

Dalung could not say whether the
Fedvolks motor component com-
panies would be hived off into M & R.

The group’s scrutiny of motor
component interests was a continu-
ing process, he said.

Sankorp, Sanlam’s investment
holding company, holds a majority
stake in M & R, Malbak and Fedvolks.

All three have undergone rational-
isation recently, with various of San-
korp’s “loose” interests hived off into
the companies.

Fedvolks’ interests in the motor
component industry include shock
absorber manufacturer Gabriel SA,
First National Batteries, Firestone
tyre manufacturers, Trichamp Com-
ponents, distributors of Champion
spark plugs and Teico windscreen
wipers.

Industry sources peg the value of
the motor component interests at be-
tween R250m and R300m.

M & R CE Dave Brink said al-
though his group had taken a close
look at Fedvolks’ motor component
interests late last year, the decision
to acquire the companies had been
turned down.

As a result, M & R was not pre-
viously involved in negotiations with
Fedvolks.

However, he said “I can’t say our
decision not to acquire Fedvolks
motor interests won’t be revised at a
later stage.”
CU Growth Fund up 26%

SEAN VAN ZYL

COMMERCIAL Union's general equity unit trust, CU Growth Fund, achieved a total return of 26% for the year to end-December. The fund's total asset value more than doubled to R32m from R12.4m during the year, portfolio manager Roger Wanless said. The fund's improved performance was a result of a major restructuring of its investments over the past two quarters, he said. The fund's top holdings were Richemont, SAB, Premier, De Beers, Barlow Rand, Anglo American, Liberty Holdings, Anamint, Mid-Wits and Pick' n Pay.
Barprop foresees ongoing difficulties

Barprop's performance in financial 1992 is expected to be hindered by continued difficult trading in the property market and fewer new developments.

Nonetheless, chairman EM Groeneweg predicts in the annual report that the dividend, based on cover of 1.2 times, will increase six percent from 11.5c a share to 12.2c.

He says growth in 1992 will come from rental escalations in respect of existing leases, additional rental income from acquisitions and new developments and interest from cash held for investment.

It is actively engaged in the acquisition and development of investment properties mainly in centralised areas, the maintenance of existing developed properties and the leasing of accommodation to financially sound tenants.

Barlow Rand holds 73 percent of the ordinary share capital and 100 percent of the deferred ordinary shares.

In the year to September, group turnover moved up marginally from R48.5 million to R48.9 million, while operating profit declined from R43.8 million to R43 million.

Mr Groeneweg attributes the marginal decline in operating income to lower rental income resulting from the disposal of certain investment properties and a higher requirement for property maintenance.

After income from investments grew 34 percent from R8.5 million to R11.4 million and interest expense increased eight percent from R33 million to R35.5 million, pre-tax profit fell two percent to R18.8 million.

A decrease in the effective tax rate from 49.5 to 42.2 percent resulted in attributable profit rising 12 percent from R9.8 million to R10.9 million.

Mr Groeneweg says the decreased tax charge follows deductions for repairs to property and a lower rate of company taxation.

Based on a higher number of shares in issue, earnings per share increased nine percent from 12.96c to 14.18c. The dividend for the year was 11.53c a share, eight percent higher than the payout of 10.71c in financial 1990.

The extraordinary profit of R2.4 million relates to a net surplus on disposal of properties.

The balance sheet remains strong, with cash on hand of R63.9 million and investments in properties valued at R510 million.

Barprop, priced at 155c is trading on a P/E ratio of 10.9 and provides a dividend yield of 7.8 percent.

A projected dividend of 12.2c a share in financial 1992, places the share on a forward dividend yield of 7.9 percent.

COMMENT: Barprop touched a high of 170c five months ago before losing ground to 135c and recovering to its current level of 155c. A break below 145c will signal a reversal of the positive trend.
Mean return of 34.2% on general equity trusts

THE unit trust industry’s 18 general equity trusts, which attracted about 80% of unit investment, achieved an average total return of 34.2% for the 12 months ended December, latest Association of Unit Trusts (AUT) figures show.

The association’s 1991 survey showed that the specialist equity trusts earned an average return of 20.6% and income funds a total return of 18.5%.

AUT chairman Clive Turner said the industry enjoyed a record year in gross unit sales, which topped R2.9bn in 1991.

Net sales, minus repurchases, came in at R1.4bn, which Turner said was the highest level in the industry’s 26-year history.

Unit sales by investors — otherwise known as repurchases — dropped 27% for the December quarter to R468m compared with the previous quarter’s R556.5m.

The industry’s total assets, based on market value, rose to R114bn, up 13.6% in December on the previous quarter’s R100bn.

The industry’s net sales increased 85% to R483m in December (September 1991 R234m) while the number of trusts on the market climbed to 42 from the previous quarter’s 38.

Turner said he was satisfied with the industry’s performance, which exceeded the average inflation rate of 15.5%.

As a result, he expected investor demand for units to remain strong in 1992.

"Unit trusts have established themselves as a savings and investment vehicle which cannot be ignored in today’s inflationary environment.”

However, Turner conceded the equity market, which most investment analysts regarded as fully priced, could face “some form of correction” this year.

He expected new institutional money coming to the market to sustain share prices.

“Investment for the medium to long term will be rewarded, but the volatility factor is high in the short term.”
Assets of unit trusts at record level

The South African unit trust industry ended 1991 on a high note with the market value of the industry's assets at an all time high of almost R11.4 billion.

According to the chairman of the Association of Unit Trusts, Clive Turner, gross sales were a record R3.9 billion and despite higher repurchases net sales amounting to R1.45 billion were the highest in the industry's 26 year history.

Because of the excellent returns which unit trusts have achieved, the industry attracted greater interest in the year and a further 202,800 accounts were opened bringing the total number of unit trust accounts active in South Africa to just under 940,000.

Mr Turner said he was satisfied with the industry's performance.

"The industry is often in the spotlight and commands a great deal of interest today so it is encouraging that the investing public has again been as well served by unit trusts as in the past year," he said.

Pointing to the excellent returns which unit trusts achieved for investors in the year to December Mr Turner said general equity funds, which attracted some 80 percent of unit trust funds, again achieved an outstanding result.

Most of the funds were quite fully invested and held an average 84 percent of their assets in equities at the December quarter-end — reducing liquid assets from 17 percent at the September quarter end to 16 percent at December 31.

The 18 general equity trusts, which have been in existence for the past year, achieved an average total return (that is capital growth plus income) of 34.2 percent for the 12 month period with individual returns ranging from 45.2 percent to 25.1 percent, comfortably outstripping the inflation rate of around 15.5 percent for the same period.

Commenting on the outlook for the year ahead Mr Turner said there was every reason to think that there would be a continuing high level of interest in unit trusts.

"Unit trusts have established themselves as a savings and investment vehicle which cannot be ignored in today's inflationary environment, and the range of trusts offered, and their inherent flexibility, will attract interest whatever the immediate outlook for equities might be," he said.

But while stock market fundamentals dictated that the market was vulnerable to some form of correction, ever-rising institutional cash flows could continue to sustain and even improve on current price levels.

— Sapa.
In line with a surge on overseas markets, the Johannesburg Stock Exchange continued its rally yesterday, with the key overall index rising above the 3,700 level for the first time.

The overall index was up by 1.5 percent to 3,713, bringing its gains so far this year to 7.9 percent.

The increases have been spread across all market sectors. The industrial index has surged by 8.51 percent since January 1, while the gold index has added 14.87 percent.

In the process, the JSE is ignoring warnings by analysts that the gains fail to reflect the continued depressed trading conditions experienced by most companies.

The surge is being exaggerated by a shortage of quality scrip, with investments largely limited to key blue-chip counters.

The commercial rand lost 3c to the US currency ending the day at R2.82. However, it gained against cross-currencies, with sterling falling below the R5 level for the first time in months.

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JSE overall

Yesterday's close: 3713
Spin-off markets take big step

THE development of derivative markets in SA will take another big step next Friday when the JSE launches the Traded Options Market (TOM). This follows the establishment a few years ago of a futures market and will culminate in September with the formal opening of a centralised Bond Market Association (BMA) when JSE gilt and institutional screen traders will combine forces.

TOM will finally get off the ground after several delays and trial runs over the past few months to test the actual operation of options trading in simulated market conditions 6/10/92.

Options markets, a natural extension of investment in the underlying equity market, have shown huge growth overseas and much effort and research has gone into seeing how best to serve local interests.

The JSE will list options on certain company shares and options on share indices. It has created a clearing house to act as an agent for options clearing and to guarantee the performance of all options contracts. Traded buy and sell options will initially be offered on shares of Anglo American, Barlow Rand, De Beers, Rustenburg Platinun, Sasol and Vaal Reef gold mine.

The exchange will list cash-settled options on the shares of each of these companies and scrip-settled options on some of them.

Options will also be listed on three existing indices — the all share index, the all gold index and the industrial index.

Options have proved a popular trading instrument. An option buyer can limit the amount of investment at risk and can take advantage of the treasuris[read] leverage inherent in the product.
JSE spree sends dealers offshore

DEALERS on the JSE were hunting offshore yesterday to obtain large parcels of quality shares to meet domestic demand as trading on the market turned into a frenetic buying spree.

Large lines of shares bought from overseas investors could have contributed to the 1.5% weakening of the rand to R3.39 to the dollar from R3.34 as the investment currency continued its retreat from last week’s R3.19.

The weaker rand was one of the factors which helped propel share prices to higher ground yesterday in one of the most active sessions of trading for several weeks.

The market opened firmer on the back of strong gains on Wall Street, renewed strength in London, and news that PPI data for November dropped sharply, auguring well for lower interest rates.

Buoyant sentiment was lifted further by a rise of nearly $2 in the gold price to $556 in spite of a soaring dollar.

The rise helped pull the rand gold price back above R1 000 for the first time since early December.

Bulls of profit-taking pared gains but the overall index rose 69 points to close at a new high of 3 213 and the industrials index ended 80 points up at a record 4 535.
Liquidations, insolvencies increasing

By Sven Lunsche

Insolvencies and liquidations look set to surge to their highest levels since 1987 in the wake of the sharp economic downturn last year.

Analysing latest Central Statistical Service figures on liquidations, Credit Guarantee economist Luke Dooi says that in the first 11 months of last year liquidations at 1,686 were 13.5 percent up on the same period in 1990.

"A probable total of 1,800 will be the highest since the 1,800 liquidations recorded in 1997," Mr Dooi says.

The same applies for insolvencies which are expected to fall just short of the 1987 total of 3,683.

For the first ten months of last year insolvencies at 3,229 were 22.8 percent up on 1990.

Breaking down the liquidation figures, Mr Dooi says the sector worst affected was construction, where 200 liquidations occurred compared with 140 in 1990.

Civil debt figures for the January to October period are no more heartening, Mr Dooi says.

Almost 866,000 civil summonses were issued during that period, 10 percent up on previous year, while the number of civil default and consent judgments rose by nine percent to 443,139.

The value of default judgments at R2,18 billion had risen by 32.6 percent over 1990's R1,64 billion.
Few trusts outshine all share index

WHILE a number of general equity unit trusts reported spectacular returns for 1991, independent research showed that very few of the funds achieved growth well in excess of the gains made by the all share index, including dividend reinvestment.

The unit trust industry reported an average total return, including capital appreciation and reinvestment of income, of 34.2% for last year.

Industry sceptics noted that the industry was quick to compare its total returns with the all share index which climbed by about 26% in 1991. However, they added, a more fair rating would be to compare the all share index, plus reinvestment of dividends, with returns achieved by unit trusts.

Hugo Lambrecht of the University of Pretoria, regarded as an independent specialist, calculated an all share index, including dividend reinvestment, of 31.0% for 1991. Analysts noted the average total return of 34.2% was modest compared with what investors could have made by investing in the all share index.

In addition, they noted the industrial index, including dividend reinvestment, rose by about 42% last year, with only two of the 19 general equity funds achieving higher returns.

Of the 18 general funds, three reported total returns below the gain made by the all share index, including dividend reinvestment.

Pedicro unit trust director Dries van Röyen said his fund's performance was negatively affected by high liquidity early in what was its first trading year.

Roger Wannene, senior GM investments for the Commercial Union unit trust which achieved a total return of 29% for 1991, said the fund's performance was hindered by its investment in a number of poor stocks. Commercial Union acquired the fund and its investment portfolio from AA Life in June last year. "Since then, we have been busy weeding out the underperforming stocks."

The Norwich NBS unit trust, which fetched its investors a total return of 25% for the year, was affected by its high exposure to platinum and mining shares, portfolio manager Charles Graham said.

Graham added the fund's market value dropped off considerably in December when the international platinum price dropped below the gold price. However, the fund was now well positioned to benefit from the middle to long-term value expected to come through in mining shares.

Syret's portfolio manager Tony Gibson also felt mining shares would offer the most potential in 1992.

He said the Syrets Growth Fund was concentrating on buying quality stocks offering good value.

He ascribed the fund's strong performance of 41.5% last year to its investment in select stocks.

Stafford Thomas, portfolio manager for the industry's top performing unit trust - Sanlam Dividend said the fund's exceptional return was due to its high exposure to blue chip industrials. However, he also felt mining stocks would offer the most potential in 1992.
Little hope of an end to the rise in liquidations

GERALD REILLY

PRETORIA — Liquidations and insolvencies reached “depression” levels last year, and according to economists there is little hope of a reversal of the trend this year.

Latest Central Statistical Service figures show that in the three months to end-November, liquidations increased to 442 or 22.1% compared with the same three months in 1990.

In the three months to end-October, insolvencies of individuals and partnerships increased by 25.9% compared with August-October 1990.

The total for the three months last year was 1,172.

In November alone 118 incorporated businesses (71 companies and 47 close corporations) were placed under final liquidation.

Liquidations for the 11 months to end-October increased by 13.5% compared with January to November 1990.

In the eight months to end-October insolvencies increased by 22.8% compared with the corresponding period in 1990.

Recession

Absa senior economist Adam Jacobs said there was a long haul ahead before the liquidation trend could be expected to slow.

All indicators showed the economy was still in a deep recession. Preliminary retail sales figures for December were down 7.6% and car sales fell 22% in November.

Information Trust Corporation MD Tony Leng said in the period January to end October last year the value of judgments for debt rose by 33% reaching record levels of almost R2.3bn.

This was the equivalent of R1m a day for the first 10 months of last year.

Judgments for debts against individuals in the 10 months amounted to R1.9bn.
Unit trust investors could face unnerving

By Clive Fox, managing director, Consolidated Fund Managers

Uncertainties

The equity market is now adjusting to the lower interest rates to their lowest level in nearly 30 years. But can this momentum be maintained? The JSE and most major international stock indices are now at or near record high levels, with the exception of Japan, which has been suffering from a considerable degree of uncertainty. There could be a recovery, albeit that there could be some corrections in the upside. The economic performance of most of the major economies is overall strong, to say the least. The institutional equity market has gone a long way to promoting the growth in the equity market, with the funds and the flexibility they offer to investors.

The argument does not however

downward correction.

In the long term, unit trusts should continue to provide investors with inflation-hedging benefits and some sort of positive returns for the category.

There is certainly a risk that economic recovery may be delayed in line with that of South Africa's major trading partners.

However, given the very high expectations and thus the risks attached to the market, it is not likely that a year of volatility could end in bearishness for the economy in the short term.
It could be year of second-liners

By DIRK TIEMANN

THE JSE will offer the best returns for investors this year, although its performance is unlikely to be as good as in 1991, say analysts.

Investors could still reap up to 25% returns The JSE industrial index rose by 37% and the overall index 26% last year.

Frankel Max Pollak Vundrume economic consultant Mike Brown says SA shares are not expensive in international terms.

But when the SA market opens up, price-earnings will start approaching international levels.

Mr Brown says this could make SA shares ripe for an upward rerating.

The industrial index is at an all-time high of about 4 500 points It will be lifted up as former State pension funds buy shares adding a possible R12-billion to the R29-billion reaching the market annually.

Cyclical

Mr Brown says blue chips, such as De Beers and Richemont, reflect international price levels.

Second-liners have been left behind and could advance this year.

"These stocks are cyclical and highly geared and are usually bought when the economy is booming and interest rates are falling.

Mr Brown expects a lower gold price, but says the bottom is in sight, even if a tele- scope might be required to see it. He would be a strong buyer at R339.

Platinum looks more interesting because it has been at a discount to gold for three months — the first time in many years.

Simpson McKie investment strategist Peter Treen gave Jones says the econom- recovery has not been cancelled and there is a lot of value to be had in shares Rembrandt, Richemont and SA Breweries dominate the industrial index and tend to skew the market's apparent value But cyclical stocks will benefit once the recovery starts.

Mr Trenogow Jones says fixed-investment spending is overdue Housing and related social infrastructure are expected to receive a boost.

Boumat, Fraser Alexander, Voltes, Murray & Roberts, Tongaat and the cement companies should benefit from a recovery.

Another analyst has his eye on Anglo American, Gen- bel and Censor, Sasol and Middle Wits because of its stake in the Venetia diamond project. He sees some good buys in financials and recommends Libvest, Nedcor and NBS.

He prefers CG Smith Food and Richemont to FIT which is suffering in a depressed UK economy.

He believes SA tourism has upside and expects Kersaf and Safren For good measure he throws in a few gold shares, Dries, Kloof, EtC Cons and Sentivex.

Analysis is shying away from gold which seem to have some downside and have to contend with high in- flation. One analyst says that for one to be enthusiastic about gold, inflation would have to fall to 10%.

But Mr Brown says the difference between yields on gilts and on shares is at a historic high. The average yield on shares is 2.5% and gilts yield more than 18%.

The derivative markets are thin and investors know little about futures and options. Options could be sale- able to the public as an investment vehicle with a limited downside, whereas futures are more risky.

Those who are afraid of the share market should pay off their mortgages as quickly as they can. The 29% interest saving is hard to beat.

Property economist Neville Berkowitz says a house owner can save a packet in after-tax money if he increases bond repayments by a third.

The investor on the other hand has more opportunities to use gearing. On a R100 000 house which pays in price by 15% on make and carries a bond of R30 000, the equity of R20 000 will increase by a compound 15% This easily covers the 20% bond interest.

Mr Berkowitz says house prices have been rising by about 12% annually since 1989. But in 1993 they could rise in price by 5% on the assumptions that the economy recovers, interest rates fall and political and social stability are present.

Mr Berkowitz says second-time buyers are better off as their offer returns which outweigh other investments Rents are high because of a shortage of flats and offset bond interest.

Mr Berkowitz says a threat is the possibility of rent control being reinstated.

Medicaid

Salary earners who have little investment money should make full use of company benefits, says Price Waterhouse Meyerskel financial planning manager Martin McCauley.

Mr McCauley says individuals can deduct 20% of their annual salary for pensionable investment.He recommends keeping up arrear pension contributions because 15% of the pensionable salary can be de- ducted from annual income.

The more years you get in arrears, the higher the tax-free lump sum.

Provincial funds allow 25% tax deduction. A R14 000 lump sum is free of tax on retirement.

Deferred compensation policies taken out by a company on behalf of individuals allow 10%-tax deductions.

Mr McCauley advises salar-y earners to consider leaving medical aid schemes and taking catastrophe and medical assurance.
Octodec rides out storm

Octodec, formed by the restructured operation of Tomkor and listed in September 1990, performed better than expected in its maiden year, with continued growth forecast.

In the annual report, chairman A Wapnick says that despite the prevailing depressed economy, which manifests itself in the form of increased property-related expenses and a higher rate of vacancies, the property portfolio continues to perform well, in line with its historic track record of sustaining satisfactory yields in periods of recession.

Mr Wapnick predicts that growth will result from the escalation in income from existing leases.

He forecasts a distribution of about R20 million (R19.8 million in financial 1991).

Octodec, listed in the property loan stock sector, comprises a selected portfolio of managed retail, commercial and industrial properties located chiefly in the greater Pretoria area.

There are 84 developed properties in the portfolio, which have relatively low maintenance costs and were acquired at R147.7 million.

In the year to August, turnover was R25 million and operating profit R18.1 million.

After additional income of R1.5 million, the group was able to distribute R19.3 million, which was about R1 million more than the R18.1 million forecast at the time of listing.

The total return of 40.6c per linked unit, comprising debenture interest of 39.6c and a dividend of 0.06c, translates into a yield of 18.46 percent on the issue price of the linked units.

At the current price of 290c, the share provides an income yield of 14 percent, which exceeds the sector average of approximately 11 percent.

The share price appears to have upward potential in view of the group's credible performance in its first financial year and the expectation that returns will grow in the current year.

COMMENT. Octodec's share rose steeply in the first quarter of 1991 and thereafter spent the year undulating between 275c and 305c.

The current price is 290c and a decisive break in either direction should indicate the future trend.
Barlow Rand more focused on consumers

By Ann Crotty

Having spent the past 16 months sorting out Rand Mines and having, more recently, disposed of Middleburg Steel and Alloys the Barlow Rand group now looks like a food and industrial conglomerate - with a substantial coal horse.

The market obviously likes the new streamlined group. Although off its recent high of R55,50, at R38 the share is on a fairly demanding earnings and dividend yield.

As newly appointed MD Derek Cooper points out, "We are now close to the consumer, when the economy picks up as it must in the next 12-18 months, Barlows must benefit." He also notes that the group is now virtually borrowings free.

At yesterday's AGM chairman Warren Clewlow outlined the recent major developments and referred to the group's results for the first quarter of financial '92.

In the three months to end-December trading continued sluggishly, however group turnover improved over the company added products and to optimise the use of its core skills in distribution and specialised manufacturing facilities.

Mr Clewlow believes that with the on-going urbanisation of the population this focus must be positive for the group's future.

He also referred to the listing of Smith Sugar and the R370 million rights issue at Tiger Oats.

In addition there was the scrip dividend offer with 82.7 percent acceptance. This provided additional cash of R180 million for the group.

"These various developments will further increase the resources of the group thereby placing it in a strong position to take the opportunities that will no doubt come our way."

Referring to Mr Cooper's appointment as group MD, Mr Clewlow stated: "For the past year I have held both the positions of chairman and chief executive.

"Derek, already vice-chairman is well qualified to assume this pivotal role, having had a wide range of experience within the group."
Barlow Rand notches up growth despite adversity

BARLOW Rand’s turnover and attributable profit for the first quarter of the current financial year were higher than last year’s and ahead of budget in spite of poor trading conditions, chairman Warren Clewlow told shareholders at the group’s annual meeting yesterday.

Clewlow said that as a sequel to last year’s restructuring the group was committed to substantial new capital expenditure, expected to total R1.17bn this year. Of this amount, R220m had already been spent on new acquisitions during the first three months of the year.

Benefits of restructuring, which saw substantial disinvestment in certain mining and mineral beneficia
tion interests, would start flowing through at the end of this year, Clewlow said in his report to shareholders.

The “structural adjustment” of Rand Mines had been completed while the sale of Middleburg Steel & Alloys and the chrome mining operations would contribute a total of R1.172bn to the group’s funds.

The redeployment of these funds was already under way, with the focus on investment in “branded val-
ue-added products and the optimal utilisation of core skills in the specialised manufacturing and distribution facilities,” Clewlow said.

“With the ongoing urbanisation of the SA population, this focus must be positive for the group’s future,” he said.

Recent acquisitions included a Caterpillar dealership in Bulfgana and offshore interests in the US for UK-based subsidiary, Bibby.

Upturn

On the food side, Tiger Oats acquired the remaining 50% of Petz Products and the assets and brands of Colman Foods from Reckitt & Colman C G Smith bought a sugar mill and Reunert invested in Telephone Manufacturers and boosted its stake in Electric Lamp Manufacturers of SA.

The group has also been busy with a number of other internal reorganisations. In TSI a decision was taken to split its two computer-related businesses into two separate listings, and C G Smith Sugar is to be listed on February 14 with the offer extended to shareholders in C G Smith Foods and C G Smith.

Tiger Oats is to raise R370m in a rights issue to enable it to extend its businesses in branded, value-added products.

Clewlow expressed concern about prospects for an economic upturn while there was reason to believe that many of the essential fundamentals for an upturn were in place, he warned South Africans not to be too optimistic about an early end to the recession.

“I believe it to be further away than most people believe, not least because the expected recovery in world markets has not yet come about and there are disquieting trends in many of the major economies in which we, as a country, operate,” Clewlow said.

On the domestic market, the essential, co-operative triangle of state, business and labour was not yet working adequately, Clewlow said, and while there were promising signs of progress, until this co-operation was in place it would be difficult for the economy to achieve its full potential.
Service charge on unit trusts to be increased

CAPE TOWN — The Financial Services Board has approved a 50% increase in the maximum annual service charge, which can be imposed by unit trust management companies, from 0.5% to 0.75% of the total market value of a fund’s assets.

The board’s deputy registrar, Gad Anciovich, confirmed the increase yesterday.

The annual service charge, a percentage of which is levied monthly, is imposed in addition to a 5% initial charge, which covers marketing and distribution expenses, and which will remain unchanged.

While welcoming the announcement, industry leaders expressed disappointment yesterday that the ceiling was not raised to at least the 1% requested by the Association of Unit Trusts.

They said the service charge covered the escalating costs of administration, portfolio management, and regular reporting to clients and was not sufficient to cover costly investments in technology.

There is a strong case for a higher fee, but the industry accepts that a too rapid adjustment could be regarded as inequitable," association chairman Clive Turner said. The service charge had been held at 0.5% a year since the industry’s inception in 1963 and even at the new level was well below the average in any other country.

Old Mutual unit trust manager Peter de Beyer said 0.75% would not give the industry the flexibility and financial base it required. He had hoped the ceiling would be higher so that there could be competition beneath that level between management companies over fees charged.

"I would be financially impelled to move to the maximum 0.75% fee immediately," he argued. No ceiling on condition that management companies were required to disclose their service charges to unit holders.

He said the low level at which the service charge had originally been set was mainly responsible for the slow growth in the number of management companies. He felt the increase was correcting this historical imbalance.
Sasol, Gencor news depresses trading

DIAGONAL Street was weighed down yesterday by news of two huge rights issues and a consolidation of recent gains as some investors took profits on blue chip industrials and switched to rand hedge shares.

Plans by mining house Gencor and petrochemical group Sasol to raise a total of R2bn in separate issues injected hesitancy into trading on worries that more cash would be tapped from the market than was expected.

After coming down 20c on Monday, Gencor eased a further 3.7% or 45c to R11.65 as the share moved towards the expected offer price of around R11.

Sasol held up slightly better. After opening at Monday's closing high of R20.65, the share drifted back to close 3.1% down at R20 in strong two-way trade.

Sentiment remained firm and was reflected in gains on the overall market outnumbering losses by nearly two to one. As the JSE all gold index rose 15 points to 1,227 and the industrial index fell 18 to 4,513, Precious metals were steady. In New York, gold closed at $577.85, up $0.20.
Rights offers

R1bn of the institutional cash flows, some R2bn to R5bn (including funds from state pension funds) would still be available for investment, an analyst said.

Stockbroker Dawid Meades said the rights issue would be a "welcome relief to the market which is starved of blue chip shares". For example, preliminary calculations by Meades show that about R300m worth of Gencor shares, or 2.8% of its market capitalisation, were traded last year. Meades said that excluding Gencor's controlling shareholders, the R1bn rights issue offered shareholders an opportunity to buy shares which would have taken them about three years to get in the market. The Gencor rights issue would also give Sanlam, the ultimate controlling shareholder via Sankorp and Goubeheer, to invest up to R500m of its discretionary funds in new Gencor shares.

Although no other major rights issues — in the R1bn mark — are expected to be announced, there was talk in the market that SA Breweries might also come to the market to raise funds.

The scrip dividend route would also be attractive. Companies like Sun Bop, Nedcor and Barlow Rand had already taken advantage of this.
Wider and deeper capital markets are Norton's mission

THE Johannesburg Stock Exchange (JSE) is on the brink of justifying its standing as the most sophisticated exchange in Africa and one of the more developed in the world.

This will come about with the launch of the Traded Options Market (TOM) and the opening later this year of a centralised Bond Market Association (BMA).

The establishment of these markets will mark the culmination in the more than six year tenure of Tony Norton as first executive president of the JSE.

Promotion

The promotion of wider and deeper capital markets in SA was a major plank in the mission statement drafted by Norton in conjunction with the JSE committee soon after he assumed his post.

Norton says: "The statement acknowledged that one of the purposes of the exchange was the promotion of such markets and we recognised the need to develop options and futures markets, which everyone else in the world was then doing.

But the JSE was overtaken in its first bid to start a derivatives market by Rand Merchant Bank, which established and operated a financial futures market.

Instead of sulking about being pre-empted, the JSE under Norton led the initiative to get all interested people and groups behind Rand Merchant Bank.

This eventually resulted in the formation of the South African Futures Exchange (SaFex).

Now that its plans to move simultaneously into futures and options had been thwarted, the JSE made a strategic decision to move swiftly with the establishment of a rushed and simplistic traded options market.

That was a mistake, Norton says:

"We tried to do something that was not part of our normal discipline and we goofed.

The biggest problem on the JSE is illiquidity and international experience of derivative markets is that they add to rather than take away liquidity from markets.

But the JSE was overtaken in its first bid to start a derivatives market by Rand Merchant Bank, which established and operated a financial futures market.

"The lesson we learned was that it is difficult to set up complex, computerized financial markets in a hurry.

"Now, after having adopted the right approach, we have a proper market for options trading with systems and services which will be of benefit to the investment community for years to come."

Combining

Next on the agenda is the formalisation of the BMA.

Scheduled to start in September, it will be formed by combining the JSE gilt market with the institutional screen trading market. This centralised market will have both screen and floor trading.

The new derivative markets will be further developed the BMA is to establish a traded options market in gilts and SaFex will offer its own contracts on options on futures.

Norton says: "SA will then have in regulated markets all the financial instruments which characterise a developed market."

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Risk Management

The management of risks in the Options market involves setting position limits, risk control, and understanding the potential losses. It is crucial to have a clear strategy and understand the market dynamics. Here are some key points:

1. **Market Bubbles**: Identify and avoid trading in volatile and speculative markets.
2. **Regulation and Compliance**: Stay updated with regulatory changes and ensure compliance.
3. **Risk Assessment**: Regularly assess your portfolio and risk exposure.
4. **Market Volatility**: Understand the impact of market volatility on your positions.
5. **Diversification**: Spread risks across different market segments.
6. **Position Limits**: Set limits to control losses in case of adverse market movements.

Understanding these principles will help in making informed decisions and managing risks effectively in the Options market.
Initial listings will be limited

The Traded Options Market (TOM) will kick off with traded put and call options on the JSE's All Shares Index, the All Gold Index and the shares of De Beers when it opens for trade tomorrow.

TOM manager Jonathan Sums says the JSE decided to limit the initial number of TOM listings and add others based on the fledgling market's performance and demand.

**Underlying**

Other equities selected as underlying stock for options are Anglo American, Barlow Rand, Rustenburg Platinum and Sasol.

Vaal Reefs was also on the initial list but has been replaced by Britefontein.

To be selected, equities have to be listed and highly marketable.

Options on the industrial index will also be included at a later stage.

The exchange will start off by offering cash-settled options on the equities and indices.

Sums says the system is flexible enough to include scrip-settled options and accommodate other changes as the market develops.

Normally, each share option contract covers the rights to 100 shares. For example, in the case of scrip-settled calls, the holder would receive 100 shares and pay the writer a total money amount equal to the exercise price of the option multiplied by 100.

Similarly, the settlement value of a cash-settled put will be the exercise price of the option minus the share price multiplied by 100.

The money value of the index options is the index multiplied by R10.

For example, the All Shares Index at 2479 multiplied by R10 equals a money value of R24 790.
Chicago Probed Options Exchange

Innovators Alike

For Brokers and

Breach

Survey

Business Day
Opportunity to improve liquidity and control risk

FUND managers and institutional investors, the fuel of successful derivative exchanges, are keenly awaiting the JSE’s new traded options market, but are unlikely to be active participants from the start.

Spokesmen for leading fund management institutions and traders also charged per trade and per new market which has the potential to improve liquidity and open the cost could be prohibitive for opportunities to enhance profitability and control risk

However, many are concerned.

Rand Merchant Bank executive Richard Loubser says “We are reasonably cheap, visible market are talking about all the traditional rand arehave had good experience al negatives of the JSE — illiquid, trading on the exchange”,

Kenny says SMB will, however, will be on the lookout for arbitrage opportunities in the traded options market.

But there are a lot of potential opportunities for portfolio managers to hedge stock and for companies whose shares are traded to hedge themselves if they have a rights issue,” he says.

Cost is another inhibiting factor. But, says Loubser: “One of the biggest problems will be the lack which is the amount users pay up of natural market makers.”
Unit trusts increase charges

The maximum service charge levied on the market value of a unit trust's assets has been lifted from 0.25 percent to 0.75 percent a year.

Clive Turner, chairman of the Association of Unit Trusts, pointed out that the increase was the first in the industry's 25-year history.

He said the service charge was provided to enable management companies to undertake their fiduciary functions, while the initial charge, on a sliding scale starting at 5 percent for smaller investments and declining for larger amounts, was designed to cover marketing costs.

He pointed out that administration costs had increased sharply over the years and particularly more recently as the industry's unit holder account base has risen to nearly one million.

The increased service fee will have a material effect on a unit trust's selling and repurchase prices. — Sapa
Traded Options Market opens today

The JSE Traded Options Market (TOM) gets off the ground today but activity is expected to be slow and volumes low as investors test the water of SA's newest derivative market.

Trading will begin at 11am on the equity market trading floor after an official opening by JSE chairman Humphrey Berkum.

The initial number of TOM listings has been limited to call and put on the JSE all shares index, the all gold index and De Beers' shares.

Other shares and the industrial index would be added depending on the market's performance and demand.

Inexperienced players have been advised not to trade options without the necessary knowledge and tools. Most of the initial action is expected to come from corporates using traded options as risk management instruments.

Mervyn Harris

24/11/92
230 000 ignore the risk of bad debts

ONLY 5% of South African companies are insured against debtor losses — in spite of the dismal state of the economy and the rising number of liquidations.

About 11 500 companies have taken out credit insurance or credit-risk protection. But about 230 000 businesses probably need this cover.

Company liquidations increased by 45% in the three months to last October and insolvencies rose by 24%, according to Central Statistical Services.

In recent months, however, businesses have become more aware of this type of cover. Only a few years ago, it was virtually unknown in SA.

Credit Guarantee Insurance Corporation (CGIC) offers domestic and export cover and Credit Underwriting Agency (CUAL), a member of Commercial Union, covers the domestic market. Johan Engelbrecht of Proiguard Insurance Brokers says there has been a sharp increase in the number of businesses inquiring about this form of insurance. It effectively protects companies against bad debts, can be used as an additional method of raising funds and can be considered an asset in the case of a company that changes hands.

BY DON ROBERTSON

Advice

In a typical instance, CGIC or CUAL will underwrite up to 80% of a company's debtor book at a fixed premium, renewable annually and zero-rated for VAT.

The premium will depend on the "age" of the book and the creditworthiness of the debtors, all of which will be established by the insurance companies and treated confidentially.

Depending on any increase or decrease in the size of the book, the premium, perhaps 0,2% of the total value, will be charged.

Accounts are monitored monthly and advice can be offered on debt collection.

In the event of a debtor company facing collapse, both CGIC and CUAL will pay out on provisional liquidation.

A company wishing to raise capital on the strength of its debtor book is traditionally restricted to 50% of the total value. But with credit insurance, it can be increased to as much as 95% of the debtor book's value.

In most instances, the premium for credit insurance is less than a possible debt write-off.

Shareholders in CUAL are Commercial Union and Kreditinform. CGIC is backed by two of the most commercial banks and insurance companies. Political risks are covered by the Department of Trade and Industry.

In the year to June 1990, CGIC collected premiums of R18,5-billion compared with R2,8-billion in 1981 and paid R53,9-million in claims compared with R2,8-million.
Three years later, TOM opens early

By JULIE WALKER

A THIRD of the intended size, three years overdue and six times over budget, the JSE's Traded Options Market (TOM) opened 10 minutes early on Friday.

It is on the empty trading floor and there was confusion before deals were struck, mostly in De Beers.

Dealers crowded around the array of screens displaying trading details.

JSE committee chairman Humphrey Borkam hopes TOM will improve the JSE's liquidity Options markets elsewhere in the world have been highly successful after trailing start while dealers learnt the ropes.

But the final cost of TOM — not yet determined but close to R15-million — has caused dissatisfaction among members.

JSE publication Talking Options, dated April 1989, said TOM would be operating "by the middle of the year".

"In order to accelerate the development of TOM, JSE retained FMDC, an American and Netherlands consulting firm to provide technical and project management assistance to the JSE team."

TOM was budgeted to cost R12-million. Much of the overrun was caused by the expense of hiring FMDC at a dollar-denominated rate. Many JSE members are cross about JSE-related expenses as much as 50% of total costs.

Says one "The JSE is too bureaucratic, spending members' money. A broker's profit margin used to be like Dreifontein gold mine's. Now it's like Doornfontein's."

The market that opened on Friday deals in only one of the six stocks and two of the four indices originally intended. Only cash-settled options will be dealt in at first, but scrip settlement will be introduced later.

Contracts will be written on De Beers shares and on the all-gold and overall indices multiplied by 10 and treated as rands. Other instruments will be added as the market gains momentum.

The JSE will use American options that can be settled at any time.

There are two types of option. The buyer or holder of a call option has the right, but not the obligation, to buy a specified quantity of the underlying security at a fixed price, called the exercise price. This right is valid until the expiry date.

The buyer of a put option has the right, but not the obligation, to sell the underlying security in terms of the contract.

The amounts paid for options are called premiums. The premium is paid to the seller, or writer, of the option.

TOM is meant to standardise options contracts, exercise prices and expiry dates and to provide a central floor where options can change hands. A holder will no longer have to exercise the option or allow it to expire.

Mr. Borkam thanked JSE vice-chairman Francois Tolken and JOM committee.

● To Page 3

● From Page 1

TOM opens

Mr. Redman justifies the increased allocation of trades to customers. This should eliminate possible front-running — where a dealer could sit on a contract for a couple of hours to see how the market moved before either booking it to himself or to a client.

All slips are time-stamped and matched by traders so that proper audit trails can be followed.
Gencor pitches offer at R10 a share

By Sven Lunsche

Gencor's R2 billion rights offer has been pitched at an attractive R10 a share — a 14.5 percent discount on the ruling JSE price of R11.70.

Announcing details of the rights issue yesterday, Gencor chairman Brian Gilbertson said the group was offering shareholders 17 new shares for every 100 held, resulting in 200 million new shares.

Mr Gilbertson gave details of some of the projects which would require additional funding in the near future.

The most important of these was Oryx, which would require a further R500 million to bring it to the self-funding stage, he said.

Projects already in the pipeline and on which financing decisions would probably be taken later in the year were the Columbus stainless steel project and the aluminium smelter at Alusaf.

Gencor was studying the position of the No 6 sub-vertical shaft at the Witsieshoek gold mine, currently on hold, with a view to rationalising the project with some of the group's Evander gold interests.

"The decision could facilitate future gold mining developments in the area, particularly if the gold price rose," Mr Gilbertson said.

He indicated that Gencor was looking at major off-shore projects, but added that such projects would only be undertaken with the support of international financing agencies and other partners.

The funds would also be helpful as the group expected pressure on its profits in the current financial year without the contribution of one-off earnings, which had boosted the bottom line by R350 million in financial 1990-91, he said.

"However, we expect that income at the operating level for the 12 months to August is likely to approach that of last year." Gencor's parent, Gencor Beheer, which is underwriting the offer, also announced details of its R1.1 billion offer to follow its rights in the Gencor issue.

Genbeheer is offering 18 new shares for every 100 held for 900c a share. On Friday, Genbeheer closed at R10.

Genbeheer, which is underwriting the Gencor offer, has also undertaken to obtain subscriptions for its rights, as well as those for Genbeheer's subsidiary companies.

Sanlam and its subsidiaries have undertaken to follow their rights entitlement to 336.8 million new Genbeheer shares, equivalent to 54.7 percent of the issue.

The issue is underwritten by Sanlam's financial arm, Sankorp.
DATAKOR emerged as one of the best performers on a sliding JSE last week.

After climbing 21.4% or 39c to a new peak of 170c, taking its rise to 48% since the start of the year, the shares slipped back to 160c shortly before the close on Friday. But they are expected to retest the new peaks.

The upward rerating of the shares is recognition that Datakor has performed better than other computer groups in an electronic sector which has tended to lag behind the industrial board.

Datakor's performance puts to flight those sceptics who questioned its ability to digest the acquisition of Unysys in 1983. Unysys was purchased for R152m in a divestment move by its US holding company and was then larger than Datakor.

The issue of whether management under chairman Nic Fraenkos could sail smoothly through the process of integrating the two companies has been satisfactorily answered after three years.

Moreover, the large amount of debt which Datakor took over at the time, pushing gearing to well over 100%, has been eliminated and the group is now in a good cash position.

The next question that investors could ask is which other company in the electronic sector is set to show a similar potential for growth in earnings and share price?

An increasing number of analysts consider the Elcentre group to be a promising target. This is particularly so if the share price is compared to that of Berzack in the engineering sector.

Essentially, Elcentre and Berzack have the same assets and income stream after both groups injected their cable and most of their other interests into Voltex, which then acquired a controlling stake in UK electrical wholesaler Bennett & Fountain (B & F).

But while Berzack has risen to a peak of R11.60, placing the shares on a historic dividend yield of 4.7% and a PE of 8.5, Elcentre has declined from a June peak of 45c to 30c, giving a yield of 9.2% and a PE of 6.15.

Berzack retains interests in industrial and commercial sewing machines but these are relatively minor in the context of the group's overall business. Elcentre, however, ran into problems after it acquired Sanic Hardware Holdings.

However, the R2m loss at Sanic, which dragged Elcentre earnings down, is now believed to have been turned around — just as B & F chairman Philip Agnew reversed a loss of £10m into a profit of £2.5m in the last financial year.

Dividend flows from B & F to Voltex and then through to Elcentre and Berzack have probably been delayed by the sluggish UK economic recovery and a need to reduce finance costs because of the high level of the finrind when B & F was bought. But growth is on the cards.

Moreover, the cable interests of Voltex have strong potential while Elcentre should benefit from electrification of the townships.
Anglovaal companies going to market for R135 million

Anglovaal has announced the terms of the rights offers by its financial and insurance companies. The four companies will raise a combined R135 million, although the two pyramid companies, AVF Group and Avins, will use their funds to follow their rights in the Crusader Life and AA Life offers and the share issue of UK-based associate group Pegasus.

The AVF Group will raise R43 million by offering 31 new shares for every 100 ordinaries held at 140c a share.

The two major shareholders — Anglovaal and Absa Merchant Bank — have undertaken to follow their rights, while Anglovaal will also underwrite the issues.

Avins, the immediate holding company of Crusader and AA Life, is offering 63 shares for every 100 shares held at 50c each.

This will raise R87 million and will allow Avins to take up its rights, as well as invest R5 million in the Pegasus share issue.

AA Life, which is not listed on the JSE, plans to raise R26 million, while Crusader Life is issuing 47 new shares for every 100 held at 210c for its R20 million issue.

The issue prices are on average about 10 percent below the ruling share price of AVF, Avins and Crusader on the JSE.
JSE Traded Options Market starts slowly

THE JSE's R15m Traded Options Market (TOM) finally got off the ground on Friday. But slow trade marked the opening with only nine transactions, with a premium value of about R13 500, recorded.

TOM manager Jonathan Sims said the market needed to generate about 300 transactions a day to break even. However, JSE committee chairman Peter Redman said the nine transactions, with an underlying value of R250 000, were "highly satisfactory considering TOM is an entirely new market." (232)

The R15m initial cost to establish TOM was a full six times more than the original budget of R2,5m given in 1992, the year the decision was made to establish a market.

Redman said the initial intention had been for the JSE to uplift systems from overseas.

However, it soon became clear that SA, with its dominance of large institutions on the JSE, required its own unique system.

A large part of the R15m capital outlay went to paying consultants from overseas who then drew up rules and procedures suitable to the local market.

Redman said increased investment flexibility for institutions and higher turnover on the JSE were two benefits expected to flow from the establishment of the TOM.

He said there was a great need for an options market in SA given the shortage of good scrip.

"There are instances when an institution, believing a share is overpriced, wants to sell but remains concerned that, having sold, it will not be able to repurchase the shares because of the shortage of good scrip."

He said TOM provided a hedge as investors would be more willing to sell the underlying share in the knowledge that they could buy back through the options market.

Trading

Redman said exchanges overseas had found the existence of derivative markets improved liquidity in the underlying equities markets.

"Initially trading in three instruments was to take place on TOM. They are the JSE All Share and All Gold indices and De Beers.

However, new instruments would be introduced when the market became more established.

Other instruments set to join the options market in time are the JSE Industrial index, Anglo American, Barlows, Rustenburg Platinum, Sasol and Driefontein Consolidated.

Sims said the criteria used when deciding on whether a company would be allowed to join the options market were its market capitalisation, the turnover of the company's shares on the JSE and the integrity of the company itself."
Genbel earnings up, but assets smaller

GENBEL, investment arm of the Gencor group, has posted an 11% rise in earnings as a share in the six months to end-December, but in that period the value of the group's net assets fell more than 6%.

Stable or higher dividends from the companies in which Genbel is most heavily invested led to the group's attributable income rising in the interim period to R32m from R24m in 1990.

Earnings a share climbed to 19c from 17,1c, and the group declared an interim dividend of 15c, compared with 13,5c the year before.

Genbel's biggest investment by value is in Genbeheer, holding company for the Gencor group, followed by Gencor's energy group Engen. Then come offshore company TransAtlantic, Impala Platinum (Implats) and De Beers.

They make up more than half Genbel's total investments.

Since 1997 Genbel has reduced its holding of investments in the gold mining sector which, from representing 61% of its portfolio by market value in that year, was only 13% on December 31 last year.

Chairman Tom de Beer said in a statement at the weekend that attributable earnings and dividends for the current financial year were expected to exceed last year's.

He said the major transactions in the
Proposals for tighter surveillance of securities industry accepted by JSE

By Sven Lunsche

The Government's Financial Services Board (FSB) yesterday proposed the registration of securities dealing staff at all financial institutions as part of a package to improve surveillance of the JSE and the securities industry.

The proposals are part of a series of recommendations by the former Director of Enforcement of the London Stock Exchange, Bob Wilkinson, who was approached by the JSE and the FSB to conduct an investigation into surveillance of the securities industry in the wake of the Kahn investigation.

At a press conference yesterday, FSB chairman Piet Badenhorst said some of the proposals could form part of the legislation to be presented to Parliament during the current session.

Mr Badenhorst said that the FSB was working on a Financial Services Act, which would allow the board to take full supervisory jurisdiction over the fund management industry, equivalent to the JSE's regulation of stockbrokers.

Power of veto

It is proposed that the FSB be granted powers of veto over decisions by the JSE and that it work closely with the recently formed Office for Serious Economic Offences.

Particular attention would be paid to supervision by the FSB of financial institutions' dealings in securities, Mr Badenhorst said.

Apart from the registration of institutional dealing staff, the proposals call for competency tests for dealers, as well as audits and inspection procedures.

The proposals by Mr Wilkinson envisage stricter supervision at the JSE itself. These proposals were supported at the conference yesterday by JSE chairman Humphrey Borkum.

As part of the monitoring process, the proposals envisage using the recently introduced Broker Dealer Accounting (BDA) computer system to introduce a stock-watch system to monitor price movements and a "five-minute role" for reporting transactions.

Independent audit

The JSE has been called upon to tighten up existing regulations, including the rules banning shared commissions with institutions, an annual independent audit of broking systems and stricter admission tests.

Individual JSE member firms could be subject to stricter controls on Kyu germann transactions and checks on the real identity of clients.

Mr Borkum said the JSE was ready to amend its rules as soon as possible.
Blank faces 49 fraud charges

Stockbroker to stand trial in Rand Supreme Court in October
JSE boss lists SA's priorities

THE housing shortage was one of the main economic challenges facing the country, incoming JSE president Roy Andersen said last night.

Addressing the SABC Diagonal Street banquet, Andersen said there was a shortage of more than three-million houses — "but, sadly in 1990 we built only 49 000 houses to meet this need”.

"Some excellent initiatives have already been taken, but we need to do more. The UK experience has also proved that the mere provision of housing is not enough. The housing programme must be integrated with a project to create overall national wealth.”

Opportunities in the country had to be equal. He said that although the desired manager/worker ratio was 1.25, the ratio in SA in 1990 was 1.80 and expected to worsen.

"Education cannot provide the experience and judgment required of managers. This takes time and we therefore cannot delay in the advancement and training of more managers from all race groups.”

He said that when SA's productivity figures were compared with those elsewhere in the world it became obvious that SA's productivity had to be improved. Over the past 15 years SA’s productivity rose by 18% while wages soared by more than 50% in Taiwan, by comparison, productivity increased by 112% and wages by 116% over the same period.

Andersen said exports were essential for the country's future success and so new projects such as the Columbus stainless steel plant were most welcome.

Referring to labour opportunities and job creation, he said SA's population was expected to jump to 60-million by the year 2010 while reliable estimates indicated that unemployment was already at about six-million.

SA’s high tax rate was not only demotivating but also made it difficult for companies to be internationally competitive. However, "although the government has expressed its commitment to cutting the rate, this will be difficult to achieve without much needed social spending”.
JSE expecting R20-bn to be invested this year

Pension funds and insurance companies are expected to invest up to R20 billion in the JSE this year, says incumbent JSE president Roy Andersen.

Addressing the SABC's Dragonfly Street banquet yesterday, Mr Andersen said only 50 to 60 shares were actively traded last year and only 15 new listings were recorded.

The trading volumes and liquidity were the major challenges facing the stock market.

The poor liquidity was mostly the result of the weight of funds which made it difficult for portfolio managers to sell large blocks of blue-chip shares as they might not be able to repurchase them later.

He said liquidity could be boosted by reducing the unit costs per transaction, attracting overseas investors and removing the tax uncertainties about selling shares.
Gencor discount at 14.5%

GENCOR’s R2bn rights offer has been priced at R11 a share, representing a 14.5% discount on Friday’s closing price of R11.70 a share.

The new shares will be offered at the ratio of 17 for every 100 held.

Expectations of lower earnings and a volatile market were the reasons cited by market sources for the “surprisingly low” R10 a share price chosen by Gencor.

Chairman Brian Gilbertson, while accepting the price was “a little on the low end” said the discount was narrower than the 18% discount given in the group’s 1990 rights offer which raised R1.5bn.

“On Friday’s closing price of R11.70 a share, pitching the offer at R11 a share would have given a discount of only 6% which could be considered a little thin in this volatile market,” Gilbertson said.

Gencor was happy to select a slightly wider discount "in order to ensure the rights offer went off without problems and we get a full take-up of the shares."

One stock market analyst believed a reason for the wide discount was that Gencor knew the market was expecting a drop in earnings this year. The mining group, heavily dependent on commodity prices, has been hit by the weakness in the commodity market.

Earnings below 110c a share are expected, which would be more than 8% down on last year’s earnings of

To Page 2

Gencor $10 down 2.7.11.92

Shareholders have until the end of February to take up their rights.

Meanwhile Gencor’s holding company Genbeheer is to raise R1.1bn in order to follow its rights in Gencor. The R1.1bn was to be raised through issuing 127-million shares at R9 a share on the basis of 18 now shares for every 100 held.

This compares with Friday’s share price of R10 and reflects a 10.5% discount.

Sankorp, which holds 29% of Genbeheer, and the Rembrandt group, with 25% shareholding, are to follow their rights.

Gilbertson said the attraction for the institutions of this rights offer — the biggest yet in SA — was that it gave them an opportunity to invest in greenfield projects, rather than to continue chasing paper on the JSE.
AVF, Avins and CruLife granted listings

THE Johannesburg Stock Exchange has granted listings for the AVF Group, Anglovaal Insurance Holdings (Avins) and Crusader Life renounceable (nil paid) letters of allocation and their respective new ordinary shares to be issued following their rights offers.

The nil-paid letters of all three companies will be traded from February 3 to February 26 and their respective new ordinary shares from February 27.

AVF Group’s letters of allocation and new ordinary shares total 30,596,194 each, Avins’ totals are for 93,148,025 letters and shares, and CruLife’s amount to 9,652,025 each.

The last day to register to determine those shareholders entitled to participate in the rights offers is January 31. The listing of the nil-paid letters commences on the JSE on February 3, and the last day for dealing in them is February 26.
An avenue to spread the investment risk

INVESTMENT in property is an essential component in any investment portfolio, and property unit trusts provide an ideal way to invest in property and at the same time achieve a diversification of risk, says Association of Property Unit Trust Management Companies' Les Weil.

"In contrast with investing in a single property, property unit trusts provide an avenue for spreading the investment risk. This is achieved through holding a multitude of properties in different geographical locations and tenanted by a large number of sound tenants."

"There is also an advantage that the units are readily marketable through the JSE and an investor will experience no problem in realising all or portion of his units."

Weil says property unit trusts are not taxable as a result of a special clause in the Income Tax Act and since they distribute their entire rental and other income at least twice a year, investors receive their income in the same way as if they were directly invested in the properties.

Benefit

"Investors will pay tax at their usual marginal rates on such income, but will receive the benefit of the interest income deduction of R2 000."

"This is in contrast to receipt of a dividend from an equity trust where the company in which the trust has invested will have borne a tax charge."

Weil says it is important to note that property unit trusts are not permitted to mortgage or encumber properties in a unit trust portfolio in any way, there- 

by substantially reducing investment risk.

"In order to achieve the same comparative investment advantages as other categories of investors, the association believes that in addition to expansion through rights issues, properties should also be acquired for scrap and discussions with the Unit Trusts Advisory Committee of the Financial Services Board." Weil says.

"As is the case with equity trusts, the Financial Services Board will not register a management company unless satisfied with its financial standing and ability.

Experienced

Weil says leading banks and financial institutions with longstanding track records are among the major investors in property trust management companies.

"The property portfolios are managed by experienced and professional property management organisations."

"In addition, the trustee is the custodian of each trust's assets and acts as the holder of funds awaiting capital investment and of title deeds and is responsible for the issuance of unit certificates and for ensuring each trust's assets are properly insured." Weil says.

Property is a long-term investment and considering the fact that there is a limitation of space in existing buildings and development of new accommodation can only be achieved if rentals escalate, the overall trend in income and capital appreciation is promising.

The average yield for the sector is 10.3% and there are sound prospects for capital appreciation, especially if interest rates decline, he says.
The business community can contribute to the economic development and social mobility of the area. They can support local entrepreneurs, provide job opportunities, and help to create a thriving local economy.

Disadvantage:

Some businesses have been negatively affected by the pandemic. They have struggled to adapt to the changing economic conditions and have faced significant challenges in staying afloat.

Potential solutions:

1. Government support: The government can provide financial assistance and other forms of support to help businesses overcome the challenges they are facing.
2. Innovation: Businesses can adapt and innovate to find new ways to operate and remain competitive.
3. Collaboration: Businesses can work together to share resources and form partnerships that can help them to succeed.

Conclusion:

Businesses play a crucial role in driving economic growth and development. By working together and adapting to changing conditions, they can help to create a stronger and more resilient community.

Plan will spark economy

ECONOMY

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Business

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Page 26

SOWETAN Thursday January 30 1992
Industry chief wants to see choice widened

DEPUTY chief registrar of the Financial Services Board (FSB), Gad Arovich, who took control of the unit trust industry in September last year as a firm believer in the free market system, would like to see more unit trusts on the market to widen the choice available to the public and to increase competition.

Arovich is opposed to interfering with market forces and apart from creating an efficient infrastructure for investment organisations, says the industry should be left to develop on its own.

"However, we would not allow the industry to make excessive profits at the expense of the man in the street. "We have found the industry to be a responsible and efficient one and it has therefore not been necessary to be overly zealous in our watchdog role."

The legislative framework of the unit trust industry underwent fundamental revision in the 1990 parliamentary session to give more flexibility and self-control to the regulation of its affairs.

Whereas previously the Unit Trusts Control Act contained rigid prescriptions over matters such as service charges, the maximum percentage of a portfolio which could be invested in any one share, advertisements, derivatives etc., the amendments removed these rulings from the Act and gave the registrar of the FSB the discretionary power to decide on these matters.

Advise

The Act also made provision for the establishment of a Unit Trust Advisory Committee to advise the registrar in the exercise of his discretionary powers.

Representatives of the board, the industry and the JSE sit on the committee.

FSB unit trust and participation bond manager Gerry Anderson says it was an unnecessarily time-consuming process to have to pass amendments through Parliament in order to change the way the industry was regulated.

He says the industry now has a healthy regulatory environment and he does not foresee any further legislative changes for a number of years.

"The performance of the industry and the number of new funds registered has shown the demand by the public for the funds and that the unit trust industry is growing from strength to strength."

"We expect there will be more unit trusts coming onto the market this year."

Anderson says there is sometimes a lag between the registration of new funds and their public launch as management companies await propitious conditions in the market.

At present the authorities do not see the need to restrict the number of new funds being registered.

"One of the criteria we apply to an applicant is that he must be able to indicate why an existing unit trust cannot act as the vehicle for the idea he is proposing."

"Contrary to the view of the authorities in the early 80s, when a brake was imposed on the number of new trusts, the FSB is happy to approve any new fund if the applicant can prove there is a need for it and there is a reasonable probability of its being successful."

Refused

Some applications for new funds have been refused on the grounds of public interest and the presence of existing funds which could cater for the proposal.

To monitor the financial soundness of the industry the board requires the submission on a quarterly basis of returns by the different funds.

"There is a good relationship between the authorities and the industry and we would only introduce changes after intensive discussions," Anderson says.
Commercial Union buys into blue chips

COMPOSITE insurer Commercial Union entered the unit trust industry last year with the takeover of the management of AA Life's Allegro unit trust, renamed the CU Growth Fund.

Assets in the fund have grown from R10m at the time of the takeover to about R25m, and senior GM investments Roger Wanlass says the aim is to bring in assets to R100m over the next few years.

Restructuring

Radical restructuring of the fund's portfolio was necessary after the takeover to rid it of the second and third line stocks which were its dominant features.

The weighting of the portfolio was also changed to more closely reflect the JSE's all share index.

Presently, the fund is concentrated on blue chips with the top 10 counters as follows: Richemont, SA Breweries, Premier, De Beers, Barlow Rand, Anglo American, Anamint, Mid-Wits, Rustenburg Platinum and Liberty Life.

Liquidity at end-December stood at 17%.

The fund lagged the industry in terms of performance in 1991, generating a sale to repurchase return of 12.58% compared to the All Share Index's growth of 31.02%.

Wanlass says the fund's performance record for the next year will be dragged down by its past history as it has inherited a poor performance but thereafter performance will equal that of Commercial Union's managed funds.

"If we can emulate the performance of Commercial Union's managed funds we will be in the top quartile of the industry," Wanlass says.

Despite the drawbacks of taking over a poorly performing fund, Wanlass says this route was considered preferable to starting up a new fund from scratch.

While Commercial Union had wanted for some time to expand its financial services to include a unit trust, it had put off the decision to do so as it did not have the established distribution channels and systems.

It had therefore opted to take over an existing fund when management of Allegro was put onto the market.

The trust will be marketed among others to Commercial Union's extensive client base in the short term insurance market.

Instability

Regarding the coming year, Wanlass says stock market instability is expected and it will be difficult to find real value.

The CU Growth Fund will stick to its policy of investing in blue chip shares.

Wanlass is reasonably positive about the prospects for gold in the medium term, and says the fund has invested in gold shares.
Small investors gain by pooling their capital

THE most often cited advantage of unit trusts and the reason for their appeal to the small investor is that they enable a large number of investors to pool their capital to invest on the stock exchange.

By pooling their resources, investors can acquire a spread of investments in equities which would not be possible if they acted individually.

The money is invested by highly professional unit trust managers in listed shares, quoted interest-bearing stocks and cash.

So the investor not only gains from pooling resources, but also from the knowledge applied by investment experts on his behalf.

Obliged

Furthermore, the investor cannot become a victim of the vagaries of the market as the management company is legally obliged to buy back all units offered to it.

The pooled resources of the fund are divided into identical units, each with the same value and the units are distributed to the investors.

New units can be created or the number reduced as dictated by supply and demand.

Sanlam unit trust GM Otto Jaekel says: "For a small cost, the unit holder obtains a spread of investment and professional risk management of his money, the provision of a full administration service and the ability to acquire and realize the investment at ruling prices without having to compete against other buyers and sellers."

All industry spokesmen stress the long term nature of unit trust investments. Money can be lost if they are used as a short term investment vehicle.

"A unit trust grows by long-term increases in the market value of the units, income earned on the assets in the portfolio and the purchase of additional units by reinvesting this income," says Jaekel.

No tax is paid by a unit holder when he sells his units back to the management company.

University of Pretoria Graduate School of Management professor Hugo Lambrechts says the capital appreciation of the investment is not taxed and the pure dividend portion of the income distribution is also not taxed.

A tax charge is only imposed on the interest portion of the dividend and a marketable securities tax is paid up front.

Unit trusts are governed by the Unit Trust Control Act, which provides the legal framework within which they must operate as well as stipulates safeguards for the investor.

Only financially sound management companies are allowed to operate unit trusts, there are strict reporting requirements and investment strategies are legally circumscribed to limit the risk.

For instance, says Jaekel, the investments held by the trust must be reported to the Registrar of Unit Trusts every three months.

These quarterly lists of investments are also made available to unitholders on demand.

Management companies may not impose an initial charge in excess of a maximum 5%.

In addition, the management company receives a management fee equivalent to 0.75% a year of the average month-end market value of the trust's portfolio.

The income generated by the trust after the deduction of management and audit fees is distributed either quarterly or half yearly and can either be paid in cash or automatically reinvested in further units.

Determined

The repurchase price is determined by obtaining the stock exchange valuation of the securities held, based on their ruling prices.

Added to the securities figure is cash held plus accumulated income.

This total is divided by the number of units in issue and the result is the normal repurchase price.

"To determine the selling price the compulsory and initial charges are added to the repurchase price. The selling and repurchase prices are quoted daily in the Press and usually provide a firm base on which units can be bought and sold," Jaekel says.

The selling price is the price payable by investors when they buy units and the repurchase price is the price payable to investors when they sell units back to the management company.
New rules give managers greater flexibility

THE change in the investment rules of unit trusts to allow them to invest up to 10% of their portfolio in shares with a market capitalisation of R2bn or more has provided greater flexibility to portfolio managers, but has not resulted in restructuring of shareholdings.

Previously, unit trusts were only allowed to hold up to 5% in any one share and not more than 5% of any share's market capitalisation.

Old Mutual portfolio manager Adrian Allardice says the ruling has made things easier as bigger companies can be given a bigger weighting.

"It has changed the structure of portfolios a bit but not radically as we are using the inflow of new funds to effect the restructuring," Allardice says.

Although there is no consensus on the issue, some portfolio managers say compliance with the 5% ruling which was introduced in 1985 could have downgraded the quality of portfolios and it was out of tune with developments on the stock market.

Syfrets unit trust marketing manager Kevin Hinton says there are 60 counters on the JSE with a market capitalisation of over R2bn and they represent 73.5% of total market capitalisation.

The limitation to 5% meant proper weightings could not be given to shares which dominated the stock market.

Sanlam unit trusts chief investment manager Staford Thomas says many of the shares falling into the R2bn category form part of corporate pyramids.

There are only about 40 shares not involved in pyramids, six or seven of which are gold shares, so few shares are affected by the rules.

But he says the change will benefit portfolio management.

"In the old days the inflow of cash would water down one's holdings in blue chip shares which might have risen above 5% because of the increase in market values. But you could not top up until you fell below 5%.

"The change means we can exercise greater control over the effects of liquidations on the portfolios."

Thomas says the change evened out the portfolio management playing fields as in the past newly established funds could not have the same weightings as older funds which had exceeded the 5% limit through increases in share prices."
Black community is slowly moving into the field of unit trusts

THE unit trust industry's penetration into the black community has a long way to go, but recent adaptations of the concept to the saving patterns of the community should stimulate the growth of this market.

Most unit trust management companies report a healthy growth in the number of unitholders in the black community.

Old Mutual, for instance, estimates about 25% of its new unitholders are black.

However, market research commissioned by Southern Life shows that as a percentage of the total population the number of unitholders generally and black unitholders in particular is low.

Association of Unit Trusts chairman Clive Turner says there is a need to ensure educational material has as broad a penetration into the potential black investment market as possible.

"It is important that the implications behind the unit trust market are made clear before commitments are made to this form of investment."

"It is not something which can be done in a hurry because of the expense and there is a danger of pushing too hard," Turner says.

Recently, National Stokvels Association (Nasasa) president Andrew Lukhele announced a plan to divert millions of rands saved by informal savings groups into unit trusts, which could be used as collateral for home loans.

First National Bank has backed the scheme, saying it would accept unit trust certificates as collateral, while Syfrets Managed Assets unit trust marketing manager Kevin Hutton says the agreement opens up a new market for the company's unit trusts and positions it as a company proactively involved in developing new products to cater for the needs of that market.

Lukhele Says the arrangement will allow black savings to be ploughed back into the black community.

There are an estimated 800,000 stokvels countrywide with 10-million members who are believed to generate an income of over R200m monthly. Lukhele says about 10% of these are members of Nasasa.

He says a key feature of the unit trust concept is that the financial risk of a loan will be taken away from the bank and assumed by the stokvel which—as in other group credit schemes—will exert peer pressure on the beneficiaries of the loan to ensure loan repayment.

Every major financial institution has a stokvel account, he says. "In the past there have been complaints that the financial institutions were a one-way street and didn't plough anything back into the community."

Financial institutions in the past have been reluctant to lend money for homes to township residents because of the political risk.

An educational programme is planned to educate members by means of newspapers, pamphlets and workshops about how the proposal will work.

Lukhele says building materials depots will be established on the Reet to supply cheap materials to members.
### Specialist Equity Funds

#### Mining and Resources Funds

<table>
<thead>
<tr>
<th>Fund</th>
<th>6/30/93</th>
<th>7/30/93</th>
<th>8/30/93</th>
<th>9/30/93</th>
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<tr>
<td>Sixtah指数</td>
<td>17.13</td>
<td>17.13</td>
<td>14.33</td>
<td>6.82</td>
<td>19.05</td>
<td>20.31</td>
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<td>Mining Financial Index</td>
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<td>23.58</td>
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<td>UAL Mining &amp; Resources</td>
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#### Gold Funds

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<td>All Gold Index</td>
<td>+0.56</td>
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<td>Old Mutual Gold Fund</td>
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<td>Standard Bank Gold Fund</td>
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#### Industrial Funds

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<tr>
<td>Industrial Index</td>
<td>42.35</td>
<td>42.35</td>
<td>33.15</td>
<td>28.30</td>
<td>30.29</td>
<td>24.83</td>
<td>29.19</td>
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<td>Old Mutual Industrial Fund</td>
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<td>Sanlam Industrial Trust</td>
<td>44.09</td>
<td>34.86</td>
<td>29.04</td>
<td>23.07</td>
<td>26.69</td>
<td>22.86</td>
<td>28.00</td>
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#### Other Specialist Equity Funds

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<td>UAL Select Opportunities</td>
<td>41.86</td>
<td>31.91</td>
<td>22.39</td>
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#### High Income Funds

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<tr>
<td>Garibank Income</td>
<td>17.26</td>
<td>16.11</td>
<td>18.92</td>
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<td>Old Mutual Income Fund</td>
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<tr>
<td>Standard Bank Extra Income</td>
<td>19.70</td>
<td>18.36</td>
<td>18.01</td>
<td>18.65</td>
<td>17.19</td>
<td>14.68</td>
<td>—</td>
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<tr>
<td>Sylfae Income</td>
<td>14.69</td>
<td>13.54</td>
<td>16.43</td>
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#### Gilt Funds

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<tr>
<td>All Gilt Index</td>
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<td>14.37</td>
<td>17.42</td>
<td>15.02</td>
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<td>UAL Gilt Unit Trust</td>
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<td>17.70</td>
<td>—</td>
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## Unit trust industry

**SA versus overseas as at 30 November 1992**

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<tr>
<th></th>
<th>SA</th>
<th>UK</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of all funds</td>
<td>R11,4bn</td>
<td>R280bn</td>
<td>R2700bn</td>
</tr>
<tr>
<td>No. of unit trusts</td>
<td>42</td>
<td>1386</td>
<td>3016</td>
</tr>
<tr>
<td>No. of unitholders</td>
<td>0,938m</td>
<td>4,8m</td>
<td>58,2m</td>
</tr>
<tr>
<td>No. of management companies</td>
<td>20</td>
<td>157</td>
<td>324</td>
</tr>
<tr>
<td>Average unit trusts per management company</td>
<td>2</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Market capitalisation (JSE)</td>
<td>R508,3bn</td>
<td>R2600bn</td>
<td>R7756bn</td>
</tr>
<tr>
<td>Unit trusts as %</td>
<td>2,2%</td>
<td>10,3%</td>
<td>34,3%</td>
</tr>
</tbody>
</table>

Note: Figures as at Dec 31

Source: SYFRETS MANAGED ASSETS

Managers are now turning to mining shares

PORTFOLIO managers say the run on industrials last year has left little room for further growth in 1992 and they are turning to mining shares.

Their view is based on the expectation that together with an upturn in world economies there will be renewed demand for commodities such as steel, copper, aluminium, platinum and manganese.

Old Mutual unit trust portfolio managers have already started moving into mining shares.

Sanlam unit trust investment chief Stafford Thom, as says: "The mining sector has underperformed over the last few years and there is potential for good growth, especially as it will be coming off a low base."

"One of the changes which has taken place in our portfolios has been to increase their exposure to mining shares."

There is some disagreement, however, on the timing of the renewal of US, UK, Japanese and German economies.

Syre's portfolio manager Matt Brenzel says: "We believe the American economy has bottomed out and will start to pick up, while the UK economy is close to a trough and will start bottoming out in the first quarter."

"The emphasis in our portfolios will be towards selected commodity type shares."

Brenzel says, however, that it is too early to expect a recovery in the commodity cycle at this point. "Commodities will remain under quite a bit of pressure for some time as the final death throes of the world economic recession are played out."

He says not much growth is expected from industrials, which showed strong growth last year, especially as the economic recovery in the US, UK and the Far East is expected to be a lacklustre one.

Southern Life investment manager Carel de Rudder, however, says while commodities will benefit from freer trade he does not expect a broad recovery and pans his hopes on GDP and export manufacturing stock.

Thomas says there will be an upturn in Western economies throughout 1992 and 1993, though much depends on the revival of the American economy.

On the other hand, Old Mutual portfolio manager Adrian Allardice says he does not foresee any significant upturn in mining shares in 1992 but they do offer reasonable value.

The mining funds, which had a poor showing last year, should perform reasonably well in 1992. "There was a lot of nervousness in metal prices in 1991 because of fears about the world economy. I do not think the fundamentals are going to get any better but the fears are going to fall away, a bit," he says.

Russia sold a lot of its stockpiled commodities last year and it is unlikely it will do it to the same extent this year.

"So we should see some recovery in metal share prices this year," Allardice says.

Old Mutual unit trusts have been slowing down their purchases of industrial shares and increasing their purchases of mining shares.

Some of these shares are holding their own in an otherwise drifting market. However, Allardice says there is a need for careful selection in the choice of shares.

"Mining financials offer the safest investment as it is easy to be wrong about a particular sector. At least mining financials have a broader spread and we are buying at a discount."

"We expect reasonably good fundamentals, but that does not necessarily mean that all share prices will be stronger because some have overrun themselves."
The three types of funds

THERE are three types of unit trust — general equity, specialist and income-gilt funds.

- General equity funds invest across the entire spectrum of the stock market, holding shares in the gold, mining, financial, industrial and other sectors.
- A substantial portion of their assets are also invested in liquid assets.
- University of Pretoria Graduate School of Management’s Hugo Lambrecht says “General funds strike a balance somewhere on the scale between capital growth and income producing investments. These ‘balanced’ funds attempt to minimise risk through diversification.”

About 80% of unit trust funds are invested in the general equity funds, which achieved a total average return (capital growth plus income) of 34.5% in 1991.

Over five years the average total return on a lump sum investment for the longer established general equity funds was 19.7%, rising to 20.7% for a monthly regular investment.

Specialist funds invest in specialised areas, concentrating their investments within a particular sector. These funds normally emphasise the need to derive capital profits rather than dividend growth and by their nature are less diversified and therefore more risky than general unit trusts.

“This is by virtue of their concentration on specialised sectors such as the gold, mining, financial and industrial sectors,” Lambrecht says.

The specialist equity trusts earned an average total return of 20.8% in 1991.

Lambrecht says the income-gilt funds invest in high income earning securities, with substantial holdings in long term government and semi-government stocks.

“Due to the high cash requirements of such funds they must maintain a substantial balance of funds in liquid money market instruments,” he says.

The average total return for the six income funds in 1991 was 15.5%.

A volatile market calls for caution

The stock market is likely to be volatile this year and caution should be exercised by potential unit trust investors, says Association of Unit Trusts chairman Clive Turner.

He says the industry will not achieve the same rate of growth as last year.

“The fundamentals alone suggest the stock market is at a high level and there could be some form of correction,” Turner says.

“But there is a lot more than fundamentals that is pushing up the market — for instance, the institutional cash flows and a possible rerating against the major stock markets of the world.”

“The fundamentals cannot be looked at in isolation,” Turner says.

Consolidated Fund Managers, a portfolio management company which offers advice to potential unit trust investors on the timing and choice of their investments, has also adopted a conservative stance on unit trust investments given the high level of the JSE.

CFM MD Clive Fox says there are risks attached to investing in highly rated markets.

“During the latter half of 1991 we have become progressively more bearish about the outlook for equities,” he says.

“While we recognise the positive impact of the massive institutional cash flows in equities, yields on blue-chip industrials have fallen to dangerously low levels.”

Fox says world equity markets are discounting a rapid recovery from recessionary trends.

Should the recovery be slower than expected or disrupted for some reason, a significant correction could occur.
ECONOMY & FINANCE

In and after two days, trading volumes were still low. The absence of a guarantee fund may be a partial explanation for the apathy. Though TOM's developers have been aware of the need for a specific fund, they were not able to get it in place before the opening last Friday. "It is now a priority," says TOM manager Jonathan Sims.

He says the JSE's equity guarantee fund could possibly be accessed for TOM but some of the rules would have to be altered so that it could apply to options on equities. The JSE guarantee fund covers investors, should a stockbroker not be able to pay his liabilities arising from buying and selling securities on behalf of his clients.

A margin system is in place for TOM which will provide primary protection for investors. Because the risk of a significant price change is with the writer of the options, the writer is required to put up a margin before he can trade. The current market movement factored into the margin system is 10% for the indices and 20% for options on De Beers. All margins are placed with the Traded Options Clearing House (TOCH), which is allowed to call for additional margins during the day if price movements warrant it.

In other words, the margin will cover the investor if the broker (writer) can't meet his liabilities. "It seems acceptable that the JSE should guarantee performance by market participants in TOM," Sims says. "The JSE would first access the margin deposited by the option writers and then, in the unlikely event that this would be insufficient, would use the TOCH guarantee of the broker through whom the position is administered. Eventually, the assets and then the JSE guarantee fund could be accessed." Sims adds that the JSE is entitled to instruct the close-out of any position not adequately margined.

There are other reasons for TOM's slow start:

- Indices futures and options on the Safex market — an over-the-counter market — are cheaper than buying cash-settled options via a broker on TOM;
- The spread between buyers and sellers prices is also still too wide to be attractive for institutions. The spread for options on De Beers is currently 150c-200c. Brokers are hoping for the prices to move closer together — around 50c would be attractive; and
- Brokers and investors also have to complete the administrative requirements for trading in TOM. No-one can deal with brokers unless they have signed a TOM contract which spells out how the market works. "Most institutions are putting this through their lawyers before they sign it and can then start trading," a broker explains.

The SA Futures Exchange officially opened in August 1990. After a slow start, it was obliged to cut costs to break even. This week, it announced trade at an average of 53 000 contracts a month — above its break-even figure of 40 000 contracts.
Masterbore shares suspended on JSE

DRILLING company Masterbore's shares were suspended on the JSE yesterday after it was placed under provisional liquidation in the Rand Supreme Court on Wednesday.

Progressive Manufacturing Consultants brought the case before Mr Justice Zulman on behalf of former Masterbore financial director Basilio Tungas. The application described the company as "hopelessly insolvent" and unable to continue trade.

Masterbore chairman Walter Peter Rawson, who has been linked to the irregular share dealings being probed by Cape Attorney-General Frank Kahn, lives in London. Kahn described in the application as "hopelessly in debt" from justice.

Apart from Rawson, the only remaining Masterbore director was R B Dacon, a Durban chartered accountant. Tungas said in court papers that other directors, including Rawson, resigned on January 13 because of irreconcilable differences with Rawson, and that there was thus no one to manage Masterbore's affairs.

An application was made for the winding up of Masterbore and its subsidiaries, which, according to court papers, had investments of around $7.7m against liabilities of $7.35m, leaving net assets of $150,000. The return date is February 25.

The company's shares have been steady over the past two years from a high of 35c in 1987. The last quoted price was 10c.
JSE's tight-wads look to the future

A FLOOD of articles over the past few weeks have questioned whether South Africa's blue-chip industrial shares are overvalued. The dividend yield on the JSE index has fallen to a similar level to that soon before the 1987 crash. But the price earnings ratio is somewhat lower.

It is important to establish a standard of value. Some commentators have compared the JSE index figures with those abroad. Although this does give a comparison, it is largely academic because SA institutions are not allowed to invest in other countries.

It is unlikely that the Reserve Bank will relax this restriction in the foreseeable future because institutions would prefer to invest in stable currencies in contrast to a declining rand.

So taking off the lid could result in large sums of scarce capital leaving SA.

It is possible that the weight of funds will be so heavy as to drive prices up. Although there must be some corrections along the way, prices should continue to advance.

Nevertheless, it is interesting to compare recent international yields and PE's (see first table above).

It raises some intriguing points. The companies which comprise the Dow-Jones index appear to be more generously distributed their dividends policies (see table below).

About 80% of dividends distributed to shareholders are earned.

<table>
<thead>
<tr>
<th>Index</th>
<th>Div. Yield</th>
<th>Earnings</th>
<th>Div. Cover</th>
</tr>
</thead>
<tbody>
<tr>
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<td>2.4</td>
<td>6.7</td>
<td>14.9</td>
</tr>
<tr>
<td>Dow Jones</td>
<td>2.6</td>
<td>3.15</td>
<td>11.7</td>
</tr>
<tr>
<td>FT 30 (LSE)</td>
<td>4.7</td>
<td>7.1</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Dividend</th>
<th>Cost</th>
<th>Current Dividend</th>
<th>Cost</th>
<th>Current Dividend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anglo-Alpha</td>
<td>120c</td>
<td>250c</td>
<td>200c</td>
<td>27c</td>
</tr>
<tr>
<td>Afrox</td>
<td>170c</td>
<td>330c</td>
<td>270c</td>
<td>39c</td>
</tr>
</tbody>
</table>

The latest annual reports show some interesting figures (see second table).

Of the two companies, Anglo-Alpha provides more generously for inflation. Perhaps not entirely by coincidence, its historic dividend cover is similar to that of the JSE industrial index and the current cost cover is the same as for shares on the London Stock Exchange.

Japanese

Accounting policies vary among companies and even more so from country to country. This makes reliable earnings comparisons difficult.

For example, Japanese companies are believed to charge a high rate of depreciation that would account for the high PE's on which they stand.

Dividends are given a better standard of comparison, although growth must be taken into account.

But I think that if ever inflation in SA does come down to acceptable levels, companies will be more generous with their dividends.
Record 3 000 deals a day for futures

BY TERRY BETTY

JANUARY was a record month for the SA Futures Exchange (Safex), which averaged slightly more than 3,000 contracts a day. Volumes reached an all-time high on Thursday when 4,250 contracts were concluded.

Ray Cadiz, director of Cape-based Thirty Four Market Research and Trading, says some of Safex’s biggest deals ever were concluded this month, mostly by institutions.

The derivatives market has blossomed because it offers an attractive alternative to the JSE which is plagued by illiquidity and a shortage of scrip.

Views

Mr Cadiz says that from a buyer’s point of view derivatives are more attractive than the spot market. Transaction costs are lower, there is greater liquidity and futures trade at a discount to the fair value of the underlying stock.

The derivatives market also appeals to sellers of scrip. For example, institutions are loath to sell physical shares in case they cannot buy them back later.

On the other hand, a short futures position or a long position in E131 bears is the ideal vehicle for institutions which want to lock in profit.

Mr Cadiz also attributes heightened activity to the market’s being at a level where there are divergent views between the active traders, resulting in their all taking different positions.

For example, more cautious traders are content to lock in profit at present levels, and others are still keen to increase their equity exposure.

Safex assistant general manager Patrick Birley says although the formalised derivatives market went international two months ago, it has not been a stimulatory factor.

Mr Birley says only three foreigners trade in large volumes. The rest are mere dabblers.

Most traders are interested in contracts based on the all-share index, particularly E131, a two-year gilt issued by Transnet.

This is most popular because it is a long futures instrument that pays long-term exposure to speculative positions.

Mr Cadiz says the market may consolidate at current levels or experience a slight downward correction. But in the long run, the upward trend should continue even if it is only slightly above inflation.
65 points for market order

It was no coincidence that the Financial Services Board (FSB) chose to tell the press all about its good works on the very day a couple of stockbrokers were charged with fraud.

The FSB and the JSE met the cost of bringing independent bourse expert Bob Wilkinson from England to investigate JSE standards.

Mr Wilkinson's opinion is that the JSE has a reasonable standard of supervision. But he made 65 recommendations about the future role and activities of all parties involved in the securities business.

They are the FSB, the institutions and the JSE and its members.

The FSB is to scrutinise the law to ensure proper definition of powers. It must also promote general awareness of its presence and powers and will appoint a complaints commissioner to oversee JSE complaints.

Mr Wilkinson's report recommends that FSB supervision be extended to include regulations for institutional dealing staff. There should be tests to determine how fit, proper and competent the dealers are. They should be registered, and not be allowed to manage client accounts.

Of the JSE the report says the BDA (broker dealers accounting system) should be brought in as soon as possible. Many brokers using a cheaper system revealed last year when the JSE committee ruled that all member firms should use BDA.

The BDA is intended to improve surveillance, the point being to restore the integrity of the JSE and to regain the confidence of the public.

Other recommendations for the JSE include the notation “dealt with an overseas non-member” on brokers' notes, a five-minute reporting rule as is being introduced through the Traded Options Market to be extended to equity dealing even though this cannot be accommodated yet and a ban on commission-sharing with institutions.

Competency tests and registration for authorised clerks should also be made compulsory.

The Registrar of the Stock Exchange, Piet Badenhorst, says discussions are being held with the authorities to implement them.

The JSE has been advised not to go ahead with disciplinary hearings against Greg Blank and Kenny Fonche, who face the fraud charges, until the cases have been heard.
Afcom changes lift attributable income

MARCIA KLEIN

Afcom has upped its attributable income by 32.5% to R3.7m (R2.6m) in the six months to end-December in spite of a depression in the furniture, motor and mining industries which it serves.

The company, which manufactures fastening, packaging, steel, strapping, adhesive tape and stationery products, was taken over by Bidvest in 1989.

Tough trading conditions and additional focus on quality sales saw turnover grow a pedestrian 8.1% to R59.1m (R54.2m), but operating income rose 23.6% to R7.7m (R6.2m). The operating margin was improved from 11.5% to 13%, largely due to management's dedication to improving control of costs and manufacturing efficiencies, MD Alan Solomon said yesterday.

Since the Bidvest acquisition, Afcom's subsequent division into entrepreneurial units, the group's management performance had made a marked improvement, he said.

A 20.6% rise in Afcom's interest bill to R1.7m (R1.5m) reflected additional debentures in issue for the full accounting period compared with only three months in the previous period.

In spite of additional interest, gearing was reduced from 22.4% to 11.6% as other interest bearing debt declined.

The 13.4% rise in taxation was the result of the lower company tax rate as well as export allowances.

Earnings rose by 23% to 10.7c (8.7c) a share, or by 15.8% to 8.9c (7.7c) a share on a fully diluted basis on more shares in issue.

Afcom declared a 31% higher dividend of 4.25c (3.25c) a share in line with the company's policy of a 2.5 times cover.

Solomon said Afcom's interim trading performance would 'at least be sustained' in the second half.

"Afcom has the infrastructure and manufacturing capacity to meet increased demand which would occur with an economic upswing," he said.

Now that Afcom had completed its consolidation phase, it was focusing on increasing local and export sales.
Putting Humpty together again

Big liquidations have created image problems for a growing industry

Do you — or do you not — need your head read if you buy timeshare? The industry has been plagued by an image of unethical and obtrusive salespeople and developers who often appear on the run. As investments, the holiday weeks bought can turn out to be unsecured, intangible — and unprotected.

The argument that timeshare should not be regarded as an investment per se is valueless if even the lifetime vacation you believed you were buying is swallowed up in sharp practice and escalating costs.

In 1991 alone, no less than 11 developers of timeshare schemes (just under 7% of the market) went into liquidation. For a jaded public, particularly non-owners — this seemed to provide further evidence that timeshare was — and is — a con.

The outfits that went under were Kruger Park Lodge (Willem Bester Trust), Sudwala Lodge (Frank Pennington), Mabilo Lodge (three separate shareblock schemes developed by the Joubert family), Seafield (two shareblock schemes developed by a syndicate headed by Trevor Smith), Bronnehof (Martin de Jager), Club Mykonos (Masterbond), The Hallyards (Hallyards Pty); and Corona del Mar (Dr Gerard van Rooyen).

Those big-name failures tarnished the industry’s carefree image.

While there were no liquidations in 1990, in 1989 the Summer Leisure fiasko made itself embarrassingly apparent, and back in 1983, South Africans will remember the belly-flops of La Montagne and Club Hacienda on the Natal south coast.

Anticipating disastrous sales in 1991, Resort Condominiums International (RCI), in August 1990, forecast a 35% decrease in new sales in SA. In 1991 RCI is a private company with its HQ in Indianapolis, it has a dominance over international timeshare exchanges and has managed to affiliate 140 of SA’s 155 timeshare resorts.

But what actually happened in 1991?

Instead of declining, SA timeshare sales increased by 17.5% over 1990 to a total of 23 500 weeks — the standard unit of timeshare — sold at a rand value of R235m. That is 500 more weeks and over R25m more in sales over the previous year.

Admittedly, the average price (R10 000 a unit) was less than in 1990 (R10 500), attributable, in RCI’s opinion, to greater price sensitivity. Nonetheless, “this 17.5% increase occurred despite the negative publicity and liquidations,” RCI boasts.

The market also showed some interesting shifts in trend. Sales in Durban and along the Natal south coast dropped — the sign of a mature and well-established market, according to RCI — and increased remarkably on the Natal north coast and in the Cape, east and west, in line with general tourism patterns. Worldwide, 1991 sales reached their highest level ever at US$376bn — an increase of 32% over 1990’s $2.85bn.

However, in the US — which until 1991 notched up the greatest percentage of timeshare sales per household — growth was stagnant: the total value of weeks sold remained at $1.2bn. In RCI’s view, this level is still excellent considering the maturity of the market after a 16-year success story.

Europe matched US sales, increasing its weeks sold by 23% over 1990. Sales continued to be particularly high among the Brits despite a vigilant and critical press — followed by the Spaniards, buoyed by rising affluence.

In SA — among those who can afford it, at any rate — the proportion of timeshare buyers per household ranks first in the world. Market penetration in the white income group is a staggering 10% — lagged by the UK with 3.5% and, thereafter, by the US at less than 1%.

In 1991, SA also continued to rank high in terms of the number of resorts worldwide. It comes third on the list (with 140) after the US (876) and Spain (198).

What of SA’s black, coloured and Indian market? The more affluent have begun to show more interest in timeshare, possibly for the same reasons as whites — increased costs of holidays, overcrowding at mass resorts, a general decline in access to quality leisure.

Of sales in SA to mid-1991, RCI estimates only 2% were to non-whites. Since then, over the past six months, a whopping 30% of new sales have been to this market.

RCI expects increased tourism to SA to have a big impact on future sales.

Exchanges by SA timeshare owners grew 41% last year from 32 000 in 1990 to 45 000. Of that, 15% were international.

Worldwide the figure was 1m, an increase of 17.6% over the previous year’s 858 000. Clearly timeshare — which is a flexible instrument given the simplicity of its basic idea — is gaining new respectability.

Speaking at the annual convention of the Timeshare Institute of SA (Tina) at Sun City last month, RCI Europe chief Ron Haylock showed how Europeans traditionally more conservative than their US and SA counterparts are demonstrating greater interest in purchasing and exchanging timeshare.

Membership in RCI Europe increased from 211 000 in 1990 to 269 000 in 1991 (to the year-end) and there was a concomitant...
LEADING ARTICLES

increase in the percentage of members exchanging time slots — from 39% to 42%
He feels it would be even "more scandalous" than a fresh bout of liquidations if RCI Europe did not have enough re-
sorts to cater for the "exponential growth, as a result. we have
opened four offices in Europe in 1991 and affiliated 98 new re-
sorts, giving a total number of 560 resorts in Europe."
Haylock says France has not been a major player in timeshare
— but this is about to change Eurodisney, a theme park with
associated timeshare and hotel accommodation (5 500 rooms), is
opening in about 30 km from Paris and should give that market a big
push. About 14m visitors are expected in the first year alone
Haylock’s analysis included the opinion that SA will become a
favoured destination for Europeans and others "if airfares can be brought down from the current £700 to £500. The deregulation
of your airline industry and, in particular, the progressive bunching of the SAA and
British Airways cartel, is music to our ears."
RCI SA, he notes, is the biggest tour operator in SA and RCI Inc is the third-
largest in the world
It is the entry of major players into the timeshare industry that has given renewed
credibility to the industry — not only world-
wide, but in SA too
The Disney Organisation moved into
timeshare in the US and UK in September,
following the Hyatt Group’s entry in early
card. And two years before, Southern Sun
Timesharing launched "Sunswap," an ex-
change scheme for its own resorts, in con-
junction with RCI
According to RCI SA MD Steve Griesel
— currently doing a masters degree on con-
sumer attitudes towards timeshare — Leis-
urecard and the introduction by RCI of a
15-year guarantee for affiliated resorts were
responses to the state of liquidations in 1991.
He is defensive about the situation in gen-
eral, arguing that "despite the liquidations,
no one has actually lost his rights. The guar-
avant will prove that much more insurance, or " its assurance, for timeshare purchasers"
Of the 14 schemes that have landed in
trouble since the birth of timeshare in SA, Giesel says that all but one — The Hall-
yards — have been or are in the process of
being rescued. The Hallyards is the subject of a current court case and the crux of
the problem appears to be that the developers did not register a 99-year lease, leaving own-
ers rights for 10 years only. To rectify this
situation, RCI has apparently given the 140-
odd buyers 15 years’ worth of holidays.
The big question is what more remains to
be done to protect timeshare buyers? There
is already a great deal of consumer protec-
tion available in the Property Timesharing
Control Act of 1983, which primarily pro-
tects buyers when a scheme is not completed
But with public anger at risk and criticism
from a variety of sources, the industry is
clearly at pains to regulate itself
Tisa has introduced a certificate stating
that all its registered resorts have been care-
fully scrutinised vis-à-vis their legal and
financial structures and their ethical con-
duct. The certificate will also set out in plain
language the rights of the buyer — with the
focus on important criteria such as the
amount of the outstanding bond, if any, and
levies. It will certify that the documentation
has been checked
In other words, the document provides at
least some legal safeguards for the unwary. In
addition, an insurance scheme for times-
share buyers is being explored by Tisa, work-
ing with insurance broker Dewars Rand
Tisa is at pains to point out that of the 14
liquidations to date, only Mabula was 
registered with it
For its part, RCI says it is becoming more
discriminating about which developers it
admits to its privileged club. Clearly, however,
that was not always the case — especially
when it was building itself up in the early
Eighties. Of the 11 developers who went into liquidation in 1991, only Bronnehof

Sudwala were not RCI members
It would be nice if that was all past now, a
bit of self-regulation can do wonders, but
there are many who would like to see the
industry even further locked in
statutory controls and regulation
The F&M believes this would be a bad idea — but the pressure is on
from people who have lost out
RCI Europe’s Haylock, for one, is not kidding himself about
the ability of the industry to regu-
late itself. This is particularly true in the UK — where no legis-
lation exists to regulate times-
share. "I thought it was possible
A few years ago, but it’s not," he comments.
"The European Commission plans to issue a timeshare-spe-
cific directive to all member govern-
ments to cover the following four
points: a definition of timeshare, the
provision of a ‘cooling-off’ period for the
buyer, protection of client deposits, and
a requirement that the legal structure of a
resort will offer secure occupancy rights for
the buyers. Like all EC directives, this will
give member governments between two
and three years to translate the directive into
national legislation."
Haylock concludes that timeshare-specific
laws could be in place in the 12 member
countries by 1994.
Like SA, the UK has suffered its share of
failures — among them the Walton Hall
scheme in the Midlands which recently
cauldrons throughout the industry. It was
put into receivership in 1991 but eventually
revived by new management. And there were
others.
Why and how these schemes came un-
stable is being studied right now
"The relevance of factors precipitating
failure in the timeshare industry" is the
subject of a proposed doctoral thesis being
researched at the University of Stellenbosch
by Cape Town-based Peter Muller, the for-
mer mayor of that city and a former chair-
man of Fish & Hall Western Cape
Says Muller: "There is nothing wrong with the concept of timeshare. Nor is there any
doubt that the industry is a vital part of
the tourism industry. However, 11 resorts
experienced failure symptoms last year
which further exacerbated the already poor image
of the industry.
"After the vigorous, initial growth phase
of the last eight years, the industry is now at
a watershed where it needs to improve its
image and credibility, laying the foundations
for further vibrant growth in the years ahead."
The answer to the question posed in the
first sentence of this leader has to be no, you
don’t need your head read. What you do need
is the fine print and it would help if
that fine print was made bold by the big
names who are reclaiming the wreckage left
by rats and mice. But this is, evidently,
happening.
Tough times for ducks

The number of listed companies continues to diminish at an increasing rate. A total of 59 moved off the boards in 1991, a net loss of 43, as there were only 16 new listings. This compares to 1990's net loss of only eight.

At the end of last month the total number of companies on the JSE was 728, 30 fewer than at the end of the JSE's financial year in February 1991 (1990 777, 1989 784).

Many of the casualties seem to be a fallout from the Yuppie investment and boom period of 1986-1988, when 265 companies came to the market. Of last year's delistings, more than 60% listed between 1986 and 1987.

Not all went to the wall — most were schemes of arrangement or takeovers — but liquidations were high and more will follow. Delistings were spread across most boards but the DCM seemed the most prone.

JSE Listings & Equity Markets division GM Richard Connellan notes a cyclical movement in the number of companies coming to the market and says the present situation is not unlike the boom-bust cycle of the late Sixties-early Seventies.

“In 1967-1968 we had a lot of companies coming to the JSE. Then share prices began getting out of hand, p/e ratios kept going higher, and by 1970-1971 many of those same companies could not sustain listings.”

The present similar pattern suggests that the investing community did not learn the lesson of the early Seventies, Connellan says. “It's the old brokers' adage: when the ducks quack, feed them. They don't realize it's not going to be that good forever.”

Now the ducks are no longer being fed. Connellan feels that, with hindsight, criteria for getting on to the market should perhaps have been tightened up after the lesson of the early Seventies, to keep out some of the more frivolous companies.

Bank of Lisbon economist Fred Costa e Silva agrees that, in common with stock exchanges internationally, there may have been an excess of listings on the JSE. “Many came on in a period of euphoria, when a lot of money was chasing after stock and staggering profits were enormous. Since then the gold price has dropped and we are into our fourth year of recession. I see the high number of delistings as an obvious effect of the state of the business cycle.”

Connellan doesn't believe delistings will do much harm to JSE liquidity. But the trend does no good, either. “Every time a company goes some shareholders walk away disgruntled with the concept of stock exchanges. This concerns us — it erodes the image of investing in capitalism.”

Shawn Harris
I still back second tier

By DAVID COBBETT, director of Simpson McKee Inc

FOULSWARDS of the investment scene are familiar with the phenomena of the two-tier market. The first tier comprises shares favored by the major institutions and the second tier for the majority not. Certainly because of smaller market capitalization and restricted marketability.

In an article published in Business Times a year ago, I expressed dismay at the way the shares of companies were being selected for that tier. Now I am pleased to report that those who ignored their recommendations.

Their relative obscurity will be reflected in all the shares not selected by the market and therefore not being actively traded. In the event of such shares being sold off in a large block this may not affect the other tiers' performance to any significant extent.

Although their prices have remained, each of the six to my mind still offers above-average value and I can certainly think of no reason to sell any of them.

Skilled

As we enter 1985 the world's financial markets and standards are still not as clear as those in Europe. To be a skilled investor, one must have a certain amount of knowledge, experience, and a keen eye for details.

The list of shares I have selected is not exhaustive, but it is a good starting point for anyone interested in the stock market.

Vow

If I am a governor that my idea is to get into the public service, I should be able to do it. I will work hard and be a good governor.

The contract includes 31 circular concrete tanks for the world's largest waste-water treatment plant in California. It is expected to be completed by April 1985. The plant will be used to treat a load of 150,000 gallons per day. The tanks will be used to treat water and sewage.

Time in Brief

As time goes by, the public becomes more aware of the need for clean air and water. This awareness has led to the creation of the Environmental Protection Agency (EPA).

The EPA was created to ensure that the air we breathe and the water we drink are safe. It is responsible for protecting human health and the environment from pollutants that may cause them harm. The agency is also responsible for enforcing laws that protect the environment and for conducting research on environmental issues.

Week in Brief

A SUMMARY of the week's corporate announcements.

M O N D A Y

T A N G O N I

Our list of shares includes companies that are valued at less than 10% of their market value.

Chairman of the board of directors of the company has given a list of shares that are valued at less than 10% of their market value.

The company's financial statements show a significant increase in the value of its shares during the past year.


The bank's financial statements show a significant increase in the value of its shares during the past year.

The bank has a strong balance sheet, with a capital adequacy ratio of 12%, which is well above the regulatory minimum of 5%.

We have confidence in the bank's management and believe that it will continue to perform well in the future.

We recommend that you consider investing in this bank.

W e k e n d

A summary of the weekend's national and international news.

A number of major events occurred over the weekend, including the beginning of the second round of the World Cup soccer tournament.

The tournament, which is held every four years, is one of the largest and most prestigious international sporting events.

The second round of the tournament is set to begin on Friday, with teams from around the world competing for the top prize.

Anglo-Alphia

A GUIDELINE for the investment community.

Anglo-Alphia results have been disappointing in the past few months, but we believe that the company is on the upswing.

We recommend that you consider investing in this company, as we believe that it has potential for strong growth in the future.

We also recommend that you keep a close eye on the company's financial statements and its progress in the market.

We believe that with the right management and strategy, Anglo-Alphia has the potential to become a leading company in the industry.

We encourage you to research the company further and make an informed decision on whether to invest in it.
SA bulls running against general international grain

By Jacques Magbolo

Irrational movements in international markets last week have cast doubt on claims that the JSE is in a bull run.

The first odd movement came on Wednesday, when the Dow Jones fell by 15 points and the Dow Transport index rose by the same amount.

This is a divergence of the Dow theory, which states that one index should follow the other.

The movement in opposite directions raises the question of which index is leading and what is the true state of Wall Street — is the US in a bull or a bear market?

One answer lies in analysing other indices. US financial institutions believe the Standard & Poor's 500 Index is more representative of market conditions. This index is falling.

In addition, share prices have been declining in the UK, with the FTSE 100 dropping to 2,534 on Thursday from Tuesday's level of 2,559. Contrary to the S&P and the FTSE 100 index, the JSE's overall index gained 50 points last week.

While most analysts agree that the US is unlikely to have a recovery in the short term, they disagree that this could affect SA.

Says one analyst: "I expect the US to go into a recession, but the JSE is not likely to follow.

International markets are not expected to change significantly in the next week and merit closer attention. Double-digit recession and any short-term rise in the Dow will be due to better election results, not the JSE.

He is among a number of analysts and dealers who say that our market is in a bull trend and immune to price fluctuations from either Wall Street or London.

They base their assumption on the substantial amount of institutional buying taking place on the JSE, which should lift private investor confidence.

Thus, they say, is borne out by the past week's company results.

"Even the smaller companies are showing good returns," they say, citing Q Data's 25 percent rise in EPS and 20 percent climb in dividends, and Venter's application for a listing on February 26.

The company has come onto the market with a compounded five-year tax-exempt profit growth of 64 percent and offers investors a 6.1 percent dividend yield and an offer price of 105c a share.

Another analyst disagrees. "I expect to wake up one morning and find the Dow has fallen by 300 points, with our market in line."

There are, however, many bears in the market who are advocating after last week's market movements, that investors should hedge their investments with bear options and futures or government stock.

The most popular gilt at present is the TB12, E10-Bear tranche.

The TB12 is linked to the overall index and offers a perfect opportunity for investors who are bearish.

At a price of 92c, it is trading at an 18 percent discount and offer yields of 30 percent and potential capital growth of 20 percent.
Sharp rise in company liquidations

PRETORIA — Last year liquidations of companies and close corporations increased by 18.3% compared with 1989, latest Central Statistical Service figures show.

Companies most affected were in the wholesale and retail, catering and accommodation sectors.

Construction liquidations were up from 153 to 214 — manufacturing 25 to 46 and mining and quarrying from 14 to 34.

For the first 11 months of last year insolvencies of private individuals and partnerships increased by 23% compared with January to November 1989.

According to CSS, in the last quarter last year liquidations increased by 31.5% to 465 compared with the same quarter in 1989.

In the three months to end-November, insolvencies increased by 23.3% to 1 064.

However liquidations decreased by 12.7% to 465 in the last quarter of last year compared with the third quarter
Privatisation has not stalled.

Opposition to housing

For immigrants in Europe

The line's Vitolou Association Preforia - Government Preservation of

The Federation of European Farmers' and Ranchers' Organisations
Global recession erodes Iscor shares

ISCOR shares slipped 5% on the JSE yesterday to close at 175c, their lowest level since December 1990, and 2c below their 1989 listing price.

Market sources said the steady fall in the stock this year reflected the depth of the recession in local and international steel markets Iscor, which reports interim results at the end of the month, was unlikely to escape the effects of the recession.

Frankel Kruger Max Pollak analyst Kevin Kartsun said that following drops in earnings of up to 60% at steel-makers such as Australia's Broken Hill Proprietary and Germany's Thyssen, Iscor would also suffer poor results.

Kartsun said Iscor's changing sales mix would affect its results, as the group's dependence on low-margin export markets was increasing.

Given Iscor's policy of maintaining a dividend cover of three times, shareholders could expect a lower dividend payout in the interim.

Iscor declared a total dividend of 11c a share in 1991 on earnings of 33c a share, compared with 17.6c and 55c in 1990.
Most divisions serve Bidvest

GOOD performances in most of its divisions saw the Bidvest Group show real earnings growth in the half year to end-December.

Results for the current period include those of the recently acquired Steiner Services, so the previous year's results are not comparable.

The group, which has interests in Afcom, Steiner Services, Cater Plus, Crown Foods and Justine cosmetics, increased its attributable profit by 91% to R133.3m and its earnings by 18.3% to 203.1c a share. On a diluted basis, earnings grew 6.6% to 148.8c (139.8c) a share.

Turnover was 41.8% higher at R279.6m. Chairman Brian Joffe said turnover excluding Steiner would have been 16% higher.

Operating income almost doubled to R30m on an improved operating margin of 10.7% (7.9%). The group declared a 60% higher interim dividend of 39c (59c) a share.

Afcom increased earnings by 23%, and would focus on increasing local and export sales.

Steiner, which rents and launders hotel and industrial linen, gained market share. Some of Steiner's hotel-related activities were rationalised into Cater Plus which experienced pressure on margins.

The 50%-owned direct selling cosmetic company Justine returned to profitability.

Bid Corporation, which holds 54% of Bidvest, declared an interim dividend of 40c (25c) a share. It increased its attributable earnings by 69.7% to R10.6m (R6.3m) and its earnings by 69.2% to 108.1c (65.8c) a share, or by 67.1% to 78.7c (47.1c) a share on a diluted basis.
Privatisation 'has not stalled'

PRETORIA - Government's privatisation programme, as part of its overall economic restructuring plan, had not stalled (232).

It would be promoted "as an no uncertain terms" at the proposed multiparty economic forum, a Privatisation Commission spokesman said yesterday (212). 92.

Earlier yesterday Parliament passed legislation providing for the incorporation of the Tweefonten Timber Company and the Alexander Bay Development Corporation into public companies.

The Tweefonten Timber Company Act said the conversion would enable the company "to be managed in modern, independent manner".

In terms of the Alexcor Act, the Public Enterprises Minister may sell up to 35% of its shares to employees. Alexcor will have a share capital of R50m.

The Privatisation Commission spokesman said yesterday there was a general expectation after Iscor and Sasol were privatised that many more public utilities would follow suit.

However, these two were among a few entities which had business records and results sound enough to enable them to be prepared easily for privatisation.

Preparatory work was necessary to give government and future shareholders a clear picture of business records and performances.

The privatisation of the Abattoir Corporation would also come before Parliament this session.

However, DP trade and industry spokesman Brian Goodall said if the programme had not stalled it was crawling along at a snail's pace.

Privatisation should be placed on the Codex agenda as a matter of great urgency. Expanding the privatisation process was seen as vital by the IMF and the World Bank, he added.
More businesses declared insolvent

AT least 23 percent more individual's one-man businesses and partnerships were declared insolvent in the first 11 months of 1991 than over the same period in 1990.

The Central Statistical Service in Pretoria this week said it had recorded 3,542 insolvencies last year, an increase of 662 compared to 1990.

A total of 688 large and small businesses, as well as caterers and accommodation services, were liquidated, compared to 583 in 1990, Jacob said.

Source: Sapa
Majority of Masterbond investors still in the dark

CAPE TOWN — Little light was shed by the Masterbond provisional curators’ report submitted to the Cape Town Supreme Court yesterday on the prospects of the majority of the 20 000 Masterbond investors receiving a repayment of the R285m they invested in the collapsed empire.

While the full capital amount and most of the interest on the R26.9m, solvent money market business was paid out to 5 893 investors on January 23, the bulk of Masterbond investors will be no clearer today on the ultimate fate of their investments than they were yesterday.

The curators — Willem Wilken, Arnold Galombik and Joanne Malherbe — recommended against liquidation of any of the Masterbond companies and said final curatorship would be in the best interests of investors.

But they said in their report that discussing the viability or problems of specific development projects would result in the certain failure of the projects as end-purchasers or users would lose confidence in them.

About 76% of all the bonds — the 59 participation bond investments worth R70.8m made by 2 451 investors and the 54 debenture bonds of R400m involving 10 026 investors — were made in Club Mykonos, Pincourt, Marina Martinique, Phinda and Silverhurst, where development is still in progress. The curators investigated the viability of these schemes and said their immediate liquidation would prejudice investors.

Recovery

The curators said to call up a bond too early or reach a premature settlement might result in purchasers buying the scheme at too low a price. However, if the developer were allowed to complete the project, there was a fair chance of full recovery by the investors.

The report said in certain cases the curators were negotiating with debtors to give investors in these projects the option of being paid a reduced amount immediately rather than to wait indefinitely for repayment in full.

Since their appointment in October last year, the curators have spent much of their time reconciling the investors of the short-term bonds, obtaining legal advice and determining the extent and nature of the group’s investments. The Masterbond group consisted of 81 companies using 65 different banking accounts and had a direct and indirect interest in about 50 projects.

The curators said the payment of interest to 1 494 participation bond investors for October 1991 would be made as soon as it had been reconciled and for January as soon as it had been received. A total of 153 investors had received R5m for amounts received by Masterbond Participation Bond Trust Nominees and Masterbond Trust Investment Nominees, but not yet placed in any of the schemes. Other small amounts have been paid out.

The curators attributed their lack of communication with investors to the fact that two months prior to their appointment, records had not been properly kept and it had not been possible to identify all investments.

“We found that at the time of liquidation of Masterbond Participation Bond Trust Managers (MPBTTM) prior to it being placed under curatorship, allocations to individual investors in participation bonds to the value of R16.3m and debenture bonds to the value of R185m had not been made. This despite the fact that the funds had been paid out to borrowers. The practice was that allocations would be made ex post facto in batches to various bonds as required.”

The curators have decided to deal with these investments as a whole by making pro rata allocations to all bonds where allocations have not been made or not fully made. This would ensure that investors participated in all such bonds and were not unfairly allocated.

The curators noted that each participation bond in MTPBM would have to be separately dealt with, and that the fortunes of each investor would depend on the securitisation offered by the bond in which he was allocated.

Legal counsel had advised the curators that they were not able to pool all debentures and bonds and pay out debenture investors pro rata. Each debenture holder had to be treated separately.

The curators have decided that the investors in the 17 property syndications will be treated separately from other investors, but did not indicate in what manner a total of 2 463 investors invested R96.3m in the property participation.

The curators found that Masterbond’s short term debenture bond business did not comply with the Companies Act in all respects. The business operated on the basis of investments being lent to debtor companies and secured by mortgage bonds.

However, the curators were advised that the formal deficiencies do not invalidate the debenture certificates and the debtor companies were, notwithstanding the irregularities, indebted to the debenture holders.

Finanhaus and Spectravest, used to finance end-buyers in Masterbond projects, were found to be viable companies.

While Mr Justice P H Tebbutt praised the curators in court yesterday for protecting the interests of investors, for those with money tied up in the group it is likely to be a long wait.

LINDA ENSOR
Court extends Masterbond's curatship.
Abattoir Corp to be privatised

The Cabinet has given the go-ahead for the privatisation of the Abattoir Corporation (Abacor). Enabling legislation is being urgently drafted.

Abacor manages 11 abattoirs nationwide, with all shares held by the state.

Share issues could be finalised as early as June 30 if legal provisions are approved by Parliament by April 30.

Dr Kran van Niekerk, the Minister of Agricultural Development, says the decision is in line with the deregulation of the red meat industry.

The Red Meat Producers' Organisation of the Agricultural Union has welcomed the move.
Govt plan to sell off State forests condemned

By Peter Wellman

The Government is determined — and in a hurry — to sell off State forests which would mean the end of cheap housing timber, saw milling sources said yesterday.

New Zealand is the only other government in the world that has tried to privatise its plantations — but it scrapped plans after 40 mills closed down.

Middle and lower-range housing would be most affected because it is the building industry's staple homes-market, said Solly Tucker, chairman of York Timber Organisation Ltd.

The Government plans a State-owned National Forestry Corporation which would later be privatised.

This concept has horrified millers, who regard the forests as a national resource no one should tamper with.

Yesterday the SA Communist Party raised the issue at a Codexa Working Group 1 meeting in Kempton Park.

The privatisation would be in defiance of an ANC/SACP/Coasa demand for a moratorium on restructuring the economy, said Essop Pahad, SACP member of the working group.

He expected Magnus Malan, Minister of Water Affairs and Forestry, to present the plan to next week's cabinet meeting.

It was originally scheduled for this week.

Milling sources contacted by The Star also said they expected legislation by next month.

They did not wish to be identified because they feared repercussions when they negotiate new log contracts with forestry officials.

Mr Tucker said "Uncertainty has shaken the confidence of long-term contracto r s in the Department of Forestry and its plans for their future."

"Privatisation is no more."

Plan to sell off State forests condemned

From Page 1

than a cover for expropriation without compensation, and the handing over of the driver's seat of a strategic industry to a money-making monopoly," he said.

The Star faxed questions on the privatisation issue to General Malan yesterday.

A spokesman said the minister would reply before the end of the week.

Andries Swart, executive director of the South African Lamper Millers Association, said Salma did not seek a public confrontation with the Government.

"But now that the matter has been brought into the public arena, I have to say that selling the plantations to profit-driven private buyers would mean"

"Rough log prices to sawmills would jump

"Sawn timber prices would have to follow"n
"Wood for home-building would be much more expensive for the average citizen."

If saw-log prices rose annually by 20 percent, production costs for sawn timber would double in the next 3½ years.

The State's 263 000 ha of timber plantations produce 56 percent of the logs cut at the country's 114 mills each year.

Salma's last annual report said "The log price has risen by an average of 16.5 percent a year over the past five years and sawn timber has increased by 10.5 percent a year."

Mr Swart said Salma had big plans for helping to solve South Africa's informal housing crisis, with at least 7 million people in need of homes.
Less Room For Private Investors

The Star Friday February 14 1992
**COMPANIES**

**Saficon to increase stake in Boumat**

MOTOR retail group Saficon Investments plans to increase its stake in building material supplier and manufacturer Boumat to 51% from its existing holding of 32%, chairman Sidney Borsook said last night.

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

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

Although Saficon has extended its offer, on a tender basis, to minorities for holdings above the 27% level, Borsook noted the group would not be obliged to accept shares above the agreed terms. The proposed deal has been approved by the JSE and the Security Regulations Panel.

The proposed offer requires that Saficon increases its stake by no more than 51% or a minimum of 47%.

Borsook said Saficon planned to adopt a more active role in the day-to-day management of Boumat, "which holds a lot of potential". Borsook replaces Irvine Brittain, who has indicated his intention to retire, as Boumat chairman at end-March.

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

The deal would require the issuing of 4.7-million new Saficon shares, boosting the company's share base by 16% to 54-million shares in issue. The dilution would not materially affect Saficon's control structure. Saker's would issue about 1.3-million new ordinary shares, Borsook said.

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**Building business will decline Group Five**

THE low level of business activity in the building and construction sector was getting worse and was expected to remain so for at least another 18 months, said Group Five MD Peter Cogg, commenting on the release of the company's results for the six months to December 1991.

A 21% drop in turnover to R533m and increased tax bill saw the group declare an 11% drop in earnings to 90c a share compared to the corresponding period last year.

Cogg expects results for the remainder of the year to be similar to the first six months due to the long-term nature of construction contracts.

Gross profit margins increased from 2.96% to 3.6% in spite of the drop in turnover. As a result, pre-tax profits were only 2.9% down at R19.8m. However, a 28% increase in tax to R4,4m further reduced the company's earnings. Taxed profits fell 9.3% to R14.4m while dividends remained unchanged at 27c a share.

Cash on hand amounted to R47.8m.

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

He said construction and civil engineering activity in SA was quiet and there was less and less activity in the low-cost housing sector. Group Five would benefit particularly from new initiatives in the low-cost housing sector following its acquisition of Evertie for R86.7m.

Group Five Holdings, which derives all its income from a 53.8% stake in Group Five Limited, declared unchanged dividends of 28c a share. Earnings a share fell 11% to 48c.

SM Goldstein declared unchanged dividends of 10c a share. SM Goldstein derives its income from a 45% interest in Group Five Holdings.
What spooked the financial rand

The recent decline in the value of the financial rand is partly due to the speed with which political negotiations are progressing. In the past, breakdowns in the process of settling foreign investors were speedily disposed of contentious political points (see Current Affairs) but there have been no parallel advances on the question of future economic policy.

Ebbs and flows of confidence are clearly traced by the strength of the investment currency. After improving steadily for months, as SA moved closer towards the international financial community, sharply in October after Japan lifted sanctions and the Commonwealth removed people-to-people sanctions, the investment unit has tumbled. It has dropped from about US$32c at the end of November to under US$29c this week, while the discount between the investment and the commercial unit has risen from around 8% to more than 20% in the period.

There are several reasons for the deterioration in the value of the currency:

- A number of local companies have been allowed by the Reserve Bank to acquire interests in overseas enterprises, says UAL GM treasury Lionel Pereira. "This adds immediately to the supply of rands in the spot financial rand market and also to the total pool of financial rands.
- Some disinvestments, including the sale of Glass SA shares by UK-based Pilkington in December to Plate Glass & Shatterprufe Industries.
- The realisation of nonresident investors towards the end of last month that interest paid on finrand cash balances is not tax-exempt.
- Contradictory statements from key ANC office holders last week that created a confusing picture of the organisation's intentions on economic policy.

But this is only part of the story. The proceeds of the disinvestment would have been fed carefully into the market so as not to destabilise the unit. Concerns over tax, though they triggered the most recent slide, should not have lasted for more than a year, say analysts. And the contradictory statements from the ANC have been common occurrences since the organisation was unbanned in February 1990.

That the events came within weeks of each other would have compounded the effect. But Rob Wade, FNB assistant treasurer, foreign exchange, believes that the market is falling. He is always thin - is vulnerable because investors perceive a new dispensation rapidly approaching.

The evidence is of course incomplete. There is a widely held view in the market that the cash that has taken flight in past weeks has been coming into the country from the Far East over the past six months. It has been largely speculative and has therefore been placed in money market deposits. Yields in the money market have slumped from about 17%, 6% six months ago to about 16.75% now, but have been consistently higher than those on gilts. As an example, a short-dated parastatal security, with around two years to maturity, says Standard Merchant Bank's Chris Kenny.

Kenny says substantial sell orders from Far East investors continued this week. He says it appears they are determined to liquidate all local deposits. And because they still hold substantial finrand balances, this means further downside potential for the currency.

Gilt and equity transactions through the JSE have not responded in the same way as the more mobile cash balances. One large US investor, for instance, who came aggressively into the market towards the end of last year to buy gilts, has not pulled out the funds, says a market observer. And statistics on gilt and equity transactions routed via the JSE show no signs of retreat. The recent trend has been a reduction in net sales from R86.2m in the week ending January 17 to R64.2m and R15.4m in the following weeks. Presumably, sales were countered by the rise in the finrand discount, which attracted further investment because it pushed yields to more attractive levels.

This would confirm that tax on interest income derived from investments other than gilts has played an important role in the decisions of nonresidents.

On the other hand, investors who prefer to hold cash balances have shorter-term objectives.

Those who invest in securities may well hold medium-to-longer-term views and be prepared to sit out the immediate uncertainties.

The volatility of the financial rand clearly illustrates the frailty of investor confidence. Institutions are not pronouncements of the far points of policy to be debated endlessly, interpreted and reinterpreted and finally clarified. The longer they wait for agreement on what type of economy SA will have in the future, the more opportunities to attract funds are lost to SA.

CLOSE CORPORATIONS

Inland Revenue is putting into effect 1990 Income Tax Act amendments that make employers deduct Paye tax from payments to close corporations (CC) defined as "labour brokers.

Application forms for exemption will be available from May 1 and Paye must be deducted from July 1.

The amendments, explains John Hansen, chairman of the office of the Commissioner for Inland Revenue, were intended to create uniform tax treatment in the labour broking business and will prevent CCs being used as a means of evading or postponing tax.

If a member of the CC provides a personal service to a client, the CC will now be regarded as a labour broker.

Tax has been evaded, for example, when specialist employees, such as engineering draftsmen, came to SA to perform work on an expatriate basis and left after their contract expired. As the law stood, the ultimate employer/client was not required to deduct Paye from fees paid to the CC. The CC assumed the contract to provide personal services, passing on payment to the member who frequently evaded the tax simply through non-disclosure.

The interposition of the CC also allowed tax payments to be postponed because it had to pay only provisional tax, not monthly Paye tax.

The definition of labour broker in the amendments to the Act corresponds with the definition found in labour legislation. It is so broad a definition that - unqualified - it
Tempers rise over Dorbyl Usko offer

By JULIE WALKER

It is believed that the offer has been made by Dorbyl, which warned its shareholders on February 3 that negotiations were under way.

Dorbyl, through its chairman Florent Kotesa, has said it is prepared to pay R155 million for Usko.

Dorbyl has offered R50 million in cash and a further R105 million in shares.

The offer is subject to the approval of the Usko board and shareholders.

Aberdare was believed to have been competing with Dorbyl for Usko's shares and had offered R100 million.

Aberdare had previously been involved in a deadlock with Usko over the proposed sale of its uranium venture.

Aberdare's chairman, Mr. Goldberg, has been referred to Usko shareholders as the man who has offered the highest bid.

Terms

In terms of the offer, Usko will receive R50 million in cash and a further R105 million in shares.

Usko's management has run this proposal down from a full takeover offer.

Aberdare has been seeking a buyout of its shares in Usko, and this offer is seen as a threat to Aberdare's position.

According to one Aberdare shareholder, the offer amount to a closed-shop agreement, where Aberdare was the only bidder.

Mr. Goldberg has been referred to Aberdare shareholders as the man who is trying to buy out Aberdare.
Unit trust fees drop in ocean

By ROBIN PEGLER

MANY small investors are complaining about the increase in the maximum annual service charge levied on the market value of a unit trust’s assets.

It has been raised from 0.5% to 0.75%.

But the cost to an investor is minimal.

In spite of this, it seems that several unit trust management companies have not controlled costs as well as they should have.

Separate

Clive Turner, chairman of the Association of Unit Trusts, says the increase is the first in the industry’s 20-year history. The charges remain low compared with those in other countries.

Two separate charges are levied:

- The 0.75% fee covers portfolio management and administration costs.
- The difference between buying and selling prices as quoted in the newspapers amounts to about 0.5%.

This is to cover marketing costs, including brokerage and marketable securities tax.

The impact of the increased annual service fee is low for investors regarding both capital value and income. If one had R1 000 in a general unit trust for one year, one would receive about R2.50 less in annual income.

Mr Turner says the fee of 0.5% deferred new investors to the industry. Although there are now no fewer than 41 unit trusts, the more the competition, the more efficient they will be.

Unit trusts have performed inflation both in capital value and income for 20 years. Capital values may have been inflated by the excess of demand over supply of good-quality scrip, thus enhancing the performance of the unit trusts with little effort. But that is a fact of life in South Africa’s economy.

Mr Turner says administrative costs have increased sharply, particularly because the number of accounts has risen to nearly a million.

Unit trusts are run by large institutions. In many cases, their staff also administers life-assurance and pension funds, so a relatively small part of their time is spent on unit trusts.

However, recently established funds have not had time to build a large base of clients and the number of accounts has risen to nearly a million. Unit trusts are run by large institutions. In many cases, their staff also administers life-assurance and pension funds, so a relatively small part of their time is spent on unit trusts.

Table 1 gives a few samples of these and shows that, despite the higher fees, there is no increase in covering costs. Administration and research are done at a loss.

Another objection to the higher service charge is the increase in a fund’s asset value should have taken care of the rising costs. This is shown in Table 2.

Mr Turner counters this argument by saying that in the early 1980s, they could not cope with the enormous amount of new business. They had to be replaced by more advanced technology.

He says unit trusts should have lifted service charges years ago. In the UK, a conservative estimate of the average charge is 1.5% a year — and can be as high as 2%.

It appears from Mr Turner’s remarks that the cost of computer hardware and software is much greater than that of salaries. One must hope that the electronic infrastructure is now sufficient to cope with the high level of business and that cost increases will be lower.

Leader

Even so, the income from fees shown in Table 2 shows a rapid increase. On the old scale of 0.5% income was over four times what it was five years earlier. On the new scale income will be more than twice as high. The rate of increase in the other than South Africa’s inflation rate.

It looks as if in many cases the unit trusts have been used as a loss-leader.

Their performance is reported regularly and they advertise the expertise of their supporting institutions as a whole. The loss on administration fees probably gives them better value for money than the equivalent amount spent on advertising.

It is peculiar to see investors paying a higher fee than to have money go into the pockets of the advertising agencies. Nevertheless, the larger funds at least have little incentive to contain costs. It would be better if they did.

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<td>Funds</td>
</tr>
<tr>
<td>Under</td>
</tr>
<tr>
<td>Administration</td>
</tr>
<tr>
<td>Unit Trust</td>
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<tr>
<td>METFUND</td>
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<tr>
<td>VOLGIKOS</td>
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<tr>
<td>METLIFE</td>
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<tr>
<td>SEIBANK</td>
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<th>TABLE 2</th>
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* This means that, hypothetically, if an investor had bought a basket of all unit trusts on 31 December 1981, he would have more than doubled five years later.
CONTRARY to the view that the JSE is dominated by conglomerates and power bases, South African families control more than 70% of listed companies and many of those not quoted.

But only one in four family businesses survives into the second generation, and only one in 10 reaches the third.

Malcolm Segal, managing partner of auditing and consulting firm Kessel Feinstein, made a study of the problems faced by family businesses. He hopes to offer an objective service to customers.

Mr Segal says: "The usual trust set up by an entrepreneur entails a usufruct for his spouse on his death. She collects the income from the business until she dies, when the estate is divided equally among the offspring.

"Trusts are established almost exclusively to save tax with little regard for the other consequences.

"But in most cases, this is a recipe for disaster because it makes no differentiation between blood equity and sweat equity - the amount of effort put into the business by the heirs." Mr Segal gives the example of a family with two sons and a daughter. One son becomes a doctor and emigrates, the other takes over the running of the business and the daughter is married and not involved.

"The emigrant wants his capital out of SA, the daughter wants dividends - and the new managing director is in a dilemma, with the business going and trying to keep everybody happy."

He might want to buy out the other two, but cannot raise the money.

Another example is where all the sons want to get into the business, but no successor is apparent. The widowed matriarch has to prefer one above the others.

Such matters are complicated if there is a capable and willing daughter, or son-in-law, or non-family member who deserves consideration.

By the next generation, when each child has children of his or her own, the risk of the family's losing control is even higher.

"In the normal situation, the overlap between the family system and the business system is manageable. But where the overlap is excessive, destructive conflict can arise," says Mr Segal.

Neither a purely business nor a purely emotional approach will provide the solution. Both aspects have to be tackled simultaneously.

Mr Segal says that an outside independent acts as a facilitator on family business issues by getting members to anticipate problems such as succession, retirement and estate planning.

Other factors include financial, remuneration and performance criteria, opportunities for non-family members and personal and company tax planning.

Family members not involved in the business should also be accommodated, perhaps through preference shares.

Mr Segal believes that the bringing together of four criteria - financial, technical, managerial and psychological - among the players in a family business by an independent specialist can restore both profit and harmony.

"We have seen that consulting often becomes counselling. It is often painful to face sensitive business issues. The patient often defers taking remedial action even if he has seen the problem."

"Kessel Feinstein's team includes a consulting psychologist to help with the emotional side in the case of complex family relationships."

MALCOLM SEGAL. Psychologist to help with sensitive issues.
Solutions for keeping family business going

CONTRARY to the view that the JSE is dominated by conglomerates and power bases, South African families control more than 70% of listed companies, according to many of those not quoted.

But only one in four family businesses survives into the second generation, and only one in 10 reaches the third.

Malcolm Segal, managing partner of auditing and consulting firm Kessel Feinstein, made a study of the problems faced by family businesses. He hopes to offer an objective service to customers.

Mr Segal says: "The usual trust set up by an entrepreneur entails a trust fund for his spouse on his death. She collects the income from the business until she dies, when the estate is divided equally among the offspring."

"Trusts are established almost exclusively to save tax with little regard for the other consequences."

"But in most cases, this is a recipe for disaster because it makes no differentiation between blood equity and sweet equity — the amount of effort put into the business by the heirs."

Mr Segal gives the example of a family with two sons and a daughter. One son becomes a doctor and emigrates, the other takes over the running of the business and the daughter is married and not involved.

The emigrant wants his capital out of SA, the daughter wants dividends and the new managing director is battling to keep the business going and trying to keep everybody happy. He might want to buy out the other two, but cannot raise the money.

Another example is where all the sons want to get into the business, but no successor is apparent. The widowed matriarch has to prefer one above the others. Such matters are complicated if there is a capable and willing daughter, or son-in-law, or non-family member who deserves consideration.

By the next generation, when each child has children of his or her own, the risk of the family's losing control is even higher.

"In a normal situation, the overlap between the family system and the business system is manageable. But where the overlap is excessive, destructive conflict can arise," says Mr Segal.

Neither a purely business, nor a purely emotional approach, will provide the solution. Both aspects have to be tackled simultaneously.

Mr Segal says that an outsider independent acting as a facilitator on family business issues by getting members to anticipate problems such as succession, retirement and estate planning.

Other factors include financing, remuneration and performance criteria, opportunities for non-family members and personal and company tax planning.

Family members not involved in the business should also be accommodated, perhaps through preference shares.

Mr Segal believes that the bringing together of four criteria — financial, technical, managerial and psychological — among the players in a family business by an independent specialist can restore both profit and harmony.

"We have seen that consulting often becomes counselling It is often painful to face sensitive business issues. The patriarch often defers taking remedial action even if he has seen the problem."

"Kessel Feinstein's team includes a consulting psychologist to help with the emotional side in the case of complex family relationships."
Stockbrokers also hit by 'worst drought'

WHO will be the first to give up their Mercedes-Benzes and BMWs — the farmers or the stockbrokers?

That is the question being asked in financial circles as both groups struggle for survival amid the worst droughts in their respective industries in the past decade.

"We may not be making the same headlines as farmers, but abysmal trading volumes on the market are just as serious for us," said a dealer.

The crisis is mounting as the JSE and stockbrokers approach the financial year end. The exchange is now a one-man operation. The JSE are one to three-man operations. Such firms have managed to get through tough times by jobbing — trading on their own account — at a time when share prices are moving up. But larger firms need active participation of investors and speculators.

The JSE is notorious for its lack of liquidity, with only about 5% of market capitalization traded each year. Another way of looking at the matter could be seen last Thursday, when 250,2-million shares were traded on Wall Street. It was a relatively good trading session on the JSE, with turnover rising to 6 000 million shares.
COMPANIES

Drop in exports has little effect on Cafca

CENTRAL African Cables (Cafca), the Zimbabwean low-cost producer of electrical cables which is listed on the JSE’s electronics sector, has increased profits for the fifth year despite a drop in exports.

Cafca’s attributable profits increased 45% to $219.3m in the year to December 1992, from $131.4m last year. Turnover increased 30% to $121.4m from $93m.

Domestic sales accounted for $107.4m. Export turnover was down 10% at $13.9m.

Pre-tax profit increased 26% to $30.6m while taxation of $11.2m remained at the same levels due to capital allowances on a new plant.

Offshore financing for the new plant is represented by loans worth $777 000.

Stocks increased 20% to $22.8m because of higher prices for raw materials and reduced demand by a major customer.

The company believes 1993 will be a difficult year due to world recession, but is confident of high performance through increased exports. Cafca believes it is well positioned for the start of 1993 with $62m already on its order books.

It intends continuing to search for new markets and has strategies in place to give world class manufacturing status. These include accreditation by the International Standards Organisation and the Standards Association of Zimbabwe. Two new products ranges will be launched.

There are 300 000 tightly held Cafca shares on the SA register of a total 30.6-million in issue.
McGregor predicts move to unbundling

ABOVE 42% of SA’s gross domestic product (GDP) is generated by the 810 JSE listed companies and their subsidiaries — which number over 20 000 — according to the 1992 edition of McGregor’s Who Owns Whom.

The remaining 250 000 SA registered companies generated around 28% of GDP.

McGregor chairman Robyn McGregor said after the launch of the 12th edition of the book that he believed there was a move towards unbundling by conglomerates.

The four largest SA groups are Anglo American, the Rembrandt group, Sanlam and SA Mutual (in that order).

"The conglomerates are beginning to realise that bureaucratic management is not necessarily efficient," McGregor said.

He cited the example of Barlows which had recently sold off a number of major assets, including Middleburg Steel & Alloys.

"Barlows is now a leaner, more efficient organisation." But McGregor agreed the conglomerates had a vital role to play in the new SA.

"There is no question that to be big has enormous advantages. The route conglomerates should take are projects like Columbus — that is those projects in which large sums of capital are required and where the conglomerates have the expertise."

However, he believed they should disinvest from the many smaller investments in areas which fell outside their expertise.

"Management of these smaller investments is difficult because of the many layers in management structures."

He said his "gut feel" told him Barlows’ lead would be followed — especially by the Gencor group.

"One will see some follow through related to Keys’ unbundling overtures." He felt this would be the case even though Keys was no longer at Gencor’s helm.

According to McGregor, control of the JSE listed companies by the four largest groups had, if anything, increased over the past year or so. Using September 1991 as the yardstick he maintained that — in terms of market capitalisation — Anglo controlled 43.6% of the JSE listed companies. This was slightly down from the 44.2% in September 1990.

Control by the Rembrandt group increased to 14.5% (13.5%), Sanlam’s rose to 13.9% (13.2%) but control by SA Mutual dropped to 9.2% (10.2%)
Is the JSE really little more than a gambling room?

Graham Bell

The JSE, according to that effect centre, is perceived as a casino where investors are involved in a gamble, winning and some losing, without any material benefit accruing to society.

There is a strong sense that this is due to a new private sector investment projects. It is claimed that this results in institutional investors, for lack of other avenues, holding up the price of existing listed shares to levels well above their underlying worth.

If the JSE were overvalued, it should be demonstrable so on terms of its history. The usual way of assessing this is to calculate the price-earnings multiple for the overall market index, the all share index. This index, the more expensive share price relative to the underlying earnings of JSE-listed companies.

The graph shows that only in 1987 and again very recently has the price-earnings multiple risen markedly above its average of the past 23 years. Furthermore, if the JSE price-earnings multiple is measured against other stock exchanges, it does not appear especially high. Against the US Standard and Poor 400 Index, SA shares are currently on a rating of less than 0.5. Against the Financial Times, the Share Index in Britain, the JSE index is currently rated at about 0.95.

Compared with "emerging" markets, in 1997 when the SA market was around its long-term average, its price-earnings multiple was lower than those of Colombia, Greece, India, Indonesia, Korea, Malawi, Malaysia, Portugal, Taiwan, Turkey and Venezuela.

It may be argued that because the JSE dividend yield has been well below its average over the past 5 years, the SA market has been expensive on this basis. Closer analysis, however, shows this is because a smaller share of earnings has been distributed to shareholders, a trend evident since the early 1970s. This is a result of high inflation which creates "illness earnings" because companies have to allocate a relatively high portion of their earnings simply to replace aging plant and equipment at much higher prices.

A 14% decline in the ratio of earnings of JSE-listed companies to total labour remuneration between 1982

P/E multiple - mean & standard deviation

1970  1991


Earnings - JSE Share Prices

For example, without central vegetable markets in all the major cities, farmers would find it much more difficult to find buyers for their produce. They would have to spend more time on the telephone or on the road seeking potential buyers than to attend to their crops.

Similarly, stock exchanges lower the cost of capital for the whole economy. Prices on the JSE offer investors a rapid and continuous means of evaluating the expected returns on their investments, not only between companies listed on the JSE but also against all other investments. The absence of a conviction that the return on investment in new business venture will exceed the return on other forms of investment is the stumbling block for economic development.

The allocation of the cash flows of institutional investors has received specific criticism. These institutions tend to be highly risk-averse. While they congregate large cash flows, they do not see as their task (with the notable exception of property development) to deploy those funds in large new projects of their own. These institutions have traditionally distributed a large portion of cash flow in JSE-listed equities.

Statistics for 1990 offer an example of the source of sales. During that year, the net cash flow of institutional investors was estimated to have been R325bn. About half of this, R125bn, was used to buy shares and R61bn of this amount was absorbed by new equity and rights issues on the JSE. A further R4.5bn was provided by net sales of SA equities by foreigners. Only a relatively small amount of about R1.5bn was therefore available for any 'paper chase'. It is also wrong to conclude that, because these funds are used to purchase existing equities or new listings, they end up in some bottomless pit. The seller of equities receives cash which is immediately part of the banking system. Furthermore, although a new listing of equity is only one way for a company to raise capital, it is not the only, or even the major, way. The direct method is self-financing from a company's retained profits. Other forms are by way of supplier credits from abroad, bank loans and corporate bonds, the latter being moratorium in SA.

By and large, this spectrum of financing alternatives has been available to companies throughout the period of declining fixed investment in the 1990s and before, so there is no reason to conclude that the lack of fixed investment has not been caused by the risk-averse nature of institutional investors. Rather, it is due to obstacles facing the traditional risk-takers, such as mining houses, industrial conglomerates and small businesses.

Any coercion of institutional investors required to channel the flow of funds into designated areas will not solve the problem. Likewise, any measures which reduce the ability of the JSE to act as a marketplace will only reduce the efficiency of capital allocation and jeopardise the possibility of broader ownership of the means of wealth creation.

This argument is not intended as a plea for the retention of the status quo. The real problem stems from the increasingly uncertain socio-economic climate, the growing pains of the apartheid system and has been exacerbated since 1989 by international sanctions. The perceived shortcomings of the JSE are symptomatic of the degeneration of economic opportunity.

In a more positive socio-economic climate, institutions such as the JSE, long-term insurers and private pension funds would be well placed to help with restructuring SA's capital base.
We need only fear monopolies by government

S.2392

On January 23, The Star carried a column by Allister Sparks (pen name of British columnist Alleston). In the financial Mail also ran a column by Albert Ngobeni (pen name of South African columnist Allister Sparks) which discussed the need for government to regulate the media.

Sparks argued that South Africa has a need for a monopoly system of media ownership. He said that the country's media is dominated by a few large companies, which control the majority of the media outlets. He also pointed out that this is problematic because it leads to a lack of diversity in the media landscape and prevents the development of new voices and new ideas.

Sparks suggested that the government should regulate the media to ensure that there is a balance of power among different media owners. He said that this would help to ensure that there is a diversity of voices and ideas in the media landscape.

However, Ngobeni disagreed with Sparks. He argued that government regulation of the media would lead to a lack of freedom and innovation. He said that the media landscape is already diverse and that there is no need for government intervention.

Ngobeni also pointed out that government regulation of the media could lead to a loss of independence for journalists and media outlets. He said that this could have a negative impact on the quality of journalism and the ability of media outlets to report on important stories.

In conclusion, the debate over the need for government regulation of the media is a complex one. While Sparks argues that regulation is necessary to ensure a diversity of voices and ideas, Ngobeni argues that government intervention could lead to a loss of freedom and innovation. It remains to be seen how this debate will play out in the future.
Telling us what, exactly?

When JSE share prices began climbing early in 1990, the bullish market was glaringly out of step with the economy. Nothing wrong with that, said the market pundits, who rightly pointed out that stock markets tend to discount the future — generally by a year or more.

But how far ahead was the market really looking? And were the bulls correct in their assumptions about the economic and political scenario for this year? Little more than six months ago, it was being argued that the economy had bottomed and an upturn in corporate profits was in store for 1992.

Halfway through the first quarter of the year, there has been little or no talk of any signs of recovery from managers of industrial and financial companies. In many cases, results for the second half of 1991 suggest the opposite.

When profits are crumbling, it is tempting to blame the economy, or the Reserve Bank, or imports, or, perhaps, the weather. Some hyperbole on the part of red-faced management is understandable. But consider some of the latest results and comments from large companies.

Blue-chip consumer group Woolru reported earnings down by 28% for the six months to December. Engineering group Haggie, usually a solid performer, reported the year’s earnings down 19%, with demand sharply weaker in the second half. Furniture retailer Morkels reported after-tax profit for the nine months to December down 77%, after “one of the worst Christmas trading periods ever experienced by retailers.” Standard Bank Investment Corp noted that demand for credit had grown at a progressively lower rate during last year; its assets grew only 3.8% in the second half, against 7.6% in the first half — and it sees no more than a modest improvement in the economy this year.

There has still been no material drop in interest rates, no upturn in commodity prices, no recovery in leading industrial economies and little reason for improvement in local consumer or business confidence. And now there are growing fears that drought will further extend the recession. Many have apparently forgotten the grim economic effects of the last drought in the early Eighties.

On the political front, utterances from the ANC remain confusing and prone to startle foreign investors, nor are some of the moves by government particularly reassuring.

Share prices, on the other hand, have generally remained buoyant. The JSE actuaries All Share Index and the Industrial Index both stand close to all-time highs. But there are also signs that reality may be creeping in. For example, De Beers, often a leading indicator on the JSE, had slipped this week to 8 850c, well off the November high of R101.

There will always be pockets of value in the market, and institutional cash flows, now being swelled by State pension funds, should cushion effects of any renewed loss of confidence. But it would probably be wise to expect some consolidation, if not a retreat, in share prices for a while. There seems no point in rushing in with buy orders now.
Shock waves send JSE prices diving

REFERENDUM shock waves hit the stock market yesterday with leading industrials taking the brunt of the sell-off as stunned investors offloaded shares.

But as industrials tumbled, mining shares were cushioned by a simultaneous crack in the financial rand. Foreign investors took fright at the afternoon's news, leading to a cut in the finrand's worth to R5.83 to the dollar from R5.95 after it had held steady for most of the morning.

Capital market dealers said rates "shot through the roof" shortly after the statement was made, sending the benchmark Eskom 165 to 16.48% from earlier levels of around 16,34% Government's R150 stock went from 10.13% to a late 10.67% Dealers said the announcement caused uncertainty and scared off overseas investors.

The dramatic developments came in mid-afternoon after the market had discounted the CP victory under the NP in the Potchefstroom by-election and sent share prices higher across most sectors.

Sharp losses earlier in the week were stemmed as buyers came into the market in a lively session of two-way trade. The rally lifted the JSE industrial index 35 points until, at 3pm, news of the referendum reached the market. Shares started tumbling almost immediately and by the close of trading an hour later, all gains had been wiped out, for the industrial index to close three points off at 4325.

"The market is worried that President F W de Klerk might lose the referendum and his government will then resign and call elections. We could have months of uncertainty ahead of us, which is not good for markets," a dealer said.

The JSE overall index gave up most of its 30-point gain to end three points up at 3541, which prompted a dealer to remark: "This might have created another buying opportunity as P W would not have announced a referendum if he did not have something up his sleeve."

Nervousness and uncertainty were apparent on the market in contrast to the reaction to the Potchefstroom election result, which hardly caused a ripple. "Anticipation was greater than the event, but that has now been reversed with a vengeance," a trader said.

Meades de Klerk's David Meades said genuine investors would come back only to what they perceived to be a stable SA. "Long-term investors believe De Klerk is more likely to provide such stability, and they would therefore not welcome a CP, or for that matter an ANC government.

Mervyn Harris

Shock waves (232) From Page 1

"The Potchefstroom by-election result was not a big surprise. But the referendum will mean people have to think about the next 20 years and beyond, and do they want to lose what has been gained in the past two years. We would expect De Klerk to win the referendum, but obviously there will be uncertainty until it is over," he said.

Vincent Tattersall of Williams de Roe said: "We feel De Klerk has made a clever move and that he will get the white mandate in the referendum. Obviously, however, investment sentiment towards SA is going to be unsettled and that will not allow for any major upturn in the Rand while we wait for the results."

John Cavin reports from London that analysts said the referendum would be SA's D-Day for foreign investors.

At James Capel, analyst Jon Berghahn said: "The markets are going to be very nervous about SA until the air is cleared by referendum investors realizing that this is the deciding point."
Berzack to take over
Elgro in R145m swap

BERZACK Brothers is to acquire control of Elecentre Group (Elgro) in a share swap valued at around R145m between the Mowszowski family and the Berzack group.

An announcement issued today said Berzack has acquired 53.3-million shares in Elgro, constituting 88.4% of Elgro’s issued share capital, in exchange for 107.2-million shares held by Berzack in Voltex. The deal would see the Mowszowski family lose control of Elgro subsidiary Elecentre and Elgro disappear.

The JSE had said that the multiple pyramid structure resulting from the Elgro acquisition conflicted with its requirements. In this light, Berzack will make an offer to Elgro minorities, and will make a proposal which will result in the elimination or declassification of one of the remaining pyramid companies in addition to the elimination of Elgro.

Elgro minorities will exchange their shares in Elgro for shares in Voltex or for cash.

Elgro currently holds 54% of Elecentre, which holds 51.6% of Voltex and 82% of Sanic Hardware Holdings. Berzack currently holds 39.7% of Voltex.

Conclusion of all transactions will see Berzack with a 54% holding in Elecentre, which in turn will hold 51.6% of Voltex and 62.9% of Sanic. Berzack will also have a 18.3% direct holding in Voltex, and its holding in Voltex also will be reduced by 4%.

Berzack joint MD Myron Berzack said last night joint control between Elgro and Berzack in terms of Voltex had its pros and cons, and this deal would see Voltex fall under Berzack control through Elecentre.

He said there could also have been family considerations on the part of the Mowszowskis which could have prompted the deal.

One of the results of the deal was that Berzack would take control of the non-performing Sanic. Berzack said his group would look at the company and would try to do something with it.
scheme of arrangement, SAB will offer one convertible preference share for every two Placor shares held by minorities. SAB’s announcement points out the shares are being swapped at almost identical market value but the convertibles would have offered 45% more dividend income than two Placor ordinar

As announced two weeks ago, SAB is also issuing convertible shares worth R525m to finance the takeover of Pilkington Plc’s 48.4% interest in Glass SA. When the exercise is completed, about 28m SAB convertibles, which will be traded on the JSE, will be issued with an expected market value of about R1bn.

It does not stop there. In a rights offer, PGSI plans to raise R354m. Of this, R210m has been earmarked for overseas operations, the rest is to repay debt. PGSI is issuing new shares at R4.53 a piece, a 20% discount on the market price of R5.45. SAB will follow its rights. adding a further R200m to its bill for the exercise. It will then hold an effective 67% of PGSI.

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

The deals would have increased PGSI’s EPS in the 12 months to September 1991 by 10.5% to 40c a share and Afco’s by 5.1% to 124c. They would have increased PGSI’s NAV just 2.2% to R18.72 but Afco’s by 22.2% to R12.59. Shareholders are assured the transactions will have “beneficial financial effects” on SAB. But PGSI’s results for the year to March are expected to be well down. It will take more than SAB’s financial muscle to put them back on a growth path.

Stephen Cranswick
When two companies are locked in takeover talks, is it possible for directors who sit on the boards of both organisations to work in the best interests of two separate sets of shareholders?

This question is at the heart of the furor surrounding the possible disposal of the remaining businesses of ailing engineering group Usko Management at Usko told shareholders last week that a restructuring proposal, which had the backing of the Usko board, had been accepted subject to conditions precedent. Though details are only expected at the end of the week, the proposal apparently came from Dorbyl. Usko's major shareholders are Iscor, and Dorbyl parent, Metkor. Between them, they hold about 58% of Usko. Five Dorbyl directors are on the Usko board, including Floers Kotzee, who is chairman of both groups as well as Metkor.

Usko minorities are concerned that a deal between the two could favour Dorbyl shareholders. Though there is no evidence that Usko minorities will be disadvantaged, their apprehension is understandable. It is rumoured that if the deal goes ahead, then Usko minorities will be offered about 12c a share by way of a share swap. The quoted price is 32c and the share traded at above 180c less than a year ago.

A few years back, the counter was trading at more than 500c. Since then the group has slid into technical insolvency — shareholders' funds are estimated at a negative R90m — and has sold its steel and vanadium operations at well below book value. Remaining non-ferrous operations, that mainly comprise four cabling plants, are thought to be operating profitably but are saddled with bank borrowings exceeding R150m.

Minorities are particularly concerned by Usko's disclosure that management and controlling shareholders are contractually bound not to negotiate with any other party about the disposal of the group's shares or parts of its businesses. Though this unusual condition presumably falls away if these negotiations are unsuccessful, Dorbyl (which has no cable interests) is not the only group interested in Usko's remaining assets. Kotzee confirms that two other organisations put in offers. Management considered all three proposals.

Shareholders' Association chairman Isy Goldberg describes the apparent exclusion of other bidders as abhorrent and unacceptable. He suggests Usko suspend negotiations with Dorbyl, and allow other potential buyers to examine the accounts and possibly present more favourable offers. He says his association will, if necessary, consider legal action to protect Usko minorities.

Kotzee declines to say why it was necessary for Usko management and directors to agree with one party to refrain from further negotiations with other potential buyers. He says no conflict in representing more than one set of shareholders. "I think I could represent nine (different groups of shareholders) if necessary. When I go into a meeting, I represent the interests of one company," says Kotzee.

Usko was close to being acquired by cable maker Voltex late last year. Voltex withdrew in November. Voltex's Myron Berzack says his group was, among other reasons, deterred by the amount of debt it would have to take on if it took control of Usko. Voltex may make another bid if current negotiations fall through.

On February 12, the day before Usko management announced it had provisionally accepted a proposal, cable manufacturer Aberdare announced it intended to bid for Usko. Aberdare executive chairman Peter Watt won't comment. However, it's clear that Aberdare — a subsidiary of Altron's Powertech — was none too pleased at the way it has been shut out.

Though details of the three bids for Usko, including that provisionally accepted by management, have not been made public, the Securities Regulation Panel (SRP) says it is satisfied, based on information provided by Usko's board, that Takeover Code requirements have been met. SRP officials met with Usko management and its merchant bankers, Absa Merchant Bank, early this week.

SRP deputy executive director Herman Engelbrecht says interests of Usko minorities will not be forgotten.Meanwhile, Usko shareholders deserve an explanation of why the Usko board would consider a provisional offer which excludes any higher bids.

Simon Cukierman
Bush's nod on exports to SA 'a positive step'

US PRESIDENT George Bush's announcement earlier this week freeing the Export-Import Bank (EximBank) to underwrite US exports to SA was regarded by the local business community as a positive step towards re-establishing trade relations between the two countries.

SA Chamber of Business (Sacob) economist Bill Lacey said Bush's announcement served as a signal to American businesses that SA was once again an acceptable market in the international trading arena.

However, Lacey did not expect the EximBank's financial participation in US export trade to SA would result in a flood of imports. "With the present position of the SA economy, local business is unlikely to start building up inventories."

The Evans Amendment, introduced to US legislation in 1976, barred the EximBank from participating in export deals to the SA government or its parastatals until the US President certified to Congress that "significant progress towards the elimination of apartheid has been made."

Sasfin senior manager, international division, Mike Veysey said increased imports to SA would be determined also by the country's needs and its being able to afford imported goods. Furthermore, Bush's authorisation of the EximBank's participation mostly benefited US firms as the bank's financial guarantee applied only to one-way trade from the US to SA. As a result, US firms would not be able to rely on the EximBank for financial guarantees on goods imported from SA.

However, SA's indirect benefit from Bush's decision would be cheaper access to imported capital goods, aircraft and machinery.

Although the EximBank's participation in US-SA trade was unlikely to significantly boost trade volumes, Veysey said, it was "a positive step" which would allow increased two-way trade between the two countries.

American Chamber of Business of SA executive director Michelle Cohen said the move would also allow SA greater access to new technology previously denied by sanctions.

Investment returns of trust 17.8%

LINDA ENSOR
CAPE TOWN — The Independent Development Trust (IDT) had achieved an average return on its investments of 17.8% since August 1990. IDT communications director Jolyon Nuttall said yesterday.

Nuttall was commenting on a note in Auditor-General Peter Wronsley's report for 1990/91 — tabled in Parliament this week — which said IDT trustees had not formally inspected the criteria used to select the initial seven portfolio managers.

The managers were given responsibility to invest the R2.2bn granted to the IDT by government.

Nuttall said the overall return achieved had been very good. Portfolio managers selected were FNB, Rand Merchant Bank, Senbank, Standard Merchant Bank, Volkskas Merchant Bank and Syfrets Managed Assets.

The Auditor-General's report also noted that no further investigations were being made to the CCB. The R2m pension given to one former CCB member was a problem for the insurance company concerned and not the Defence Ministry, he said.

CCB's financial situation stays under wraps

AUDITOR-General Peter Wronsley declined yesterday to detail the financial situation of the Civil Co-ordination Bureau (CCB), an SADF covert unit in the throes of being disbanded.

He said he was barred from commenting on the issue in terms of Section 6(3)(a) of the Auditor-General Act and an agreement between himself, President F W de Klerk and Finance Minister Baruch du Plessis.

On Wednesday Wronsley told Parliament former Defence Minister Gen Mag-
Consider a new stance on JSE

THE Dow Jones recently experienced a 120-point correction. Why did this occur and will the current uncertainty impact on SA shares?

At present, the US market is very highly priced with its price earnings ratio exceeding 30. This is well in excess of the average of the past decade.

Unless the earnings recovery is quite spectacular, this rating is not justified and one would expect some sort of correction in the region of 10 percent to 20 percent.

Our share market follows the international trend being led by the US Dow Jones irrespective of the relative economic or other fundamentals October is a case in point, local shares followed the Dow up and then down again.

**Interest rates**

US inflation however, appears under control. Is that not usually positive for equities?

There is strong positive correlation between US inflation and US interest rates. If one looks at the traditional economic cycle, the link is quite logical at the top of the cycle, the economy is growing strongly, upward pressure exists on prices as demand exceeds supply and monetary policy is adjusted to prevent runaway inflation.

During recessionary periods, the opposite applies with inflation low and rates low in order to stimulate the economy.

The relationship between rates and equities is negative — the opportunity cost of being invested in interest-bearing investments rises as rates fall. Consequently, as rates decline, there is a swing out of interest-bearing investments into equities. That is how traditional bull markets

US stock markets are looking dicey and will influence the JSE — but there is still a good case for holding SA shares.

The weight of funds and prospects for even a weak recovery should underpin the JSE, but the risks have increased and the time has come to amend strategy.

**Pessimism**

In addition, the financial rand mechanism will supply its historic support against foreign sales.

All the aforementioned aspects, however, will not prevent local pessimism should the US and other major stock markets come under pressure.

What will cause the recovery of the SA economy?

As in the case of the US, the local recovery is expected to be relatively muted. We anticipate that the upturn will be brought about by higher exports, increased social infrastructural expenditure and restocking. Private consumption expenditure will remain under pressure in the next few months.

How would one position one's portfolio given the economic and financial prospects?

**TO PAGE 16**
Markets cool off after panic wave

By CIARAN RYAN in Johannesburg and JOHN CAVILL in London

ALTHOUGH foreign investors are expected to remain wary of committing new funds to South African securities until after the referendum, London investment analysts do not expect a big sell-off.

There was a rush of non-resident gilt sales on Thursday, totalling R63.2-million. Purchases totalled R17.2-million on Wednesday.

On the share market, the value of foreign deals was R10.6-billion on Thursday, half that of Wednesday, as foreigners stepped up loading shares.

Dive

London analysts say the financial rand had already been undermined by the disinvestment of large British groups, such as Pilkington Glass and now Blue Circle, and by the lowering of interest on short-term deposits with SA banks.

Responding to foreign selling pressure, the financial rand dived from US$1.07.5 cents to a low of US$1.07.2 before recovering to US$1.07.4 on Friday, widening the discount between it and the commercial rand to 170.9.

Ironically, this widening discount is likely to arrest — and possibly reverse — a decline in share and gilt prices in spite of political uncertainties as foreign investors return to pick up bargains.

The fall in the financial rand failed to prevent a 94-point drop in the JSE all-gold index to 2,214 and a 25-point decline in the overall index to 3,028. But the industrial index recovered 32 points to 4,652 at the close on Friday.

Crisis

Funds managers said investment strategies would not be changed much in the weeks leading up to the referendum.

This reaction supports the view that SA investors are relatively insensitive to political crisis. In fact, any decline in share prices would present excellent buying opportunities in a market generally seen to be overpriced.

One portfolio manager told Business Times: “We are likely to see more foreigners switching in and out of the market. This is a luxury they are entitled to.

“Our investment strategy is determined by fundamentals more than short-term hiccups in the market.

“One of the effects of the referendum will be to slow down the number of rights issues.”

The enthusiasm for the Gencor rights issue, pitched at R1.000, looked a little faded on Friday as the share price dropped to R0.96. The discount between the rights and the market price narrowed from about 15% a few weeks ago to 5%.

Head of investment at Sanlam, Renne Masson, said the share market was likely to drift slightly downwards in the coming weeks but high-quality scrips would be picked up by bargain hunters.

Benchmark gilt Eskom 160 shot to 16.85% before retreating to 16.63% on Friday. Rand-hedge shares, such as Richemont, De Beers, Charter and N sober, as well as golds are likely to suffer volatile swings in price.

The financial rand is expected to suffer violent swings as buyers hold off.

Clock 2/3/92

A London currency dealer and said: “At the low the effective yield on Eskom 11.1% 2008 was getting close to 22.5% — six points more than inflation. That is highly attractive to investors.

“People who follow SA developments know that even a Conservative Party government would not be able to turn the clock back to apartheid. They also believe the odds are in favour of President De Klerk winning the referendum, even if it is a close-run thing.”

He said trading volume in the financial rand had shrunk. “The fall was more due to buyers holding back than selling pressure. There was a lot of marking down by market makers in the financial and it
INVESTMENT interest in South Africa is moving from the general to the specific and away from the imponderables of gold. London broker Henderson Crestwhistle, which has not previously devoted much effort to SA shares, has sent a long bullish analysis of the outlook for Premier Group to 330 of its institutional clients.

A strong element of caution about political developments remains.

But Henderson analyst Bill Myers says: "We believe that now or quite soon, investment in selected SA companies should be seriously considered. Premier offers an excellent combination of risk and reward."

Apart from the high quality of management and business, Mr Myers notes: "For more than a decade the group and its management have been in the first rank of those urging the end of apartheid. Before President De Klerk this was an exposed position — since the beginning of reform it becomes a major commercial advantage."

Margins

Barring civil unrest, he foresees Premier's achieving a big improvement in operating margins from 1% to 2% in the next two years in its Metro acquisition which has almost doubled turnover. Group gearing should be held at no more than 30% in the medium term.

The hub of Henderson's forecast is that Premier's sales will rise from R11.5 billion for 1991-92 to R13.2 billion in 1992-93. It expects pre-tax profits (up 53% after the merger) to gain another 28% to R482 million.

Earnings a share on the increased capital should register a three-year compound growth rate of nearly 18% to 22c by April next year.
Higher tax bill offsets Picapli's improvement

CAPE TOWN — Improved operating efficiencies and significantly lower finance charges saw Picardi Appliances (Picapli) achieve a 14.7% increase in pretax income in the six months to end-December.

However, a substantial hike in its tax bill resulted in bottom-line earnings being merely maintained.

The group expects to resume paying dividends by year-end.

Earnings of a share of 27.5c (27.1c previously) were notched up on a 13% reduction in turnover, which suffered under the weight of product rationalization and depressed consumer spending. Last year Picapli withdrew from the portable audio products market, concentrating instead on the higher-margin white goods sector.

Pre-interest income fell 12.5% to R14.6m (R16.5m). Thus, director Jan Pickard junior said, reflected operating efficiencies achieved. Branch and staff numbers had been cut.

A 15% decline in interest earning debt during December 1990 meant Picapli paid only R6.5m in interest — 33% down on the previous R9.6m.

Earnings at year end, a peak period, stood at 133% or 95% if the R21m loan from parent company Picardi Holdings was excluded. Pickard expected this to fall to 65% by year end.

The tax rate rose from 1.2% to 12.5% but should rise sharply in the next six months as Picapli has exhausted its tax losses. After-tax income was almost unchanged at R7m.

Chairman Jan Pickard senior said profits in the next six months would remain under pressure because of depressed consumer expenditure and intense competition in the white goods market, where there was significant overcapacity. This would affect margins, but the group would continue to position itself for an upswing in 1996 by maintaining market share and improving efficiencies.

In spite of a higher tax bill, strong growth was displayed by Picardi Holdings (Pichol), the assets of which consist of a 53% stake in Picapli, about R21m cash loaned to Picapli and other investments. Attributable earnings and earnings a share rose 50% to R7.3m (R4.8m) and 120c (90c), respectively.

The percentage of interest bearing debt to equity declined to 78% from 118%. Finance charges almost halved to R5.5m (R10.2m) to produce a 61% rise in pre-tax income of R9.3m (R5.8m) on a 19% decline in pre-interest income to R14.5m (R16m). The bottom-line improvement was somewhat constrained by a rise in the tax rate to 16.8% (8%).

The growth was attributed mainly to an asset management programme embarked upon two years ago.

Picaeri Investments (Pichel), which holds 49% of Pichol, produced earnings a share of 12c — 44% up from its previous 8.5c.

None of the companies declared an interim dividend. In the last Picapli annual report Picardi said payment of dividends would be waived until such time as interest bearing debt relative to shareholders' funds reached acceptable levels.
Rates ignore referendum news

President FW de Klerk's call on Thursday for a whites-only referendum wreaked havoc in the currency and capital markets, but left the money markets largely unaffected.

Dealers said there was still good demand for short-term paper and high liquidity conditions prevailed, so there was "no reason to push up rates".

The 90-day liquid BA held at 15.90% last week - its lowest level since February 1998 - and dealers said they saw a good chance for rates to drift further downwards this week.

Mopping-up operations by the Reserve Bank continued last week with two special Treasury bills (TB) tenders worth R280m on offer. The Bank received R1,33bn on a five-day TB and only R227m on a seven-day issue.

The average rate on the special TBs was marginally higher at 16.30% on Thursday than on Wednesday, when it stood at 16.25%.

With February's reputation as a spending month, cash inflows are expected to rise substantially in the next few days. This could exert downward pressure on market rates.

Dealers said the Reserve Bank should be kept busy this week as liquidity conditions would allow room for rates to drift downwards. Tenders falling due on Monday and Thursday this week would probably be rolled and more special issues could be on the cards, they said.

At the end of last week, the Bank quoted the money market shortage higher at R1.21bn on Thursday from R1.63bn on Wednesday.

Capital market rates "shot through the roof" at the end of the week following news of a planned referendum. Dealers said the CP's win in the Potchefstroom by-election and news of the referendum caused alarm and uncertainty among investors, pushing rates higher.

Towards the end of the week the benchmark Eskom 165 was sharply higher at about 16.50% from 16.30% at the beginning of the week. The RSA 150 stock was also up, at 17.05% on Friday from 16.27% earlier.

Dealers said capital market rates and currency rates were particularly susceptible to foreign investor uncertainty.

Nervousness and uncertainty over political stability in the country would continue to scare off potential investors, they added.
Suggested 5% wealth tax on 20 richest families interests ANC

THE ANC said yesterday it was "very interested" in a proposal that a 5% wealth tax should be slapped on the 20 richest families in SA

According to the Labour Research Service (LRS), leading consultants to the trade union movement, this alone would bring in more than R500m a year — enough to employ 100,000 jobless people in a public works programme.

The LRS said that in 1991 the total worth of SA's 20 richest families increased by 57% from R6.9bn to R10.9bn. But it added, this was a "conservative estimate" of their total wealth, as it was based on their holdings in their own "family businesses" listed on the JSE. Many of these families, according to LRS, had built up substantial interests outside the JSE in the form of overseas investments, cash deposits, fixed interest securities, property and unlisted companies.

The ANC's Saki Macozoma said the ANC was as interested in seeing how the 20 richest families responded to the proposal, as it was in the proposal itself.

Cosatu's Neil Coleman said the tax burden had increasingly fallen on the poor and the entire system needed to be overhauled.

He said a wealth tax could not be looked at in isolation, but needed to be seen in the context of the whole tax system.

The LRS cited Liberty Life's Donald Gordon, Pick 'n Pay's Raymond Ackerman, Ventron's Bill Venter, the Keeley Group's Fred Keeley and PST's Jeff Liebenstein as examples of family businesses where the founders were still closely involved.

In addition, LRS named businesses where control was held by the children or grandchildren of the founders — like the Oppenheimer's Anglo American, the Rupert's Rembrandt, the Hersov's and Mennell's Angolvaal and the Mowzowski's Elyonure.

The Oppenheimer family leads the pack with R2.87bn in wealth.
COMPANIES

Natsel sells LuK Africa stake

JABULANI SIKHAKHANE

NATIONAL Selections (Natsel) has sold its 49% shareholding in Port Elizabeth automotive parts manufacturer LuK Africa to the German controlling shareholder LuK GmbH for an undisclosed sum.

Natsel is one of the two investment trusts controlled by the Industrial Development Corporation (IDC). IDC managing director Carol van der Merwe said yesterday that the sale price could not be disclosed at the request of the German company.

He said that the amount involved was "sizeable." Van der Merwe said that the IDC had been approached by the German group, which needed to integrate the local operation into its worldwide network.

LuK GmbH has plants in Mexico, Brazil and Europe.

With the cash received, Natsel would look into the possibility of taking over one of the non-listed investments from the IDC.

A decision would be made within the next month, Van der Merwe said. LuK Africa (formerly Repco) manufactures clutches for passenger and commercial vehicles at a factory in Port Elizabeth. The IDC has been involved with LuK Africa (then Repco) since 1984, when it participated with an Australian company to start the operation. The Australian group sold its 51% stake to LuK GmbH in 1987.
JSE 'fights for honest market'

The suspension imposed on a broking member by the JSE this week was further indication of efforts to maintain a fair and honest market, JSE executive president Tony Norton said yesterday.

He was commenting on the decision by the general committee of the JSE to suspend Frank Brewer from Monday, March 2, to the close of business on Friday, March 6.

Brewer, formerly a director of Frankel, Max Pel-lak, Vanderme, was found guilty at a special meeting of the committee on February 25 of a charge of failing to comply with a committee decision while a director of the firm.

Norton said SA was experiencing a deterioration in white-collar behaviour, and people were tending to breach rules more frequently than used to be the case.

"We are aware that standards have slipped and the JSE has undoubtedly been feeling some of the effects of such behaviour."
Acquisitions help M&R increase earnings 29%

JABULANI SIKHAKHANE

ACQUISITIONS totalling R717m helped industrial holdings group Murray & Roberts increase attributable earnings 29% to R86,2m for the six months to December.

But due to a 31% increase in the average share base (a weighted average of 11,14m shares were issued to fund acquisitions) this growth was diluted to a 2% drop at the earnings level to 204c (206c).

A strong balance sheet and improved cashflows increased dividend payout 15% to 52c (46c) a share M & R said it was negotiating with Federale Volksbeleggings for the 100% acquisition of Firestone tyre maker Fedstone. 94% of automotive components manufacturer Trichamp Components and 38% of shock absorber manufacturer Gabriel.

The group plans to take out minorities in engineering subsidiary Genrec which will be delisted. It is understood Genrec minorities will be offered one M & R share for every four Genrec shares.

Negotiations are still in progress for the purchase of 42.33% stake in Blue Circle from the UK parent for more than R400m. Market sources said M & R could use a combination of cash and new shares to fund the acquisitions. At end-December Murray & Roberts Share price, weekly close (cents)

91

A S O N D J F

M & R had cash and borrowing facilities totalling R662m.

Commercial director Jeremy Raclhiffe said the rationale for taking out Genrec minorities was that the shares were tightly held. M & R and Genrec management jointly hold 93% of equity, leaving 7% for outside shareholders.

Turnover rose 18% during the review period from R2.24bn to R2.65bn. Operating profit before interest jumped 33% to R190.5m, with the pre-interest margins improving from 6.4% to 7.2%. The star performer here was the suppliers and services division which increased its contribution to group pre-interest operating profit by more than 200% to R78.2m, or 41% of the total. A large chunk of this came from new acquisitions Darling & Hodgson and transport group Untrans.

The engineering division, boosted by completion of three draglines before December, increased its contribution 22% to R42.8m. Construction was up 15% to R41.3m, while the industrial division’s contribution fell from R39.2m to R24.7m.

Although contribution from properties dropped to R10.4m (R11.5m), Raclhiffe said the division had developments valued at R1bn in progress. It had also concluded a new contract with Eskom for the development of the Westville Pavilion in Durban. Raclhiffe said existing developments would start contributing to group profits only from financial 1993.

The group’s effective tax rate was static at 40% with the tax charge increased R18m to R71.5m. Outside shareholder’s interest jumped to R10.9m, shaving growth at the attributable earnings level to 29%.

Raclhiffe said M & R was well placed to benefit from any upturn in the economy. He said its business portfolio was now well balanced, with an exposure to gross domestic fixed investment (GDPI) and industrial consumables. Despite the exposure to GDPI, M & R had shown growth when fixed investment was declining. After increasing 2.8% in 1990, GDPI dropped 5.1% in 1991 and is forecast to fall further by a real 5.5% this year.
All merger deals approved

IN its first year of operation, the Securities Regulation Panel had approved all of the nearly 60 merger and takeover deals referred to it, executive director Doug Gur said yesterday.

Gur said that although the panel had not rejected any of the deals, it had requested minor modifications in some cases.

The panel was awaiting documentation for another 10 mergers or takeover deals.

In the past 12 months the panel had also investigated 10 cases of price fluctuations and high trading volumes on shares of companies that had announced, or were expected to announce, deals.

However, the panel had not been able to find any cases of insider trading in the 10 instances.

Gur added that the panel was due to release practice notes shortly to clarify certain areas of the takeover code and also resolve problem areas.

The panel, a statutory body, went into operation on February 1 last year.

Gur felt the panel had been busy compared with its counterparts in the UK which were involved in between 100 and 250 deals last year. The London Stock Exchange has about 10 000 securities listed, compared with 700 or so companies on the JSE.
Strong rally in leading industrial shares

An early start to window dressing of share prices ahead of institutions' February year-end was said to be the driving force for a strong rally of leading industrial shares on the JSE yesterday afternoon. The almost 1% rise in the industrial index to 4,401 points came on generally thin trading but was helped by improving political sentiment and another overnight record close on Wall Street. Mining shares also came to the fore on the back of renewed weakness in the rand and a resurgence in precious metal prices. After clawing its way back from five-month lows to go above $350 in London, gold was swept up more than $6 on the day to a high of $350 an early New York dealings. The uptick came on a lower dollar in what some observers described as a short covering rally in a bear market. The metal eased slightly to close at $353.20 in London. Platinum was also on the rebound after the scare that US company Coors had developed a catalytic converter. The price rose nearly $10 to go back to the $560 level.
IDT opts for aggressive investment

THE Independent Development Trust (IDT) devised a unique set of investment guidelines for the management of its R1bn portfolio. IDT finance director Janne Kitsoff said this week:

"They were chosen for their expertise in managing short-term fixed interest security portfolios. They were also chosen because of their size and their financial soundness as institutions," Kitsoff says.

Management of the IDT’s funds was either taken over by a specialist portfolio management division or the money market division of the institution.

Although there was uncertainty over the duration of the trust, it was assumed for the purpose of portfolio management that, in the absence of an additional inflow of funds, the assets of the trust would be exhausted over a likely duration of two years. The liabilities were estimated to have a maximum maturity of two years. To limit the exposure of the fund to adverse interest rate movements, a maximum duration of three years was set.

In terms of the investment guidelines, no more than 25% of the total funds under administration by any one portfolio manager could be exposed to banking groups with shareholders’ funds in excess of R1bn or any of their wholly owned subsidiaries. These groups were FNB, Standard Bank, Investment Corporation, Absa and Nedcor. The maximum maturity of instruments in this category could not exceed three years.

Net more than 10% of the fund could be invested in the Bank Holding Corporation of SA (shareholders’ funds in excess of R10bn) or its subsidiaries, with the maximum maturity of investments being limited to two years.

For financial institutions with shareholders’ funds in excess of R10bn such as NBS Holdings and Rand Merchant Bank, a limit of 25% of the fund was laid down and the maximum maturity of investments was one year.

No limits were placed on investments in bills, bonds and securities issued or guaranteed by the government, Eskom and the Post Office. A limit of 30% of the fund was placed on instruments issued or guaranteed by Transnet and the Land Bank. SA Housing Trust, Development Bank and Umgeni Water Board instruments were limited to 10% of the fund.

Guidelines were also laid down on the use of options. Kitsoff says the IDT has been pleased with the performance so far.
ECONOMY & FINANCE

Standard Bank Investment Corp MD Eddie Theron says that, in his company's experience, the average size of individual bad and doubtful debts is far lower now than it was in the last recession — 75% of the bad debts last year were worth less than R500,000 and only a handful were more than R3m.

Small business
This indicates that the stress is being felt most by small businesses and individuals.
This trend is confirmed by other banks says Nedbank's Jack de Blanche. "The bigger firms were more prepared, following their experience the previous time around."

Says Standard Bank group economist Nico Czyronka. "The nature of the two recessions is very different. Within a year of the start of the last downturn, we were right in the middle of a very deep recession. A number of large companies were highly geared and very vulnerable."

"Generally speaking, larger companies are now soundly financed and have vigorously rationalised. This has included laying off substantial numbers of people. It is the small, undercapitalised companies that have been worn down by the prolonged period of high interest rates, aggravated last year by negative cash flows."

On the bright side, the home-loan position has changed for the better. SBIC's Duncan

BAD DEBT 28/2/92

Little acorns

The pattern of bad and doubtful debt emerging in this recession differs from the pattern seen in the 1985-1986 recession.

EM 28/2/92 (232)

Rookie reports that the incidence of new repossessions is slowing. First National Bank's Andre Latre also reports a slowing in the rate of repossession. De Blanche reports "almost no repossessions."

"This suggests that borrowers have acclimatised themselves to high mortgage rates over a period of two-and-a-half years," Czyronka says.

It appears that some banks have been conservative in their lending policies, cultivating their customer base. Those that have moved into riskier markets have been fully aware of the potential risks.
TOM's slow start not is abnormal — expert

THE slow start to the JSE's traded options market (TOM) is not unique, international options specialist Ivers Riley told brokers and institutional fund managers this week. Since the TOM's opening in January, the new market has handled only 60 or so trades. At the opening, TOM manager Jonathan Sums reckoned that 300 deals were needed each day simply to break even.

Riley, brought to SA by the JSE, illustrated this by pointing out the Chicago Board Options Exchange took five years to develop.

He told the brokers that now the JSE's TOM structure had been set up, the next priority had to be to increase its liquidity. But the public needed to be educated if TOM's liquidity was to rise, he added.

Riley said that, although no two market places were the same, he believed the JSE could learn some valuable lessons from mistakes made when option markets were established abroad. The biggest mistake abroad had been to treat options and equities markets as separate entities.

"The options market must be related to the equities market that underlies it from the day it opens. For options to thrive, equities must thrive."

Education

Riley, who helped establish the options market on the New York Stock Exchange in 1983, said statistics overseas had shown that changes in the liquidity of equities and options markets were closely related. They had also indicated that the presence of an options market had contributed to the liquidity of the equities market.

In the case of the Chicago Board, the options market re-energised the brokerage firms by attracting the institutions back to the stock exchange. Evidence had also shown that institutions changed their patterns of doing business significantly when options markets emerged.

Riley believed that, apart from the need to educate the public on options, another reason for the slow start related to institutional dominance on the JSE. "Individuals constitute about 30% of the total market in the US, whereas the figure is closer to 10% in Johannesburg. Individuals are more inclined to move into the options market sooner as they do not have to go through the laborious process of getting board approval before playing in the market."

Riley dismissed the concern expressed by some local institutions that the underlying equity market was not sufficiently liquid (Equity shares have to be traded when an option is exercised to meet the commitment attached to the option).

JSE outgoing president Tony Norton said although he was concerned about TOM's slow start, he was heartened to hear overseas experience had shown this was not abnormal. "The challenge now is to get the education side going, as it has been shown abroad that liquidity rises once this is done," he said.
Safe unit trust plan is good entry point

For most people, owning property means owning a house or, perhaps, a farm either where they intend to build their retirement home one day. Some may venture to buy a second house or perhaps a couple of apartments to bring in some rental income, but there are not many individuals who have explored the possibility of buying into office blocks or shopping centres.

However, there are several ways to do just that and they are worth exploring as alternative investments to equities. Probably the easiest way to get into the property "big time" is to put some money into a property unit trust (PUT). These are something like ordinary unit trusts, in that you are buying a chunk of a still-listed portfolio and participating, with other unit-holders, in the income from that portfolio. In this case, the income comes from rentals in commercial buildings. The main difference is that the activities of the put managers are restricted to investing in a broad area of property-owning companies and that they are "closed-end" trusts.

This means that there are a set number of units which can only be increased through an issue to existing unit-holders. It also means that there is no guaranteed buy-back of your units by the management company.

The advantages of PUTs are that they are particularly safe investments and that the entry levels are relatively low.

PUTs are regulated in terms of the Unit Trusts Control Act and have to be properly managed by a professional team of real estate specialists.

This gives you the opportunity to invest in a carefully chosen, well-located commercial properties, without specialized knowledge. But, because most PUTs specialise in offices, shops or factories, you can choose where to put your money, depending on your own feelings about the likely fortunes of say, the service, retailing or manufacturing sectors of the economy.

However, the diversified portfolios of property trusts (the actual buildings in which your money is ultimately invested) mean your risk is spread. In other words, rental issues from vacancies or from a fall in geographic popularity, in one building, will tend to be smoothed out by another building in the portfolio doing better.

Although there is no guaranteed buy-back of your units, they are marketable on the stock-exchange through a broker. This makes the investment much more flexible than one directly into a building itself. And you can adjust your investment portfolio quite rapidly.

By law, you can own at least a minimum of 50 units in a PUT. The minimum is set at R1 000, but a new investor buying the minimum number of units would have paid R200 — quite a small amount compared with investments in other property investment vehicles.

PUTs enjoy a special tax position. John Hayner, of stockbroking firm Pransel, Max Pulack & Co, explains that one has to choose whether the trust or its underlying property companies pay tax, which means that dividends paid to the unit-holders are free of tax at source.

However, the fact that PUTs do not pay company tax means that these dividends, usually paid every six months, are regarded as interest, and that individual investors will be taxed on them according to their own marginal tax rates. At the moment, only the first R2 000 a year of interest income is tax-free.

If you have a minimum of R1 000 to invest, you could put it into a participation mortgage bond (partbond) These are property-related schemes run by several financial institutions eg a mortgage on a house usually owned by a shareholding company, of which you, the investor, are a shareholder. Thus you actually own a specific "slice" of the building.

The usual period for building repayment, which is passed on to the investors after deduction by the management company of running and maintenance costs, as well as a small administration fee. This gives you a regular income, usually 11 percent a year, payable quarterly in arrears.

However, the value of the building, as a saleable commodity, also rises over the years, boosting your capital invested.

Professional management ensures that the risks are reduced. The reputable institutions offering syndication schemes have expertise to identify and buy buildings with good potential, and to optimize this potential in terms of keeping it fully occupied and properly maintained.

The major advantage of a syndication is that you can negotiate the sale of your share of the building to any other person at the market value at any time.

The capital gains on such sales are often exceptional (and not yet taxable).

P. T. D. Fox
Small brokers in good shape despite bad times

By ROBIN PECLER

SMALL stockbrokers are learning to survive in a market that was previously considered too small to support them.

Two years ago it was thought that the JSE needed a daily turnover of R100-million for brokers to survive. Nowadays this figure is reached only occasionally, but only one firm has defected.

The brokers interviewed for this article did not want to be named.

Broker A says that even though business is slow, it is important to be able to control overheads. Low costs help survival. When business dwindled, there was scope for cutting costs, mainly by reducing entertainment and staff numbers.

Up to last year, JSE administration charges were rising rapidly, but there has been some relief and computer costs have been reduced.

Broker A relies on individual investors and a couple of small institutions. The firm also undertakes portfolio management and favours niche business.

Broker B is another compact firm and has done good business even in the quietest times. It deals mainly for private clients and banks operating on behalf of individuals. It has a strong research analyst. Even in boom times, the firm's overheads were kept low.

It may appear surprising that a few new stockbroking firms have appeared. Broker C was established a year ago after being part of a much larger firm. Its members preferred to be independent and did not want to bear a share of the large firm's heavy costs.

Their operation has met high expectations. There is a good client base, including managed portfolios. The firm does not specify a minimum amount of capital for clients.

If the client prefers unit trusts, the firm will deal in them. Its older clients prefer unit trusts for safety. The firm occupies a small office and has minimal overheads.

Broker D also became independent recently. Here the motivation was similar to Broker C's.

Uphill

Broker D's business is a mixture of institutions and private clients. For institutions it specialises in good administration and dealing rather than concentrating on research.

Medium-sized brokers are less well placed. They cannot reduce staff numbers below a certain level and this entails renting large premises.

Brokers E and F rely far less than before on individual investors and have cut the size of their portfolio management teams. They concentrate on institutional business.

Research teams are compact and the brokers look essentially for niche areas which the larger firms neglect.

Because so many brokers are chasing a limited amount of institutional business, the institutions are deluged by their reports on leading companies, such as Barloworld and Sasol. They read the reports which have been written by analysts they know well and throw most of the others away.

To attract the attention of institutions takes time, though it helps if the broker visits them and makes a presentation. It is uphill work, so the more nches and neglected areas the brokers' research teams can find, the better.

At current levels of JSE turnover, some brokers do well, but several are losing money. Many, both large and small, depend on short-term jobbing to balance their books.

Some are staking their hopes on a favourable political settlement. The renewal of uncertainty and return of confidence should lead to better markets.
Scramble as market shortage dips

THE month-end scramble in the local
money market got under way towards the
day of last week with the market shortage
slipping sharply to R84bn on Thursday
from a previous R1,76bn.

Dealers attributed the sharply lower
market shortage to tax payments falling
due. They also said there was a lot of
money flowing through the system to
finance a special rights issue by Gencor.

Meanwhile, the Reserve Bank continued
its liquidity-jeaning operations last week
with a series of special Treasury bill (TB)
tenders. On Friday the Bank's special
two-day TB tender was sharply under-
subscribed, with the Bank receiving only
R200m at an average rate of 16.39% for its
R1bn worth of bills on offer.

Dealers said the bad response to the
Bank's special issue could have been due to
the relatively high rate of 16.39%. Corpora-
tes could get similar rates on call and, at
month end, the smaller institutions did not
have the kind of money lying around. With
helter-skelter month-end activity and general con-
fusion over how cash flows will go, the
Bank's offer was not all that attractive.

Hopes of a cut in official interest rates
are still running high, but most analysts
expect Reserve Bank Governor Chris Stals
to hold out until after the reform referen-
dum on March 17 and until he has seen the
fiscal thrust of the March 18 Budget.

February's inflation rate is due out
about three days after the Budget, and Stals
could wait for some signs of success in the
inflation war.

Turnover suffered on the capital market
as traders were diverted by two contrasting
events - the political nervousness in
the run-up to the referendum, and the mid-
week World Cup cricket match in Austra-
lia. The screens players were watching
tended to feature scores and bowling anal-
yses instead of prices and yields. Confi-
dence that the referendum would result in
a "yes" majority kept yields on the bench-
mark Eskom 106 comfortably below the
16.5% level.
Call to deregulate the health sector

PROPOSED amendments to the Medical Schemes Bill would go a long way towards containing the soaring cost of medicines, National Health Department director-general Coen Slabber said at the weekend.

Addressing a forum convened by National Health Minister Rina Venter to discuss the cost of medicines in the private sector, Slabber said there was considerable support for deregulation in the health sector.

Representative Association of Medical Aid Schemes executive-director Rob Speedie said the expenditure of medical schemes had increased by 24% last year, and that the only way to contain these costs was to allow more deregulation.

Deregulation is seen as the answer to escalating costs in healthcare as it promises to give medical schemes greater flexibility to negotiate packages with doctors, pharmacists and clients to tailor programmes.

The Bill aims to do away with fixed fees and amend the scale of benefits and maximum and minimum benefits payable as these are seen as contrary to free market principles.

Slabber said the forum had also accepted that pharmacists, despite being the most accessible healthcare practitioners, were the most under-utilised and that they could provide a lot more in terms of primary health care. It was agreed they should be given more authority in terms of diagnosing and dispensing medicines.

The main discussion, at the forum, centred around granting pharmacists greater professional discretion by allowing them to supply schedule three and four drugs without prescriptions. Pharmacists can supply only unscheduled and scheduled one and two dispense greater freedom to sell cheaper generic drugs in place of brand name equivalents was also agreed on.

Another issue discussed was introducing single exit prices on sales by pharmaceutical manufacturers. Single exit prices would prevent manufacturers from giving certain medicine suppliers an unfair advantage by preventing them from offering medicines to suppliers at different prices.

At the moment, some dispensing doctors can obtain medicines more cheaply than pharmacists. Venter proposed removing restrictions on parallel importing. Current legislation prevented importation of medicines manufactured in SA.

Anomalies existed where, for example, SA-manufactured medicines are available more cheaply in Gabon than in SA.

Slabber said it was unfortunate that left-wing health organisations had elected not to attend as they would have made a positive contribution, but admitted the Department was on a "learning curve" in dealing with consultation. It is expected there will be more "talks about talks.

Medical Association of SA secretary-general Hendrik Harthom said that if the department wanted to affect change it needed the support of all parties involved. He said the department needed to take greater care in the process of arranging such forums to ensure all groups were represented.

Slabber said proposals to reduce the high cost of medicines would be circulated to all groups concerned for consensus, including those which stayed away from the forum.

The recommendations would then be put to Venter and discussed at a meeting in October. Then the recommendations could be incorporated into a National Medicines Policy.
Quiet first day as Venter moves up 5c

THE first day of Venter Leisure and Commercial Trailers (Venter) on the JSE yesterday was characterised by a reasonable amount of trade, but not much in the way of share movement.

The share opened in the morning at 150c, in line with the issue price, and closed just 5c higher at 155c.

Soon after opening Venter went up to 155c and stayed at this level, although some shots tried to get 165c, with no takers.

Analysts said yesterday that the day's trade was in line with expectations, and the listing had not created much excitement in the market.

The last trade of the day was a bear sale at 155c, which suggests that some investors think the share will go down.

Yesterday's listing follows a R25.5m share offer of 13-million ordinary shares. The private placement of 13-million shares was fully subscribed, and the public offer of 4-million shares 11% oversubscribed.
The negotiations on a new bilateral air services agreement between SA and the UK are taking place against an inexorable movement towards deregulation in Western Europe. That trend has profound implications for SA and its national carrier.

As Bob Ebdon, British Airways' head of government affairs, sees it, no airline that operates services into the deregulated EC after January 1 will be able to maintain regulation in its home market.

"Europe is seeking to remove barriers to trade and aviation is just one part of that," Ebdon said in London last month. "The EC is pushing for a liberal, open and competitive environment. In return for such a system here, we will expect liberal, open systems in other countries."

The reward for such willingness to embrace competition is, BA believes, vastly improved prospects for expansion. On the SA route, for example, he insists that BA has no objection to the introduction of competition from Virgin Atlantic Airways.

"Our experience has shown that there is no point in resisting the entry of additional British carriers," he says. "We object only if their access hampers our opportunities to do what we want to do. It's foolish to say we want a liberal agreement and at the same time try to restrict the access of other airlines. Increased access will give us an opportunity to promote and expand the route."

The new bilateral agreement is expected to eliminate many of the restrictions on the SA-UK route. The way could be cleared for one or possibly two new airlines — Virgin Atlantic and Fitestar — to begin to serve the route. Representatives from BA, SA Airways, Virgin Atlantic, the Department of Transport and the British Embassy met in Pretoria last week for the first round of talks. They are expected to meet again in London in the next few months.

The reciprocal nature of the current agreement prevents BA and SAA from fully developing the route because sanctions forced SAA to fly around the bulge of Africa. This pushed up SAA's costs and helped to maintain high fares for both airlines on the route.

"But if we are free to operate a normal, nonstop service, as we want, to fly direct to Cape Town or Durban, we are confident we will expand the market and make more money," Ebdon says.

Certainly, BA is well-placed to take advantage of a freer environment. It is one of perhaps 20 world airlines (among the top 200) that makes an operating profit. Latent results show that in the nine months to December the airline recorded an operating profit of R1.6bn — 13.5% better than the previous year.

"What we have now is a regulatory system that keeps airlines in existence that would not be there in a normal economic environment," he says.

Therefore, the cost of deregulation, almost inevitably, is short-term turmoil that may well result in many airlines going under. The new ones that start up will also have a tough time. Salomon Brothers' airline analyst Julius Maldutis says deregulation in the US in 1978 brought 178 new airlines into existence.

"Only one survives today and that is in Chapter 11 bankruptcy. Mergers caused 22 of them to disappear. Others reorganised."

With a pronounced shift from domestic to international travel by Americans, he adds: "There will be further asset sales and acquisition of international routes by the stronger companies."

Will the same thing happen in Europe? Maldutis believes not. "This is because no government will permit its national flag carrier to disappear. In Europe, you are seeing a consolidation and disappearance of the smaller charter carriers."

"Far more important is the globalisation of the airline industry, in which national airlines are looking for partnerships or engagements with other national airlines. To survive in the international arena you will have to be a global airline."

Tie-ups have been negotiated or mooted, involving Swazair, Delta and Singapore Airlines, BA and KLM, and Japan Airlines and Lufthansa. These last two groups are reportedly looking for further expansion via a link with a US airline. Where does this leave small national carriers such as SAA? "They will survive," Maldutis says. "There is plenty of room for niche players to make good profits. There will be continued growth for smaller specialist airlines."

The lesson of privatisation at BA — which Maldutis regards as "one of the great success stories of the last decade" — is significant for all government-owned airlines, says Ebdon. "BA was not profitable when it had huge government support. Now it operates on a commercial basis and makes money. I would hope governments would see that running airlines is a matter for business people."

Deregulation will inevitably lead to consolidations of airline power in Europe, he agrees. Five or six mega-airlines may end up handling most of the European travel business. But this won't mean less competition. "Regulation should create a more competitive environment, even if it means fewer airlines. You will have a few mega-airlines competing very fiercely."

Mega-airlines: are they ready for open skies?
Amic able to limit decline in profit

William Gilfillan

A modest recovery in the second half helped limit the profit decline at Anglo American Industrial Corporation (Amic) to 11% when it reported attributable income of R401m for the year to end-December.

Earnings a share at the industrial blue chip fell 12.5% to 75c from 86c a share on an increased number of shares in issue. However, the group managed a 6% rise in earnings in the second half of the year after the first half's 26% decline.

A final dividend of 24c a share has been declared giving an unchanged total dividend of 35c a share for the third successive year.

Although turnover increased to R6.6bn from R5.1bn, income from its operations dropped 24% to R4.5bn from R5.7bn. Amic's share of earnings of associates declined to R205m from R222m.

The decrease in Amic's attributable income was also limited by the sharply lower tax charge, which dropped to R50m from R125m.

Retiring chairman Graham Boustead said the marked deterioration in economic conditions worldwide as well as the deepening of the recession in SA, resulted in many of Amic's subsidiaries and associates reporting lower earnings for the year. But he predicted that 1992 earnings would increase modestly "on the basis of a progressive improvement in trading conditions in Amic's markets, aside from the gold mining industry, towards the year-end."

Subsidiary Highveld Steel & Vanadium (Highveld) last month reported attributable income of R26.5m from R200m in 1991. Its R125m while major associate AECI's attributable income dropped to R65m from R181m.

Amic

Come dropped to R187m from R230m in December.

Boustead said attributable income at paper company Mondi and NTE, both 53% held by Amic, increased 18% to R110m.

But associate Sanoncor, the motor vehicle manufacturer in which Amic had a 19% stake, reported lower profits.

Directors said group capital expenditure for the year totalled R700m, of which R672m related to expansion projects and the balance to asset replacement.

Boustead warned that unless the inflationary spiral and associated wage expectations were brought under control, many jobs would be lost as industry moved progressively from labour-intensive to capital-intensive operations.

Owing to the current world recession, Boustead did not believe the withdrawal of international sanctions would have any immediate effect on Amic.

"But as the group's trading base will broaden over a period of time following the lifting of sanctions, it will be well placed when markets improve," he added.

Leslie Boyd has replaced Boustead, who announced his retirement yesterday, as chairman. Boyd has been associated with the group for the past 22 years. Hilton Davies and Tony Trahar have been elected deputy chairman.
Brokers come a cropper as JSE stalls
Masterbond losers explore recovery

This would be "inevitably more" than investors would get if they agreed to the curatorship. "The second avenue of recovery would be to investigate the personal estates of people responsible for the administration of the Masterbond group," said Mr Levine.

The Companies Act applied personal liability to people who carried on business in a reckless manner with intent to defraud, or which caused losses to investors and creditors.

Another avenue was open to those who had invested money with Masterbond through brokers and were never allocated secured debenture bonds. This could be the personal liability of directors of the companies concern end.

The third avenue of recovery to be investigated would be the financial brokers, said Mr Levine.

"I am sure most of you were advised by a financial broker to put your money into Masterbond because there was an extra percent of interest to be gained.

"What they did not tell you, I'm sure, was that Masterbond was offering commissioners and kickbacks way beyond the norm in the industry at the time.

"If these brokers had done their work properly they would not have put you in Masterbond."

The fourth avenue of recovery was through the financial authorities. Thus included the Reserve Bank and others who had found irregularities in Masterbond's affairs as long ago as 1985. At the time, the attorney-general of the Cape declined to prosecute, but the financial authorities recognised that they had to safeguard investors' funds.

The fifth avenue of recovery was to determine whether the auditors had been remiss in their duties, said Mr Levine.

Money Matters

Magnus Heystek

Inflation is a fact of life. For the time being, the average investor and the reasons are not hard to find. They include inflation beating investment returns over a long period, ease of entry and exit, and a great deal of liquidity and flexibility. In short the ideal stock market investment for the average investor who does not have the time or the knowledge to follow the upward and downward moves of the Johannesburg Stock Exchange on a daily basis.

At the end of 1991, the number of unit trust accounts was rapidly approaching 900 000 with the number of individual unit trust holders approaching 200 000. However, it needs to be pointed out that it took the unit trust industry more than 26 years to achieve this total. In contrast, it took M-Net barely five years to sell half-a-million decodes. "Makes one think, doesn't it." Unit trusts have always suffered from a rather lacklustre marketing effort. This is likely to change after the increase in the service fee by 50 percent earlier this year. Now it becomes more profitable to market unit trusts as opposed to alternative equity-linked investments.

Broadly speaking there are three types of unit trusts; general equity funds, specialist equity funds and the income funds.

As the name implies, the general equity funds are investments in virtually all the sectors on the JSE. During the past 10 years, the investments across the whole of the JSE, the risk is reduced considerably. The average investor simply does not have the time and the knowledge to pick the winners and discard the losers. This is done for him or her by the professional unit trust fund-managers who are trained to do this job for eight hours a day, every day.

Over time, the general equity funds have consistently beaten the inflation rate. Over the past 10 years, the average compound return (capital appreciation plus income distribution) has been more than 25 percent, compared with an average inflation rate of 15 percent. Another factor which works to the advantage of the smaller investor is that regular and small investments can be made into unit trusts. It is not possible for the average investor to invest amounts as small as R50 a month on the JSE.

So why should the smaller investor lose out on the inflation-beating returns pro-
Bidvest pulls off spicy deal

By JULIE WALKER

BIDVEST' chief executive Brian Joffe makes it sound like the script for an episode of Dallas when he says: "What have we bought in Crown? We've bought the movie rights."

In January, his company bid for control of Murray & Roberts' Crown Foods, clearly a misfit in the industrial conglomerate but right up Bidvest's street.

The point of offering 85c a share — slightly above net asset value but a huge premium to the market price of Crown shares at the time — was that in Bidvest's opinion up to R17-million worth of assets were not productive.

More effective asset management would have allowed Bidvest to realise that R17-million, according to initial calculations so to pay R23-million for Crown quickly to get back R17-million seemed to Bidvest a good deal.

Two weeks ago Crown was suspended at the request of the directors and queries were raised about the net asset value.

A due-diligence audit and a Bidvest ear close to the ground brought to light irregularities in the space division of Crown. In short, plenty of stock had been stolen — two heads have rolled.

But there is an ultimate irony to the tale. Instead of

Bosal gets two plants

BOSAL Africa has celebrated its 40th anniversary with the opening of two plants — one in Pretoria and the other at Umgeni.

The Pretoria plant in Waterloof will make exhaust systems for trucks, buses and industrial use. It will also make long-life stainless steel exhaust systems.

The R17-million Umgeni plant will manufacture autocatalysts, mainly for the European market.

EXCITING FRANCHISE OPPORTUNITY

Here's the business break of a lifetime! Become part of a rapidly growing nationwide chain of competitively positioned quick-fitment centres fitting big-name exhausts, batteries, shock absorbers, towbars, sound and security systems, etc. The name? AUTO-FIT.

Backed by Samcor

The South African Motor Corporation (Samcor) is a major player in the replacement parts business. With this backing, Auto-Fit outlets enjoy the benefits of centralised buying power.
Record issue of debt summonses

GERALD REILLY (232)

PRETORIA — More than 1-million debt summonses were issued last year — a new record, Information Trust Corporation (ITC) CR Tony Leng said yesterday.

This was 13% higher than the last peak of 965,314 summonses in 1986.

About 50% of the actions resulted in judgments, which totalled 519,703 last year — another record figure.

Leng said the value of judgments against individuals had increased at a compound rate of 26% since 1989.

The average 1988 judgment was R1,906 compared with an average R4,779 judgment last year, indicating consumers had been committing themselves way beyond their ability to pay.

Sequestration of individuals rose by 17% in 1990 and 23% last year to 3,916.

The increasing trend of larger court actions was an early warning signal that 1992 insolvencies would reach the 1986 level of 4,510.

The incidence of bounced cheques was also rising sharply with about 30% more individual judgments compared with 1990.

Leng said there was a 34% increase in summonses against business enterprises last year but judgments increased by only 13.8% indicating better responses to repayments demands.
Business mood is static ahead of poll

Sharon Wood

BUSINESS expectations of an economic upturn have been put on hold ahead of the referendum and Budget, as shown by static business confidence levels in February.

The SA Chamber of Business's business confidence index released yesterday showed confidence levels remained at 97.4 in February for the third successive month. The index showed consistent monthly declines between May and December last year.

Political developments had become a focal point following the announcement of the referendum. Sacob chief economist Ben van Rensburg said: 'The influence of political developments on business sentiment in the previous few months had waned. "Issues which had appeared resolved are now once more open to question and newly forged international relations could once more be in jeopardy," he added.

"However, irrespective of the outcome 1992 will remain a difficult year for the economy in view of the drought and sluggish world growth," Van Rensburg said.

The decline in exports and retail sales and a continued high inflation rate in February suggested the economy had not yet switched into recovery mode, he said.

Report by S Wood TEL 11 Diagonal St JHB
Creditors sue Wolinit directors

The directors of Wolinit, a liquidated subsidiary of Rentmeester, are being sued in the Pretoria Supreme Court for almost R2m for allegedly recklessly carrying on the business of the company in circumstances of insolvency.

Fourteen textile companies, all unsecured creditors in the insolvent estate of Wolinit, claimed the directors were jointly and severally liable for Wolinit's debts and liabilities incurred between July 1, 1987 and November 20, 1989.

Wolinit was placed in liquidation by a special resolution of its members in November 1989.

L. Goldblatt, representing the textile companies, told the court that at the time creditors were led to believe Wolinit had the backing and support of the "mugby" Rentmeester group which would look after Wolinit's creditors' interests.

Creditors had received a "so-called letter of comfort" claiming Rentmeester's support would enable its subsidiary to meet commitments.

Court papers before Mr Justice Deon van Zyl stated Wolinit's 19 directors recklessly carried on its business by failing to record the registration of a general notarial bond of R1128 000 over the personal and movable assets of Wolinit in favour of Trebbo Beleggings. They also failed to disclose the bond to company auditors.

The directors allegedly further permitted accounting and financial reporting to be done which reflected a misleading financial state and carried on the business of Wolinit in circumstances of actual or commercial insolvency.

They also permitted Wolinit to continue making purchases and incurring and increasing credit, knowing that the company would not be able to meet its obligations. Wolinit was permitted to become undercapitalised and the directors failed to rectify the situation.

The textile companies asked for an order declaring the directors personally liable for all Wolinit debts incurred after July 1, 1987 and asked the court to order them to pay R1 896 304 to the plaintiffs.

They are Philotex, Union Spinning Mills, Gregory Knitting Mills, Textilanes, Brantex, BMD Knitting Mills, Areada Textile Mills, Yhak Textile Industries, SA Fine Worsted, Yarnets, Tricot Fasteners, Da Gama Textile, D Cooper & Sons and Martineh Textured Yarns.

The matter was stood down until tomorrow.
Unit trust accounts now close to a million

By Derek Tommey

South Africans are coming close to operating almost one million unit trust accounts, reports Clive Turner, chairman of the Association of Unit Trusts.

He says in his annual review that the strong rise in equity prices in 1991 led to another excellent year.

Total assets rose almost R4 billion to R11,4 billion while the number of accounts rose by 203,000 to 938,000.

Unit trust sales topped R2,9 billion while repurchases rose to R1,5 billion resulting in a net inflow of R1,4 billion.

Sales and repurchases were at record levels.

This followed a year when the unit trust capital index had a marginal decline of 1,5 percent and occurred in a year when the index gained 27,4 percent.

Longer view

Mr Turner said the continually growing level of sales at a time of a somewhat volatile stock market environment reflected the growing contractual sales and a propensity by new investors to take the longer view.

The higher level of repurchases, while mirroring some concern among unit holders at the vulnerability of the current level of prices to a correction, was also a factor in the expanding size of the industry. It would always be subject to a certain level of repurchases, he said.

During 1991, the general equity trusts achieved an average annual return (capital appreciation plus income) of 34,2 percent and 19,7 percent a year over the past five years.

The specialist equity funds achieved an average annual return of 10,3 percent for the same five-year period and 21,6 percent for the past 12 months.

The six high income funds achieved an average return of 16,5 percent for the past 12 months, reflecting the high interest rates.
Share incentives losing value

In the past month a host of companies — across numerous sectors — have released appalling preliminary results, with some showing profits falling by almost 50 percent.

Heading the most recent list are Highveld with a 46 percent drop, Sterlite Clothing 37 percent, Impala Plats 35 percent, Seardel 30 percent, Woolf 29 percent, Haggie 24 percent, Amcor 20 percent and McCarthy 11 percent.

Poor results do not, in themselves, represent anything new. However, these figures do identify an underlying problem centred on share incentive schemes.

In the late 1990s a number of companies offered the labour unions the option of such a scheme in a bid to temper exorbitant wage increases.

While wary of white bosses, unions nevertheless mostly took up the offer.

Now, with company profits showing minimal dividends are being paid and unions will have to face a highly disgruntled membership.

The unions are expected to point fingers at the companies and threaten industrial action.

A director of a Cape-based financial institution says “In some instances, companies were trying to bribe staff with shares. It would have been better to have offered bonuses based on personal and group productivity performances.” In essence, it is important for investors to identify which sectors could be hardest hit by increased industrial action.

Once these sectors have been noted, it would be prudent to lighten share holding in these companies — at least for the short term.

With the industrial index increasing to over 4000 points since 1990, 3000 points it is evident that not all companies have been negatively affected and it is thus necessary to identify the type of company which might be facing labour unrest in the near future.

Analysts generally believe that once the recession lifts, companies to benefit first will be those that are consumer-based. In tandem to increased turnover levels, improved profit margins and generally better results, employees will receive higher dividends on their shares and labour relations should remain calm.

However, the heavier industrial companies are not in the same position.

“Engineering, building and construction companies have seen debt levels rising to the extent that there is no light at the end of the tunnel for at least two years,” says an analyst and director of a Johannesburg-based stock-broking firm. He points out that there will not be infrastructural development until the recovery is in full swing.

These companies, he says, are most prone to labour problems.
Unit trusts advised on savings role

THE unit trust industry's role in the mobilisation of savings must increase. Association of Unit Trusts chairman Clive Turner said in the association's 1992 yearbook.

"The unit trust industry will undoubtedly have a growing role to play in the future development of the financial services sector."

The strong rise in equity prices during the year led to another excellent year for unit trusts, he said.

Total unit trust assets reached R110bn for the first time during the September quarter. Assets ended the year at R114bn, up R39bn from December 1990's R75bn.

Total unit trust sales reached a record R22bn for the year and after repurchases of R15bn, the total net inflow topped R14bn.

Both sales and repurchases were at record levels following a 15% marginal decline in the unit trust capital index in 1990 and in 1991 when the capital index again showed a meaningful gain of 27.4%.

The continually growing level of sales through a somewhat volatile stock market environment reflected higher contractual sales through systematic savings schemes, automatic reinvestment of income distributions and a propensity by new investors to take the longer view.

Turner said the higher level of repurchases, while likely to be reflecting unit holders' concern at the vulnerability of the current level of prices to a correction, was also a factor of the expanding size of the industry, which would always be subject to a certain level of repurchases.

Three particular issues handled by the Unit Trusts Advisory Committee were worthy of note, Turner said.

The committee agreed to amend legislation to allow trusts to invest up to 15% of their total assets in any company with a market capitalisation exceeding R2bn.

The existing limit of 5% continued to apply to companies with a lower market capitalisation.

It also agreed trusts could invest in up to 10% of issued share capital of companies with a market capitalisation higher than R2bn, again with the previous 5% restriction applying to companies under this level.

The committee also supported the proposed 1% annual service charge, compared with the previous 0.5% a year, fixed 25 years ago.

The Financial Services Board reviewed the decision and set the level at 0.75% a year.

Amending legislation effectively allowed the use of derivatives, but only after strict parameters had been drawn up and approved.

Turner said a sub-committee had been appointed to examine the implications of the use of derivatives.
DIAGONAL Street was set alight yesterday as foreign buying of blue chip industrials induced local institutions back into the market to lift share prices sharply higher.

The rally took most observers by surprise, the market had been drifting lower after initial views of a resounding "yes" vote in the March 17 referendum shifted to perceptions that the vote would be much closer.

"Investors are voting with their money," a jubilant dealer said as the JSE industrial index advanced 29 points to 4 309, helping to lift the overall index 20 points to 5 560. Both indices were off their highs towards the close of an active session.

Most observers were divided over the reasons for the sudden entry of offshore investors for the first time in several months.

Some ascribed the demand to investors taking advantage of a weak rand, which would firm on a "yes" vote so that they could "take a turn" even if share prices did not improve.

Others doubted that buying came on investment grounds, saying rather that demand was futures-related and could have involved some hedging. There had recently been big volumes on the all shares March contract, which would expire on Monday.

Foreign buying set the trend and domestic institutions swiftly revised earlier strategies of remaining on the sidelines and scrambled into the market to obtain shares.

The only weak sector on the market was the gold board, as the metal continued its downward drift to test key support at around $348. Gold touched a low of $347 but firmed to close slightly lower on the day in London at $348.60.

Analysts said the danger point for the metal would come if it breached resistance at last year's lows of around $342.

Platinum was fixed in London at $352.75 in the afternoon, slightly down from the morning fix but holding above Monday's $351 close.
Business is on hold until after referendum

MANY jittery businessmen are adopting a wait-and-see policy before next Tuesday's reform referendum.

They are holding back on deals running into many millions of rands and placing large sectors of the economy on hold.

A resounding "yes" majority will help restore badly-needed confidence, according to local business spokesmen. And there are hopes that it will spark off a "mini-boom" in the property market, in financial investment by the public and in some other fields, particularly if next week's Budget is a popular one.

But the outlook is bleak if the "no" votes carry the day, according to the spokesmen. A number of big deals will crash.

Not all businessmen and members of the public are marking time. The overall picture is topsy-turvy - and one Durban financial adviser, Mr. David Upfold, said that now was the time to "sell and to buy property - before the "mini-boom", which he is confident will materialise.

A multi-million rand commercial property deal arranged by estate agents JH Isaac is precariously balanced. A clause written into the agreement stipulates that it will fall through in the event of a "no" victory.

Brink Properties' marketing manager, Mr. Chris Williams, said yesterday that a R500 000 property offer had been frozen and was dependent on a "yes" vote.

He said: "The general trend is that people are looking around at properties but are reluctant to put pen to paper until after the referendum."

Share prices on the Johannesburg Stock Exchange drifted aimlessly yesterday as nervous investors mostly kept to the sidelines. Dealers described trading as directionless in jittery conditions ahead of the referendum.

Durban Metropolitan Chamber of Commerce economist Barry Poulson said: "Everyone is on tenterhooks in business circles."

A Durban travel agent said quite a few nervous people had inquired in the last fortnight about the "cheapest possible one-way ticket to the UK."

A large number of other people, who had immigrated to South Africa years ago, had now made up their minds to quit the country.

The referendum has led to the postponement of Sato export marketing consultants' Southern African Trade and Investment Conference in Johannesburg this month.

The conference will now be held on April 28 and 29. A Safi spokesman said: "We have speakers confirmed from Zimbabwe, Zambia, Kenya, Botswana, Ivory Coast and Angola as well as Europe and America. The referendum has influenced the situation and the speakers understandably don't want to be in South Africa before the results are clear."
Datakor acquires Cortech

Datakor, the information technology group has acquired computer firm Cortech.

A Datakor spokesman says the transaction is subject to certain conditions precedent and that the purchase price will be determined after a due diligence report.

It is not expected that there will be any material effect on earnings a share or net asset value in the short term arising from the acquisition of Cortech.

The spokesman added “Cortech has a good team led by John Miller and Tom Glover and there are opportunities for synergies in the maintenance and other areas”.

Managing director John Miller says Cortech looks forward to continued growth under the Datakor banner.

“We know we will have the support necessary for us to contribute to Datakor’s aim of a market share which places it in the top three in very information technology market sector in which it competes.”
KENNISGEWING 224 VAN 1992
RAAD OP FINANSIELE DIENSTE
DIE JOHANNESBURGSE EFFEkteBEURS
KENNISGEWING BETREFFENDE WYSING VAN REELS

1. Ingevolge artikel 12 (6) van die Wet op Beheer van Effektebeurse, 1985 (Wet No. 1 van 1985), word hierby bekendgemaak dat die Johannesburgse Effektebeurs by die Registrateur van Effektebeurse aansoek gedaan het om goedkeuring om sy reeëls te wysig soos in die Bylæe hiervan uiteengesit.

2. Ingevolge artikel 12 (7) van genoemde Wet word alle belanghebbendes (uitsonderend lede van die Effektebeurs) wat beswaar het teen die voor gestelde wysings, hierby versook om hulle besware binne 'n tydperk van 30 dae vanaf die datum van publikasie van hierdie kennisgewing by die Registrateur van Effektebeurse, Private Postpakket 238, Pretoria, 0001, in te dien.

BYLÆ

Algemene verduidelikende notas

1. Woorde tussen vierkantige hakies ([]) dit skrappings uit bestaande reëls aan.

2. Woorde met 'n volstreep daaronder (——) dit invoegings in bestaande reëls aan.

VOORGESTELDE WYSING VAN DIE REËLS VAN DIE JOHANNESBURGSE EFFEkteBEURS

1. VOORGESTELDE SKRAPPING VAN REËL 5.270.4

Effektebewyse in veilige bewaring

"[5.270.4 5.270.4.1] 'n Makelaarsfirma wat 'n Komitee-goedkeuring ingevolge 5.260.1 hou, vereis van sy ouditeur om ver keer per jaar (een waarvan soos aan die einde van Februari en een soos aan die einde van Augustus en twee ander by "errasings"-geleenthede) die volmachtregister te oudiete en 'n volledige oud of effektebewyse en bevestigings aan kliente van die effekte wat aldus gehou word en sodanige bevestiging van die oorblywende rekeningte as wat die ouditeur nodig ag, uit te voer. Met dien verstande dat waar 'n makelaarsfirma begin om sake te doen—

5.270.4 1.1 na 31 Mei maar nie later as 31 Augustus in 'n jaar nie, dan word vir die tydperk wat op die laaste dag van die volgende Februari eindig, drie sodanige volledige oudits van die effektebewyse en bevestigings aan kliente uitgeoef, een waarvan soos aan die einde van Augustus en een soos aan die einde van Februari en die ander by 'n "errasings"-geleenthed;

5 270 4.1.2 na 31 Augustus maar op of voor 30 November in 'n jaar, dan word vir die tydperk wat op die laaste dag van die volgende Februari eindig, twee sodanige volledige oudits van die effektebewyse en bevestigings aan kliente uitgeoef, een waarvan soos aan die einde van Februari en die ander by 'n "errasings"-geleenthed,

5.270 4.1.3 na 30 November maar voor einde Februari in die volgende jaar, dan word een sodanige volledige oudit van die effektebewyse en bevestigings aan kliente soos aan die einde van Februari uigevoer.
Koop- of verkoopprestasie | Makelaarsloon
---|---
Bo R250 000 tot R500 000 | 0,55% op 'n bedrag bo R250 000.
Bo R500 000 tot R1 000 000 | 0,45% op 'n bedrag bo R500 000.
R1 000 000 tot R1 500 000 | 0,35% op 'n bedrag bo R1 000 000.
Bo R1 500 000 | 0,20% op 'n bedrag bo R1 500 000.

(Bogenoemde koerse is onderworpe aan 'n minimum vordering van R2,20 vir enige transaksie);

plus

6.20.2.3 'n heffing van 2,4% op die makelaarsloon soos gehef ingevolge reël 6.20 2.2 om te kompenseer vir onnurke insetting as gevolg van Belasting op Toegevoegde Waarde.

6.20.2.4 beperk ten opsigte van beide die basiese vordering en die toepaslike makelaarsloon-skala tot elke van die volgende kategoriee.

6.20.2.[31]4.1 Alle . . .
6.20.2.[31]4.2 . . .

6. VOORSTELDE WYSIGING VAN REËL 14.280.1

Indeksoopsies

14.280 1 Koop- en verkoopproyse vir indeksoopsies sal uitgedruk word in rand vir die indeks.

Nota: Wysiging van slegs die Engelse Teks


SCHEDULE

General explanatory notes
1. Words in square brackets ([ ]) indicate omissions from existing rules.
2. Words underlined with solid line (——) indicate insertions in existing rules.

PROPOSED AMENDMENTS TO THE RULES OF THE JOHANNESBURG STOCK EXCHANGE

1. PROPOSED DELETION OF RULE 5.270.4

Safe Custody Scrip

"5.270.4  5.270.4.1 A broking firm holding Committee approval in terms of 5.260.1 shall require its auditor to audit the register of mandates and carry out a complete scrip audit and verification to clients of the securities so held and such verification of the remaining accounts as the auditor deems necessary four times a year (one of which shall be as at the end of February and one as at the end of August and two others on "surprise" occasions). Provided that where a broking firm commences business—

5.270.4.1.1 after 31 May, but not later than 31 August in any year, then for the period ending on the last day of the following February three such complete scrip audits and verifications to clients shall be carried out, one of which shall be as at the end of August and one as at the end of February and the other on a "surprise" occasion;

5.270.4.1.2 after 31 August, but on or before 30 November in any year, then for the period ending on the last day of the following February, two such complete scrip audits and verifications to clients shall be carried out, one of which shall be as at the end of February and the other on a "surprise" occasion;

5.270.4.1.3 after 30 November, but before the end of February in the following year, then one such complete scrip audit and verification to clients shall be carried out as at the end of February.
5.270.4.2 The auditor shall, within three months of the date to which the report relates, report in writing to the broking firm and to the Committee on every such audit and such report shall state—
5.270.4.2.1 the results of the audit;
5.270.4.2.2 whether the broking firm held a mandate signed by each client for whom the securities are held; and
5.270.4.2.3 any material matter which has come to the notice of the auditor to which, in his opinion, the broking firm should give attention. [232]

Rules 5.270 4 [5] through to 5.270.9 [10] to be renumbered”.

2. PROPOSED DELETION OF RULE 5.280.3

Minimum Cover—Pledges

“5.280 3 5.280.3.1 A broking firm which holds securities for the purposes referred to in 5.280 1 shall require its auditor to carry out a complete scrp audit and verification to clients of the securities so held and such verification of the remaining accounts as the auditor deems necessary four times a year (one of which shall be as at the end of February and one as at the end of August and two others on "surprise" occasions); provided that where a broking firm commences business—
5.280 3.1.1 after 31 May, but not later than 31 August in any year, then for the period ending on the last day of the following February three such complete scrp audits and verifications to clients shall be carried out, one of which shall be as at the end of August and one at the end of February and the other on a "surprise" occasion;
5.280.3.1.2 after 31 August, but on or before 30 November in any year then for the period ending on the last day of the following February, two such complete scrp audits and verifications to clients shall be carried out, one of which shall be as at the end of February and the other on a "surprise" occasion;
5.280.3.1.3 after 30 November, but before the end of February in the following year, then one such complete scrp audit and verification to clients shall be carried out as at the end of February.

5.280 3.2 The auditor shall, within three months of the date to which the report relates, the report in writing to the broking firm and the Committee on the results of such audit and the report shall state any material matter which has come to the notice of the auditor to which, in his opinion, the broking firm should give attention. [232]


3. PROPOSED DELETION OF RULE 5.300.4

Managed Accounts

“5 300 4 5.300.4.1 A broking firm holding Committee approval in terms of 5.290 shall require its auditor to audit the register of mandates and carry out a complete scrp audit and confirmation that cash held by JSE Trustees (Pty) Limited in accordance with the managed accounts of clients in the books of account of such broking firm at least four times a year (one of which shall be as at the end of February and one as at the end of August and two others on "surprise" occasions) and send statements to these clients and such other clients as the auditor deems necessary for verification on each of these occasions: Provided that where a broking firm commences business—
5.300.4.1.1 after 31 May, but not later than 31 August in any year, then for the period ending on the last day of the following February three such complete scrp and cash audits and verifications to clients shall be carried out, one of which shall be as at the end of August and one as at the end of February and the other on a "surprise" occasion;
5.300.4.1.2 after 31 August, but on or before 30 November in any year, then for the period ending on the last day of the following February, two such complete scrp and cash audits and verifications to clients shall be carried out, one of which shall be as at the end of February and the other on a "surprise" occasion;
5.300.4.1.3 after 30 November, but before the end of February in the following year, then one such complete scrp and cash audit and verification to clients shall be carried out as at the end of February.

5.300.4.2 The auditor shall, within three months of the date to which the report relates, report in writing to the broking firm and the Committee on every such audit and the report shall state—
5.300.4.2.1 the results of the audit;
5.300.4.2.2 whether the broking firm held a mandate signed by each client for whom a managed account is maintained;
5 300.4.2.3 any material matter which has come to the notice of the auditor to which, in his opinion, the broking firm should give attention; and
5 300 4 2.4 in instances where 5 300.5 applies, the fact that no verification of securities was undertaken."

Rules 5 300.4 [5] through to 5 300.8 [9] to be renumbered".

4. PROPOSED DELETION OF RULES 5.380.14.4 TO 5.380.14.6

Dealing in Krugerrands

"5 380 14.4 The auditor of the broking firm shall as at the end of February and August in each year audit the register of mandates and carry out a complete audit and verification to clients of the Krugerrands held in safe custody,

5 380 14.5 the auditor shall, within three months of the date to which the audit relates, report in writing to the broking firm and to the Committee on every such audit and such report shall state—
5 380 14.5 1 the results of the audit;
5 380 14.5 2 whether the broking firm held a mandate signed by each client for whom the Krugerrands are held; and
5 380 14.5 3 any material matter which has come to the notice of the auditor to which, in his opinion, the broking firm should give attention.

5 380 14.6 the broking firm shall not require the prior written approval of the Committee to retain Krugerrands in safe custody."

Note: Rules 5.270.4, 5.280.3, 5.300.4, 5.380.14.4, 5.380.14.5 and 5.380.14.6 are replaced by new directives DA.1 to DA.3.3.

5. PROPOSED AMENDMENT OF RULE 6.20

Rates of brokerage on securities, option transactions and Krugerrands:

"6.20.2 For transactions in shares and listed options and in debentures and notes which have inherent option rights or which are convertible either in whole or in part, or which are capable of paying a variable rate of interest dependent on any profit performance or proportional to the dividend on any related ordinary share, or a mixture of loan stock and equity with interest rate variable dependent on the profit performance, the charges shall be—
6 20 2.1 a flat basic charge of R30,

plus
6 20 2.2 a brokerage rate in terms of the following scale:

<table>
<thead>
<tr>
<th>Purchase or sale consideration</th>
<th>Brokerage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to R5 000</td>
<td>1.20%</td>
</tr>
<tr>
<td>Over R5 000 up to R10 000</td>
<td>0.85% on excess over R5 000</td>
</tr>
<tr>
<td>Over R10 000 up to R100 000</td>
<td>0.75% on excess over R10 000</td>
</tr>
<tr>
<td>Over R100 000 up to R250 000</td>
<td>0.65% on excess over R100 000</td>
</tr>
<tr>
<td>Over R250 000 up to R500 000</td>
<td>0.55% on excess over R250 000</td>
</tr>
<tr>
<td>Over R500 000 up to R1 000 000</td>
<td>0.45% on excess over R500 000</td>
</tr>
<tr>
<td>Over R1 000 000 up to R1 500 000</td>
<td>0.35% on excess over R1 000 000</td>
</tr>
<tr>
<td>Over R1 500 000</td>
<td>0.20% on excess over R1 500 000</td>
</tr>
</tbody>
</table>

(The above rates shall be subject to a minimum charge of R2.20 for any transaction);

plus
6.20 2.3 a surcharge of 2.4% on the brokerage levied in terms of 6.20.2.2 to compensate for irrecoverable value added tax input taxes.

6.20 2.4 Limited in respect of both the basic charge and the applicable brokerage rate to each of the following categories:

6.20 2.4 1 All
6 20 2.4 2 .....

6. PROPOSED AMENDMENT OF RULE 14.280.1

Index Options

"14.280.1 Bids and offers for index options shall be expressed in terms of [cents] rands for the index "


(13 Maart 1992) (13 March 1992)
M & R alters strategy on Genrec

MURRAY & Roberts (M & R) has dropped its plans to buy 100% of Genrec, and will now make an offer to Genrec minorities.

M & R director Lionel Bird said yesterday that the company dropped plans to acquire the entire shareholding in Genrec and described the scheme would prove expensive and M & R did not wish to be seen as wielding "the big stick" by forcing out minority shareholders.

Instead, it will now offer to buy out Genrec minorities for R16.50 a share against the current price of R14.25. Alternatively Genrec shareholders can opt for a share swap of one M & R ordinary share for every 2.5 Genrec shares.

Genrec's share price has climbed from 820c a year ago. M & R's cash offer reflects Genrec's peak share price of 1 650c a share recorded in September last year.

M & R traded at 5 700c a share yesterday so its share offer represented a R2.55 premium over the cash offer.

The announcement said fractional entitlements to M & R ordinary shares would be aggregated and sold on the JSE for the benefit of minorities entitled to it.
PRETORIA — Liquidations of close corporations and companies increased 32.3% in the three months to end January compared with the year-ago period. Central Statistical Service figures show.

However, compared with the previous three months they decreased by 10.0% to 482. Insolvencies showed a similar trend, increasing 27.1% to 965 in the fourth quarter last year, but decreasing 18.1% over the
Wine estate seeks court help

CAPE TOWN — The Boland-based Zevenwacht wine estate has brought an urgent application in the Cape Town Supreme Court to be placed under judicial management, in a desperate bid to fend off an application for its provisional liquidation.

A bid was made late yesterday to have all pending applications against Zevenwacht postponed to March 20.

The application for provisional liquidation has been brought by Christopher van Zyl, provisional liquidator of architectural firm G Colyn Mearng Early in March Trust Bank won an attachment order over Zevenwacht's assets.

Zevenwacht chairman and 65% shareholder Gilbert Colyn said in an affidavit in support of the judicial management application that Zevenwacht owed a total amount of about R15.3m, while total assets were worth R22m. Short-term liabilities amounted to R4m.

Trust Bank subsidiary Libertas Consolidated Holdings was owed R7.5m, Colmen Belange R1.9m (loan), Boland Bank R970,000 (overdraft), Trust Bank R1.3m (overdraft), provisionally liquidated Fundstrust R500,000 plus interest (loan), Zevenwacht directors about R1.75m, and divers creditors R149,900. There was also a disputed claim for R170,000.

Colyn said in his affidavit that the well-known wine estate had been crippled by its enormous interest bill. Before interest, it showed an operating profit of R823,338 in its last financial year, but after interest it showed a loss of R1.9m.

Zevenwacht has to pay Libertas a dividend of R599,375 annually on the preference shares Libertas bought in Zevenwacht and its associated companies. To pay this dividend, Trust Bank gave Zevenwacht an overdraft facility and was owed R1.9m plus interest.

To solve its financial difficulties Zevenwacht embarked on a rights offer with today as the provisional closing date. So far R180,000 had been received and Colyn said directors expected to receive a total of R400,000. A prospectus would be put out shortly to get the overseas public to invest in Zevenwacht. A total of 5.7-million shares at 21c each would be marketed in the hopes of bringing in R8.87m. Colyn said both these steps if successful would reduce the pressure on Zevenwacht.

He said a provisional liquidation order would be detrimental to creditors and said Zevenwacht should be able to work itself out of its debt.
NOW 41 FUNDs COMPLETE

UNIT TRUSTS: Greater sense of urgency sees buying gather momentum

YOUR MONEY
SHARE prices on the Johannesburg Stock Exchange could plunge by as much as 30 percent if the referendum returns a "no" vote, a top stockbroker has warned.

This could wipe out the wealth of millions of South Africans whose money is directly or indirectly linked to the country's largest investment market.

Property owners would also suffer if the reform process is halted, property analysts have warned.

The industrial community has come out strongly in favour of a "yes", warning of dire economic consequences in case of a negative response.

**Business demise**

The JSE yesterday said an advertisement that "no" would signal a "dying economy"

Leading stockbroker Sydney Frankel, chief executive of Frankel Max Pollak Vindersine, said a rejection of the South African business community.

One of the few dissenters was Jacques Theron, a partner of stockbrokers Theron & Co and a Conservative Party representative in the Johannesburg City Council.

He said neither the economy nor share prices would be affected because the country had not yet moved conclusively out of the sanctions era.

The JSE statement said it actively supported a "yes" vote so that the JSE would be able to fulfill its proper role in the economy.

"From the JSE's relative vantage point in the economy, and with its close ties with the overseas investment community, the general committee is concerned that a negative vote could signal international solation, a dying economy, foreign divestment and severely restricted foreign trade.

"While we cannot speak for all JSE members, we have a duty to point out the consequences of a "no" vote.

Frankel was even more to the point. "Some of our corporate clients have indicated they would be forced to retrace up to 30 percent of their workforce if there is a "no" vote.

"We envisage a total blockade through enforcement of sanctions that would include the United Kingdom and the EC.

He expected share prices to drop by up to 30 percent almost instantaneously in case of a "no" return.

But Theron argued that the market would be underpinned by strong cash flows from major financial institutions and pension funds. "They will continue to invest in the market, there are not many other options".

**No big impact**

While he expected foreign investors to sell their shares and this would cause a decline in the financial rand, he said they would not have a major impact.

In respect of the overall economy, Theron said he expected sanctions to be tightened but then we have boosted our trade despite sanctions over the past decade.

Financial sanctions, which had been the most detrimental, were still in force anyway. "Even after a "yes" vote it is unlikely that foreign investors will come pouring into SA."

A more sombre angle was provided by stockbroker Dr. Martin, who said a "yes" vote would be the brunt of the financial community, with the impact falling on local businesses, banks and finance houses.

Dr. Martin said he expected share prices to fall significantly, with confidence with continued sanctioning in place.

However, we do not expect a "no" vote to halve share prices because the Bank rate would be expected to fall and will have to be adjusted to the new economic climate.

"The baton of a "no" vote would be passed to the economy, which is already in a recession in Bank rate terms. The stockbroker, who was a former member of the Rand Stock Exchange, said: "A "no" vote would be a disaster for South Africa."

Dr. Martin said share prices would be lower after the announcement because of the uncertainty surrounding the outcome.

"The lack of confidence in the system and the uncertainty surrounding the outcome will cause a reduction in Bank rate terms and share prices. The changes are expected to be significant. For example, a reduction in Bank rate terms will be expected to reduce share prices by 10 percent for a "yes" vote, and 20 percent for a "no" vote."

"The outlook for the economy is uncertain, with many factors at play. However, we do not expect a "no" vote to halve share prices because of the uncertainty surrounding the outcome. The stockbroker, who was a former member of the Rand Stock Exchange, said: "A "no" vote would be a disaster for South Africa."

Dr. Martin said share prices would be lower after the announcement because of the uncertainty surrounding the outcome.
Motionless markets wait for Wednesday

NERVOUSNESS hung over a quiet and fairly dull market last week. Rates moved sideways with players reluctant to assume positions before tomorrow’s referendum, and also before the outcome of Wednesday’s Budget.

The 90-day liquid BA rate held steady at its new three-year low of 15.85% established at the beginning of last week. This rate is now at its lowest level since February 1989 when the BA rate dropped to as low as 15.25% from an initial 15.65%.

The market seems comfortable with the rate steady at its current level and, despite continued good demand for paper, there does not seem to be much scope for sharply lower rates at this stage.

The referendum result will, at least, give the markets some direction — particularly the capital market which is more sensitive to foreign investor sentiment. A “no” vote would be detrimental to foreign participation in longer-term investments but could drive money market rates down as demand for short-term paper would be much stronger.

As one dealer said “People will have to put their money somewhere.”

Meanwhile the Reserve Bank continued its struggle against strong liquidity conditions. The Bank issued two special Treasury bill tenders which were well received.

The average rate on the special issues dropped from 16.29% at the beginning of the week to 16.24% for its special issue last Thursday.

The three-month Treasury bill rate continued its downward slide last week with the average rate for the weekly tender slipping to 15.57% from the previous week’s 15.63%. Applications for the allotted R200m tended on offer amounted to R721.06m.

The money market shortage continued to drift around recent levels and fell slightly towards the end of the week to R1.032m on Thursday from R1.506m at mid-week.

The market was still looking for a cut in interest rates but expectations of an imminent drop were put on hold until the referendum and the Budget.

The next set of consumer inflation data for February is due out at the beginning of next week. Reserve Bank Governor Chris Stals can be expected to wait until the figures shed some light on the success or otherwise of the Bank’s long battle against the stubborn rate of inflation. He has remained determined to retain high interest rates until inflation is well under control.
No plans to suspend sinrand trading

Finance Staff 232

The president of the Johannesburg Stock Exchange, Mr Tony Norton, said yesterday there were no plans to suspend trading in the financial rand until the outcome of the referendum was known. STAR 18/13/92

Strong rumours were circulating at the stock exchange yesterday that no dealings would be allowed in the financial rand between 4.30 pm yesterday and noon today.

Mr Norton said the stock exchange believed that it was extremely important that all its instruments could be traded at all times.

"We like to trade, particularly in times of stress," he said.
JSE gets 'yes' boost

By Magnus Heystock

Share on the Johannesburg Stock Exchange surged yesterday as it became clear that President de Klerk had received overwhelming support for his reform plans.

The market started rising almost immediately as the first results started coming in. By the close, the overall market was 43 points higher at 5573 and the industrial index up by 33 points to 4768.

This happened despite a major strengthening of the financial rand from R3.04 in the morning to R3.20 by.

The Budget speech was delivered too late to affect the JSE but analysts are confident that the market will firm even higher today.

The "safe-haven period" for shares has been reduced from 10 years to five.

While the reaction of the business community to the outcome of the referendum was very favourable, the Budget elicited a much more subdued response.

• More reports

Pages 27 to 30
SA comes up trumps abroad

By Neil Behrmann

LONDON - South African shares and bonds soared on foreign markets as overseas investors responded to referendum results which were far better than overseas expectations.

The financial rand, South Africa's volatile investment currency, soared eight percent to 27 US cents, pulling SA securities upwards.

The performance abroad was thus more impressive than moves on the domestic market.

De Beers and Anglo American, South Africa's leading international shares, soared 10 percent to $24, and $33.75 respectively, while Barlow Rand and SA Breweries jumped five percent in London and New York.

Gold shares surged by around seven percent, despite the weak bullion price.

Bonds were also boosted by the stronger financial rand and rising demand quotes.

Thus, Eskom 186, the most liquid SA long-term bond, rose by 8.4 percent, an extraordinary performance in international bond market terms.

"I am delighted because South Africa now has such a good chance," said John Taylor, South African specialist at James Capel.

In the bleak days before the referendum he tried to persuade James Capel sales people to stop telling clients to sell SA securities.

"There was so much gloom that during the day before the referendum, 45 out of 60 orders were sales," he said.

Mr Taylor forecast that more international investors would buy SA securities and the financial rand discount would swiftly narrow to about 10 percent from the present level of 22 percent.

"It is a tremendous relief, excellent news," said Ray Davis, head of the South African Department at Smith New Court, market makers in SA securities.

"It is a rock road ahead, but at least SA is on the road," he said.

"Trade and investment decisions were put on hold," added Patrick Quarshie, an executive-director at Standard London.

"Now they will be approved." Brokers expect large US funds such as Franklin to be buyers.

With the exception of a few brokers and "gutsy individual investors", the City completely misread the sensible reaction of the majority of South African whites.

Brokers report, for instance, that there were redemptions from the M&G Gold Fund in London, forcing the trust to sell SA securities before the referendum.

Fund managers and other market participants became pessimistic, mainly because of superficial reporting from the foreign press media in South Africa.

"Obviously South Africa is not a Triple A borrower," he said. "But it is certainly not a high-risk country either.

"He rates South Africa alongside stronger South American countries and Australia.

Even applying that cautionary stance, there will still be plenty of international funds available for SA.

According to a recent report of Salomon Brothers, Latin America attracted more than $40 billion (R115 billion) of foreign private capital last year, of which $15.7 billion (R45 billion) was loans, $14 billion (R56 billion) in direct investment and privatisation inflows and $6.4 billion (R18 billion) in portfolio investment.

That compares with $13.4 billion (R46 billion) in 1989.

As a result of these inflows Latin American bond yields have been driven down to around 14 percent to 18 percent, compared with rand bond international paper of 21 percent.

Those who are selling the new South Africa short - beware!"
SLACK SA legislation has weakened the position of outside creditors in cases where companies are declared insolvent, says Kessel Feinstein insolvency partner Oliver Powell.

"Unlike the US, there is no legislation in SA which prohibits shareholder/director loans being repaid before outside creditors have been settled when a company is liquidated," he said.

"Also, outside creditor protection would be increased if a law were introduced giving minimum equity positions for the financing of companies."

He said that in starting up a company shareholders/directors could contribute equity of as little as R1.

This meant the risk was in reality being funded by outside creditors, he said.

However, past-chairman of the Association of Insolvency Practitioners Lee Cohen believed a lack of knowledge of the company to which the creditors were exposed was more relevant in terms of the risk.

For example, shareholders and directors could secure their loans by registering notarial bonds or holding the cession over the debtors' book.
W&A Investments returns improved results

Strong performances from offshore activities, rationalisation benefits and reduced gearing saw W&A Investments increase attributable earnings by 14% from R113.1m to R129.9m in the year to end-December.

W&A also announced the R200m cash sale of its homeware division to Zimbabwe-based Kwik Brands subsidiary The SA Homeware Co, supported by First National Corporate and Investment Bank.

Apart from this disposal, W&A disposed of some non-strategic properties, most of its stake in Elicentre and the JD Group’s debtors book during the year.

About R157m was invested in offshore acquisitions and funded overseas. Chairman Jeff Liebesman said these investments were mainly in the UK, in the steel and alloy wheel businesses and in scaffolding ‘Exports and offshore businesses’ contribution to group turnover increased from 8% to 13% during the year.

Group turnover of R2.5bn for the year cannot be compared with the R3.0bn posted in the previous period as the sale of the JD Group’s debtors book to JD Sales saw its turnover reflecting only cash sales and the cost of merchandise sold to JD Sales.

Liebesman said despite difficult local and international environments, operating profit improved by 5.9% from R318.7m to R335.5m.

He said as the disposals of non-strategic assets took place late in the year, the effect on the interest bill would be felt in the new year. Interest grew by 23.7% to R151.8m in financial 1991.

W&A paid minimal taxation due to allowances as well as offshore operations, where earnings accrued outside SA. W&A does not expect to pay tax of more than 15% in financial 1992 and not over 20% for the next three years.

The drop in contributions of associated companies reflects the disposal of the group’s interest in Elicentre. Elicentre’s earnings amounted to 4.5% a share in financial 1990.

Fully diluted earnings declined by 17% from 95c to 78c a share following a 37% increase in shares in issue.

The dividend was maintained at 42c a share “in view of the improved cash flows as a result of the restructuring and the transactions”.

Liebesman said that in all of the group’s divisions, many past difficulties had been weeded out, and at an operational level, the group was well ahead of last year. The benefits of reorganisation and focusing the group, and its consequent de-gearing, had started, he said. Gearing was reduced from 67.4% to 58.1%.

Liebesman said the group’s industrial companies had done well, especially those that were export orientated. But the consumer businesses had not fared as well because of difficult trading. The industrial divisions increased their contribution to turnover from 28.5% to 38%, while consumer-orientated businesses’ contribution shrunk.

Liebesman said the various disposals and investments were in line with the group’s goals of becoming more focused, investing in the growth of existing businesses, reducing domestic borrowings and globalisation.

W&A would continue to strengthen management, improve operating efficiencies, enter new markets, increase share in existing markets and add new products in financial 1992.

Although he did not expect conditions to improve during 1992, he said the group went into the new year with enthusiasm on the back of successful results in the current year.

He said interest cover should improve, the trend of a reduction in debt would continue, and there would be further investments into core businesses locally and internationally.
These are worth watching

There is a misconception among private investors that all shares are affected by cyclical fluctuations, social upheaval and political events like the Referendum and Budget.

This error has made a select few astute investors extremely wealthy since the October 1987 crash.

These shareholders have disproved the notion that all shares are influenced by bullish or bearish sentiment through their investments in over 20 listed companies, which have shown substantial and constant annual increases in share prices.

To illustrate that such shares exist, a number of share prices, across numerous sectors, were analysed and compared to the Industrial and Overall indices, which rose by 190 percent to 4371 and by 118 percent to 3524 respectively.

The following high growth stocks are identified:

- Paper and packaging company Carlecor's share has increased by nearly 700 percent to 4300c;
- Furniture retailer Ellerine's share climbed by 425 percent to 5250c;
- Under the bank and financial services sector, BoE's share soared by 350 percent to 1125c and Investec by nearly 500 percent to 1850c;
- Transport company Mobile's share price grew by 900 percent to 3200c and its subsidiary Trenco by 945 percent to 12800c.

Other high growth stocks include retailers and wholesalers CNA Gallo, Clarks and Foschini, industrial holding companies DTR Dunlop and Imperial Insurance company Saflife, electronics firms Delta and Aberdare, Tobacco and Match listed Utco and Toyota under the motor sector.

Although these stocks are difficult to identify — they are not limited to particular sectors or types of operation — there are a number of common elements which enable investors to recognize them. They are:

- Movement in share price. This is the easiest indicator as the share continues to increase, despite market trends and other market forces.
- Political and economic variables. Instability and recession do not hinder upward share movement.
- Market share. The company displays monopolistic characteristics or has a high market share.
- Nature of business. The business is growing and expanding.
- Dividend yield. The company's dividend yield trades at a premium to its sector and to the Industrial Index.

While these shares are tightly held and difficult to obtain, dealers say parcels are periodically made available through new issues or shares splits. If these shares can defy an overwhelming number of negative factors experienced from the mid-1980s, then the time to acquire such shares must be during the current bearish market.
Study the options, unit trust holders advised

Unit trust investors should be wary of the current high level of the JSE, says Clive Fox, managing director of Consolidated Fund Managers (CFM). Clients at CFM, which specialises in advising unit trust investors, have been conservatively positioned in response to the risks the market offers.

"Several options exist for unit trust investors and these should be pursued," says Fox.

Industrial shares are currently discounting a massive economic recovery. If this does not eventuate or if it is stalled by poor economic performance from South Africa's major trading partners, industrial equities could record a substantial correction.

If industrial dividends grow by 15 percent in 1992, the industrial index would need to fall more than 30 percent to take the dividend yield back to the more realistic 4 percent as in October 1991.

CFM advises unit holders to explore the various options available to them.
Broker to answer to JSE committee

STOCKBROKER Koos Bosman of stockbroking firm J Bosman & Co is to appear before the JSE Committee on April 5 to answer questions about his firm’s handling of discretionary accounts.

The outcome will determine whether the JSE committee will press formal charges against the firm.

Bosman has been given the chance to reply to charges following a meeting of the general purposes subcommittee last week. The subcommittee had been assessing the findings of several weeks of investigation into the firm’s activities.

According to market sources, the NGK Pension Fund has withdrawn its account from J Bosman and handed it over to another stockbroking firm.

Bosman declined to comment on Friday when approached in his office in First National House. He said the matter was sub judice and alleged that this newspaper had previously printed “nonsense” about the matter.

When approached last week, JSE president Tony Norton was reluctant to comment on the Bosman issue, saying he did not want a “trial by media” while the matter was still in progress.
Govt rejects Competition Board ruling on Arwa deal

By MARCIA KLEIN

JOHANNESBURG – Government has ruled against a Competition Board recommendation to rule FSI’s acquisition of Arwa as unlawful.

Following complaints about FSI’s acquisition of Arwa in January, which saw FSI gain control of 99% of the hospitality market through Arwa and subsidiary Burke, the Competition Board undertook an investigation into the deal.

The Board recommended to government that the acquisition by FSI of the Arwa hospitality division be declared unlawful — after initially approving the transaction in December 1990 — and that FSI dispose of Arwa to a suitable buyer.

But Public Enterprises Minister Dawie de Villiers announced yesterday that government had decided against accepting the recommendations of the Competition Board.

This was because the Board’s report did not produce evidence which would have led to a contrasting decision to that made on December 18, 1990, when the Board said it would not investigate the acquisition, De Villiers said.

The Board also said that FSI has paid almost half the price which had initially been offered — both FSI and SA Breweries had made offers for the company, with FSI’s bid being lower.

In terms of the downward adjustment to the original price, De Villiers said an investigation by independent auditing firms had shown markedly reduced values for Arwa’s assets.

De Villiers said that in a monopoly situation, competition could be enhanced through imports and in the case of the hospitality division, imports offered a viable alternative source of supply.

In this regard, government would request the Board of Trade and Industry to advise “on whether continuation of the present tariff of 15% is necessary and/or desirable”, he said.

Competition Board chairman Pierre Brookes said last night that the Board believed its approach was correct, but said it only acted as an advisory body to government.

Single precedent

He said there had been one other occasion to his knowledge where a Competition Board recommendation had been overruled by government. About five years ago government only partially accepted its findings on the liquor industry.

There has been no further news on speculation that FSI could be selling its hospitality division for about R200m. Government’s ruling could pave the way for FSI to go ahead with a deal in this regard.

FSI chairman Jeff Liebenberg said last night that FSI welcomed the ruling.
Eskom to launch two new bonds on June 30

ELECTRICITY utility Eskom planned to launch two new bonds on the local capital market on June 30, Eskom treasury manager Willem Kok said yesterday.

The bonds were first announced last November. Kok said there would be a bond with a 13.5% coupon, maturing in 2030 with an issue size of R300m, and a zero coupon bond maturing in 2002 with a Röhn limit.

He said Eskom was still considering a third medium-term bond, but an announcement was only expected in the second half of the year.

Eskom officials also confirmed they had prepared the debut issue of a DM500m (R530m) bond in international capital markets.

The Eurobond should be issued today, to be lead-managed by Germany's Commerzbank.

Analysis said they expected the bond to be well received in light of improved foreign investor confidence following the positive outcome of the March 17 referendum.

A second international bond issue is planned for later this year. Eskom's Eurobond issue follows the highly successful issue by the Development Bank of SA.

Strong investor demand lifted the bank's issue by 33% to DM260m from an initial DM150m.
COMPANIES

BORKUM ... optimistic over Codosa negotiations

Many factors confusing investors, says Borkum

TOO many imponderables currently over-hanging the Johannesburg Stock Exchange are blurring shorter-term perspectives of the market, says Max Borkum, past president and doyen of the JSE.

In his 46 years of broking, Borkum, who turns 75 today, cannot recall a period when the market was beset with so many diverse influences which are confusing investors and reducing turnover to minimal levels.

The referendum — which the market had discounted days before the event — has brought some relief, a return of confidence, but not a flood of investment capital pouring into SA.

"The resounding 'yes' vote has undoubtedly changed overseas perceptions of the position developments in this country, but an offsetting, and disturbing, influence is the 'killing fields' with its daily death toll," says Borkum. "We will not see foreign capital coming our way in any quantity until the violence is quelled."

Borkum attributes some of the violence to prevailing socio-economic tensions, which he hopes will be eased through the Codosa negotiations which he views with optimism. The ANC is performing more like a political party with an ability to give and take, he says, and less and less like a liberation movement.

A prime factor in the undermining of share market confidence has been the sliding gold price, performing in an unpredictable fashion. Investors abroad are large holders of gold shares and their associated mining houses and most of their trading on this market has been through the financial run.

"Now the Reserve Bank has introduced a note of uncertainty into the gold market by declaring its intention to intervene in the rand market. It has introduced a new element into that trade because dealers will not know when the Bank is participating and when it is abstaining."

Borkum, for 46 years a bull, has not turned bear.

In spite of some present difficulties, some misunderstandings, he is convinced that basic factors, common sense, assets and the will to co-operate will bring into being a new and prosperous SA.
Govt slammed on
FSI monopoly deal

By AUDREY D'ANGELO
Business Editor

CAPE Town Chamber of Commerce has protested strongly against the government's decision to over-rule the Competition Board and allow the FSI Group to acquire a virtual monopoly - 99% - of the women's hosiery market in SA.

In a statement yesterday the acting president of the chamber, Herbert Hirsch, said the government must face the fact that SA will never bring inflation down to acceptable levels and compete effectively on world markets "until we take determined steps to improve competition in our local markets".

Hirsch called on the government to remove both the 15% import duty and the 15% surcharge on imported hosiery to provide the FSI group with real competition.

Woolworths MD Syd Muller and Pick 'n Pay GM Alan Baxter agreed with this. Both said their organisations objected to monopolies on principle and thought the import duty and surcharge should be removed to allow competition in the hosiery market.

Hirsch said that to achieve real competition in SA markets "we must implement the Industrial Development Council's recommendation to slash protective customs tariffs on the one hand and we must take concerted action to root out monopolistic and collusive practices on the other."

"The Competition Board was set up to combat monopolies and the government must give it the support it needs to get on with the job.

"The chamber accordingly records its concern at the fact that the government has ruled against a recommendation by the Competition Board that it intervene in a company acquisition that has resulted in the creation of a monopolistic condition."

Alan Baxter said Pick 'n Pay was surprised that import surcharges had not been removed in the Budget, since it would have been an effective way of helping to reduce inflation.

It considered there was no need at all for protective import duties on women's hosiery.

Muller said it was hard to say how prices of women's hosiery overseas compared with those in SA because quality varied widely and foreign exporters frequently received incentives from their governments.

Retail margins in the UK were higher than here because commercial rentals were higher.

French order Cape wines

ROTTERDAM. - The Cape Town Chamber of Commerce trade mission to Europe has resulted, among other things, in an export order for Cape wines to France.

The president of the chamber, Kenneth Marcus, said this in an interview in Rotterdam yesterday.

"He said interest in the mission was "incredibly high" both in France and the Netherlands.

"The Dutch are interested in serving as conduits for trade between SA and many other countries." - Sapa
Nationalisation, part of Cosatu Plan,
COMPANIES

No merger, say FNB and Nedcor

SPECULATION hotted up again on financial markets yesterday about a possible merger between FNB and Nedcor, but both denied there were plans to join forces.

Nedcor CEO Chris Liebenberg said a merger could not be done without Old Mutual, because it was the majority shareholder in Nedcor and it was not looking for a buyer.

FNB senior GM Norman Axten said the parties had not spoken and had no intention of merging.

Speculation was bound to happen after the Absa/Bankorp merger, Axten said.

FNB and Standard Bank were seen as unlikely partners and thus left a possible Standard Bank/Nedbank merger or an FNB/Nedbank merger, and markets had settled on the latter.

The rumours first started circulating about a month ago after Absa announced it would be taking over Bankorp. While some analysts initially scoffed at the suggestion, the persistence of the rumours has given credence to such a possibility.

An analyst said Anglo American would probably be happy to reduce its stake in the financial services sector. It had recently reduced its interest in FNB.

On the other hand, FNB would be favourably inclined to increasing its share of the home loan market through the Perm, which was part of the Nedcor group.

There could be cultural synergies between Nedcor and FNB, the analyst said. While Old Mutual would have to have discussions with Anglo’s insurance arm, Southern Life, analysts pointed out that Old Mutual already had interests in all the major banks.

Immediate investment rush unlikely, says poll

THERE has been a subtle post-referendum shift in sentiment towards investment in SA among UK investment brokers, according to a survey.

But while the referendum will provide impetus to the renewed global interest in SA, it is unlikely to galvanise institutions into immediate investment activity.

This has emerged from a snap survey of influential brokers by London communications consultancy Financial Dynamics.

James Capel broker John Taylor said SA was now increasingly viewed as a legitimate market. “The final moral impediments are now out of the way and the stigma of unacceptability has been removed,” Taylor said.

But without exception, brokers did not expect the reform mandate to kick-start investment in SA immediately, the survey found.

Capital House CE Norman Ruddell told Business Day yesterday there was still a lot of work to be done before SA could expect any significant inflow of funds.

Inflation remained a hurdle and the country could not expect any serious investment until government had addressed the problem, Ruddell said.

Smith New Court analyst Steve Oke said there had not been a flood of activity into the market but the way had been cleared for investors to make informed decisions about SA.

The brokers surveyed were still looking forward to positive words from ANC leader Nelson Mandela regarding US investment.

“This, coupled with the clear positive message from the referendum, will provide the much needed boost of American interest. The frustration of still having American investment potential excluded continues to dampen the market,” the poll found.

Investors could still take the view that the balance between risk and reward did not yet favourably. Although the attraction of the financial and discount did not go unnoticed, liquidity was a serious hurdle and the market was considered expensive.

Govt slated for backing takeover

CAPE TOWN — Government action in overturning the Competition Board’s ruling against the takeover by PSI of Arwa raised doubts about its commitment to the promotion of competition, Cape Town Chamber of Commerce acting president, Herbert Hirsch said in a statement yesterday.

Government had counteracted the first major action by the board in recent years to combat monopolistic practices, as PSI’s takeover of Arwa created a monopoly in the manufacture of women’s handbags, Hirsch said, adding that government should instead give the board its support.

EXECUTIVE SUITNESS

HELLO THERE, JONATHAN! HOW MUST U GET TOGETHER FOR
Companies may be able
to buy back own shares

By Derek Tommy

Listed companies might be be allowed to buy back some of their shares.

The Government is considering an enabling proposal, and a draft Companies Act Amendment Bill providing for such purchases has been issued for public comment.

US companies are allowed to buy back their own shares within certain limits.

Until recently, companies in Britain, the Commonwealth, and most other countries were prohibited from doing so.

Since 1986, British and Canadian companies and those in the European Community have been able to do so to a limited extent.

The prohibition rests on the view that the process could be used to deprive creditors in bankrupt companies of payment.

But shareholders can do this in any event, simply by declaring dividends to themselves, say Messrs A Trihardt, K Organ and J Cilliers of the University of the Orange Free State in a memorandum accompanying the draft Bill.

Reasons often exist for firms wanting to buy back their shares, they say.

These include the need to change the capital of a company, to change the organisation, to acquire or amalgamate with another company or to reclassify a public company as a private company.

"The more freedom a company has to organise its affairs to suit the circumstances in which it finds itself, the more efficient it is as a business vehicle," the writers say.

They say the proposal will go some way to conferring such freedom.

Limitations

But the effect will be limited by the recommendation that, in the absence of unanimous agreement, the company must make its offers to the holders of all of the classes of shares affected.

The company will not be able to make an offer capable of being accepted by one shareholder or group of shareholders of the class only.

These limitations have been imposed because until the position of minority shareholders is strengthened, the possibilities of abuse would be too great to be acceptable.

The Bill stipulates that repurchased shares have to be cancelled and restored to the status of authorised and unissued shares.

This disposes of the problems of the voting and dividend rights attached to the shares and goes a long way to preventing market manipulation by companies, say the writers.

In order to re-sell the shares, the company would have to make an offer in terms of the Securities Act.

The Bill contains provisions to protect creditors. It stipulates that a company cannot make any payment for the purchase of shares if there are reasonable grounds for believing it would be unable to meet its liabilities as they become due.

Nor can a company purchase its shares if the realisable value of its assets after payment would be less than the aggregate of its liabilities and the issued share capital of the remaining shares of every class.

The writers do not believe a notice to creditors of proposed share purchases is required, and believe such a requirement would be unduly onerous.

But they propose heavy penalties for directors who consent to a resolution authorising a company to buy shares to the detriment of creditors.

Such directors would be jointly and severally liable to restore to the company any amounts so paid and not otherwise recovered by the company.

Directors who had satisfied a judgment under this section would be entitled to contributions from other directors who voted for the purchase proposal.

However, actions against directors will have to be brought within two years of the share purchase.

Insider trading

Another consideration directors will have to take into account when considering making a share purchase is that the company will be required to comply with insider-trading provisions.

The Bill limits the number of shares a listed company can buy to one percent of its issued share capital a month.

The writers believe this number could hardly be sufficient to substantially affect or manipulate the market price.

A further measure aimed at protecting creditors and minority shareholders is that the Securities Commission will be able to modify or block any offer to purchase shares if the company's directors infringe the proposed Act.

Comments from the public on the proposals can be submitted to the Standing Advisory Committee on Company Law, Box 429, Pretoria, until July 30.
COMPETITION POLICY

The Arwa case

Government's decision this week to overrule the Competition Board and allow FSI to take over Arwa's ladies' hosiery division was interesting for three reasons.

Firstly, despite all the rumbles from the ANC that it would break up conglomerates and put an end to monopolies, government allowed a purchase that gives a conglomerate, FSI, 99% of one market, ladies' hosiery. Secondly, for possibly the first time, government cast import competition in a positive light instead of in the negative light it always invokes when it is slapping on higher tariffs or imposing anti-dumping duties.

Finally, government not only overruled a board decision for the first time in five years, but the board's recommendation was a reversal of its own decision 15 months ago.

The board recommended that FSI should be forced to divest the Arwa acquisition on the grounds that it would create a horizontal monopoly. The board would have given FSI four months to make the sale, if a suitable buyer could be found — a requirement that was by no means a formality. FSI would have had to make monthly progress reports to the board.

But government's decision does not mean that the "horizontal monopoly" will last for long. Public Enterprises Minister Dawie de Villiers, in making the announcement, said imports could enhance competition in the market by offering a "viable alternative source of supply."

So government will ask the Board of Trade & Industry to review the 15% tariff on hosiery imports. At the same time the Competition Board will monitor the market "to prevent any possible exploitation of a concentration of business activities."

Arwa, as the board explained in its report to government, was a failing company under threat of liquidation. The liquidator had to choose between disposing of Arwa's divisions separately or selling the company in one piece. SA Breweries considered acquiring the entire company but the liquidator believed that more money could be raised through pecuniary sales. Under this process, FSI bought the hosiery division for nearly R14m — cut from R23m after a large reduction in the book value of the assets and other adjustments.

In its first decision, in 1990, the board agreed to let FSI's purchase go ahead to maximise the proceeds from Arwa for its holding company, Tollgate, and its principal creditor, Senbank.

But, this year, the board reopened the matter and reversed itself, citing complaints that:

- Arwa's assets had been valued at a far lower level than had been first expected;
- Other potential purchasers had been ignored, and
- FSI had abused its monopoly

But De Villiers pointed out that the board's report did not justify the change of mind. He said the downward rating of Arwa's assets — as a result of investigations by two independent auditors — would have affected other offers. And he said that FSI's potential domination of the market could be countered by imports.

FISHING INDUSTRY

Unhooking the long lines

Fishermen who trawl for hake have finally won their long battle against anglers who catch the fish using long lines.

Environment Affairs Minister Louis Pienaar has defined a long line as a fishing line with more than 10 hooks. This definition now allows officials of the Fishery Inspectorate of the Cape Provincial Administration to enforce the year-long ban against long-line hake fishing and to prosecute offenders.

The ban could not be carried out until now because there was no legal definition of a long line (Business & Technology February 21).

Long liners, who use lines up to 15 km long with a hook every metre, are catching thousands of hake in the rocky sea bottoms.

PUBLISHING TIE-UP

One of the first fruits of last week's Yes vote in the referendum is a joint publishing venture between Times Media's Leadership and Britain's First magazine. In June, they will publish a major survey that will assess the chances of a democratic SA becoming the engine of growth in southern Africa and providing a buoyant market for British trade and investment.

In the normal style of both magazines, much of the material will consist of interviews with leading business and political figures in SA and Britain. They will discuss key issues such as nationalisation, the repatriation of dividends, and the honouring of international loans and agreements.

The publication will be called Partnership "to reflect the restored relationship between the political and business communities of both countries," says Leadership's editor, Martin Schneider. At least 35,000 copies will be distributed in Britain and SA. The cost of advertising in Partnership will reflect the decision-making power of its anticipated readers. A full-colour page will cost R20 000.

First, which is a quarterly published in London independently of any major publishing group, is now six years old. Like Leadership, its editorial content consists largely of contributions from leading political and business figures.
SHARE ARTICLES

Stoking the home fires

The effects of the 'yes' vote will be favourable — a little later this year

Even a landslide "yes" vote in last week's referendum could hardly be expected to unleash a renewed bull run in equity markets — or, at least, not immediately. But there should be growing confidence that it will happen later this year.

Not unnaturally, after the surge of more than two-thirds in the Financial & Industrial index since October 1990, the stock market's response to the referendum and the Budget is one of caution — and even confusion. But investors also know an immensely important hurdle has been passed.

As had been evident for some time, they were counting on a firm "yes" vote, and anything less would almost certainly have dealt the financial markets a severe blow. But the resounding result far exceeded market expectations. It will certainly help stifle growing panic and be seen as a large step towards ensuring a healthier market in the long term. (The damage of a "no" is unquantifiable.)

The week brought encouraging noises and even some actions from abroad. This development lends weight to those who have argued for over a year that investors should look beyond the present period of political upheaval and economic stagnation into an era of growth and more settled politics.

Trouble is that many big investors have been doing that for well over a year. The gap between share prices and corporate profits has simply become ever larger. Hardly any businessmen have reported signs of recovery in trading conditions. If anything, their comments suggest things are getting worse.

When the next spate of companies report results for March and June, we can be sure that there will be more nasty shocks from both large and small companies. Not too long ago the recession was being called protracted but fairly mild. Now, with consumer spending having gone into steep decline from about the middle of last year, it is looking a lot more severe.

While it remains true that corporate balance sheets are generally much leaner than in previous recessions, debt has increased and finance costs are taking a growing toll on companies — more particularly on consumers. In many businesses the mood is frankly gloomy.

Referendum or no referendum, investors are bound to ask: should the gloomy business mood be interpreted optimistically — as being the darkest hour that comes just before dawn? Or, has the market badly misjudged the timing of the elusive recovery, meaning that share prices will either stagnate or weaken?

It does seem obvious now that overly optimistic earnings forecasts were being made early last year. And for that matter, what sort of recovery will it be if violence drags on and there are still many political pitfalls to be traversed?

The period ahead could be particularly dangerous.

Answers to those questions will be influenced heavily by what happens abroad over the next three to six months. The referendum and other developments on the domestic political front should help to underpin business sentiment. And the poll did bring overseas investors sniffing around the SA capital and equity markets, as shown by the sharp rise in the rand's rate in the financial year even a few days before the vote. But that alone is not going to generate the needed turnaround in company profits.

The average earnings multiple on the JSE Financial & Industrial index has climbed to an historically high 14.5, and the dividend yield is a thin 2.8%. Some reassurance on when earnings growth will resume is needed before many portfolio managers will feel comfortable about seeing even higher p/e ratios on the leading equities.

The axiom that the performance of the local economy is tied to leading industrial economies remains true. For those who are trying to discern a recovery at home, or identify value on the JSE, this may be more true than in the past. Late in the downward cycle, consumer spending has been thoroughly choked off, leaving little if any prospect that the upsweep will be consumer-led. Instead, exports and fixed investment are now being seen as the driving force for recovery.

For that to happen, there will probably have to be greater reliance on world demand for basic commodities — though, as has been clear from the accounts of many industrial companies in recent years, the country's export base of manufactured goods has broadened tremendously. In many cases, of course, industrial exporters may switch production back to more profitable export markets in a recovery.

Precious metal prices still offer no encouragement. At the same time the referendum results were announced, optimism in financial markets was being dampened by renewed falls in the gold price. This week gold was still trading around US$337/oz., the dip below $340 being blamed, perhaps ominously, on the recession in Japan, where the Nikkei Dow has fallen below 20 000, its lowest in some five years. But there is more than one signal to be read.

As the graph shows, the All Commodities index languishes far below the peaks reached in 1987-1988 when there had been nearly eight years of expansion in leading industrial economies. There have been several false dawns since the index started falling, but it's notable that the index has been turning upwards markedly since early this year.

That may signal improving prospects for a...
recovery later this year in countries such as the US, where short-term interest rates have been falling for two years. The same trend is evident in the UK and Japan.

In SA, a steady easing of the three-month BA rate since November 1989 pressured the drop in bank and prime rates that finally came this week. This, too, had been anticipated in the markets, and failed to produce much immediate response. Like the "yes" vote, the non-appearance of an interest rate cut (preferably with more to come) would probably have led to weaker share prices.

Nobody is assuming there will be a precipitous drop in rates, such as occurred from mid-1985 before the 1986-87 bull market. But lower rates are being seen as another development that should help take some of the strain out of company earnings and strengthen the case for appreciation in share prices later.

Unexpected though it was, the Budget may be viewed in a similar vein. Bank economist Mike Brown sees the Budget as "fairly expansionary," to which has been added a somewhat more expansionary monetary stance. And on top of these have come separate measures such as the easing of HP restrictions.

Favourable effects will not be seen swiftly. Trading conditions and company results may worsen rather than improve until about the third quarter of this year. At present levels, share prices could thus be in risky territory during this period. As one analyst points out, markets seldom stagnate for long. Prices are set at the margin and a withdrawal or slackening of buying interest — perhaps brought about by a catalyst such as a new lower gold price or a drop in New York share prices — would see JSE prices drifting downwards over the next four to six months.

Institutional cash flows, of course, remain strong, and are now being swollen by State pension funds. It is hard to ignore the weight-of-funds argument. But that does not mean there won't be cracks along the way. The weight-of-funds dictum may seem compelling on a medium- or long-term view — not necessarily in the short term.

Not only may share prices now be judged expensive, but in the past year billions of rand have been soaked up in a series of large right issues by companies such as Gencor, Sasol, Anglovaal and FNB.

Fluctuations in the volatile financial rand rate is another factor affecting market reaction to latest events. Improved oversiemt sentiment immediately after the referendum pushed the rand rate sharply higher. That in turn helped to restrain prices of leading shares, such as Anglo American, Richmont and De Beers.

Reserve Bank intervention may bring some stability to the rand market, but the currency could well be in line share prices for a while. After averaging under 10% in November, the rand's discount to the commercial rand had climbed before the referendum, back to around 25% (see graph). It is now around 17%, so there is some way to go before the discount is effectively eliminated.

The renewal of appreciation of the commercial rand against a strengthening dollar has recently been favourable for exporters, since this is the currency in which most of SA's exports are priced. This, too, will help to compensate for flagging commodity prices. But some investors believe that a resurgent dollar is indicative of broader and longer-term trends on the global political and economic scene.

Southern Life equity investments GM Paul Beachy Head cites the view that the strong dollar and the continued buoyancy of the New York stock market are reflecting the perceived victory of capitalism. The USSR has collapsed and the spectre of another major war in the Middle East has perceptibly receded. Oil prices — and world inflation — have been tamed. So many observers believe.

Efforts to stoke up the US economy may be helping but, more importantly, international political events allow a different and more positive — valuation and risk rating to be placed on capital. If this theory holds, then SA could enjoy a "double whammy," with benefits from local and international political developments. They would be working together.

This view would suggest that share prices may not be as expensive as they look. Beachy Head says the average earnings multiple on the Dow Jones exceeded 100 in 1982. That was when earnings were being hammered. It turned out to be the bottom of the market, and was followed by a bull market that lasted through much of the decade.

Board of Executors GM Investments John Winship believes that the present mood of pessimism may simply be typical of the stage of the cycle. A recovery later this year in the economies of the US, the UK and Japan, followed by German, could see local business activity picking up strongly. "I am not despondent," Winship says. "If that happens then earnings will probably rocket."

It is, of course, easy to forget during a recession how vigorously company profits can — and almost certainly will — grow once a recovery gets going. In the last up-turn, there were several years when large groups such as Barlow Rand, SA Breweries and many others were consistently reporting earnings up by 30% or more each year. Once a trend like that is perceived to be getting underway, share prices are likely to be back in a bull run.

This time the pattern of recovery in profits and share prices may well be different. Consumer stocks are already at high levels, and these companies may be among the later sectors to see earnings recovering, later the efficient companies will do well. With commodity prices still in a trough, though, the real value may now be in SA's traditional strength, the commodity and currency-linked stocks.

Investment at this stage in direct exporters' or their holding companies, particularly timing financials, is bound to prove rewarding for the patient holders. Specialist trusts may also be worth considering.

Even with the referendum behind us, there is much that could derail recovery prospects — including the instability of Western governments to turn their economies round. But for prospective equity investors it is more important to get the medium-term trend right. And, particularly after last week, it would not be unreasonable to take a favourable view on that.
No contracts on Traded Options Market

FOR the first time since the Traded Options Market (TOM) was started at the end of January, no contracts were written in the week ending March 20, according to latest trading statistics released by the ISE.

This compared with 65 contracts with an underlying value of R570 025 in the previous week.

TOM manager Jonathan Simms said equity market trading was slow that week and options should be seen as a market reflection.

"We did not expect trading volumes of options to take off from day one and we have not had tremendous volumes,"

MERVYN HARRIS

Foreign transactions were back to normal in the week ending March 20 after the previous week when non-resident buying exceeded sales by almost R24m.

There was also a reversal of the usual pattern of gilt trading by non-residents in the week ending March 13 when sales exceeded purchases by nearly R20m.

But in the week ending March 20, foreign sales of equities exceeded purchases by a net R43.8m while purchases of gilts exceeded sales by a net R296.6m.
New index to measure shares

DISCOUNT House Portfolio Services had developed an institutional index which consisted of 40 of the most popular institutional share investments, GM Pierre de Villiers said yesterday.

Research showed that the institutional index outperformed the JSE all share index over a five-year period, with capital growth in the institutional index 9.4% higher each year. It had also outperformed all the general equity unit trusts.

The conclusion that could be drawn was that the all share index was not representative of most share portfolios, De Villiers said. It was well known in international markets that very few portfolio managers ever outperformed the major indices over sustained periods.

The institutional index was more representative of the average portfolio. The index was developed to give insight into the structure of performance orientated share portfolios and what shares the large financial institutions were buying and selling.

SHARON WOOD

De Villiers said 60% of the shares were mainly the larger market capitalisation shares, such as Anglo American, De Beers and Barlowe. But smaller shares such as Suncrush, Pepkor and Tronceor were also included.

De Beers had the highest weighting in the index, at 9.3%, Richemont followed closed at 9% and Rembrandt at 7%.

The weighting of financial shares in the index was 9.3%, industrial 42.8% and mining 19.3%.

"Investors could use the index as a guide to structure portfolios that should perform well over time," De Villiers said.

Discount House would continually monitor developments in the stock market and would publish regular updates of performance and changes in underlying shares. The index would be readjusted quarterly, he said.
W&A convertible debis should be considered

By JULIE WALKER

Chairman, former Standard Bank chief executive, says the group has kept operating margin in recession.

Potential investors in W&A may need to consider the convertible debentures on a higher yield than prime overdraft rates.

W&A, the holding company of industrial and consumer arms JD Group, Geatyre, Vekstra, and Czarow among others, raised attributable profit by 14% to R112-million in the year to December 1991.

During the year it sold certain property and shares in Elcentro as well as the whole of its Barbuso and Arwa homeware business for R200-million.

The JD Group debtors' book was also sold without recourse to a consortium of banks.

These structural changes validate direct turnover comparison. Group sales reached R3,2-billion in a year of economic conditions epitomistically described by executive chairman Jeff Liebesman as tough.

More than R197-million was invested in offshore acquisitions and was funded overseas. Foreign business, including both exports and offshore operations, grew from 6% of turnover to 15%.

Mr Liebesman is particularly pleased that the group maintained its operating margin at 10.4% in a recessionary environment.

Collar

The interest bill reached R151-million, but the breakdown of the four contributing half-year payments casts light on the position. In the six months to June 1990 the group paid R35-million. A corporate restructuring came into effect from July 1990.

In the first half of 1991 the finance costs rose to R65-million. But in the last six months it fell to R54-million, reflecting the lower gearing in the group following the changes.

The new joint deputy chairman, former Standard Bank chief executive, says there is a collar over which the cost of capital is determined. Equity is the most expensive, because it lasts forever, but there is an optimal level of borrowings too.

Benefits of restructuring and offshore taxation policies helped to keep the yield at a trifling 2%. The group does not expect it to exceed 5% three years hence.

The group suffered a few knocks from Elcentro, including a R160-million write-off and relinquished income of R75-million.

Together with the homeware sales, the one-off impact to earnings amounted to R55-a share. In 1990 W&A made R55-a share on 118-million equity instruments, and in 1991 73c a share on 164-million, counting all the convertible instruments as permanent capital.

W&A resisted the temptation to dress up the income statement by restating last year’s to take account of favourable changes.

“...We have taken everything on the chin above the line, our gearing is down to 56% from 67%. If we had taken the Elcentro knock in 1990 the reduction in percentage gearing would have been even more marked.”

W&A maintained the dividend at 42c, comforted by improved cash flow and lower borrowings.

The ordinary shares at R45 are on a price-earnings ratio of 5.6 and a dividend yield of 9%. The convertible debentures yield 15.4% at a price of R35.

The new joint deputy
ANC attacks privatisation
Govt shares move gets big welcome

THE move by government to consider allowing companies to buy back their own shares from shareholders "as been widely welcomed in the financial community. A draft Companies Act Amendment Bill providing for such purchases has been issued by the Department of Trade and Industry for public comment. The draft legislation is more in line with restrictive UK and European laws than the less confining US legislation.

"This is a move in the right direction which follows most of the rest of the world," Rand Merchant Bank executive director Reg Sherrel said last week.

Standard Merchant Bank executive director Mark Barnes said "This development would give companies greater flexibility with their funding mix. With a fixed amount of capital, companies would now be able to choose their own gearing ratio."

"But stringent parameters would need to be introduced to protect creditors and financiers," he said.

Investec Corporate Finance head Clanton Wood said creditors were interested in a large capital base as security. "By being able to buy back its own shares, effectively a company is reducing its capital."

The Bill contains provisions to protect creditors by stipulating a company cannot make any payment for shares if there are reasonable grounds to believe it could not meet its liabilities as they become due.

Wood said the main benefit of the new legislation was that if a company's shares were sufficiently inexpensive, it could invest surplus funds at a better return by buying its own shares, rather than by investing in any other project.

He said buying back shares at the right price would increase the value of the outstanding capital.

Firstcorp's Graham Brinkwater said using debt to buy back shares was unlikely as the company would not be permitted to set off the interest charges for tax purposes.

Sherrel warned that protection must be given against insider trading. "If directors hold shares they should have to indicate what they propose to do with their own shares."

Wood said companies must be permitted to buy back their own shares and release them again when the price went up. The Bill has protected against this by stipulating that repurchased shares be cancelled and restored to the status of authorised and unissued shares.

Insider trading can also be covered by directors and shareholders agreeing in advance how many shares may be bought back, and within what price range.

The Bill limits the number of shares a listed company can buy to 1% of its issued share capital a month, thus reducing the likelihood of a substantial change in the market price.

The proposal could have large implications for the SA commercial and financial sector. Allowing companies to buy up their shares could further entrench control situations or consolidate holdings unless provision is made to ensure they make an offer to all shareholders on a pro rata basis.

Scrap on the market will also be reduced as those shares perceived to be cheap disappear from the board.

If a company is going through a bad patch, the legislation will allow it to protect its share price through the purchasing of its shares. Companies will now have another means of protection against hostile bids.
WyA turns in solid performance

WyA had a successful year.

The market for the WyA products increased by 10% in the last quarter of the year. The company reported a net profit of $5,000,000, an increase of 20% from the previous quarter. The company's stock price also increased by 15% during the quarter.

The company's management is optimistic about the future and is planning to expand into new markets. They are also considering the possibility of acquiring a smaller company to increase their market share.

Overall, it was a successful year for WyA.
Investors warned of risks in futures

PRIVATE investors risk financial suicide if they dabble in SA’s futures market through a third party, says Investor’s Guide publisher Taco Kuper.

Kuper says that is the only conclusion he can draw after entrusting a R100 000 investment to the now defunct Greenwich Futures and Options. He claims in mid-1991, his discretionary account was poorly and improperly managed by the firm.

However, the SA Futures Exchange (Safex) has investigated Kuper’s allegations and has found that unless Kuper can submit more information to substantiate his claims, there are no grounds for finding Greenwich acted improperly.

And futures market sources said at the weekend, discretionary accounts were a rarity in SA Futures were traded on principal basis — where clients are consulted on every deal or on as part of a wider investment portfolio.

In the latest edition of the guide, Kuper said “a watertight agreement existed between Greenwich and the Investors Guide. Managing the account was in terms of a discretionary mandate, therefore, trading was to be done on an agency basis.”

He said between May 24 and July 20 not only was his R100 000 investment whittled down to R34 000, but Greenwich earned R12 600 on commission on 40 deals in managing the account, plus “thousands more” by doing trades at a principal basis as well.

Kuper said he discovered this after his position was closed and asked Safex to investigate the matter.

But Safex assistant MD Patrick Barley said yesterday the exchange complaints and surveillance committee had investigated the matter in December last year and found “in terms of the documents submitted by Kuper and Greenwich, the company had not acted improperly with regard to exchange regulations.”

“Clients who lose money are often upset, but Greenwich acted in good faith and within the rules of the exchange. What is clear is that the company made some bad trading decisions apparently with Kuper’s advice,” he said.

Barley said the committee found no evidence to support Kuper’s allegations that Greenwich had accepted a discretionary mandate and, the company had sought Kuper’s permission on every deal it had made on his account. Kuper had so far refused an offer of arbitration and failed to submit more information to support his claims.

“This is where the matter now rests,” Barley said.

Former MD and founder of Greenwich Bryan Coyne, who sold his 49% stake in the company last month and left to start Investec’s futures division, said the Safex investigation had vindicated Greenwich’s position.

Greenwich had never accepted a discretionary mandate from Kuper and the SA Futures Exchange was unable to comment on Friday.

Tax burden shifts to individuals

In the past 15 years SA’s tax burden has shifted squarely onto the shoulders of individual taxpayers.

In the 1982 tax year they funded more than 70% of the country’s revenue, compared with 36.2% in the 1997 tax year.

Speaking at a Budget and Tax Review BDO Spencer Steward tax partner Matthew Lester said the recession and rising unemployment would soon make it impossible for individuals to meet government’s demands.

In terms of the latest Budget, taxpayers would have to pay personal tax of R35.51bn and VAT of R21.06bn to finance the bulk of the country’s expenses.

Within the same 15-year period, companies and mines saw their tax contribution fall from 30.8% to 17.2% of the total budget.

Seen in this light the concessions given to reduce the effects of fiscal drag for lower and middle income earners were meaningful, Lester said.

But Lester said although the effects of fiscal drag were not felt in the short term, over a 10-year period they were substantial.

For example, the pre-tax earnings of a man on a salary of R20 000 a year in 1983 (assuming annual increases of 15% and a constant inflation factor of 15%) could be 304% up in 1993, while his tax liability would have increased by 457%.

Taxpayers were getting poorer, Lester said.

He said if taxpayers were unable to meet the tax commitments of the economy, SA might have to approach the IMF for significant financial assistance.

The current year’s Budget exceeded R100bn for the first time, an increase of 8.5% on 1992. Lester said a frightening aspect was that taxes would be raised by R23bn or 16.4% while the Budget itself only increased by R8.7bn or 9.5%.
Unidev turns loss into $2m profit

INVESTMENT holding company Unidev has turned an R60.6m attributable loss into a R2.6m profit in the year to end-December following a year of major restructuring and disposals.

In nine months of reorganisation following the March takeover by Jon Brett Alan Chonowitz, Unidev has been consolidated and reorganised, and peripheral assets have been shed.

In line with this strategy, Unidev raised R23m in a rights issue to repay borrowings, and holding company Union raised R12m to follow its rights.

Household products company Prestige was made a wholly owned subsidiary and Unidev disposed of its interests in furniture group Rusifurn and property company Equitor.

Joint MD Alan Chonowitz said Unidev's shareholdings in Rusifurn and Equitor did not enable the group to have a meaningful participation in its management and thus was in conflict with its objective of being an active investment holding company.

The group now has interests in three companies, Prestige and associate companies Medicoor health care group and the Hyperette and Bread Basket chains.

Apart from these actions taken in financial 1991, Unidev has again cautioned shareholders that proposals with regard to Hyperette are still being considered.

☐ To Page 2

Unidev

Chonowitz said this did not relate to an acquisition or a disposal, so some form of reorganisation could be on the cards.

Negotiations with Rembrandt-controlled hospital group Medi-Clinic, believed to have been for the sale of Medicoor to Medi-Clinic in return for shares, have been terminated.

Turnover figures were noted as two of the group's three operating companies were associates, so the turnover figures would have been distorted, Chonowitz said.

At the operating level, the group showed a R3.5m profit compared with a R80.2m loss in the previous year. Finance costs were reduced from R10.3m to R2.5m.

Earnings were 20c a share on nearly three times more shares in issue compared with a loss of 289c a share in the previous year.

The balance sheet takes into account an extraordinary loss of R21.9m incurred on restructuring the group, discontinued operations and the disposal of its Rusifurn stake. No dividend was declared, as cash generated was being used to invest in capital projects.

Chonowitz said Prestige's results had not been good, but many of the plans made last year were starting to come together.

Hyperette's results reflected the difficulties in the food retail industry, but the hospital division's results had been satisfactory and it was planning to expand.

He said the group's core businesses now operated in key growth areas in SA — household products, healthcare and food — and were being developed to take advantage of any upturn in the economy and SA's return to the international community.

Unidev was looking for other opportunities, with an emphasis on consumer-related markets, Chonowitz said.

☐ From Page 1
Company credit ratings could shock JSE

THE newly-formed KM Corporate Ratings, a joint venture between KreditInform and McGregor, believes that some JSE-listed industrial companies could be at risk of failure. Over the past weeks, KM has assessed and rated all JSE-industrials.

The term, “at risk of failure,” generally indicates there is a possibility of bankruptcy, or that the company could be placed under judicial management, or that the dividend could be passed in three of five successive years.

KreditInform MD Ivo Jones expects the ratings to send shock waves through the JSE and the investment community, but points out that the ratings are from a creditworthiness point of view rather than from a potential investment position.

“Nevertheless, for the first time, the entire industrial sector of the JSE has been rated on past and present performance,” he says.

The “bran” behind the exercise was Dr Gideon van Rhyn, D Com and Associate of the Institute of Bankers.

“The rating process uses six ratios each accorded a specific weighting,” says Dr Van Rhyn.

KreditInform’s Jones believes the ratings will enable bankers, financial and credit managers to see if they are backing winners or losers. They are rating companies, not whole sectors, he says.

Ongoing

McGregor’s director Simon McGregor says “Up to now, it’s been difficult to give fund managers solid information about trends and real performance. Now, we can give them an ongoing performance rating and comparisons on which they can make better investment decisions.”

One of the major advantages of a rating system is that instead of having to wade through financial reports, analyse balance sheets and income statements to identify true ownership, one can establish how solid a company is. It is possible to have all the information in a concise format which immediately shows whether a company is good, bad or average,” Dr Van Rhyn says.

KM is soon to undertake a similar programme for companies listed on the JSE’s banking sector.
Sara Lee may be 'buyer' in W&A sale

The newspaper behind the recent announcement of W&A's possible sale is expected to be US company Sara Lee.

Various sources said W&A, a subsidiary of the Boston-based New England Corporation, was also interested in Durban-based Kurn Brothers, which supplies various local and national markets.

The sale of the Kurn division was a strategic move for W&A, one source said. Local producers, however, might face problems with additional volumes overseas, another source suggested.

W&A's disposal of the Kurn division was seen as a way to reduce its losses in the local market and to restructure its operations. The disposal was expected to be completed in the next quarter.
Ownership & Control - 1992

April - June
ADB: Nationalisation not ANC doctrine...

By BARRY STREEK
Political Staff

NATIONALISATION were merely one of many economic instruments that might be considered to correct imbalances and distortions in the economy, the ANC told an African Development Bank delegation, the bank said yesterday.

The ADB said the ANC officials made it clear that nationalisation was not a matter of ideology or doctrine.

ANC officials expressed strong concern at the spate of unilateral privatisations being sponsored by the government, the ADB said in a statement after talks between the two organisations in Johannesburg.

The ANC also said the selection of industries to be privatised should be left to the democratic decisions of a future government.

The ANC and the ADB held its first-ever working session in Johannesburg on Monday.

In its statement last night, the ADB said its president, Babacar Ndoye, and the ANC president, Nelson Mandela, had concluded their talks on the role the bank could play in the economic development of a post-apartheid SA.

Ndoye is leading a nine-member delegation of the bank, an Abidjan-based $33bn (R29bn) institution owned by 51 African countries and 25 non-African countries, on a private visit to SA.

The delegation, which is meeting political, economic, financial, religious and civic communities, will visit Pretoria, Cape Town and Durban, apart from Johannesburg.

SA's possible membership of the bank is conditional on it gaining membership of the Organisation of African Unity (OAU).

The bank said that among the issues discussed were the ANC's economic policies and plans, the bank's own operation policies, the circumstances under which SA could become a member of the ADB, and the kind of programmes the ADB could implement in a post-apartheid SA.

Among other ANC participants in the talks were head of economic planning Trevor Manuel, and economic advisor Max Sisulu.
Revamped Malbak on track

Executive chairman Grant Thomas said results for the six months placed Malbak on target to reach its forecast earnings of 117c a share for the full year.

The 29% attributable earnings rise was reduced to a 3% decline in earnings a share to 55,1c (57,8c) on a significant increase in shares in issue. During the period, Malbak raised R480m in a rights issue, acquired Fedfood and SA Druggists, and sold its interest in Darling & Hodgson and 50% of its interest in Standard Engineering.

Group turnover rose 29% from R4,3bn to R5,3bn, and operating income increased 10% to R393m (R357m), as margins were squeezed from 8.5% to 7.4%.

But a 5% reduction in its interest bill to R65m, and a lower effective tax rate of 31,1% (35,5%), saw income after tax rise 23% from R173m to R212m. The dividend was maintained at 12,5c.

Thomas said most divisions performed satisfactorily, but the branded consumer products division, including Tedelex, Ellerene and its motor operations, saw its earnings fall by more than 50%. This division contributed R17m or 11% of group earnings, after contributing R35m in the previous year.

Malbak, 1991 to R77m

In the engineering and nursing supplies division, which contributed R17m (R13m) to group earnings, Standard Engineering increased its earnings by 6%, while Haggas suffered from low demand.

The international division had done well, and MY Holdings (which returned to profitability), Eagle Freight and Protea International reported "exceptionally good results". Its attributable contribution grew from R3m to R15m.

Thomas said the group did not expect any significant upturn in demand in the second half.
Tokyo's fall sparks JSE selling wave

A sharp 1.5% plunge on the Japanese stock exchange sent nervous tremors through global equity markets yesterday, and sparked waves of selling on the JSE, pulling the industrial index down 1.3% or 61 points to 4,424.

The 764-point fall in the Nikkei index of 225 shares to 18,882, its lowest level since January 13, 1987, came in spite of a discount rate cut to stimulate business activity. The cut came a day after the government had announced emergency measures to prop up the economy.

The negative sentiment rubbed off on London where the FTSE 100 closed 31.5 down at 24,008, sent shudders through all sectors of the JSE in spite of firmer precious metal prices, and pushed Wall Street to a lower opening.

In London domestic factors also came into play, with panic over polls predicting an outright Labour victory in the April 9 elections. Privatised water and electricity companies were hit hardest as three opinion polls gave Labour a straight-win lead of between 4% and 7%.

The latest slump in Japan and indications that Wall Street was sharply overvalued have prompted investment analyst David Pollock to ring the alarm bells of growing risks facing global equities.

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Tokyo 2.32

Pollock notes in his latest international newsletter that the valuation of the Dow Jones industrial average recently reached its second highest level yet, after 977, when earnings merely plateaued for a while at a high level. "Wall Street is now a red ribbon sell," he says, adding that the bear market will start before the November elections. In spite of hopes that Federal Reserve chairman Alan Greenspan will reappear as Santa Claus or in a cameo role as an Easter Bunny, dealers on the JSE said some decline was expected among industrials yesterday after shares were ramped up on Tuesday at the end of the March quarter for unit trusts.

But the selling spilled over to golds in spite of the metal forming nearly $1 to close in London at $344.15. The seven-point rise in the all gold index to 1,123 was partly on the back of a weaker franc and investment unit but continued selling of De Beers helped bring the overall index down 33 points to 3,538.

Gold's upturn came in the wake of improving platinum prices, the metal climbed nearly $5 to a London afternoon fix of $225.50 amid reports of tight supplies in the short term.
As Tokyo Tumblies

World Markets Slump

Eerie. Hearn

2/14/92

323

...
Safegrow turns in excellent performance

Safegrow Unit Trust's assets appreciated by 75 percent from R24 million to R42 million in the year to March.

The total return (capital plus income) yielded 28.8 percent. Capital growth of 23.5 percent was ahead of the increase in the JSE overall index and well in excess of inflation.

An income distribution of 5.23c has been declared.

As a result of approval by the Financial Services Board, allowing unit trusts to increase exposure in R2 billion market capitalisation stocks from five percent to 10 percent, Safegro is adopting a more focused investment strategy.
Pressure on blue chips

BLUE chip shares would face further upward pressure as a result of the recent relaxation of the rules relating to the holdings permitted by unit trusts. Safegro Unit Trust fund manager Len Olivier said yesterday in presenting its quarterly results.

Helped by an 80% jump in contributions, assets increased 75% to R42m in the year to March.

An income distribution of 2,4c a unit for the second half gives a total distribution of 4,2c a unit over the year, yielding 4,3% on yesterday's closing price. The total return for the year was 23,8%, of which capital growth comprised 23,5%.

As a unit trust was now allowed to increase its exposure in shares with a market capitalisation of more than R2bn to 10% of the trust's portfolio from 5%, Safegro was to further increase its holdings in the blue chips, Olivier said.

Referring to broad strategy, Olivier said there was a clear move away from the traditional consumer sectors towards the fixed investment, export and tourism sectors.

Private consumption expenditure in SA was more than 60% of GDP, whereas the ratio was lower than 50% in Japan.
Lonrho touches an eight-year low

LONRHO — in which Old Mutual has built a 3.4% stake — was under renewed pressure on the JSE yesterday. The share touched an eight-year low of 350c before recovering some of its losses as selling dried up. The share closed at 400c for an overall drop of 50c on the day.

The latest Lonrho annual report shows that on January 22, Old Mutual was one of its biggest investors in the embattled conglomerate with 22.3-million shares. Analysts reckon most of the shares were bought at prices in the region of R15. This would indicate that the value of Old Mutual’s investment had fallen from R356m to less than R90m at present.

Yesterday it could not be confirmed if any of the selling had been by Old Mutual itself. Old Mutual assistant investments GM Rowland Chute said the life assure did not comment on individual investments “as a matter of principle”.

Yesterday’s plunge was a further reac-

To Page 2
Asset sales boost the balance sheet

The market was getting impatient for decisive action from FSI, specifically the sale of either its wholly-owned hosiery interests, or part of Gentyre to Continental. Though there was a customary more than six months ago, there is no sign of a deal with Continental yet, though it is believed that a technical agreement until 2005 has been signed. FSI sources sigh that Germans take their time and the Continental board is happy to take up to 18 months on the deal.

Another black mark, Edworks, seems to have been sorted out. It has been renamed Safeshoe and new management installed under Hilton Nowitz and Henry Ogus, who brought in a team with him from the old Bata. And after government overruled the Competition Board's ruling to split up FSI's hosiery interests, allowing Burhose and Arwa to stay as a single business, FSI was able to sell the lot to SA Hosiery Co, owned by Kwi Brands, though there is speculation that US food company Sarah Lee is behind the deal. FSI's operating company W&A had a good price — R200m — which cuts net borrowings by more than R100m to R765m. It's roughly double book value and values the hosiery division at about three times the market capitalisation of Frame Group.

Deputy chairman Terry Rolfe says that, had the deal taken place at the beginning of 1991, it would have lifted EPS by 4c to 83c. The buyer also took up about R37m inbaili- The deal was signed on December 24, but announcement was deferred pending the Competition Board ruling.

Gearing trimmed

The hosiery sale and a revaluation of plant will trim W&A's gearing from 58% to 42%. FSI has been criticised for revaluing assets. It brings higher valuations into its balance sheet, which increases equity and, therefore, decreases gearing.

W&A has written down its Elcentre stake to market value, as it's accepted the offer to minorities, which contributed to a reduction in shareholders' equity from R765m to R717m. There is R215m of convertible debentures, R300m preference share capital and R384m minority interests in listed subsidiaries JG Group, Gentyre and Macaphin.

Several other deals have improved W&A's balance sheet. According to chairman Jeff Liebesman, some non-strategic properties have been sold and most of the shares in Elgro Group realised. The JG Group debtors' book was sold for R414m to JD Sales, which is controlled by a consortium of banks.

A further R157m was invested in offshore acquisitions and funded abroad. The share of sales accounted for by foreign interests has increased from 8% to 16%.

Liebesman ranks realising debt as one of the most important reasons for recent disposals, the first being to focus the business. Dereg favour is a consequence. On the manufacturing side, W&A specialises in industrial consumables such as nuts and bolts, scaffolding and tyres, with in fashion or electrical goods. On the retail side, JD Group is a good trader, but is not in the banking business — hence the sale of the book.

Since July 1991, only cash sales from JD Group have been reflected in W&A's turnover, as JD Sales is not consolidated. Rolfe says that though the operating margin has been maintained at 10.4%, on an apples-to-apples basis it has actually increased.

W&A, with a p/e of 5.1, is slightly better than the pyramid FSI, which sits on a 4.2 p/e. FSI's income is convertible debenture interest and dividends from the bottom companies' income, funneled through Wacor. This is used to pay its own redeemable preference dividend and bank overdraft interest, then ordinary and preferred ordinary dividends.

Until July 1990 it also held the Form- Seaf scaffolding interests. Directly for this reason, management says that FSI's 1991 earnings of 47.2c are not comparable to the previous 110.4c.

The balance sheet, widely considered risky before, is now in a far better condition. W&A has made progress, but it may take time for the market to acknowledge this.

Stephen Cronin

MALBANK

Timeous deals

Malbank's solid growth of 29% in attributable earnings over the past six months has gone largely against earlier market expectations and comes when a number of the group's subsidiaries have been feeling the full effect of falling consumer demand.

Earlier interim results from companies such as Tedex, which showed a bottom-line loss close to R5m, and lower earnings from Carlton Paper and Ellerine, seemed to indicate the downturn was finally catching up with the holding company. Instead, earnings, at R152m, have grown by nearly five times since the rate shown between financial 1990 and 1991.

Of course, the structure of the company has changed a lot since last August's annual results. Fedfood and SA Drugists have been brought onto board and Darling & Hodgson and half of Standard Engineering were sold. Because of the March year-end, Fedfood's and SA Drugists' performance cannot be compared to Malbank's interim results, but the food division has now become Malbank's biggest contributor, adding R36m (24%) of group earnings.

Executive chairman Grant Thomas says both Fedfood and SA Drugists will publish annual results for the last time in March, after which they will come into line with the group's August year-end.

The acquisition of the two new companies seems to have sharpened the focus of the group. Both are due to merge with existing Malbank companies and represent what could be a well-timed strategic investment in food and pharmaceuticals.

Thomas says the mergers should take place within the next six months. It seems clear the real value of both companies is in the critical mass they will bring to existing operations. For example, Fedfood's results are expected not to be outstanding, but combined with the recent good performance by Kanym, will give Malbank a significant player in the food industry — third in size after Premier and Tiger.

Similarly, merging SA Drugists with Malbank's other health-care interests, could help to pull up what is now an underperforming division.

The other division to take a knock in the past six months is branded consumer products, where earnings fell by more than half. With the sale of certain interests and the R430m rights issue, Malbank is holding a cash balance of R673m (1991 R109m), of which about R550m is at the centre.

This, with what Thomas says was tight control of working capital and success in turning non-productive assets into cash, has brought gearing down from 49% to 28%, leaving a pretty healthy balance sheet. If cash is offset against borrowings, gearing falls to around 10%.

Working capital control is also apparent in the reduced interest bill, down 4.5% to R85m. Thomas says some of this cash pile will be used for specific projects, pointing to negotiations between Heinz and Kanym.

He is especially pleased about the forecast for EPS of 117c for the year still being on track, despite an increase of nearly 100% in issues shares from the acquisitions. This has
Capital gains tax could benefit traders

A recommendation that a capital gains tax be introduced on share investment profits was recently made by the Johannesburg Stock Exchange committee to Finance Minister Barend du Plessis.

The hope, said Colin Crowhurst, senior partner in the stock brokerage of Ferguson Brothers, Hall, Stewart, Co Inc, had been that the introduction of the tax as part of the latest Budget would have cleared away the vast amount of uncertainty currently surrounding the taxation of share deals.

Arbitrary

Addressing a monthly meeting of The Investors Club he said the stock exchange had taken the view that it would have been better to levy a flat rate capital gains tax at a low level or perhaps 15 percent than to continue with the present arbitrary system in which revenue officers in the different centres all pursued their own individual approaches to the taxation of share profits.

One of the most serious problems facing the Johannesburg Stock Exchange, he said, its relative lack of liquidity. The fear of individuals that they might be taxed at their marginal rates if they take capital gains on their share investments was responsible for the extremely low turnover of the JSE.

Retraction

In a wide-ranging 90-minute question and answer session, Mr. Crowhurst also:

- Expressed the view that a short-term share market retraction was likely but envisaged steadily rising share prices in the year ahead.
- Said that inflation was here to stay and doubted whether levels of less than 10 percent could be reached in the foreseeable future.
- Said that South Africa would attract substantial foreign investment capital in future provided a clear capitalist-oriented political policy was adopted in the future.

"We are currently shooting the political rapids but a very calm pool lies ahead" he predicted.

PROPOSAL: Minister Barend du Plessis.

In the event, the Minister had compromised on the issue by lowering the time limit to five years, after which the holder of shares could be assured that he would not be taxed on his investment.

Mr. Crowhurst told investors that they need not necessarily be taxed as "traders" if they sold shares after holding them for a lesser period of time. Provided investors sold shares in order to reinvest in securities that resulted in a higher dividend, the Receiver of Revenue had shown no inclination to tax them on their capital gains.
JSE seeks liquidity solution

By ZILLA EFRAT

NEW JSE president Roy Andersen is tackling the lack of liquidity in the equity market.

He has initiated a JSE research project to examine why too much money chases too little scrip.

Mr Andersen will host a workshop on May 15 to discuss the problem.

Bankers and stockbrokers will be invited, as will representatives from institutions, large listed companies, the Reserve Bank and the Financial Services Board.

The intention is to identify the causes of the problem and come up with both short- and long-term solutions, says Mr Andersen.

The macro issues to be discussed include foreign-exchange control regulations, tax uncertainties and the lack of discretionary saving in SA.

On the macro side, the workshop will examine issues like marketable securities tax, pyramid companies, the costs of share dealings, share prices and the possible need for stock splits.

Mr Andersen believes the project is important because SA is trying to attract foreign investment. He expects everyone in the market to gain from any positive developments.
Two Senbank trusts show improvement

UNIT prices of Senbank's General Trust and the Industrial Trust improved during the first quarter of the year by 6.7% and 4.6% respectively.

In the nine months since the conversion of the unit trusts to equity funds from fixed interest funds in June 1991, unitholders earned a return of 16.8% with the General Trust and 20.5% with the Industrial Trust.

The fund managers said in a statement yesterday the Senbank unit trusts performed satisfactorily, despite uncertain conditions on the JSE. Funds invested in the Senbank unit trusts grew further in the quarter, those of the General Trust by 46.5% to R60.9m and those of the Industrial Trust by 57.2% to R24m. — Sapa
Trusts 'dressed up' at quarter end

INVESTORS wanting to go into unit trusts should make their investments at the beginning of each quarter if they want to get the best returns on their money.

Fund managers often window dress portfolios by ramping up share prices to indicate a better performance at the end of each quarter as part of the competitiveness of the unit trust industry.

As a result, the price of 17 of the 22 general equity funds increased on the last day of the January to March quarter reflecting the increased value of their underlying portfolios.

The share prices are often pushed up on very thin volumes. But the prices of the units tend to tumble in the first day's trade in the following quarter, although part of this drop is sometimes explained by funds going ex-dividend.

For example, although NBS Hallmark's purchase price dropped more than 3% (28.3c) to 892.35c from 910.46c last Wednesday, the first trading day of the April to June quarter, part of this was explained by the 23.5c dividend payout.

Without exception the price of all the general equity funds dropped on Wednesday.

On Tuesday last week, the last trading day of the March quarter, the JSE industrial index rose 30 points to 4 465 with most of the rise coming in the last bout of trading as fund managers lifted index-weighted shares.

"There is always much activity that occurs at the end of the quarter which probably comes with unit trusts' quarter ends," Unit Trust Association executive Ken Bures said.

Stockbrokers are said to phone fund managers a few days before the quarter ends to ask if they want share prices to be pumped up, especially on the thinly traded blue chip shares, an informed source said.

However, the sharp falls in the indices last Wednesday were accentuated by the plunge on the Tokyo market which sent nervous tremors through all markets.

Window dressing occurs in all markets throughout the world and is especially rife on the Tokyo market. "Tobashu is the name that Japanese give to the common trick of shifting investments from one account to another before the end of a reporting period," said an article in a recent issue of The Economist.

However, the higher the quarter-end price, the higher must be the following quarter's entry price.

As a result, boosting performance for one quarter will concomitantly reduce the performance for the following quarter.
JSE follows world markets down

SHARE prices fell throughout a slow session on Diagonal Street yesterday to close sharply lower across nearly all sectors in thin trading, indicating more sellers than buyers in the market.

The overall index ended a nervous session 1,3% or 46 points down at 3 440 with share price losses outpacing gains by seven to one.

Dealers said investors opted to sit on the sidelines in the face of a wobbly gold price and jittery global equity markets. Another sharp fall on the Tokyo Stock Exchange left the Nikkei index closing below 18 000 for the first time since November 1986.

After shrugging off the continued weakness of the Tokyo market, Wall Street opened softer last night, pulling the London market off its highs of the day.

A JSE dealer said "There is a close relationship between Wall Street and our market and people here were very nervous as they wondered how the US market might react to Tokyo's latest 3,5% fall."

The JSE got off to a shaky start as gold looked as if it might pierce through support at $337 on reports of producer selling. But the metal recovered slightly to close in London at $338,35, down $1,20 on the day.

A former finrad kept gold shares under wraps and the all gold index shed 3% to 1 056, its lowest in nearly a year. The industrial index fell 1,5% or 70 points to 4 319.

But trading on the futures market indicated that the week-long decline on the JSE could be nearing an end. Futures tended to bottom out in thin trading with prices marked rather than sold down.

National Futures and Options MD Brett Stacey said "The pattern of trading we saw on the futures market is normally associated with a bottoming of prices on the cash market."
US economy ‘can aid SA unit trusts’

CAPE TOWN — Sanlam Dividend Trust has produced a return of 34.5% for the year ending March 31, according to the latest figures announced by the Association of Unit Trusts.

Sanlam Industrial Trust’s results for the same period were 22.9%, followed by Sanlam Trust with 27.9%, Sanlam Index Trust with 24.4% and Sanlam Mmng Trust with 9.1%.

Two of Sanlam’s unit trusts declared income distributions for the six months to March 31. Sanlam Trust will pay 26.8c per unit on May 22, and investors in Sanlam Dividend Trust will receive 16.5c per unit, paid on May 15.

Sanlam said in a statement yesterday it believes present developments in the American economy would have a positive influence on SA unit trusts. “We are confident that the market for commodities will make a valuable contribution to performance,” said Stafford Thomas, Sanlam Unit Trusts’ senior portfolio manager.

“While the American economy is being stimulated, inter alia, by short term interest rates being at their lowest levels for 27 years, and monetary policy leading to expanded growth in the American money supply,” he said.

The results would be positive for SA commodities, he said.

“For example, copper, wood, paper and platinum will probably gain, and Sanlam’s two major general funds — Sanlam Trust and Sanlam Index Trust — are well placed to benefit from such developments,” Thomas believes that growth through industrial shares will level off. “Although the JSE Industrial Index continued to be the top performer at the beginning of the year, it is not likely that the growth rate will be maintained at such a level.” — Sapa
Buy gold

Hold on to your gold and silver, as they will increase in value.

Japan: The country

Nikkei sharply lower

NSK's plunge sends
UNIT trust Safegro has adopted a strategy of investing in companies with exposure to the fixed investment, export and tourism sectors and away from those dependent on local consumers.

Safegro fund manager Len Olivier said local private consumption expenditure was currently over 60%, compared to under 50% in Japan.

Safegro management believed the local rate would drop and had sold off stock in companies, like Woolworths, who were dependent on local consumers.

About 70% percent of Safegro's portfolio comprised only 14 blue chip shares — Richemont, Rembrandt, De Beers, Anglo American, SA Breweries, Sunbop, Afrox, Murray & Roberts, Sasol, Engen, Safren, Anglovaal Industries, Saffile, and Investec.

Safegro targeted Richemont because of its superior quality foreign assets and rand hedge value, Olivier explained, while Rembrandt was favoured for its strong ability to generate cash flow.

De Beers was linked to the Dow Jones, which would remain firm for a year, and virtually controlled the world diamond market, Olivier said.

And Anglo offered investors a good portfolio at a net asset value discount of about 24% Large expansions at Sunbop were expected to result in substantial cash flow benefits and earnings growth.

Olivier said Afrox was probably the "blue chip's" never having failed to increase its dividend since listing in 1994, Construction group M&R was selected for its ambitious expansion plans.

At Engen, the doubling of the Genref refinery combined with the "attractive refining margins" boded well for earnings growth. Safren, a typical "new SA" share, was totally geared for exports through Safmarine, while its link with Kersaf exposed it to local tourist growth.

Anglovaal Industries held a "fantastic blue chip portfolio," Olivier said.

He said Safegro believed Investec was "one of the soundest banking groups in the country," while Safegro's affiliate Saffile, a life assurer, had been selected for its gearing to the black market.
JSE decline seen as 'correction'  

Stock markets battered by selling frenzy  

WORLD stock markets continued to crumble yesterday in a domino effect which also ripped through share prices on Diagonal Street.

The wave of selling started in Tokyo, and was engulfing Wall Street for the second successive session last night as concern mounted over the brewing financial crisis in Japan and uncertainty over the strength of the US economic recovery and corporate profits.

At one stage on Wall Street yesterday, the "uptick rule" was brought into play to limit further losses after the Dow Jones industrial average fell 50 points.

This followed the previous day's biggest one-day fall since mid-November.

Wall Street, in turn, added to the growing woes of the Tokyo stock market which plunged 3.4% for the second successive day.

The widespread downward drift of shares on the JSE included some shares which have not been regularly traded and the overall index declined 2% or 69 points to 3,751.

Declines outpaced gains by 185 shares to 11 but dealers noted no aggressive selling and said share prices tend to be marked down as buyers withdrew orders from the market and retreated to the sidelines.

Selective buying of blue chips by institutions at the lower levels enabled the JSE industrial index to come off the bottom after posting a loss of 105 points. It ended 59 points down at 4,223.

An analyst said: "Wall Street triggered this week's decline but we are now seeing the correction of share prices that has been on the cards for a long time."

"After lifting prices at the end of the March quarter, mutual funds are not supporting shares and with no buyers around, the market is sliding down".

Investec futures trader Brian Coyne said: "We have now had the correction the market was waiting for. I believe the market is now

Markets looking very attractive and shares should be bought aggressively."

Observers were also encouraged by the resilience of the gold price, which closed 40c higher in London at $338.75 after earlier dipping below $337 on speculation that falling markets would lessen inflation.

Platinum was also buffeted by expectations that falling markets would lessen demand for the metal and it slipped below the $350 level in London.

Analysts said the market was writing off a big chunk of Japanese investment demand after Japanese sales of the metal to offset equity losses.
Doubts over dividend depress Rentbel price

THE share price of Rentmeesterbeleggings (Rentbel), which holds a 44% stake in Trek Airways — operator of Luxavia and fledgling local airline Fitestar — has dropped to a 12-month low of R13c.

Analysts said the price, currently trading at a 64% discount to net asset value, reflected the market’s pessimism over when or if a dividend would be paid, as well as its concern about gearing, which jumped to 78% at the end of December.

Underperforming operations and a large rationalisation programme resulted in Rentbel becoming almost solely reliant on its life assurance subsidiary in the six months to end December, with bottom line losses of R737 000 in this period.

Rentmeester Verskerars, a niche life assurance in which Rentbel holds a 70% interest, and Fitestar were the only two others to record attributable earnings in the six-month period.

However, the Fitestar’s start-up costs had a negative impact on Trek, the equity accounted contribution from the associate dropped to R137 000 (1999 R211m).

Rentbel's remaining principle operation, 78% held netting operation Alnet, made a bottom line loss of R12m in the past year the group sold off its steel and short-term insurance interests and rationalised the Alnet operation. Although this helped stem losses, bottom line results remained in the red.

Rentmeester Verskerars, constituting R18m of the R42m total turnover in the half-year period, and Alnet, constituting the remaining R24m, comprise Rentbel’s two principle subsidiary operations.

Although Rentbel made an operating profit of R2.3m against the previous year’s loss of R8m, an interest payment of R2.6m meant the group had negative interest cover and a taxable loss of R281 000.

Rentbel's poor results were exacerbated by its inability to offset losses in Alnet against profits. As a result tax of R433 000 was paid despite the R281 000 taxable loss.

MD Johan Vermouten said the contribution from the airline operation was lower as Trek had written off most of the start-up costs in the six months to December.

The costs would be capitalised and amortised over the mutual lease period of the aircraft when final start-up costs were calculated during the second half year.
33.6% reward for investors in unit trust

SYFRETS Growth Fund achieved an all-in return of 33.66% in the year to March — double the inflation rate of 16.5% and placing Syfrets among the front-runners in the unit trust industry. 

But the investment team has turned cautious on the Johannesburg Stock Exchange, 5/7/91.

The managers said yesterday they had increased cash and liquid assets to 20% of the portfolio, compared with 13.5% in September last year and 15% in December.

Many of Syfrets' concern centres on the US and Japanese markets.

Syfrets Growth Fund manager Tony Gibson said the US stock market continued to lead the pack after the sharply easier monetary policy instituted at the end of December 1991.

He added local shares could not remain isolated from the US and Japanese markets — especially given high current ratings.

The Syfrets Growth Fund income distribution of 3.21c makes 11.66c for the past year.

The one-year return has been 33.66%.

Average compound rate of return for the three years to March was 27.08% a year, the fund managers reported.

Syfrets Trustee Fund's income distribution for the past quarter amounts to 1.44c a unit.

Syfrets Income Fund's income distribution of 4.19c for the past quarter results in a total distribution of 16.20c for the past 12 months — Sapa
Boumat acquisition to put Saficon in 'the big league'

SAFICON's acquisition of a controlling stake in Boumat would take it into "the big league" on the JSE with combined annual sales forecast to exceed R2,7bn and total assets R800m, Saficon chairman Sidney Borsook said yesterday.

Following the deal with Sanlam guaranteeing a minimum 47% stake, Borsook was confident enough other shareholders would accept the offer to increase the stake to 51%.

Saficon subsidiary Sakers Industrial Holdings announced the deal to acquire 27% of Sanlam's holdings in Boumat in February. At the same time, Sanlam agreed to sell Saficon additional Boumat shares which, together with those acquired from the other Boumat shareholders, would lift Saficon's stake from 32% to not less than 47% and not more than 51%.

Saficon subsidiary Sakers Industrial Holdings offered to acquire 27% of Boumat's shareholder's shares. Those shareholders who accepted the offer were invited to tender to Sakers Industrial any additional Boumat shares they wished to offer.

Borsook said Boumat's change from an attributable to a consolidated accounting basis would see Saficon's profit rise to R2,8bn from R1,5bn.

Saficon's updated earnings forecast to March 31, 1992, is included in the offer document sent to Boumat shareholders today, which shows Saficon could expect to earn 51c a share and pay out dividends of 13c.

This forecast was revised from the previous forecast of 74c and 18c a share respectively at the interim period, which was revised from the 94c and 24c forecast at year end to March 1991.

Saficon paid out 7c a share interim dividend which means shareholders can expect a 6c a share final dividend while Sakers final dividend -- with its 51.4% interest in Saficon -- is likely to be 9c a share.

Boumat shareholders were told the scheme had been revised and replaced by a dividend policy of 25% of earnings a share. The offer document also revised Boumat's forecasts to enable shareholders to decide whether they wish to take up the Saficon offer. Boumat expects to earn 62c a share and pay a total dividend of 10c a share for the year to March 1992.

Reflecting the continuing recession, particularly in the building industry, Boumat previously forecast earnings of 50c a share and dividends of 12c at the interim stage. At its year end on March 31, 1991, it originally forecast earnings of 67c a share with a dividend of 16c a share for the year to March 1992.

Initially, Saficon's increased interest in Boumat was not expected to affect Saficon's earnings in the forthcoming year. Had the deal been effective for the year to March 31, 1991, its net asset value a share would have declined to 550c from 594c because of goodwill written off on the acquisition and accounting policy changes.

The basis of the deal was 12 Saficon shares plus 52 Sakers's shares for every 27 Boumat shares. Saficon will be obliged to accept all tenders, with the additional shares available from Sanlam, on a pro-rata basis.
Liquidity: The Key For Unit Trusts

Review: Your Money

The Weekly Mail, April 10-16, 1982

Page 23
PROPERTY trusts featured actively on the JSE yesterday, with Stanprop and Histone being the most actively traded shares by volume on a JSE that reflected thin trade in most other sectors.

"Some institutions and vendors are obviously re-evaluating their portfolios, and in some instances are taking a defensive stance and increasing their exposure to property trusts, which are not regarded as equity but indirect property investments," Frandek Max Pollak analyst John Rayner said.

Stanprop saw 813 600 shares worth R1,383m changing hands in six deals at an unchanged price of 179c a share, while Histone shares worth R852 200 traded in two deals.

Capital was the eighth most actively traded share on a volume basis as 161 979 shares worth R437 305 traded in five deals. Metprop also saw 147 000 shares to the value of R330 750 change hands in five deals, 50 down at 230c.

Commenting on the turnover of 900 000 Cenprop shares worth R2,4m on the JSE on Wednesday, Rayner said this was unusual but was probably nothing more than the rationalisation of an institutional portfolio.

Such volumes did trade on the property trust board from time to time, he added. "While there are buyers for these shares, the difference between the buyers and sellers price often makes trading difficult."

One source said Cenprop's acquisition of JHI House and its possible involvement in a proposed hotel next to the Mail shopping centre could be the reason for the sale.

"The acquisition of JHI House would have depleted its cash reserves, which means interest income will be lower and the share will not perform as well as it has over the past few years."

"This could be the reason why an institutional shareholder would have decided to sell the shares now," he said.

The buyer would have taken a longer-term view on the performance of the shares, he said. Portfolio managers JH Isaacs said no information on the movement of the shares was available as yet, as the deal had not been registered.

"In all probability, the shares were bought by an institution and sold by a smaller holder, but we do not as yet know who the buyer or the seller was."

PETER GALLI
Unit trust reaps benefits from 'yes' result

SOUTHERN Life Association has attributed a 35% annualised return for its Southern Life Unit Trust to end-March 1992 in part to the referendum result, an increase in the JSE All Share Index and the lower bank rate.

The fund achieved a 36% compound return, beating inflation by more than 11% over the 30 months since its inception, GM, investments. Carel de RIdder said yesterday.

The mining Fund returned 14.6%.

A total income distribution of R3m was declared by Southern unit trusts during the quarter, with a dividend of 4.2c a unit from the general equity fund and 3.4c from the specialist mining fund.

The mining and equity funds both increased liquidity levels.
Minority shareholders should reject the 1c share offer from Esor Establishment SA but face a tough choice between electing to stay in the company in its new form or trying to block the scheme of arrangement in hope of getting a better offer.

As it stands, the offer is yet another example of minorities being left whistling in the wind while creditors are paid out almost in full and the assets go to new owners at a knock-down price.

The proposal is to consolidate the existing capital from 80m to 800 000 shares and then issue 7,2m new shares to Esor in payment for Esor setting Eersteling's concurrent claims of about R6,5m. If minorities approve the scheme but elect to reject the 1c offer and stay in the company their interest will be diluted to 10% of the new equity.

An "expropriation" clause in the circular to members states that at least 10% of shareholders, or holders of at least 25% of the equity, must elect to remain invested or all shares will be forcibly redeemed. There are some 9 000 shareholders.

The circular contains errors concerning compliance with Securities Regulation Panel (SRP) and JSE rules. It states: "Neither the offeror, nor any director of the offeror has any direct or indirect registered or beneficial shareholding in Eersteling," and "there are no arrangements with undertakings by or agreements between the offeror and Eersteling and persons acting in concert with either of them in relation to Eersteling shares."

Those undertakings are not valid. Clause 1,7 spells out that major creditor Standard Merchant Bank (SMB) has offered its R5,1m claims to Esor for 80c in the rand as well as its 26,8% shareholding for a nominal R1, and Esor intends voting those shares in favour of the proposals. SMB is the major creditor and largest shareholder, having taken over the block of shares held by Severn Mining as security for a debt.

Esor's sole director is Swiss businessman Max Glauber, Manager of Eersteling will be in the hands of a local board headed by Stefan Hayden, whose company, Industrial Brokers, operates as an agent in buying and selling surplus mining equipment.

Steen and Franka Severn, who started Eersteling through their holding company Severn Mining, retain a 4% stake. Steen Severn says they have no links to Glauber and are not among Eersteling's creditors.

Hayden says the arrangement with SMB was made after giving the initial undertakings to the SRP and JSE and it was not practical to change the circular. He says despite the error there is no inconsistency with SRP and JSE rules.

Hayden says he intends keeping the mine in operation if his deal goes through, adding that two of the proposed directors - Jack Muir and John Muir - have much experience running this kind of mine in Zimbabwe. Since it was put into liquidation on May 10, Eersteling has been running at a profit - though before interest on the concurrent claims, which total R6,5m.

The mine is being run on a contract basis by Peter Cox, a former consultant to Eersteling. The report by liquidator Leslie Cohen of Westrust shows an operating profit of R500 000 for the period May 10-end-January after paying nearly R500 000 fees and costs to liquidators.

Eersteling seems viable if cut back to the correct small-mine size instead of pushing production too high, in terms of the policies of the Severns. Hayden believes the mine to be viable on his terms "Otherwise we would not be making this offer."

The report says fixed assets that could be realised in winding-up have a book value of R20,7m, though realisable market value is put at only R4,4m by an independent appraiser. If all shareholders accept Esor's offer its total outlay (including various other obligations) for full ownership of a debt-free Eersteling would be some R5m.

Some minorities feel Esor is trying to railroad them into giving up their rights for almost nothing so it can delist the company. Durban shareholder Edward Howard is trying to rally support for a scheme to hold a rights issue, shipping in 10c a share to pay off SMB and take things from there.

Hayden says he is happy if minorities stay aboard for the ride and believes enough will do so to maintain the listing.

Asked about the fairness of the offer, Cohen preferred not to comment, pointing out that his responsibility as liquidator is the interests of creditors - who will come well out of the scheme, receiving 90c in the rand, apart from SMB, which has accepted 80c.

Blame for Eersteling's demise lies with the Severns. Shareholders can't take out their frustration about this on Hayden. However, at 1c a share, minorities have almost nothing to lose. If they are unhappy about being diluted to 10% they can try to block the
The courts have delivered a blow to creditors who rely on one form of security to protect them in the event of a debtor's insolvency. That is a pledge of movable property which has not been "perfected" (delivered to the creditor) but remains in the debtor's possession.

In a recent judgment, the Appellate Division of the Supreme Court held that "special notarial bonds" (executed before a notary and registered at a deeds office), pledging specified items of movable property, don't confer any preference in the event of an insolvency.

The Insolvency Act provides a ranking of various categories of debt (generally described as preference). Any funds in the insolvent estate of an individual or company must satisfy preference claims in order of ranking. Once these have been satisfied, the remainder is used to pay concurrent creditors in whole or in part.

The judgment reads that the Act confers a preference only on categories specifically described. These include "general notarial bonds," pledging the totality of a debtor's movable property, which would, of course, include his stock-in-trade. Other categories entitled to a preference include taxes, salaries, and debts secured by pledge of immovable property (as mortgage).

Weksmans partner Paul Winer says creditors will now have to exercise extreme caution and monitor the affairs of their debtors more closely. If insolvency seems to be threatening, a creditor secured by a special notarial bond should apply to court for an order against the debtor to deliver the property to him.

Significantly, the judgment has no bearing on the countrywide statutory preference accorded to claims secured by general notarial bonds. Winer notes that the position in Natal, relating to special notarial bonds, is different. There the law does additionally recognise the creditor's right to a preference, secured through a special notarial bond but not perfected. He argues it might make economic and commercial sense to amend the law applicable to the remainder of SA to make it conform to the position in Natal.
Gilts, cash ‘better bets than shares’

CAPE TOWN — Gilts and cash were presently better investment bets than shares, Syfrets portfolio manager Rob Nichol said in the latest Syfrets Quarterly Economic Review.

“Economic recovery in SA is being delayed and high JSE ratings based on earnings growth expectations are premature,” Nichol said.

“We expect the capital market to perform well over the next six to 12 months.”

Nichol believed the only factors limiting a strong bull market in bonds were the ability of a future government to maintain strict discipline in its monetary and fiscal policy and that a classical bull market required the potential for a large fall in short rates.

Syfrets expected the inflation rate to decline to about 13.4% by year-end, the current account to halve as a result of the drought and growth in GDP to be minimal.

The diamond market was expected to remain in the doldrums for most of the year, gold was unlikely to exceed $365/oz because banks were still mobilising their reserves and coal export volumes were likely to remain unchanged with prices softening.
Markets are not drowning, but waning
Markets rally, but fears linger

By CURT VON KEYSERLINGK and JOHN CAULL

THE world's three biggest stock markets — and the JSE — rallied at the end of the week, but there is still anxiety about Tokyo, its collapse may not be over.

There are also doubts that the JSE's recovery will be sustained. The index has tumbled from a March high on referendum day. Liberty Asset Management chairman Roy McAlpine says: "International markets look fairly priced, but there is always a possibility of a correction."

Robert McAdie, head of Macquarie's office in London, says: "The balance of payments has been weakening since the end of last year and has reduced liquidity. Consequently, the market's recovery has run out of steam in the second half of the year."

The market will probably weaken slightly for the rest of the year. If there is a crash on Wall Street, it will hit here."

Mr Mosad says that in the past few years, fundamentals such as profit prospects have become less important in determining share prices. Instead, prices have been driven by surplus liquidity.

Although Tokyo's 1.7% lift on Friday (vs. a graph which reflected price movements since the day before) was the biggest on record, it was not unexpected. The Nikkei Dow index of 225 blue chips had been in free fall from 24,000 in mid-March to Thursday's six-year low of 18,539 — a drop of 15.7%.

Since the Tokyo bear market started at the beginning of 1989, the Nikkei has shed nearly 60%.

SURPLUS

Bankers, the NICs — world leaders — said in London: "It looks like the board of a dead cat and a belated reaction to the Bank of Japan's three-quarter point cut in the discount rate (0.35%) plus the government's inflation plans."

Japanese stocks are still cheap — the entire ball market's total value of the 1,883 stocks has popped. "But there are worries about forced selling which could still drive the Nikkei another 20% lower."

Tokyo was also reacting to Thursday's surge in New York, where another cut in short-term interest rates lifted the Dow Jones Industrial index of 30 top shares by 14 points to 232.1.

Mr McAdie says: "I do not believe the Dow will go higher than 2,400 but that will be the end and it could then fall in about 3,000 like the JSE. Wall Street is driven by recessionary conditions which have led to surplus liquidity."

The Federal Reserve restored the Fed funds rate — at which it lends to the banks — to 3.5%, signalling another attempt to boost the struggling economy recovery. But

swing

The knock-on effects into London were compounded by the Conservatives' general election triumph in the general election in an unprecedented move. Lenders' leading brokers stayed open all night and when the outcome became clear after 0.30am on Friday, prices took off.

It enabled the Bank of England to make history by selling its 300 million of gilt-edged stock in the early hours.

Signs of a late swing to the Conservatives on Thursday prompted the Financial Times Stock Exchange (FTSE) index of 100 stocks to hit 360 in the early hours.

But the Financial Times Stock Exchange (FTSE) index of 100 stocks hit 360 for the first time since the early hours.

But the Financial Times Stock Exchange (FTSE) index of 100 stocks hit 360 for the first time since the early hours.

The average capital assets of Japanese banks is estimated to have fallen to 2.5% — below the 6% minimum agreed by central banks at the Bank for International Settlements. This leaves the JSE at 1.9%.

And Japanese investment abroad, the main international source of funding for the UK, is estimated to have fallen to 3.5%.

Surplus

The report adds: "The number of new borrowers has been reduced to 10. The JSE has now taken a back seat in its capital market and is currently the least.
New fiscal year's state spending raises liquidity

BUSINESS DAY, Monday, April 1992
Bad debt spiral 'will continue'

Pretoria — Debt judgments against businesses and individuals continue to mount, and economists warn the trend will continue for the rest of the year.

International Trust Corporation CEO Tony Leng said at the weekend there had been more than 37,000 judgments against individuals in January — a 5% increase on the same month last year. The amount involved was R189m — an average of R5,000 a judgment.

Judgments totalling R41m were handed down against businesses in January — 9% up on January 1991.

Company liquidations in January totalled 196 — the highest number for the first month of the year since 1986.

Leng said small businesses were particularly at risk and cash flows needed to be carefully monitored.

Business confidence had not reacted significantly to the "yes" vote in the referendum, said Leng.

However, businesses could comfort themselves with the thought that they could emerge from the current stagnant conditions leaner and stronger.

Absa economist Adam Jacobs agreed that the debt spiral would continue for the rest of the year.

Indicators included the sharp drop in retail sales, the chronic slide in vehicle sales, the rise in unemployment and salary and wage increases that were lower than last year and, in many cases, below the inflation rate.

"Add up all these factors, and include the fact that no personal tax relief was given in the Budget, and the result is lower disposable incomes, falling living standards and the inability of thousands to meet debt commitments," said Jacobs.

The decrease in demand for goods and services would mean company failures would continue.
THE JSE is gearing itself for a UK-style Big Bang deregulation of financial markets.

This is the gist of a statement issued by the JSE yesterday saying it has formed a group to look into how it can adapt to changing circumstances in SA.

It comes in the light of proposed amendments to the Stock Exchanges Control Act this parliamentary session to permit, but not require, corporate membership, negotiated commissions and dual capacity.

JSE committee chairman Humphrey Borkum said in a letter to members last week, released to the media yesterday, "The changes in the Act are being made in terms of official competition policy to create a level playing field. While they will inevitably raise the level of debate about the future of the JSE, they will not require the JSE to change its structures unless it so determines."

It is nevertheless believed that incoming executive president Roy Andersen feels the broking community should take the initiative in shaping its future.

Andersen will co-ordinate a JSE sub-committee in a research project to be staffed by independent consultants.

"The aim of the research will be to determine as objectively as possible what should be the most efficient structuring of the market. This will be in the interests of all South Africans, including the broking community," he said yesterday.

Many JSE members believe there is a danger in simply following measures taken by the rest of the world in deregulating financial markets, saying circumstances differ. They also feel overseas experience of the Big Bang showed it resulted in increased costs for the small investor.

As a self-regulating body, only the JSE can determine its future. Analysts said yesterday a change in the Stock Exchanges Control Act would open the door for negotiated commissions, compared with the present minimum commissions, and make it possible for banks or other institutions to become corporate members. It could also allow for dual capacity where brokers could trade as agents and principals.

Pressure has been building up for some time for the JSE to be more in tune with free, competitive markets.

The Financial Services Board recommended to government last year that the changes now under consideration be effected in 1992. Board CEO Piet Badenhorst said at the time the moves were in line with foreign trends and widening interest in the SA financial market by overseas securities firms. He said the local market suffered from low liquidity, low volumes and high operating costs. Increased involvement by foreign securities firms would alleviate some of these constraints.
R15m plus can buy control of airline

FOR a mere R15m — plus some premium in order to gain control — some aspirant local entrepreneur could have his dream come true and own his own airline.

Market capitalisation of Rentmeester-beleggings (Rentbel), which has a 44% stake in Trek Airways — operator of Luxavia and fledgling local airline Flitestar — is currently standing at R14,7m, giving a 65% discount to shareholders' funds of R41,9m.

As no one party holds more than 50% of the group, control might not be watertight. In fact, a 22% holding in Rentbel is currently under legal dispute after the sale to the Jan Lombard consortium of the interest previously held by Rousseau Noyman. The Vermeulen family, who already hold 22%, has disputed this sale.

The De Muclenaere and Bremmer families each hold a 11% stake. Further, the company has gearing of 78% and a negative interest cover which could weaken the current shareholders' bargaining position.

Its three principal operations include subsidiaries Rentmeester Versekeraars (held 70%) and Alnet (held 70%) and associate Trek. Being an associate, Trek is equity accounted and not consolidated, with the result only a small portion of Rentbel shareholders' funds would constitute its Trek interests.

The R41,9m in shareholders funds at end December were split as follows: share capital and premium accounted for R2,1m, non-distributable reserves, including revaluation reserves of R13,7m and R10m from profits on the sale of investments, came to R28,3m, and distributable reserves were around R10,5m.

Rentmeester Versekeraars is a niche life assurance, while Alnet is a netting operation.

About 57% of Rentbel's turnover of R22,4m in the six months to December was contributed by the netting subsidiary, with the remaining 43% accounted for by the life assurance operation.

Although both Alnet and Rentmeester Versekeraars contributed to Rentbel's trading profits of R2,3m according to MD Joachim Vermoten, management gave no indication on the split between the two (although Alnet made a positive contribution at trading profit level, it made a bottom-line loss of R1,2m). The equity accounted contribution from Trek fell to R157,000 from R2,1m over the comparable period in the previous year.

Vermoten said the sharp drop resulted from the write-off of start-up costs at Flitestar. As Rentbel holds a 44% stake in Trek, and as Rentbel equity accounts the results from the airline group, attributable earnings at Trek dropped to about R356,000 in the six months to December from around R4,7m in the previous period.
towards the Big Bank
JSF takes first step

The committee of the JSF
JSE liquidity 'key to luring investors'

THE JSE was currently looking at unbundling certain of the concentrations of power which had built up during the years of isolation, JSE president designate Roy Andersen said yesterday.

Speaking at the Institute of Directors conference in Johannesburg, he said the JSE was also addressing the need for improving the liquidity of the stock market in order to ensure that it would be more efficient and more attractive to overseas investors, he said.

He said the future of SA was dependent upon sound and efficient markets. "The role of the JSE, which is to make the savings of a nation available as cheaply, efficiently and securely as possible to the users of capital, will become even more relevant over the next decade."

Andersen said SA needed free market policies which would have sustained long-term benefits. "Elimination of the financial rand and, indeed, all foreign exchange control regulations would be essential."

He said government spending had to be reprimised and borrowing had to be controlled.

SA should avoid the temptation to grasp at short-term solutions to its existing social and economic problems but should rather focus on the long-term solutions.

Andersen said by remaining part of the First World and competing internationally, SA could create wealth for everyone and thus meet the expectations of the entire population. It was therefore important to focus on exports, he said.

It was necessary that confidence be restored. "This will require a reduction in violence, ongoing progress at Codesa, a clearer indication of the economic policies of a new government and responsible economic statements by our leaders."

Andersen said high interest and tax rates remained a disincentive. "The turning of the stimulation of the economy and any material decline in the cost of capital had to be carefully planned to synchronize with an upswing in the world economy and the ending of the drought," he said.

Certain social issues such as housing, health care, education and employment opportunities would have to be addressed before higher levels of economic growth could be attained.
Unit trust assets exceed R12bn

THE combined value of assets in the country's 41 unit trusts topped the R12bn mark in the March quarter, according to figures from the Association of Unit Trusts (AUP).

The number of unit trust account holders broke the 1-million mark to 1.005,197, of which 911,227 applied to general equity funds. The combined value, which reflects the increase in the price of shares and new inflows of funds from account holders, increased 43.6% to R12.13bn over the 12-month period and 6.5% over the quarter.

The general trusts, which consist of 81% of the industry's assets and accounts, reduced their liquidity levels during the quarter. At end-March the average liquidity for the general funds declined to 15% from 16% at end-December.

The AUP figures showed the funds earned an average annual return, including both capital appreciation and distribution, of 29.2%, compared with the 27.5% rise in the All Share Index (including dividends) over the comparable period and an inflation rate of around 15.5%.

"But investors should note there are a number of factors prevailing which would dictate a cautious attitude to the market in the short term," AUT chairman Clive Turner warned.
Consortium offer on Picardi

CAPE TOWN — A consortium of Johannes burg and Cape Town businessmen has made an offer to purchase a major share of the Picardi group. If successful, Pichel, Picardi Holdings (Pichold) and their operating subsidiary Picardi Appliances (Picapi), would probably be delisted as the pyramid structure collapsed. The dual structure of the new company, and the relative stakes of the consortium and the Picardi family, are still being worked out.

An offer would obviously have to be made to minorities were such a deal to go through, but a source said yesterday the offer would be a fair one.

Buying out the minorities — which own about 50% of Pichel, 31% of Pichold and 7% of Picapi — would cost about R26m at current prices.

Pichold and Pichel issued a cautionary announcement yesterday saying negotiations were under way which could affect the price of the shares of the two companies and of Picapi.

The intentions behind the deal were not clear yesterday but the source categorically denied an asset strip of Picapi was on the cards.

He said the potential investors wanted to give fresh impetus to the business, Apart from Picapi, Pichold’s only other asset is its highly geared and struggling

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Pickard group

An announcement is expected within the next two weeks should all the conditions precedent be fulfilled, Pichold, Pichel and Picapi minorities have long been dissatisfied with the running of the company and have had to suffer a long dividend drought. Their complaints about the dislocation of Picapi earnings by its holding companies erupted at the last general meeting and the board of directors appointed a merchant bank to look into a restructuring of the group.

The group is tightly held with Pickard Family Trust owning about 50% of Pichel, which has a 63.7% stake in Pichold, which in turn owns 94% of Picapi.

The group has been through hard times. Over the past few years it has sold Union Wine and sunk R18m into Cape Investment Bank. Picapi was highly geared and it was unlikely that minorities would see a dividend for some time, the source said.
More people invest in unit trusts

By JOSHUA RABROKO
SOUTH Africans continued to invest in unit trusts in the first three months of 1992 and now, for the first time, operate more than one million unit trust accounts.

Figures released by the Association of Unit Trusts reveal that there are 1.005,397 unit trust accounts, 811,227 in the popular general equity trust area.

The combined value of the assets in the country’s 41 unit trusts topped the R12-billion mark, also the first time reflecting an increase of 45.6 percent over the industry’s net total of March 1991.

The average in the past three months was R735.4 million or 6.5 percent, lifting the industry’s assets to R1.219.5 million.

The chairman of the association, Mr. T. Turner, said during the last quarter a net R998.4 million was invested in unit trusts, after deducting R499.7 million repurchases from the three months’ sales of R996.1 million.

Turner said: “After the second net outflow of R1.4 billion in 1991, the encouraging to see the positive investment trend maintained, especially when the international investment market has been in recession as they have been in recent months.

The continued confidence which investors display in unit trusts is testimony to the fact that they appreciate that unit trusts are medium to long term investments and the surest way to capitalisation over time.

He said that the general equity trusts again committed funds to equities and slightly reduced their liquidity levels during the quarter.

“Investors are primarily attracted to unit trusts because of their excellent long-term performance which was confirmed again this quarter.”

He said that the general equity trust category, which constitutes eighty percent of the industry’s assets and accounts, again switched up excellent returns. Those funds earned an average annual total return (net of capital appreciation plus distributions) of 29.2 percent for the 12 months to February 1992.

Turner added: “Unit trusts have consistently outperformed inflation over time.”
More people invest in unit trusts

By JOSHUA RABOROKO
SOUTH Africans continued to invest in unit trusts in the first three months of 1992 and, for the first time, to operate more than one million unit trust accounts.

Figures released by the Association of Unit Trusts reveal that there are 1 005 197 unit trust accounts, 811 227 in the popular general equity trust area.

The combined value of the assets in the country's 41 trusts topped the R12-billion mark, also the first time reflecting an increase of 45.6 percent over the industry's asset base at March 1991.

The increase in the past three months was R735,4 million or 6.5 percent, lifting the industry's assets to R12 132,3 million.

The chairman of the association, Mr Law Turner, said during the last quarter a net R398,4 million was invested in unit trusts, after deducting R499,7 million repurchases from the three months' sales of R898,1 million.

Turner said: "After the record net inflow of R1,4 billion in 1991, it's encouraging to see the positive investment trend maintained, especially when the international investment markets are as uncertain as they have been in recent months."

The continued confidence which investors display in unit trusts is testimony to the fact that they appreciate that unit trusts are medium to long term investments and the one sure way to outpace inflation over time.

He said that the general trusts again committed funds to equities and slightly reduced their liquidity levels during the quarter.
Looking to the new SA

For some time, the JSE has been under a cloud about its future structure. Now, in the light of changes scheduled to the Stock Exchange, exercises control under a new non-executive chairman, Roy Anderson. The new SA is a committee of the JSE and will be led by a non-executive chairman. The objective is to determine the most effective and efficient structure for a stock exchange that will best benefit the company and its shareholders. The committee has selected the project for consultation with the JSE and the reporting will be done on a fair basis to ensure the interests of the shareholders are fully considered.
JSE moves to address low volumes

FEATURE

TRADED OPTIONS MARKET

LOW VOLUMES
Debt help for farmers

By Julie Walker

Diagonal Street

80% failures from its listing

Rita's Lutex raised Rem
JSE looks to Big Bang for new life

By CIARAN RYAN and JULIE WALKER

DEREGULATION of the Johannesburg Stock Exchange will breathe new life into a market facing static trading volumes and falling revenues.

Deregulation - also known as the Big Bang - will not improve liquidity in the market unless exchange control is relaxed, allowing institutions to invest abroad, say fund managers.

Genbel managing director Anton Botha says "The problem with the JSE is that brokers are agents and may not act as principals".

In terms of the Stock Exchanges Control Act, brokers are bound to charge fixed commissions. They may not deal with customers as principals - selling shares from their brokerage portfolios.

Only private individuals may be stockbrokers - a rule which debar institutions or corporations from the JSE.

The JSE is investigating deregulation ahead of likely changes to the Stock Exchanges Control Act later this year.

The amendment is expected to allow corporate membership of broking firms, negotiated commissions and dual capacity, whereby brokers act as both principal and agent in transactions with customers.

There are fears, however, that deregulation in SA will be a repeat of the 1986 Big Bang in London where large institutions swallowed independent broking firms, many of which no longer exist.

UAL investment chief Alister Colquhoun says "None of the respectable institutions or brokers here wants to see a repetition of what happened in the City (of London)"

Brokers were insufficiently capitalised to act as both agent and principal, compelling them to seek appointments with institutions, one supplying the expertise and the other the money.

Mr Colquhoun believes the JSE's steps are overdue and welcomes the opportunity for everyone with a different point of view to discuss the proposal without commitment.

"In normal business, the concern looks after its customers and financial institutions are the biggest clients of the JSE. More interface between the two should be encouraged."

SA taxation does not encourage the retention of capital by brokers in their firms and few are headquarted capitalised.

Mr Colquhoun does not believe that London-style trust between SA market players would necessarily help marketability of shares. The JSE encompasses a much narrower range of players than does London and trade might be a good deal smaller.

Unfair

But changes to the Act need not translate into a deregulated stock market. Provided stockbrokers remained within the law, they could continue to charge fixed commissions and keep corporate members out.

But brokers suggest this could be construed as an unfair practice by their biggest customers - the institutions - raising the possibility, however remote, of another stock exchange in a deregulated environment.

After the Big Bang, options differ on the brokerage fairly due to large deals. Broadly speaking, it seldom takes five times more effort on a broker's part to secure a deal of R500-million compared with one of R40-million - but he receives five times the commission.

Squeezed

Deregulation might be good for small brokers reliant on individual customers rather than institutional investors. Large brokers acting on behalf of institutions are likely to be squeezed for lower commissions under a negotiated arrangement.

Some brokers suggest private customers would be charged higher commissions to offset the loss of revenue from institutions. Small brokers could do well in such a situation.

ANTON BOTHA Exchange control is to blame

ALISTER COLOUHOUN Please, not another London

Mr Colquhoun believes negotiated commissions would increase the number of large deals and cause a change in perceptions about JSE liquidity.

Head of investment at Sanlam, Ronnie Manso, says deregulation does not necessarily imply that brokers will start lining up with institutions.

"I would prefer to continue dealing with several broking firms I don't see the need for institutions to get involved in broking."

"But what happens when a broking firm we have been dealing with gets into bed with a competitor?"
Committee expels broker from JSE

STOCKBROKER Koos Bosman was expelled permanently from the JSE yesterday after being found guilty on charges of making profits which prejudiced clients. The sentence, which included the expulsion of his now defunct firm J Bosman & Co, was made at a special meeting of the JSE general committee in the morning. In a statement authorised yesterday afternoon by president-elect Roy Andersen, the JSE said Bosman was found guilty of a series of offences involving two clients, the NGK Synod Pension Funds and the NGK Officials Pension Funds. The JSE said Bosman sold his own shares through a series of bookovers to the NGK funds. The sale prices were always higher than those prevailing on the open market and thereby prejudiced the NGK.

The offences, which were prejudicial to the clients and benefited Bosman, were committed between March 1991 and January 1992. They were detected by the JSE inspectorate's surveillance division. The JSE added that Bosman was found to have abused his client relationships and contravened the JSE's rules relating to the agency capacity of the brokerage members. Bosman's penalty was expulsion on nine counts and a four-week suspension on a 10th. The penalties imposed on the firm are:

Brokers

included on one count suspension as a corporate member for two weeks and on two counts expulsion as a corporate member.

Bosman has given notice of his intention to appeal. If an appeal is made, it will be to a board appointed by the Finance Minister and made up of an advocate, an accountant with at least 10 years' experience and a third member selected because of his knowledge of the stock exchange.

JSE chairman Humphrey Borkum said: "Although this case is unfortunate, it is reassuring to note that our systems are identifying breaches. This demonstrates everything possible is being done to eliminate malpractice. The overwhelming majority of stockbrokers are honest and their interests and the interests of investors must be protected. The JSE will not hesitate to continue to take disciplinary action against offenders." The JSE has yet to decide whether the matter should be referred to the police.
JSE will act to boost options market

THE JSE would implement a strategy to boost the illiquid and low-volume Traded Options Market (TOM), JSE executive president-designate Roy Andersen announced at the weekend.

The proposed action plan would identify the inhibitions to trading and provide an education programme to potential market users. Andersen said the problems in the market could be ascribed to the lack of liquidity and low volumes in the underlying equities market, coupled with a lack of familiarity about TOM's hedging and speculative opportunities.

The education programme would be presented to brokers initially and then public courses would be offered.

The JSE would consult directly with the 12 broking firms involved in the initial training and testing of TOM to determine their needs.

Overseas experience indicated options markets grew on an exponential curve, as the effects of education worked through to investors, said Andersen.
JSE in bid to improve TOM trading

The Johannesburg Stock Exchange has formulated a strategy to address the problem of low volumes on the Traded Options Market (TOM) since its launch in January.

JSE executive president designate Roy Andersen ascribes the problem to a lack of liquidity and low volumes in the underlying equities market, coupled with a lack of familiarity about TOM's hedging and speculative opportunities.

"The matter of illiquidity in the equities market is being separately addressed by the JSE. As regards our TOM strategy, there are several major factors on which we are focusing immediately," he said.

"The stock exchange is currently implementing an education programme which will provide basic orientation to potential market users. This is being presented firstly to the brokers, but regular public courses will be offered later."

The exchange would also create formal "user groups". At these sessions, representatives of potential classes of investors on TOM would be invited to make proposals and suggestions for the improvement of the market.

"We will attempt to accommodate these where external factors do not prevail. A current example is the informal request for the introduction of scrip-settled options to accommodate certain hedging strategies."

The JSE Committee had approved the listing of scrip-settled options on De Beers and Driefontein, and "we are confirming the current system and procedures' ability to handle these options and will introduce them as soon as possible."
Huge sums of money are still pouring into the unit trust industry, according to the latest quarterly reports of the individual trusts.

Gross purchases of units during the three months to the end of March reached a record of just under R900-million — or 55 percent up on last year’s figure.

Repurchases of R497-million show many people are taking profits or becoming wary of the high price of industrial shares on the Johannesburg Stock Exchange.

Unease has been fuelled by the drought in so many parts of the country which is taking a heavy toll.

Economists estimate the meagre growth rate of one percent predicted for 1992 will be slashed to 0,5 percent because of the drought, while any upturn in the economy has probably been postponed for at least six months.

Industry spokesmen say a surprising number of stokvels now invest in unit trusts on behalf of their members. Just over one million individual unit trust accounts are now being operated by the industry.

The 40 or so unit trusts provide South Africans with a variety of options.

General equity funds, which invest over the spectrum of the stock market, have been the most popular to date.

The least popular are the fixed interest funds specialising in investment in fixed securities. Yet even these funds secured a capital profit for unit-holders during the past year because of declines in interest rates.

More adventurous investors can put their money into the specialised gold funds. Gold is going through a rough patch, as evidenced by the closure or partial closure of so many mines.

However, some experts believe it is a question of time before the gold price recovers, with spectacular returns in its wake.

The high risks involved in gold investment are decreased through unit trusts because of the emphasis on a spread of quality shares.

An investment in the depressed mining sector shares will be rewarding when world commodity prices recover. A regular monthly investment in one of the mining funds, which normally includes gold shares in the portfolio, can be worthwhile.

Be cautious with trusts specialising in high-priced industrial shares, as the current downward trend is likely to deepen.
Unsettling Judgment

A long-standing commercial practice has been overturned by a recent judgment in the Witwatersrand Local Division of the Supreme Court. The judgment, delivered by Judge Michael Stegmann, has created an untenable state of affairs in the Transvaal for many companies that are technically insolvent but potentially viable with backing from shareholders.

In the past, says Osby Tugendhaft, a senior partner in Moss-Morris Mendelow Browde, "subordination agreements" between a company and its shareholders gave concurrent creditors preference over shareholders. This was generally considered as a restoration of solvency provided the company's assets exceeded liabilities minus shareholders' claims. This interpretation had the strong support of accountants.

The judgment holds that subordination agreements are invalid in terms of insolvency law. This brings the Transvaal courts, yet again, into conflict with the Cape and Natal courts—which continue to accept the validity of subordinations in relation to corporate solvency.

The issue arose in the case of De Villiers and Carbon Developments. The liquidators of the company applied for leave to convene meetings of creditors to consider a scheme of arrangement. Concurrent creditors were informed that they would receive nothing if the company were wound up as insolvent, while the proposed scheme would give them a small dividend.

It was also argued that creditors could not recover from the directors personally on the ground that the company had been trading while insolvent—because there was a subordination agreement. Judge Stegmann rejected this argument. He held that a subordination agreement could never cure insolvency because it could always be cancelled before all creditors had become aware of it and had accepted its benefits. (A third party's knowledge and acceptance of an agreement between two other parties, for his benefit, is a technical requirement to validate the agreement.)

The Guide, issued by the SA Institute of Chartered Accountants (SAICA), recommends that auditors give full weight to subordination agreements—provided only that they remain uncancelled at the time of the auditor's report and provided that assets exceed liabilities minus shareholders' claims. SAICA holds that a subordination agreement absolves an auditor from the obligation to qualify a company's accounts.

But Judge Stegmann said subordination agreements are mere window-dressing to the detriment of creditors and SAICA's Guide is therefore unsound. Subordinations cannot absolve auditors from their duty to qualify the accounts of a company by noting a "material irregularity" in terms of the Public Accountants & Auditors Act.

Tugendhaft considers the judgment has seriously impaired the position of directors. As a result of the conflicting decisions of different divisions of the Supreme Court, a director's liability for company debts will depend on the jurisdiction within which it operates.

This is an untenable state of affairs which the authorities need to address urgently. To restore consistency and certainty, amending legislation is needed. One solution would be to validate the back-ranking of shareholders' claims through subordination agreements, subject both to registration (perhaps at the office of the Registrar of Companies) and to notification of all outstanding creditors at the time the subordination agreement was signed.
How to protect yourself against the possibility of a world-wide "shockwave" and recession in a global economy.
a brave new world
on the journey to
JSE takes a step

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HE JSE OPEN THE FIRST
Kenyans look at JSE

THE JSE and a delegation from the Nairobi Stock Exchange (NSE) this week discussed jointly sponsoring a conference of African stock exchanges.

The Kenyan delegation was on a three-day mission to assess trends on the JSE. It is believed to be the first official delegation from an African stock exchange to visit SA.

JSE president designate Roy Andersen says a conference of African stock exchanges could take place before the end of the year.

He will discuss the issue at a meeting of the International Federation of Stock Exchanges in London next week.

Stock exchanges from sub-Saharan Africa, as well as Nigeria, will be invited, but a venue has not been agreed on.

Mr Andersen says common areas of interest could include technology interchange. The JSE could also learn much about operating in an emerging economy and an African stock exchange was a long-term possibility.

NSE chief executive Job Kibumbe says the delegation's meetings with experts in SA's financial market were fruitful.

Visiting stockbroker Lawrence Sitoe says the NSE has undergone major changes in the past few months. The NSE, which has six broking members and about 60 listed companies, has moved to a board system. Deals were previously struck on the phone and at daily meetins.

Assistance

Foreign investment in the NSE has been inhibited by foreign exchange controls and the depreciation of the Kenyan currency in recent years.

Another visiting broker, Chandra Shah, said there was a possibility that the Kenyans would ask the JSE for assistance in developing the NSE in the future.

The delegation will also visit the Gaborone and Harare stock exchanges.
Nationalisation won’t happen in new SA - Anglo

DUMA GGUBULE
Weekend Argus Correspondent

ANGLO American has completely ruled out nationalisation as part of a future South African government’s economic policy.

Its announcement of a new R1.7-billion gold mine in the Free State served as confirmation, says gold-and-uranium division chairman Clem Sunter.

He hoped the announcement had also sent a clear indication to foreign and local investors of the degree of confidence Anglo felt in the future course of the country.

He was equally confident about the future of the gold price, predicting that there would be a major shortage of gold in the late 1990s when the mine reached full production.

Mr Sunter believed a future South African government would not resist the worldwide trend towards a market economy.

“The arguments for nationalisation are growing weaker by the day. The evidence against it is overwhelming,” experience shows that market economies deliver the goods.

“If we didn’t have confidence in SA’s future we wouldn’t be investing R1.7 billion in a new mine.”

He hoped other local and international investors would heed note that Anglo American, SA’s biggest corporation, had faith in the country’s future.

“Foreign investors in particular will realise that SA has the skills and competence to handle such a major project. This will hopefully attract overseas investors.”

Mr Sunter stressed the decision to proceed with the mine had been a straight commercial one.

“The project shows a satisfactory rate of return, even when using the present gold price and current working costs.”

The mine’s original estimated cost had been close to R1.5 billion — a risky investment.

“We then took the present gold price and calculated the capital outlay which would make the project feasible. This gave us a figure of around R1.7 billion.

“The next step was to design the mine to meet this cost. We downsized the shaft’s capacity and simplified the design.”

Mr Sunter said the project showed a healthy profit margin, using the current price of around R330 000/kg and working costs at a shaft of comparable depth of R16 000/kg. It was not unrealistic to assume this healthy margin could be the same in 1997, when the mine reached full production.

“We’re hoping to keep working costs constant for the next two years.”

Despite using conservative gold-price estimates, Mr Sunter expected a much higher price in 1997.

“Gold production will remain constant during this decade and should be around 2 500 tons a year in the late 1990s.”

“Jewellery consumption demand alone should reach 4 000 tons by then. Add to that industrial demand of 400 tons and the shortage of gold could be close to 1 500 tons.”

“The shortfall will have to be met by hoarders — central banks and private investors — who will require a significantly higher price to part with their gold holdings.”
Surcharge expected to have little impact

A SURCHARGE from today of 2.4% on brokerage charges is expected to have a negligible effect on share trading on the JSE, according to market analysts.

The surcharge had been approved by the Registrar of Stock Exchanges to compensate for irrecoverable VAT input taxes, a statement issued by the JSE said.

"The JSE Committee, conscious of the increasing financial strain on broking firms due to low market turnover, initiated research into the effect of irrecoverable VAT input taxes. Findings showed there is considerable impact on the community who currently absorb these additional costs."

The surcharge will not apply to the R30 minimum fee on share transactions. Brokerage is charged on a sliding scale from 1.2% on a transaction of R5 000 to 0.65% on a transaction of more than R150 000.
Conference of bourses suggested

A CONFERENCE of stock exchanges in Africa was among the suggestions mooted during a visit to the JSE last week by a three-man delegation from the Nairobi Stock Exchange.

JSE executive president designate Roy Andersen said he would be taking up the matter of such a conference when he meets officials of the International Federation of Stock Exchanges on a visit overseas in May.

Plans to establish a stock exchange in Namibia would bring to seven the number of stock exchanges in Africa.

Nairobi Stock Exchange CE JK Khumba said: "In the past, we travelled to Europe and the US to keep in touch with the latest developments on financial markets. "But I believe we can learn more from SA. We are closer to home here and we have similar problems whereas the US market, for instance, is too big and complicated for our needs."

Khumba said the delegation had met a cross section of people involved in business and finance and the possibilities had been discussed of investment between Kenya and SA.

He said the delegation had been impressed by the JSE's standards, its efficiency and technological development.
Consortium in Pickard bid named

CAPE TOWN — Former Atcom deputy chairman Neil Davies, Johannesburg businessman Simon Koch and Mike Pfaff and Cape Town commercial attorney Brett Keble are the members of the consortium involved in talks to buy a majority stake in the Pickard group.

The consortium includes a few undisclosed financial partners.

Davies is a non-executive director of Matheson & Ashley Holdings (M&A), Koch and Pfaff are involved with Johannesburg-based Sovereignty Investment Trust, while Keble is an attorney with Mallinck Ress Richman & Closenberg.

None of the consortium members would confirm their involvement yesterday.

This was confirmed by M&A chairman Winky Ringo, who said the group was not involved in the takeover talks.

Koch was involved in the December 1990 bid — rejected at the time as too low — for the Pickard group by Urquhart Motor Group chairman Gavin Urquhart. Urquhart denied yesterday that he was involved in the present bid.

Koch was also involved in the scheme of arrangement which resulted in the takeover of Issias & Investments by the Urquhart group and the delisting of Issias.

Until mid-1990 Koch was MD of Sinclair Holdings, which subsequently became the Urquhart group and Pfaff was until fairly recently a director of the Urquhart group.
Advisory role for attorneys on JSE

The role of attorneys acting for clients in stock exchange matters should be an advisory one on all aspects of the transaction.

This is according to Professor Michaelstede Raphael Wieder, chairman of Philip Valler's partnership.

"Our firm has for several years been involved in the legal work relating to listings, mergers and acquisitions on the Johannesburg Stock Exchange. We believe that in the case of listings, it is necessary for the attorney to advise on the disclosures required in a prospectus and comply with the requirements of the JSE," says Professor Wieder.

Knowledge

Vallet says it is important for the attorney to have a good knowledge of the nature of the business of the company to be listed.

"It may well be that there are circumstances where a listing would not be the appropriate route for the company to take. It should be remembered that 'equity finance' is the most expensive form of financing as the company never stops paying." Vallet says张某的 clients in this area range from companies seeking a listing to those already listed on the JSE which are acquiring other companies or restructuring their own activities.

The firm's clients also include companies which have grown to a certain level and wish to raise capital through the JSE for the next stage of their development.
When Norton came to the JSE in 1982, after a period as a private enterprise and in 1981 after nationalization. The company’s capital structure was changed and its policy of paying high dividends was reversed. The company’s shares were offered to the public and, in line with its policy of expansion, it acquired a number of other companies.

The company’s chief executive officer, Mr. H. R. Norton, was a key figure in the company’s success.

Mervyn Harris

Norton reflects on his time in hot seat

Noteworthy features of the economy.
and freer markets, and improving customer service and product quality, the more pessimistic, bigger companies see opportunities in more government assistance, government investment in social upliftment and a higher gold price (US$450/oz was mentioned).

"The biggest stumbling block to public companies' innovativeness, preventing more risk investments in the current political and economic climate, is the short-term profit orientation enforced by their listing on the Johannesburg Stock Exchange," Van der Schyf says "SA is basically a Third-World, developing economy with a tremendous need for job-creating investment — but we are in danger of falling into the short-term-profit trap that has hamstrung the massive First-World US economy."

The survey's findings are based on interviews with 85 executives — with about 75% from bigger, listed companies, and the rest from smaller, unlisted companies — and they're contained in a 57-page report.

"The clear distortion in business perceptions is not only between small and big," he says "Some bigger, unlisted groups such as Bell Equipment (which makes haulage, earthmoving and other types of heavy vehicles and exports a large proportion of its production) also fall into the innovative category."

Malmbak director Denzil McGlashan says he has read the report, though his company was not part of the sample, and agrees with many of the findings. "While it's true that the investment confidence horizon of many listed corporations is restricted by the link between their share prices and their quarterly and half-yearly reports, the current limits on the demand side of the economy is another negative factor that malstates against long-term investment."

"But I am concerned about the short-term attitude prevailing on the JSE and that local business tends to follow the US in this direction. If the major institutional investors were prepared to reward their investment managers on the basis of a longer-term performance rather than on half-yearly or annual results, this would reduce the pressure on listed companies to render consistent short-term profits. But the whole system feeds on itself and restricts longer-term investment decisions."

McGlashan also says the fact that many of the big, listed companies are intimately involved in discussions on the country's political and economic future may cause them to be a bit more cautious "Smaller groups are blessed by having less political information and may therefore have more gut-feel confidence that everything will come out in the wash."

Barlow Rand director Evert Groeneweg, whose company was also not included in the survey, takes a different view. He says he doubts that a listing restricts investment decision-making — even in the current business climate. And, he adds, mega-groups like his own are far more involved in high-risk exporting to competitive markets than the smaller, unlisted companies, which he says tend to look for niches within the local market alone.

"Our group has budgeted R1.8bn for capital expenditure in the current financial year, and we still find plentiful export opportunities, even in a global market that is faced with recession."

SA Chamber of Business chief economist Ben van Rensburg says the global experience over the past two decades has shown that "the widest possible spread of smaller enterprises is vital for economic growth and job creation."

But, he says, rather than "hammering" the big groups, one should encourage small business development "You need a healthy balance of big and small. Big groups have the clout to invest in research and development and to compete on a global scale, while smaller groups obviously benefit the local economy by creating jobs and providing competition that benefits consumers."

If the big, listed companies are indeed falling into this low-growth, risk-averse trap, what accounts for it? Van der Schyf fingers exchange control, which forces institutional funds to bid up prices in a limited "hot-house" stock market. Another reason is the temptation for smaller, unlisted companies to "take their money and run" by going for a listing.

The result is missed opportunities. "By looking for a bok for today, we are losing the potential of far bigger, long-term rewards," he says. "SA therefore needs tax cuts and other measures (such as abolishing the two-tier rand and exchange control) to create the climate for longer-term investment growth."
UNIT TRUSTS

Assets still rising

Unit trusts continue to increase in asset value, topping R12bn for the first time last quarter, and comfortably outpace the inflation rate, but individual portfolio performance fell on an annualised basis in the first three months of the year.

At December 31 average annual return for general equity trust, 81% of the industry's assets and accounts, was 34.2%. By end-March the figure dropped to 29.2%. All funds except UAL, which maintained a 30% return rate, fell.

The more volatile specialist equity trusts reflected a similar pattern, though nature of the divergence was greater. The only funds in this category to do better were two specialised gold funds, Old Mutual Gold and Standard Gold. But both came off low bases. Old Mutual from a previous negative decline of eight percentage points and Standard bettering its previous almost static performance by seven percentage points.

Whether the latest results reflect a correction in equity markets is hard to gauge over a such a short period, though association of

Unit Trust executive committee member Bernard Nackan believes something of a correction is taking place.

He emphasises, however, what the association continually points out that unit trust performance must be viewed in the long term.

Liquidity for general and specialist equity remains 14%, down slightly on last year. Industrial shares continue to account for the bulk of portfolios, up in total from 44% at December (September 43%) to the present 45% in the general category. At 29%, industrials also make up the main part of specialist equity portfolios.

Increased exposure to industrials, though small, reverses the trend seen in September when some bigger funds began to move out of industrials in anticipation of a correction. The timing of the correction seems to be causing some confusion, as can be seen in a contradictory move into recession-hedge financial shares.

The bigger slice accorded to industrial and financial shares comes with some exceptions, at the expense of mining counters.

Repurchases, at R500m, are significantly up from the previous R403m, and could represent some profit-taking after the good performance by most funds in 1991. Nackan says this is one of the facilities provided by the industry when markets perform well, some investors start to take profits.

Association's Bernard Nackan takes a long-term view

Performance slowdown

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FINANCIAL MAIL • MAR 1 • 1992 • 65
Diamond and sparks fly rush in northern Canada

...
New unit trust fund launched

Finance Staff

A new unit trust fund was launched yesterday — but this is a fund with a difference.

The new fund, called Community Growth Fund, is for trade unions and will invest in JSE-listed companies only with the approval of the trade unions.

Trade union members' pension and provident fund contributions will be made into the new fund.

Companies that wish to be included in the fund's portfolio will have to comply with certain union-defined criteria of social responsibility.

These include fair employment practices, job creation, union recognition, safe working conditions, equal-opportunity policies, black advancement and protection of the environment.

The Community Growth Fund will be administered by Syfrets Ltd in conjunction with Unity Incorporated and the Community Growth Management Company.

Speaking at its launch, ANC secretary-general Cyril Ramaphosa said: "I give this fund overwhelming support. The support of the ANC will be forthcoming."

See Page 16

R12 000 fine for copyright offender

Staff Reporter The record industry mul-
Timing is vital with unit trusts

AS I illustrated last week, some funds are clearly better than others.

There is also a right and a wrong time to buy and sell them and to identify the right investment times requires a simple understanding of South Africa's economic cycle.

There are always times when money is in short supply, and times when it is freely available.

Money shortages lead to rising interest rates.

And, because share dividend yields always bear a relationship to prevailing interest rates, share market prices must fall at such times in order to bring their dividend yields into line.

Since investment into a unit trust fund is really the purchase of a share in a big portfolio of shares listed on the Johannesburg Stock Exchange, it is obvious that the value of each unit trust fund will fluctuate with the fluctuating value of the shares that it is composed of.

Crop

Timing your ideal point of entry thus involves identifying the point when money again begins to enter the money market and the interest rate pattern of the country peaks out, for as interest rates fall, share and mutual fund unit prices will rise.

South Africa's economy has traditionally been controlled by the agricultural crop and consequently the weather, by the international prices of the minerals we produce and, of course, by the price of gold—the latter for many years represented nearly half of our export earnings.

Picture then a time of good rains and bumper crops, hopefully at a time when the rest of the world has had harvest failures.

Assume that the rand is weak in its relationship with other overseas currencies and that we are consequently able to competitively export our food surplus at a profit, that our national balance of payments situation accordingly moves strongly into credit and that farmers, as a result of these export sales, have a lot of money to spend.

Our mineral producers and our exporters of processed goods benefit also from being in a position to undercut their competitors in foreign markets and at the same time make handsome rand profits for themselves.

But to continue with our description of the economic cycle, while the farmers are out spending their money on new cars and tractors and so forth, the industries that supply these goods are obviously working at full capacity and paying out a lot of overtime money to their workers.

Good industrialists seek to cash in on the booming market by expanding their factories.

They borrow money to build and to import machinery and, because our balance of payments position looks good overseas lenders deduce that the rand is strongly underpinned and are happy to lend us money.

However, as this cycle develops further, we begin to run out of skilled labour.

Firms compete for staff and push up wages.

This process puts more money in the pockets of the man in the street who can in turn afford to spend it on luxury goods.

Soon the point must be reached when, despite all its efforts, local industry cannot supply all the desired goods.

Retailers then start switching to imported goods.

But with all this importing of luxury goods and machinery, our balance of payments position moves into deficit.

The rand starts looking weak and overseas investors become wary of lending money to South Africans.

As money dries up, companies which have committed themselves to capital development programmes are forced to start outbidding one another to raise enough cash to meet their obligations.

Interest rates rise and share prices tumble in sympathy.

As this cycle is with minor variations always repeating itself, it is clear that one should be able to buy every few years when shares are cheap and sell when they are expensive.

This way one can obtain maximum capital growth.

Prosper

By contrast, if one simply buys and holds on forever, one will only gain by the amount that the nation and more specifically the unit trust one is invested in, grows wealthier.

The latter does, of course, assume that both do prosper for, quite obviously, if you sat tight in a diminishing economy you would grow steadily poorer.

One should note that recently foreign trade and investment sanctions tended to disrupt the cycle somewhat in the late 1990s, but the cycle itself remained intact.
Trade unions set up unit trust fund

By Mike Siluma
Labour Reporter

Major trade unions have launched an investment fund to deploy a part of their workers’ pension and provident fund contributions into socially responsible JSE-listed companies.

The Community Growth Fund (CGF), a unit trust fund to be administered and managed by Syfrets, was unveiled yesterday by Syfrets executives and officials from the seven participating Cosatu and Nactu unions.

The fund could eventually attract about R15 million a month in pension and provident fund contributions by union members as well as individuals.

Union criteria

Union spokesperson Manoko Nchwe emphasised that although the fund — initiated by the union advisory group, the Labour Research Service — would seek to invest in companies which provided strong growth in earnings, such companies would have to meet union-defined criteria for social responsibility and not act in conflict with union interests.

The criteria included fair employment practices, job creation, union recognition, safe working conditions, protection of the environment, equal opportunity and affirmative action policies.

Ms Nchwe added that unions would not invest in companies which were involved in the production of arms or allow workers’ money to be used to finance the privatisation of companies which were government-owned.

Companies involved in offshore investments would also be excluded.

However, said Ms Nchwe, as the unions saw investment in the fund as a long-term decision, they would not attempt to use the fund to influence the day-to-day labour disputes of companies in which they invested.

Syfrets has already put R15 million of its own money into the fund, which is expected eventually to receive up to 20 percent of the cash flow of participating unions’ pension and provident fund contributions.

The fund, which begins to operate next month, will also be open to individuals in the same way ordinary unit trusts are.

Although neither the unions nor Syfrets would put a figure on the amounts of union money likely to flow into the CGF, it is understood that provident fund contributions on behalf of members of a key union in the venture, the National Union of Mineworkers, amount to about R25 million a month.

Independents

Union officials involved in the project are confident that more Cosatu unions, as well as a number of independents, will eventually participate in the fund.

Cosatu unions taking part in the initiative are the National Union of Mineworkers, the Paper, Printing, Wood & Allied Workers’ Union, the Construction & Allied Workers’ Union and the Transport & General Workers’ Union.

The Nactu unions are the Transport & Allied Workers’ Union, the Metal & Electrical Workers’ Union of SA and the National Union of Food, Wine, Spirits & Allied Workers.

Syfrets chief executive John Craig said: “We are delighted that the unions chose Syfrets expertise in this bold investment venture, which could over time become one of the largest unit trusts in the country.”

First step

ANC support for the CGF was pledged by former NUM secretary-general Cyril Ramaphosa, who was involved in the initial stages of the fund before moving over to the ANC.

“This is a fund which represents a break with the past, the first step into a future where workers will no longer be mere spectators, but active participants in shaping their economic destiny.”

“The formation of the fund should send a very clear message to companies, especially those with bad employment policies, that the silent giant is awakening and will challenge those who have ridden roughshod over the interests of workers,” said Mr Ramaphosa.

The Registrar of Unit Trusts has in principle approved the fund, which is scheduled to start operating on June 1.

The interest of the fund will be looked after by a joint board to be chaired initially by Professor Anthony Ascher of the Department of Actuarial Science at the University of the Witwatersrand.

The board will make its decisions after receiving investment advice from Syfrets and acceptability research from Labour Research Service.
FEW governments had embarked on privatisation for ideological reasons although it might have been opportune in some cases to gain political support, the vice-president and secretary of the World Bank said yesterday.

Timothy Thahane told the annual conference of chartered accountants experience showed most governments — including those in Sub-Saharan Africa — undertook privatisation to raise efficiency and stop the financial haemorrhage from loss-making public enterprises.

"State enterprises, far from fulfilling the expectations vested in them, have been inefficient, overstuffed and poorly controlled financially.

"Many countries, not just developing countries, cannot afford the losses incurred by their state owned enterprises."

The state was often unable to raise the capital needed to modernise and expand its enterprises. It lacked entrepreneurship, management and marketing expertise while at the same time international competition intensified.

Countries can’t afford not to privatise
— Thahane

The private sector had proved to be the most efficient generator of incomes, employment, managerial expertise, and technological innovation.

Turning to the question of privatisation and employment Thahane said that if an enterprise was loss making, then reversing the situation by making it efficient and profitable might result in worker lay-offs — regardless of whether or not the enterprise was state or privately owned.

"There is no necessary correlation between privatisation and worker lay-offs but it is essential to recognise that in the process of enterprise restructuring lay-offs may and often do occur.

"Provision must be made as part of the sale process to arrange for retraining, severance payments, and retrenchment by attrition, and possible sale of shares to the workers," Thahane said.

These safety nets were important if workers were not going to oppose privatisation of public enterprises.

Four critical ingredients or conditions were essential for the success of privatisation: a favourable investment climate, transparent and efficient management of privatisation, thorough preparation of the enterprises, and political will.

"Privatisation is complex and requires persistence, conviction and public support. Privatisation is not a panacea and cannot be separated from broader questions of economic policy reform and management. But I have no doubt that worldwide privatisation is here to stay." — Sapa
Alexkor, Abakor are next on privatisation agenda

CAPE TOWN — Government’s privatisation policy was not on the backburner and was going ahead in a controlled and responsible manner, Public Enterprises Minister Dawie de Villiers told Parliament yesterday.

Opening the debate on his vote he said legislation would be introduced during this parliamentary session on the further commercialisation towards privatisation of Alexander Bay State Alluvial Diggings (Alexkor) and the Abattoir Corporation (Abakor).

De Villiers said transforming public institutions into viable business undertakings, with the state as the sole or majority shareholder, was a necessary first step to their eventual privatisation.

The initial phases of commercialisation had already been taken at institutions such as Transnet, Telkom, Abakor, Alexkor and the state commercial forestry operations.

He referred to National Sorghum Breweries as the good example of successful privatisation, not mentioning any other successful exercises.

Abakor was a good candidate for privatisation

He said the establishment of smaller business units within public enterprises offered better opportunity to calculate profitability and promoted a challenge to employees to perform better and to convey to private sector undertakings functions which were not part of the core business. This gave smaller undertakings in the private sector an opportunity to become involved in activities which had been the sole preserve of large enterprises.

Dividends

He said government was considering management buy-outs, whereby employees took over specific business activities altogether, as a further option. Other private sector interest groups also would be allowed to make offers at these instances should this proposal be accepted.

Sapa reports that De Villiers said Transnet’s pension fund deficit had placed a substantial burden on that undertaking and had made it impossible to declare the dividends which had been expected. It was unrealistic to expect an acceptable return on capital in the short term.

The chairman of Transnet’s board had been asked to implement an accounting system making it possible to ascertain the profit or loss of each of the company’s divisions.

De Villiers said Eskom had made a “massive contribution to the fight against inflation” by undertaking to cut the real price of electricity by 20% during the next five years. This followed a 14% cut in the real price of electricity during the past five years.

Alexkor had recorded net profits of R40m and R75m respectively during the 1989/90 and 1990/91 financial years. The company enjoyed no preference over other mines.

De Villiers said the latest addition to his department was Denel, established on April 1, 1981.

“Denel must hold its own in a competitive environment and co-operation and partnerships with private sector companies must be thoroughly considered by Denel where necessary,” he said.
UNIONS BECOME PLAYERS IN THE GAME OF GROWTH

STEFEN MULLHOLLAND

Unions become players in the game of growth

If it is difficult to oversee the import

of raw materials, then it is even more
so when the focus is on the export of
finished goods. This is a critical point
for businesses that rely on a strong
trade relationship with their foreign
counterparts. The ability to negotiate
better terms and conditions is crucial
to maintaining a competitive edge in
the global marketplace.

With the recent surge in
international trade agreements,
companies are facing increased
competition from other countries
who may offer lower labor costs
and tariffs. It is important for
unions to be at the forefront of
campaigns aimed at advocating
for fair labor practices and
cost-efficient policies that benefit
both workers and the economy as
a whole.

As the global economy continues
to evolve, it is clear that the role
of unions in shaping the landscape
of business and trade is becoming
even more significant. By
negotiating with companies
and governments, unions
are able to ensure that the
interests of workers are
represented and protected,
ultimately contributing to
the overall success and
stability of the global
trade system.

In an increasingly
digitalized and
interconnected world,
unions play a crucial
role in fostering an
equitable and sustainable
future. By collaborating
with other stakeholders
and embracing
technological advancements,
unions can continue to
adapt and innovate,
ensuring that workers
are well-positioned to
meet the challenges of
the modern economy.

This year, as we
celebrate the achievements
of labor movements,
let us remember that
the future of work is
shaped by the
struggles and successes of
those who labor. Let us
continue to support the
right of workers to
organize and bargain,
and let us work together
towards a society that
values and respects
every individual's
contribution.

LETTERS

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Dr. Anna Williams
Assistant Editor

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Dividend yields can be misleading

By Jacques Magliolo

Investors using dividend yields as a guide to trading shares could be committing financial suicide, an industrial analyst warns.

Market pundits are strongly advising investors not to use statistical information as the sole basis for buying shares.

"Many shareholders have made grave mistakes when using this type of system," says a portfolio manager, adding that some of believe that DYs have reached the bottom, but that rates of return have plenty of room to move up.

Compared with a host of other rates, DYs certainly seem to be at a turning point. While the industrial index DY is at a low of 2.5 percent and the overall index DY 3.4 percent, the 12-month bank deposit and the all bond rates are at a high of 14.3 percent.

Is it logical that, because yields are low, they have to increase in the near future?

The problem stems from technical analysts' excessive and inaccurate use of ratios and formulae.

While the calculation of DYs—is dividend per share (DPS) expressed as a percentage of current price—is arithmetically correct, it avoids fundamental realities.

It starts with two assumptions.

Firstly, that prices will fall this year. A look at the JSE indices over the past two months reveals a general decline and, thus, this hypothesis has a strong foundation.

However, the second assumption is not so realistic. It is the belief that, despite the abundance of negative factors in the market, companies will be paying a dividend this year.

An industrial analyst says "The rationale is that formulae don't lie and that, because rates are low, the cost (to the company) of paying a DPS is negligible."

To make matters worse, investors are inundated with conflicting information. Technical and industrial analysts often dispute market trends and movements.

A technical analyst says "It's now time to buy shares, as all short-term indicators are showing that industrial shares have reached a lower trading band."

He points to a 30-day market tracker—a technical use of trading volumes and prices to show market values—which indicates that shares should be bought, despite low yields.

Industrial analysts disagree.

"Where is it a written rule that companies must pay a dividend?" asks an analyst, citing US Steel's debacle as an example. The company, widely renowned as a widows and orphans stock, shocked investors when the directors passed a dividend payment.

Industrial analysts advise shareholders to find out what the true financial state of a company is and whether it has the ability to pay future dividends.

Many analysts believe that companies are currently paying dividends which are not consistent with their financial profiles. They say that the rest of the year should see financial and business risks worsen. Already 100 companies have not declared a dividend this year.

Whether one uses technical or fundamental factors, or whether yields are cheap or expensive at present prices, the reality is that a vast number of companies will simply not have the funds to declare dividends.
AIRLINE DEREGULATION

No more free rides

Government’s liberalisation of its international air policy is a clear signal that SA Airways is no longer a sacred cow. That’s good news for the world-wide flying public and tourists who have always complained that the protection surrounding SAA hurt them.

But don’t rush out and try to buy a cheap seat yet. The new aviation policy announced last week has a “double disapproval” clause that kills a proposed fare if both SA and the country at the other end of the flight agree to reject it. So SA and the UK can veto the promotional R500 SA-London one-way tariff that Richard Branson says he will offer when Virgin Atlantic Airways gets off the ground here.

Yet there’s no doubt that increased competition and higher supply of seats will help to bring down prices and bring in more tourists. Transport Minister Piet Welgevonden’s announcement on international deregulation is a follow-up to last year’s policy that broke down the barriers guarding SAA against competition on the domestic market. That encouraged the creation of FlySas, which is already operating on several major routes. Later this year Bass Air will fly the Midrand-Durban route.

Welgevonden’s policy, which has been approved by the Cabinet, has removed the last barrier protecting SAA against the cruel outside world. Parts of the policy will be implemented immediately. The rest will be encapsulated in an Act to be tabled in parliament next year.

SAA’s survival now depends on how it copes with competition. It can no longer rely on the one-on-one clause in bilateral agreement, which mandated that it would operate the same number of flights per week as its pool-partner airlines. All new agreements will contain the 60-40 clause, which will give government, and any other government with which it has signed a bilateral agreement, the right to increase the frequencies of their carriers’ flights by 50%, without having to consult the other.

For example, the British government will be entitled to increase British Airways’ present number of weekly flights from the UK to SA from 10 to 15, or allow Virgin, for instance, to operate those extra five flights — even if SAA decides to stay with its 10 flights per week.

SAA, a subsidiary of government-owned Transnet, will also lose its status as the country’s sole national carrier. Welgevonden aims “to allow all SA airlines to enter the international market freely on new and existing routes, subject to economic conditions.”

Despite the double disapproval rule, tariff control is also greatly deregulated. This will allow airlines more room to compete on fares and should spur traffic. SAA has also largely lost its battle against charter flights, which had been allowed in only when SAA and its pool partners could not meet demand. Welgevonden agrees that “the current policy is far too restrictive.”

He is prepared “to freely allow charter flights for the transport of tourists within a broad upper limit, to stimulate trade and tourism, and to freely allow charter flights for the transport of cargo and passengers from countries between which no scheduled air services are now being operated, to stimulate the development of new air links.”

The commercialisation of SAA is certainly being handled very differently to the privatisation of Iscor. Iscor kept its almost air-tight protection from imports, which enabled it to maintain a competitive price in the sell-off. In the same period SAA has lost $60m in each of the past two years, which it attributes to the recession, increased competition and deregulation.

Even private airlines flounder when suddenly faced with deregulation. Of the top 10 airlines in 1978, when the US deregulated its domestic air industry, three have gone out of business, two are in bankruptcy court, and two were swallowed up by rivals. The No 2 US airline, United, has fallen to fourth.

SAA’s competition isn’t as fierce, but it’s growing. Apart from several local airlines, including Flystar, that want to fly internationally, there are already 30 carriers flying into SA, and government is negotiating with another 25 who want to descend.

SAA can fight back by becoming a leaner, fitter operation. Does it really need to employ 800 or so people at a 21-storey head office in Johannesburg, in addition to its personnel at the coastline, such as pilots and flight attendants?

Welgevonden has exposed SA to this threat because he is looking at tourism. What has the potential to earn vast amounts “I have done everything I can with the new air policy to stimulate the economy and tourism. It’s now up to the other players to take the bull and run. It’s up to the people in Cape Town and Durban to take full advantage of their cities being declared ports of entry.”

Will his policy pay off in the long run? Most definitely, says Jenny Kearney, of Singapore Airlines’ Johannesburg office. Singapore is a tiny island with a population of 3m. We believe in competing for the open skies policy and allow 25 foreign airlines to fly in and pick up passengers. Our ratio of tourists to population is 8:1.

Protea Hotel group MD Arthur Gillis says “The hotel industry will be able to cope with an influx of tourists. It’s operating with a 51% vacancy factor, and foreign tourists account for only 8% of its occupancy. And for the first time in years new hotels are coming on the scene.”

Drought and windfalls

The drought has knocked farmers flat on their backs, threatened rural economies and raised prices for consumers. But, amid all the losers, there is one winner — the government.

The fiscus could collect a windfall of more than R200m from imports of maize and soya oil-cake needed to offset the crops lost to the drought. Government could make R138m by importing maize at the cheap world price and selling it at the higher local price, which is set by the Maize Board for all maize sold in the country.

And it should collect another R70m from R80m from the tariffs it charges on imports of soya oil-cake for the animal feed industry. The R200/t tariffs were imposed a few years back to “protect” local soya producers. Little, if any, soya cake is ever imported. But now government and local oil expressers
Bank backs privatisation

CAPE TOWN — World Bank vice-president and secretary Timothy Thahane came out strongly against nationalisation yesterday, saying experience in sub-Saharan Africa showed cumulative losses by state-owned enterprises reached 5% of GDP between 1980 and 1991.

He noted, however, that privatisation raised a country’s economic efficiency.

Thahane told the SA Institute of Chartered Accountants annual congress “State enterprises, far from fulfilling the expectations invested in them, have been inefficient, overstaffed and poorly controlled financially.”

He said there had been a worldwide trend towards privatisation to raise efficiency and stop the financial haemorrhage from loss-making public enterprises which lacked entrepreneurship, management and marketing expertise.

“Many countries, not just developing countries, cannot afford the losses incurred by their state-owned enterprises. In 1989, transfers and subsidies to Poland’s state enterprises cost 9% of GDP,” Thahane said.

Thahane said state-owned enterprises were inefficient because governments found it hard to resist meddling with them through granting financial subsidies, controlling product or service prices for political reasons and rewarding their friends with positions.

He said privatisation was a crucial element in striking a balance between the state and the market.

However, Thahane said the World Bank months to two years to complete.

As the bank had not been involved with SA since the early ‘80s, there was a need to build up knowledge about the country and its economy. World Bank missions had visited the country and spoken to government and non-government people, the ANC and universities.

“A picture is emerging of an economy which has not grown as it should have. The economy is facing large-scale unemployment, has an income distribution which is very skewed, and a backlog of education,” Thahane said.

He added that the public service was very large and there was a multiplicity of educational authorities.

Privatisation

was not dogmatic in making its loans conditional on an absence of a policy of nationalisation. This was a question for a sovereign government to decide.

World Bank involvement in SA would depend on the achievement of consensus about the governance of the country, Thahane said, as lenders and investors needed certainty. It would also be necessary to discuss World Bank policies and their implementation with the new government.

Responding to criticism that the World Bank had been tardy in lending to SA, Thahane said bank procedure was to undertake a full analysis of the economy and its problems before getting involved and devising a package. This normally took 18
Unions move into the boardroom

UNIONS affiliated to both the Congress of South African Trade Unions and the National Council of Trade Unions this week established themselves into the boardroom.

They launched the Community Growth Fund, a unit trust which will invest in companies "that provide strong growth in earnings and capital and at the same time satisfy certain union-defined criteria of social responsibility."

High on the list of criteria are progressive labour relations, union recognition, good safety records, job creation, equal opportunity policies, black advancement and environmental protection.

According to one of the architects of the fund, Colleen Young of the Labour Research Service (LRS) - a trade union service organisation - Syfrets has been mandated with interested investors.

This week, Times Media Limited (TML) pledged R1-million to the fund and two provident funds in the mining industry have indicated their intention to invest. The fund will start operating on June 30.

An LRS spokesman said: "We are delighted that TML has acknowledged the superior potential of socially responsible investment. It is possible, however, that TML's own industrial relations practices would disqualify it from being on the union's list of approved shares."

The fund, he added, will eventually receive about 30 percent of the cash flow of union pension and provident funds. But it is not exclusively for trade pension and provident fund investments.

Individuals may buy unit trust certificates, while the National Union of Metalworkers representative Makokelo Ndzebe said he hoped unions would also invest subscriptions in the fund and that one day it would be "a contribution to the advancement of the black".

While ethical considerations underpin the unit trust, Syfrets was chosen as fund manager because "their excellent track record in the investment performance of their own unit trusts," says Young. Syfrets Growth Fund was the top performing unit trust over the past three years.

Syfrets also gave the Community Growth Fund the best deal on the market. Where the average charge on unit trust management is 0.7 percent, Syfrets gave them a preferential rate of 0.5 percent.

Syfrets chief executive John Craig said: "We are delighted that the unions chose Syfrets' expertise in that bold investment."

Syfrets was lucky, investments made by provident and pension funds amounted to about R186-billion and accounted for 29 percent of the Johannesburg Stock Exchange.

Day-to-day administration will be done by Syfrets who will also make investment decisions and handle the marketing of the fund together with the LRS.

Unions will retain control of the fund through the Community Growth Fund Management Company. This management company will be owned jointly by Syfrets and the trade unions.

LRS says: "The unions, through their 30 percent holding in this company, will have effective control over the management company."

South Africa has no laws to rate a company's social responsibility status as exists in Europe and North America and such primary acceptability research will fall to the LRS.

What it will do is devise a point system and allocate points to companies based on the 12 criteria for investment.

"But companies do not have to satisfy all the criteria," says Ndzebe. "Unions will not be unmindful or 'take a bureaucratic stance'."

However, certain companies are automatically excluded.

They include privatised companies, arms manufacturers and foreign companies except where there is a clear benefit to South African workers.

Unions like Allan Horwitz is concerned that "we must have strong democratic structures to direct and mandate union trustees."

Young says the fund will send reports to investors and it will be the responsibility of participating unions to keep their members informed of developments in the fund.

Another problem which Horwitz raised is the "high degree of insularity that exists in South Africa."

"We may be that one man or factory has a progressive policy, but that the group as a whole is static and stationary."

Young agrees but says "there is no way we can avoid some investment in big conglomerates."

But the nature of the company's activities will determine how much and whether the fund invests with them. And smaller companies will be targeted for investment instead of large holding companies.
Residents dismiss reports of Malawi coup

The unrest was apparently triggered by a wage strike earlier in the week by about 3,600 textile workers at the David Whitehead and Sons factory. The situation worsened when thousands more workers took to the streets on Wednesday.

The army set up roadblocks outside Blantyre and ordered workers to return home. Sporadic shooting was heard...
Impala happy about a Bop return

BUSINESSMEN with investments in the independent homelands are weighing the implications of this week's agreement at Colesa that the statelets be reincorporated in South Africa.

Several JSE-listed companies are either registered in Transkei, Bophuthatswana, Venda and Ciskei (TVBC) or their operating companies are registered or located there.

The largest are Impala Platinum and the Sun International stable of SunBop, SunCity and TransSun.

Impala managing director Michael McMahon says running the group would be much easier under a single state.

The listed holding company is registered in SA but one of its operating companies is registered in Bophuthatswana where the mines are.

Upside

Mr McMahon says that until details, such as tax and legal implications, are known no conclusions can be drawn on the effects of reincorporation.

Analysts say there is more upside potential than down for Impala, which has been plagued by labour problems relating to the Bophuthatswana. Government's reluctance to recognise trade unions.

It also pays tax in both republics as well as royalties in Bophuthatswana.

Sun International deputy chairman Ken Rosevear said at a presentation to analysts that reincorporation should not present many problems.

In the first instance, a changeover would not be rapid.

Second, government agencies, such as development corporations, had more than R1-billion of share value in Sun International's resorts and had earned more than R1-billion in direct and indirect tax.

Third, the group employed 18 000 in a land short of jobs.
Shares lure key unions

THE founding during the past week of the Community Growth Fund (CGF), a unit trust supported by key trade unions, represents an important step forward in the evolution of a new economic dispensation in SA.

The new fund will ensure that union members take part in top companies listed on the Johannesburg Stock Exchange.

Basically the CGF will be investing a portion of the regular pension contributions of thousands of workers. Union spokesman Manoko Nchwe said the CGF would only invest in the shares of companies with good social responsibility policies.

The fund will be administered by Syfrets, but will be controlled by the unions.

SA businessmen are pleased by the unions' decision to participate so directly in the market mechanism.

One company, Times Media Limited, was quick off the mark to authorise R1-million from its pension fund to be transferred to the CGF.

'Only time will tell whether the new fund will be successful, but certain knowledgeable investment analysts believe that in the long term CGF may well become one of the most powerful unit trusts in SA, because it will enjoy a large and regular flow of cash.'
Altron hopes to fit the unions’ bill

By JULIE WALKER

VICE CHAIRMAN Bill Venter hopes his group is one in which the trade unions’ unit trust would be happy to invest.

The unit trust can invest only in companies with strong social responsibility programmes. Altron, whose main investments are in Altech, Powertech and Fintech, fits the bill.

Dr Venter says, “Since the strategic systems side of Altech’s business was wound down we have redeployed 460 engineers to look at ways of developing products for improved education, housing and health care.”

Keen

“We have developed an advanced interactive educational system using 6cm satellite dishes at a cost within the reach of almost all schools. We are aiming at the lost generation.”

Dr Venter says European and eastern companies are keen to invest in Southern African projects. The common factor is that potential investors are looking for SA partners.

“SA is the hub of activity for the whole of sub-Saharan Africa. Investors realise that a greenfields venture has a high chance of failure.”

Foreign partners bring the markets that they have built up over many years and SA companies provide local expertise, manufacturing, service, and so on.

Dr Venter explains that Altron would pay a premium for markets it will pick up in any case now that sanctions are going. He says foreign investors are bringing capital, technology and expertise to the region.

Although many regard Africa as a basket case, Dr Venter thinks otherwise.

“Communication is probably the greatest stumbling block, but traditional copper cabling is vulnerable to theft throughout the region.”

To this end, Altech has developed a solar-powered rural radio system which looks set to be a winner. It is on trial in the Eastern Transvaal.

Turnover

Electrification would bring about radical change, but the required investment will not be made by the authorities unless payment for power can be guaranteed. A smart-card pre-payment electricity dispensing system has been developed to eliminate the administrative burden.

Powertech has introduced a cable harness system that replaces conventional house wiring.

The Altron group has R200-million in cash for investment, but many opportunities are few and the new ventures are likely.

In the year to February, Altron made almost R83-million, or 48c a share, on turnover of R2.6-billion. This was an 18% improvement in spite of the tough economic conditions.

All the facts on Europe

Auditing firm Deloitte & Touche has invited two representatives of its European co-ordination office to present seminars to clients who are potential investors and traders with Europe.

Brussels-based Graham Branton and Richard Doberty will talk about details and pitfalls associated with doing business in the European Economic Community and in eastern Europe.

The treaty between the six EEC states and the 12 EEC nations has paved the way for investment or trade with 18 countries on a single set of criteria.

“Common legislation in several fields has already been agreed on,” says Mr Branton. “They include banking, telecommunications, financial standards, transport and energy and environmental matters, with economic communities soon.

“Public procurement policy on goods and services now obliges the authorities to take the cheapest product on offer providing it meets quality standards. This opens the door to everybody.”

However, each nation still has its own tax policy, company law and accounting rules. Mr Branton says it is important that potential investors make the best decisions on where to do business and to take into account grants and subsidies, as well as repatriation of profits, use of foreign staff and so on.

Mr Doberty says the biggest problem facing would-be investors in Eastern Europe is the lack of reliable information and statistics. Deloitte has established a network of offices and contacts throughout the region to update the European database and advise clients worldwide.

Deloitte & Touche says there is enough interest in Europe among its SA clients to justify its establishing links and making information available.
Stokvel unit trust on the way

By CIARAN RYAN

THE National Stokvels Association of SA (Nassasa) is to launch a unit trust for stokvels.

Stokvels are savings clubs in the black community. Surveys suggest there are 24 000 stokvels in major metropolitan areas and as many as 600 000 countrywide with a total membership of 10-million. Their cash flows are estimated at more than R260-million a month, most of which is placed with financial institutions.

A stokvel unit trust could provide a better return on savings and allow members greater access to formal borrowing.

Stokvel members are generally drawn from poorer sectors of the community. They are a poor credit risk in banking terms.

Better

Stokvel members complain that they are denied access to formal borrowing, but their savings are kept relatively wealthy with good credit ratings.

Nassasa spokesman Stephen Japp says: "A unit trust will give stokvel members a better return on their money. They will be able to offer unit trust money as collateral against loans from the financial institutions."

But some fund managers suggest there is no need for a stokvel unit trust. Existing unit trusts can handle this business. There is nothing to stop stokvel members from collateralising their investments through unit trusts. It is estimated that 25% of unit trust holders are black.

Syfrets and Nassasa will teach stokvel members how the JSE and unit trusts operate. Together with Old Mutual, Syfrets is preparing a package to show people how to profit from shares and unit trusts.

Syfrets has agreed to administer stokvel funds at a reduced price.

See page 4.
Union unit trust on the way to big time

THE Community Growth Fund (CGF) to be launched on June 1 by trade unions could become one of the largest unit trusts in South Africa, says Syfrets chief executive John Craig.

Syfrets will manage the fund. Trade unions have made it clear that this is not the last move they will make with the money accumulating in pension and provident funds, which fund members contribute to. They could seek to increase the 50% ceiling they have put on their own pension and provident fund investments in the CGF, which are also investing other investments.

Trade unions have long been uneasy about their lack of influence on the investment of money from workers' pension and provident fund contributions. Few black workers have pension rights in the past, but the unions have found it hard to change the system. Former general secretary of the National Union of Mineworkers Cyril Ramaphosa was a main mover in bringing about change.

Clout

Others involved in the new venture include the Transport and General Workers Union, Paper, Printing and Allied Workers Union, Construction and Allied Workers Union, and the National Union of Food, Wine, Spirits and Allied Workers, Transport and Allied Workers Union and Metal and Allied Industrial Workers Union of SA.

Now that unions and their members realize they have growing financial muscle, they intend to use that muscle — on their terms.

Manole Tetmo, collective bargaining officer at the Numsa, says they will not allow the fund to influence the outcome of day-to-day labor disputes.

After Numsa said it had identified a report that its provident fund "has been using its influence on the gold mining and total investment worth over R300 million.,"

World

"The numbers contribution about R100 million every month from their wage and the contribution is not the same amount. All of the money is invested in a mutual fund in the broad range of the various mining and total investment worth over R300 million,"

Remains are under way between the Labour Relations Institute (LRI), represented by Gordon Young, and Syfrets Managed Assets firm.

Mr Young says the unions have been discontented with the performance of the economy over the last 19 years. Commissions have called for more union involvement in the investment of their money.

We have established a committee that will work with the CGF, and it is the first of its kind. There will be others".

Mr Young says other options are being canvassed, for example, "establishing greenfield projects for job creation."

But the unions realize that such projects carry higher risks than relatively safe unit trust investments.

"When we have more experience we would like to try other options. They may carry higher risk, but could yield higher returns."

Seal

LRS surveyed the market before choosing Syfrets.

"We selected what we thought would be the best company from the point of view and needed an option. We looked at four factors: did they have a unit trust, a reputation for integrity and were people in the company prepared to acknowledge the importance of unions and did they have a proven track record."

Mr Young says Syfrets has placed R25 million of its money in the venture — provided a lot of support.

"Unions members have been extremely enthusiastic. We have had meetings with them throughout the country. There is an understanding of the savings going among workers. They are keen that we should put more than 30% limit on the fund, but we are taking a cautious approach."

About 500 000 workers will initially invest in the fund which is also open to the public.

Merit

"We manage the fund of the company's pension fund in CGF this week."

Mr Young says an investment by the Community Growth Fund will "by no means be a seal of approval for the company we invest in. I don't think any company would meet all the criteria we set out, but we will look at progressive companies."

Investment decisions will be made according to our criteria, as well as the companies' job creation record, its industrial relations, its health and safety provisions, and others.

"Unions will get together and decide on a weighting system. A company that meets only one of the criteria may face the same fate as an extra. For example, have a good record on work health and safety, but have a bad record on an extra."

A Syfrets spokesperson says it will recommend shares with financial merit to the LRS. LRS will then select according to their criteria of socially responsible companies.

We have done some research, and most successful companies have a social conscience. "Several pension funds have given us between 5% to 10% of their cash flow. We cannot give more details until the official launch."
Union tries to recover Masterbond million

THE unaffiliated National Union of Leatherworkers (NUL), with 23 000 members, stands to lose more than R1m in the Masterbond debacle.

NUL general secretary Kusse Moodley said the union had invested "reserve funds" in Masterbond for use later as bridging finance.

The funds were held by various union-linked funds - including a general benefit fund, a death benefit fund and an employee sick benefit fund which was a supplement to the Leather Industry Industrial Council's sick benefit fund.

Moodley said the union was doing all it could to try to retrieve the money, but the prospects looked bleak.

The union had made contact with Masterbond investor groups and representations had been made to the Registrar of Deposit-Taking Institutions.

He said the NUL, an old union previously linked to the now defunct Trade Union Council of SA, was in a sound financial situation despite the Masterbond losses.

He added that the union owned buildings in Port Elizabeth and Maritzburg.

Moodley, who is a brother of Azapo activist Strum Moodley, was central in an internal union struggle that eventually ousted long-time NUL general secretary Freddie Schwartz.

Schwartz is still general-secretary of the small Transvaal Leatherworkers' Union.

In a pamphlet doing the rounds among leatherworkers in Port Elizabeth, Schwartz said that the NUL's funds - which had been invested over a long period in several building societies - had been "squandered".
Bullish sentiment lifts JSE platinum shares

MATTHEW CURTIN

SHARES in Rustenburg Platinum (Rusplat), the world’s leading platinum producer, hit R79,50 on the JSE yesterday, their highest level since September 1990.

Higher platinum prices and increasingly bullish long-term views of the market lifted shares across the platinum board.

The JSE’s platinum index passed the 500 mark for the first time since July last year, to close 132 points higher at 5 009.

Impala Platinum (Implats) led the gains, rising 5.2% or 250c to close the day at R56.50. Implats has begun to shake off the effect of associated labour and production problems which dogged its mines in Bophuthatswana in 1991.

The stock has risen more than 26% in the past month, narrowing Implats’ discount to market leader Rusplat, which had widened consistently in the past year.

Lebowa Platinum (Leplat) and developing mine Potgietersrust Platinums (P P Rust) also made good gains to climb more than 3% to end the day at 65c and 67c respectively. Leplat has risen off record lows to gain 3c or 50% in the past month, while the volatile P P Rust, which was listed last year, is near record highs after falling to a low of 51c earlier this year.

Platinum was fixed in London yesterday afternoon at $354.35/oz, up from Friday’s fix of $355.25.

Reuters reports that New York analysts said optimism that the US economy was recovering from recession, fed by Friday’s stronger-than-expected jobs data, buoyed sentiment. So did perceptions that demand in the Far East for platinum — Japan is the largest consumer of platinum jewellery — would increase soon.

Confidence was also boosted by concern over the availability of the metal in the physical market, particularly in Europe.
MARVEL Holdings SA, the Luxembourg-based trading group, is to acquire a 51% controlling stake in Concorde Travel Holdings (Concorde).

Concorde is SA's only directly listed travel group. Its controlling shareholders, who include certain directors of the company, holding around 85% of the issued share capital, have undertaken to accept the offer.

However, the offer is still subject to approval by the Securities Regulation Panel.

In a deal valued at about R1.4m, Marvol will offer 85c for each Concorde share. Trading in the shares was suspended yesterday at a price of 85c.

Concorde MD Allan Luzzo said the investment by Marvol represented a vote of confidence in Concorde, tourism to and from SA, and the country's future.

Luzzo said the deal would dramatically broaden Concorde's scope to increase international tourism to SA and establish a worldwide network which Concorde would offer its local clients.

Marvol is the holding company of a multinational trading group involved in international trade, mining, tourism, industrial manufacturing and publishing, with existing interests in SA.

It has particular strength in trading activities involving Russia and Eastern Europe.

Concorde has been a pioneer in SA business travel.
Bid for Masterbond firms

CAPE TOWN — Citygate Corporate Finance is making a bid for management control of 11 property participation companies in the Masterbond group.

Citygate has sent a letter to the approximately 1,100 investors in the participation companies asking them to vote JH Isaacs Group (TVL) director Peter Holling and Citygate directors Michael Addison, Cedric Greenwood and Daryl Sathu on to the board at a meeting on May 25.

Greenwood said yesterday the proposal had the support of the Masterbond provisional curators.

He said that as managers of the companies Citygate would aim to reconstitute the debt and would run the companies, many of which were in reasonable order, on an ongoing basis.

Citygate would review and reinstate the cash flows to investors at realistic levels.

To make the investments tradeable, Citygate also planned a JSE listing for the property loan stock, Greenwood said.

The companies, now under provisional curatorship, have a property portfolio amounting to R60m, R50m of which was invested by Masterbond investors.

The three biggest properties in the portfolio are the Brackenfell Shopping Centre (R18.5m), FMA House (R6.3m) and Masterbloem (R5.6m).

The properties are administered by the JH Isaacs Group.

The meeting on May 25 has been called to elect a new board of directors to replace the current board and to take control of the company. Former Masterbond MD Koos Jonker has inducted his resignation as a director.

The Masterbond provisional curators are not legally empowered to nominate persons for election.

Citygate urged investors not to vote for past Masterbond Group company directors and those formerly associated with Masterbond, as had been proposed.

Marchers dispersed

PRETORIA — Bophuthatswana police used tear gas to disperse a crowd which had gathered to march on the GaRankuwa Magistrate's Court yesterday, police spokesman Col. Dave George confirmed.

Earlier reports said the march, which took place north-west of Pretoria, was part of a day of mass action including work stayaways to protest against the homeland's refusal to be reincorporated into SA and against its labour legislation.

Industries in Rosslyn, north of Pretoria, experienced up to 100% stayaways as a result of the ANC/Cesatu/covc association-organised action.

Spoodoret said trains from GaRankuwa and Mabopane near Bophutatswana were only 40% full, while BMW in Rosslyn said management and unions had agreed that yesterday would be a nonproduction day and the units lost would be made up.

Mail deliveries were affected in some Pretoria areas — Sapa.

PEANUTS

By Charles Schulz

SOMETIMES I LIE HERE AT NIGHT AND IT'S LONELY SO I LOOK UP AT THE STARS AND I SEE THEM ALL NAMES LIKE THEY'RE FRIENDS OF MINE AND I TALK TO THEM — HI, MICHELLE!
 fecha universitaria no alcanza al programa de retorno de alumnos, la cual se realizó desde el 2 de abril hasta el 2 de agosto. Durante estas fechas, se llevó a cabo una serie de actividades culturales y deportivas, que fueron recibidas con apoyo por parte de los estudiantes. Se realizaron talleres de danza, teatro, pintura y arte en general, además de entrenamientos de fútbol y básquetbol. Estas actividades fueron organizadas por la delegación estudiantil y tuvieron lugar en el campus universitario.
Liquidations soar in first quarter

COMPANY and close corporation liquidations soared by 41% for the first quarter of 1992, the Central Statistical Service (CSS) said yesterday.

There were 656 liquidations between January and March 1992, compared with 466 liquidations between October and December 1991.

A 63% increase in liquidations of wholesale, retail, catering and accommodation services was recorded in March. There were 128 liquidations compared with 78 in February.

Absa senior economist Nick Barnardt said liquidations lagged behind the overall business cycle and that the 41% jump was simply a reflection of the acute deepening of the recession which occurred towards the end of last year.

"We must expect further liquidations as the recession will last at least another quarter or two," he said.

However, he said a drop in interest rates could help relieve the situation.

The number of insolvencies of private persons, individuals and partnerships increased by 16.3% to 876 for the first two months of 1992 from 752 for the previous two months, according to the CSS.
SA firms in bid for UK food group

A MULTIMILLION-rand offshore deal involving Anglo American Industrial Corporation (Amec), De Beers, Minanco, Del Monte Foods International and the Royal group of companies could be in the offing, market sources said yesterday.

There was strong speculation that the three-part deal would result in a change of control of Royal Foods.

Sources said the transaction would see an Amec/De Beers/Minanco consortium gain control of UK-based Del Monte Foods International Del Monte Europe, which was sold by US canning company Del Monte in 1990 to a consortium and which has an association with Royal, would then be listed on the London Stock Exchange.

Royal Foods would acquire Del Monte Foods International, change its name to Del Monte and list on the London Stock Exchange and the JSE Del Monte scrip would be used to buy the original business from the vendors, sources said.

Speculation of a large deal, confirmed by Royal's cautionary announcement that negotiations were at an advanced stage for Royfood to acquire additional food interests, has seen significant movements in the group's share price.

Royal Holdings moved up 25c or 3.4% yesterday to a new high of 780c when 5,000 shares worth R57,500 changed hands in two deals. Royal Corporation also moved up by 25c to close at a new high of 725c. About 58,300 shares changed hands in 12 deals and at a new high of 675c, with a buyer valued at R422,700. Royal Foods remained unchanged at a high of 675c and a seller at 725c.
CAPE TOWN — Trade unions cheered the share market last week with their decision to go ahead and form a unit trust where anyone can chip in for only R30 a month.

The Community Growth Fund (CGF) makes its debut next month as a general fund and the country’s 44th unit trust.

It is set to make an enormous impact on business and worker-employer relations.

JSE analysts believe news of its formation signals to investors that threats to nationalise big business are certain to evaporate — a factor one analyst says helped to boost investment confidence and share prices last week.

But company directors will have to pull up their socks because the new breed of capitalists is likely to be less apathetic, if not downright bullish, compared with the present generation of investors.

Union leaders are deadly serious when they talk about worker participation in making business decisions in the new South Africa.

For starters, they will be entitled through their unit trust management company, Unity Incorporated, to arm themselves with proxies and challenge directors at company meetings.

Then, if the fund invests millions in a company — it is allowed to buy up to 10 percent of a company’s shares — the unions could be expected to demand a seat on the board of directors in the same way that financial institutions are represented in many companies.

Unions have long demanded a say in decision-making — in Germany and the US worker participation is common.

George Young, spokesman for Labour Research Service, which devised the plan for the union fund, says issuing proxies to unions concerned is a popular method of challenging companies in the US and Britain at AGMs.

“We as a unit trust would have the right to issue proxies to interested parties and it might encourage companies to give us information.”

CGF has the potential to grow at a spanking pace and become one of the largest.

It has two major advantages over competitors.

Big companies are expected to invest millions to show they are among the “good guys” with social responsibility.

It has been promised as much as 20 and 50 percent of the huge cash flows of union pension funds every month.

Union pension funds must invest money anyway if they want to protect workers’ pensions from inflation, and what better place than their own CGF?

The fund will be punted by unions to members and the minimum investment of R30 a month, or a R500 lump sum, are the among the lowest and most affordable in the industry.

It will get off to a flying start on June 3, with 50 percent stake in the management company, will start CGF with a R2 million investment — double what it gave to launch its own Syfrets Growth Fund about four years ago.

Other companies have either pledged or indicated they too would invest millions.

Leon Campher, MD of Syfrets Growth Fund Managers, says he and his staff have been inundated with inquiries.

Clive Fox, MD of Consolidated Fund Managers, an independent unit trust management company, forecasts that an enormous amount of money will go into the fund which, he says, is “a very clever marketing exercise in terms of harnessing black money.”

“The only concern is that it will invest in so-called union-acceptable companies, which might not necessarily be the best investment.”

The fund is the branchchild of Labour Research Service to overcome union complaints that they have no say in how members’ funds are invested, while money has been invested in low-wage and union-bashing companies or removed from the country and used where there is no clear benefit to workers in South Africa.

Investment policy will be towards manufacturing companies that provide jobs and meet union criteria of social responsibility, such as fair employment practices and safe working conditions.

Stellenbosch economist Willem Roets forecasts “Just as the poor whites did in 1946, the black unions are going to use their financial muscle.

“They could end up with enough directors on the board to run their own gold mine.”
Debt judgments at all-time high

By Sven Lunsche

Consumers resorting to loan finance are defaulting at an increasing pace.

An analysis of Central Statistical Services figures by Credit Guarantee economist Luke Dog shows that default and consent judgments surged to an all-time high of R380.5 million in February, 102 percent upon February last year.

The largest contributor to thisordinate rise occurred in the “money lent” category to private persons (including mortgage bonds).

Default and consent judgments in this category rose from R104 million in January this year to R232 million in February.

The number of insolencies of private persons, individuals and partnerships for the first two months of the year increased by “only” 16.3 percent to 876 compared with the preceding two months.

The number of liquidations also continued to rise in the first quarter of the year, CSS reports.

In the January to March period the number of companies and closed corporations, which were liquidated, increased by 40.8 percent compared with the last quarter of 1991.

The CSS says there had been a marked increase in the number of wholesale and retail traders, and catering and accommodation services which were liquidated in March. Some 128 stores in these categories were liquidated in March compared with 76 in February.
New tourism package to spur economy

GOVERNMENT has committed itself to sweeping deregulation of the tourism industry, including the repeal of five Acts and a revision of liquor laws and legislation restricting Sunday activities.

The White Paper on tourism was tabled in Parliament yesterday and released to the public at the Indaba '92 conference in Durban by Tourism Minister Oom Marais. Marais told a news conference government had a three-year plan to "kick-start" the economy by making SA the world's No 1 "eco-tourism destination".

Our Durban correspondent reports that in terms of the White Paper, government has promised Industrial Development Corporation (IDC) financing for new projects in and around conservation areas.

Marais said a task group under the supervision of the Small Business Development Corporation and the Development Bank of Southern Africa was formulating proposals for an assistance scheme targeting small entrepreneurs.

Highlights of the White Paper are:
- A major emphasis on deregulation, including the repeal of five Acts governing tourism to make the industry "private sector driven". A new consolidated Tourism Act would be tabled this session.
- The White Paper would immediately set up a "clearing house" to which the private sector could make submissions on deregulation.
- Co-operation with neighbouring states would be encouraged to create Southern African tourist packages.
- Hotel room levies would be revised from July 1 (from R1 for one-star and R4,20 for five-star hotels) to generate funds to be used by Satour for overseas marketing.

Tourism

under the auspices of Satour — with government finance — initially in the UK, Germany, US and France and later in regions such as Australia, Canada, Taiwan, Israel and Japan Domestic marketing would be left mainly to the private sector.

The Travel Agents and Travel Agencies Act, including the Fidelity Fund, would be repealed, although representative private sector bodies would be allowed to use the balance of the fund to set up a new industry-administered fund.

It was further proposed that consumer interests be protected by a code of conduct set up in terms of the Harmful Business Practices Act.

GERALD REILLY reports that Fedhass executive director Peter Hearfield said the substantial support promised in the White Paper could rejuvenate industries which had stagnated during the recession.

As forex earns the tourism and hotel industries could rival gold mining and agriculture within the next few years.

The elimination of restrictions on charter flights into SA and the involvement of the IDC in tourism were positive features. Fedhass also welcomed the Liquor Act review and a subsidy programme for expansion of accommodation facilities.
Dispute resolution alternatives urged

LAWYERS should be ethically obliged to discuss with clients the possibility of using alternative methods of resolving disputes before resorting to litigating through the courts, Harvard law Prof Frank Sander said in Sandton yesterday.

He was speaking at a one-day conference hosted by the Alternative Dispute Resolution Association of SA (Adra) which was supported by the Institute of Directors in Southern Africa and the Attorneys' Fidelity Fund.

The conference was aimed at giving attorneys, business people and anyone else involved in dispute resolution a clearer understanding of available alternatives to the route through the courts.

Three fight Esor’s plan to rescue Eersteling

THREE shareholders in the liquidated gold mine Eersteling, representing 0.06% of the company's equity, are opposing a rescue plan for the company in the Rand Supreme Court today. The disgruntled shareholders have won the support of the SA Shareholders’ Association (Sasa).

Swiss-based Esor Establishment SA is planning to rescue the company, which was operating at a loss. Esor representative Stefan Hayden said yesterday: "It seems strange that a few disgruntled shareholders should arrive at the last minute and attempt to jeopardise the rights of creditors and members and create further uncertainty in the lives of mine employees."

Eersteling faces claims worth R6.5m and has offered the company's major creditor, Standard Merchant Bank (SMB), 80c in the rand, and other creditors 90c. Creditors have unanimously accepted the scheme of arrangement, proposed in terms of Section 311 of the Companies Act.

At a scheme meeting for shareholders, 78% accepted Esor's proposal that the company's share capital be consolidated from R5-million to 100 000 shares, with an issue of 7.2-million shares to Esor in payment for settling Eersteling's claims.

Shareholders accepted an offer of 1c a share, with the option to receive one share for every hundred owned. Esor has said without its offer, creditors would receive 40c in the rand, and shareholders nothing.

At the members' meeting, 89 of Eersteling's 9 000 shareholders, holding 8-million shares, voted against the scheme, with shareholders owning 20.6-million shares voting in favour. Esor was able to vote for the scheme with the help of 23-million shares it acquired for R2 from SMB.

Three dissenting shareholders owning 65 000 shares have taken the matter further. They have submitted affidavits opposing the scheme. It was reported yesterday that Sasa chairman Issy Goldberg said shareholders should reject "the infamy of the offer." Goldberg said the dissenting shareholders were confident they could run Eersteling "even more profitably" than the liquidators.

Eersteling has been run on a contract basis since its liquidation and turned in a profit of R900 000 between May 10 1991 and January 31 this year, but before interest payments of R800 000
Bill on electronic security deposits

CAPE TOWN — The creation of a central electronic securities depository to replace the daily physical delivery of thousands of securities by sellers to buyers is proposed in the Safe Deposits of Securities Bill tabled in Parliament yesterday.

The step to centralise share registers in an electronic register is likely to threaten or change the existence of the many share register companies which keep records of transactions and shareholdings of each JSE-listed company. In terms of the Bill, transfers and pledges of securities would be effected by agreement and entry in the appropriate accounts kept by the central depository.

"This would enhance security from an investor's point of view as the risk of loss of securities, or of tainted securities entering the market, would also fall away," the memorandum to the Bill says. Transactions will be recorded in the electronic register of the central depository, which will be a company incorporated under the Companies Act and registered with the Registrar of Financial Markets Fees will be charged by the depository for the transactions it conducts, for payment of dividends, distribution of financial notices, etc.

The central securities depository will have member depository institutions entitled to hold securities for safe deposit and redeposit them with the central depository for safe custody. Securities of the same type — for example, all shares in Gencor held by a depository — will be pooled and depositors (shareholders) will have a pro rata interest in the pool.

Financial Services Board financial markets manager Stiaan Hyman said yesterday the Bill was a piece of enabling legislation and the details of the method of operation of the central depository would be in its rules.

He said it was likely that share transactions would be reported to the depository, which would enter them in the electronic register. Hyman stressed that share certificates would continue to be issued on request and, while the aim was to "dematerialise" all share transactions eventually, it would not be possible to enforce this.

JSE president Roy Andersen said the central depository for gilts, to be run jointly by the Bond Markets Exchange and Unexcor, was well advanced and was the first priority. Attention would then be given to equities. An electronic depository provided greater security in share transactions, he said.
Cabinet had laid down stra-
ges for the SADF 18 years ago,
real political settlement

NEWS IN BRIEF
Privatisation
ENABLING legislation for the privatisation of
the SA Abattoir Corporation was tabled in
Parliament yesterday.
The SA Abattoir Corporation Bill made pro-
vision for the incorporation of the company as a
public company with a
share capital at date of
incorporation of R57.7m
fully paid up shares with
a par value of R1 each.
These shares will be
owned by the state and
the rights attached to
the shares will be exer-
cised by the Agriculture
Minister.
JSE has surplus in spite of dip in trading volumes

THE JSE reported a surplus of R561,000 for the year to end February in spite of a drop in trading volume. This compares with a deficit of R8,7m in the 1991 financial year.

Delivering his review of the 1991/92 year, JSE president Roy Andersen said despite a depressed world economy, an uncertain future political dispensation, severe drought, a volatile financial rand and persistent but controlled inflation, the JSE indices had risen to make it one of the best performers in the world.

But continued low volumes were a matter of concern. During the year, 2,4-billion shares (2,3-billion) with a value of R227bn (R218bn), were traded. This represented market liquidity of only 4,5%, compared with 5,5% in 1991.

The JSE achieved its surplus after a R3,59bn transfer from the JSE Guarantee Fund, the reversal of the provision for a doubtful debt of R3,43bn and transfers to reserves of R3,697m. The debt for which provision was made in the 1991 financial statements related to expenditure on and rent receivable from the Bond Market Association-SA Futures Exchange trading floor.

"As will be seen from the cash flow statement, net cash funds of R7,759m (1991 a deficit of R11,8m) were generated. This trend, together with a decline in future capital expenditure, will further strengthen the balance sheet of the JSE," Andersen said.

Referring to share performance, he said the all-gold index had performed in sympathy with the disappointing gold price. Opening the year at 1082, it fell to a low of 972 and closed the year on 1296, representing a 14,5% advance.

The overall and industrial indices had, in contrast, risen impressively and achieved new records. The industrial index gained 38,1% over the year, appreciating from 3196 to 4418 after a peak of 4544 on January 15 1992. The overall index added 28,5% to its value.

Capital

This once again showed equities were an excellent hedge against inflation, he said. More than R14bn in equity capital was raised on the JSE in the financial year, beating the R12,8bn 1990 record.

Market capitalisation of securities listed on the JSE on February 29 was R529,1bn (R495,1bn) and the total of dividends and interest paid on all listed securities was a record R32,8bn (R30,8bn).

Gilt turnover for the year was a record R259,7bn, 10,9% up on 1991. The number of deals was 133 (135 1987).

Andersen said securities markets were essentially based on trust, and although cases against brokers or individual members were unfortunate, it was reassuring to note that JSE systems were identifying breaches.

He said the end of SA's isolation and progress at Cosas encouraged confidence in a favourable future for SA and the JSE.

The importance of a strong and vibrant economy to meet the aspirations of all South Africans was generally agreed upon by political and business leaders, Andersen said.

The prospect of a political settlement following the "yes" vote and the progressive lifting of sanctions were focusing the attention of international investors on SA. Thus could only benefit the JSE, as the principal centre for raising equity capital, Andersen said.

He said the market was looking forward to world economic recovery and a fair political settlement which would promote private enterprise.

The JSE had a major economic role to play as it channelled SA's savings cost-effectively and securely to users of capital. In this way, it encouraged fixed investment, improved productive capacity and contributed to employment.
Peter Mculloch

Controls keep pension trusts in check.
Beer is best as SAB's retail sections wilt

By Sven Linsche

SA Breweries confirmed its status as the royal blue of blue-chip companies by reporting its 25th consecutive increase in earnings in the year to end-March.

But it was once again left to the beer division to pull the group out of troubled waters as its retail subsidiaries, including Amrel, Edgars and OK, were hit by the most severe slump in consumer spending in more than 50 years.

On the back of a 10 percent improvement in turnover to R17.7 billion (R16.1 billion), SAB's bottom-line showed a 10 percent increase from R711 million to R779 million, equivalent to a rise in earnings per share from 255c to 290.4c.

Of this the beer division contributed 69 percent by lifting its attributable earnings by 16 percent to R465 million (R402 million). SAB's other interests showed a two percent rise to R314 million (R309 million).

The total dividend was lifted 10 percent to 130c (118c), but shareholders can elect to receive new shares in lieu of the cash payment of the 97c final dividend.

The shares will be issued at a price of R51.80 per share on the basis of 1.87 ordinary shares for every 100 shares held.

The beer division has steadily raised its contribution to group earnings over the past few years, which reflects not only the poor performance of the retail subsidiaries but also the resilience of beer sales to economic adversity.

This was again in evidence last year, says SAB executive chairman Meyer Kahn.

Volume growth in the division was just over one percent in real terms which he described as excellent in view of the fact that excise duties on beer were raised by 20 percent earlier this year.

Furthermore, he says, the group doubled its exports during the year mainly to Africa, Europe and South America.

Commenting on the two percent rise in the contribution of its retail division Mr Kahn said: "We will just have to sit out the recession and wait for better times."

But he expects margins in the retail industry to remain under pressure in the current financial year although depressed operating margins already reduced growth in trading profit to five percent at R1.83 billion (R1.73 billion) in financial 1991/2.

SAB's cash flow statement showed that the group generated added cash value of R4.5 billion during the year—a rise of eight percent over the previous year. (See graph)

"Once again, more than half of this has been disbursed among the group's 30,000 employees, while shareholders received 12 percent of the added cash value by way of dividends," Mr Kahn says.

Capital expenditure for the year amounted to R1.3 billion, and the current programme approved for further spending is now over R3 billion, of which about half is expected to be spent this year.

Mr Kahn says operational cash flows, combined with existing financial facilities, would "comfortably" fund the expansion programme. While borrowings increased by R454 million during the year the group's gearing at 53 percent remained well within targets set by management, he adds.

Mr Kahn ruled out key acquisitions this year stating that the takeover of 87 percent of PG Glass with effect from April this year—SAB's largest ever acquisition—needed to be consolidated in the months ahead.
JSE has role

to play in the new SA

The road ahead for South Africa would in all probability be bumpy, but the destination was exciting, said Roy Andersen, president of the Johannesburg Stock Exchange, in his inaugural address last night.

"Every South African had a role to play in ensuring a happy, prosperous and successful nation and the JSE intended to play its part.

"Indeed, it is not an exaggeration to say that the JSE is entering a new era."

Political and business leaders were generally agreed on the importance of a strong and vibrant economy which would meet the aspirations of all South Africans.

Mr. Andersen said that the JSE would encourage international interest as well as promoting the benefits of equity investment among all South Africans.

Other initiatives planned included:

- Re-writing the orders management and equity clearing house computer systems;
- Finalising the implementation of the BDA system;
- Improving cost control and
- Further strengthening the financial structure of the JSE.

Mr. Andersen said the exchange had spent the past five years acquiring new computer systems, streamlining procedures, enhancing skills, and controlling costs.

The exchange was looking forward to a recovery in the world economy and to a fair political settlement which would promote the private enterprise system. "Both of these factors should result in much improved volumes on the JSE, for which it is prepared."

In 1991-92 the JSE was one of the best performers in the world. "This shows once again that equities are an excellent hedge against inflation, as has been proved consistently over the years."

But the continued low volumes were a matter for concern, as they affected the attractiveness of the market and the livelihood of members.

During the year, 2.4 billion shares (1991: 2.5 billion) with a value of R22.7 billion (1991: R21.0 billion) were traded. This represented market liquidity of only 4.4 percent, compared with 5.3 percent in 1991.

The number of companies listed fell from 763 to 720, largely as a result of takeovers and mergers. There were 16 new listings compared with 21 in the previous year.

"However, the high price of blue chip equities, combined with expectations of improved business conditions, enabled R14.4 billion to be raised — mostly in the form of rights issues. This beat the previous record of over R12.9 billion in 1989, the year of the poorer public offering."

The market capitalisation of all securities listed on the JSE at February 29 was R539.1 billion (1991: R495.1 billion) and the total of dividends and interest paid on all listed securities was a record R32.9 billion (1991: R30.5 billion).

Gilt turnover for the year was a record R256.7 billion, 10.9 percent up on 1991. The number of deals was 133,492 (1991: 135,657)."
A mixed bag

Listed subsidiaries of SA Breweries are all in consumer business but few can boast the pulling power of the beer division. Certainly, the most successful diversification — at least on par with Edgars, whose figures were discussed last week — has been into soft drinks, through Amalgamated Beverage Industries (ABI), which holds Coca-Cola franchises in Johannesburg and Durban.

ABI’s EPS rose 20% to 64.5c, bringing in attributable earnings of R68.3m. Gross cash flow from operations rose 59% to R142m.

ABI was helped by the unusually hot weather in the January to March quarter. There was a strong performance from 24% held Amalgamated Beverage Canners, SA’s predominant soft drink canner.

Diversified manufacturing interests, which have been the subject of critical comment, are having a tough year. Says SAB chairman Meyer Kahn: "This is the worst economic downturn of the last 50 years. To expect attributable earnings in the cyclical furniture, textiles and appliance industries to increase in the present economic climate is simply childish."

The largest manufacturing subsidiary, Plate Glass, has only been consolidated from April 1. It will not form part of SAB results for the 1992 financial year.

Kahn calls the De Gama results, with attributable income of R30m, "superb" even though EPS fell by 29%. He points out that no other major textile group is profitable.

For example, Frame has massive losses, Romatex is barely keeping its head above water and Tongaat recently sold its Hebox plant to a German entrepreneur. De Gama remains ungeared, with net cash of R2.7m.

The furniture industry is suffering, which is reflected at both Afco and Amrel. Afco was fortunate that many competitors closed enabling it to increase market share. Its EPS fell by 35% to R26m in an industry in which local manufacturing output fell by 17.4%. Afco sold its 50% investment in Spankor, which gave it 23.9% of board manufacturer PG Bison, for R95m after year-end. This will virtually wipe out interest bearing debt, which stood at R110m.

Amrel, a mixture of HP furniture and cash clothing and footwear chains, also had a difficult year. Turnover fell by 4% to just over R1bn, as 150 shoe stores were closed. Trading profit dipped 43% to R34m. As at OK, results were saved by a release of R14m from the accumulated tax balance. Analysts expect SAB’s attributable earnings to increase by about 8%, on the assumption that beer results will balance poor retailing and manufacturing performance.

Stephen Cronin
INSOLVENCY

Cape court dissents

When can the directors of an insolvent company be held personally liable for its debts? Yet again, a Cape court has disagreed with the Transvaal on this important insolvency-related issue.

In a recent unreported judgment, Mr Justice Wally van Deventer, of the Cape Provincial Division of the Supreme Court, rejected a claim under section 424(1) of the Companies Act, that the directors of a kitchen equipment company — Hi-Class Kitchens (Pty) — were liable for the company’s debts.

The basis of the claim was that the company was trading while technically insolvent. This conduct, went the argument, was enough to bring the directors within the provisions of section 424. That is, that they were carrying on business recklessly or with intent to defraud creditors (Don Samuel Ozinsky NO v Linda Mitford Lloyd & others).

Oshy Tugendhaft, a partner in Moss-Moritz Mendelow Browde Inc, says that Mr Justice Van Deventer has differed sharply with a recent judgment by Mr Justice Michael Stegmann in the Western Cape District Court (FM April 24).

The Cape judgment rejected the creditor’s argument, holding that for a company to trade while technically insolvent does not necessarily imply the conduct required by section 424 to make the directors personally liable for its debts.

The judge said that, in SA legal and commercial practice, it has long been customary to incorporate private companies with a nominal authorised share capital and to finance them with shareholders’ loans — for tax and other good reasons. If “inside liabilities” are taken into account, many commercially active companies are technically insolvent. But there is no obligation on directors to disclose insolvency. They need to believe only that the company will be in a financial position to meet its commitments on due date. Indeed, many technically insolvent companies trade on successfully in this way.

The directors could reasonably hold this belief, for example, because they consider that the cash flow will be strong enough. Alternatively, in the Hi-Class Kitchens case, one director-shareholder could have substantial personal funds which are available in the last resort to meet the company’s obligations.

(Another answer to the problem of insolvency, one found acceptable in past decisions of the Cape and Durban courts — but not the Transvaal — is to enter into a subordination agreement “back-ranking” shareholders’ claims relative to concurrent creditors.)

The latest decision seems sensible in the light of normal commercial practice, but conflicts head-on with Mr Justice Michael Stegmann’s general view of how technically insolvent companies should conduct business — strictly on a cash basis.

Tugendhaft says an appeal has been noted from the latest Cape judgment. He hopes the Appellate Division will eventually clarify the confusion. Meanwhile, the position of directors of technically insolvent companies may be precarious, depending on the jurisdiction in which they operate.
brandt would be penalised because of its liquor and tobacco interests — as would Breweries for its beer division and its "monopoly" of the market. But it is likely the interests of workers in those industries will count more heavily than these ethical concerns. In fact, Rembrandt could score well for its tiny mining operation Transbax, which is seen in a relatively positive light by the union — though poor disclosure would detract from the final score.

SAB would probably be highly rated because wages are relatively high and the conglomerate recognises the unions involved and has an affirmative action programme. Safren could gain marks because it negotiates centrally with the Transport & General Workers' Union.

Of course, though the CGF will increase the influence of unions, the funds will form a relatively small part of the investment stream. No-one is able to make even a ballpark estimate of the union funds going into the equity market at present but the entire pension and provident fund industry is estimated about 40%. And of the 13 000 provident and provident funds, only a handful allow union representation in asset management — an indication that the potential for attracting funds is limited.

Simply put, these sorts of nebulous criteria — and a weighting that must be a matter of opinion — will provide a lucrative source of income for under-paid academicians, as do the calculation of what are called living wages. It could be the cause of endless dispute. For instance, companies that cut wages but increase jobs as a result are not likely to be viewed in a sanguine light by unions. But the social benefit of their actions could be material.

In Britain a similar fund, the TUF Fund Managers, was established in 1961 to invest in companies in which trade union members work. It is now worth only about £65m. Fund chairman Tony Christopher says the problem is that "most of the big trade union provident funds — such as the Post Office workers which has a cash flow of R1m a day — are in the hands of several financial services companies"

Political leverage in SA will probably play a part in directing funds into CGF. But success will depend on its investment performance. If it is to become a force, the fund must prove its worth. This is the ultimate safeguard for wary investors.

Asher does not foresee problems in balancing ethical and investment merits — "Behaviour that is socially undesirable is not compatible with the best returns." He argues that tax credits may be greater if the criteria are ignored but there will be a longer-term cost to the economy and the company concerned.

Problems are more likely to arise for the trustees of non-union provident funds that decide to take part. They are surrendering, on funds in CGF, their fiduciary duty to maximise returns for members and pensioners. Instead, they are accepting that union influence with other objectives may be brought to bear.

Under the circumstances, they would be advised to make sure of their legal culpability before committing funds under their supervision. Of course, if shareholders' funds are committed, the situation is different — depending largely on where shareholder control is vested.

There is also a danger that, to justify the performance of CGF, its managers might claim that investment performance is compatible with the social constraints placed upon them. That should not be accepted. Investment returns need to match those of nonconstrained funds.

Eventual tyranny

Finally, "social responsibility" has a distinct Orwellian ring to it. The question could change according to the opinions of those whose decision it is. The danger of a replication of the eventual tyranny of the pigs of Animal Farm should not be forgotten, especially as political pressure mounts to provide low-cost housing for minimal investment returns or other questionable social objectives are introduced.

Nor should pension fund trustees forget that if they decide to place only a small amount of funds under their care in CGF, they, like the socialist hardliners, will have violated a verity. If some, why should not all of their resources be in socially responsible companies — however defined?

What should remain central to a consideration to invest in CGF is that few businesses in the modern world can continue to increase their investment surpluses, and reinvest adequately in their own undertakings to ensure survival, if they violate for long the social norms of society.

If that principle is accepted, CGF is more than anything else a means of alloying mutual suspicion — and doing it overtly within the public arena.
Privatisation now prime consideration

Municipal Reporter

THE Chamber of Commerce has urged the council to press for deregulation and privatisation.

And a new system of comprehensive auditing and management techniques was needed to achieve economy and efficiency in all departments.

In its annual report, the chamber executive council said a new formula should be found for local government taxes, to promote financial discipline.

This system should generate higher revenues to offset inflation without increasing rates, the chamber said.

The system should be broadly based, while recognising the principle of ability to pay.

It should be flexible enough to allow for "local choice" in the determination of the level of local tax, but disciplined to limit increases.

New bureaucracies should be avoided, and the system should be as simple as possible for administrative efficiency so people better understand tax.

A joint working group of the chamber and the city council has proposed several reforms to local government financing.

These included ensuring that all costs meant to be borne by the state were recovered in full, and ensuring that all local authorities in the region helped pay for regional social services and amenities.

There should be a "determined effort" to sell surplus city council property.

The city council's Consolidated Capital Development Loans Fund should be built up to ease the burden on ratepayers.

Privatisation should be pushed and various services "contracted out". The city council should restructure its deregulation committee to eliminate unnecessary rules, regulations and procedures.

The joint committee said a new system of auditing and management techniques was required.

Commenting on Cape Town ratepayers' burden, the report said it had been caused by the city taking on a growing socio-economic burden not faced by other local authorities.
Never treat the stock market like a casino

INVESTMENT has been called a science and an art. Another name could be added here — a discipline. A rising stock market can be a heady place, the sight of money being made effortlessly, minute by minute, can cause one’s hope level to exceed reason, while the sight of a falling market all too easily triggers panic.

This is where discipline comes in, the most successful investors and investment advisors, judged over years of consistent performance, are those who “can keep their heads when all about are losing theirs,” to paraphrase Rudyard Kipling.

In a service industry like stockbroking, the criteria are ethical conduct and effectiveness. A good stockbroker helps his client to make money by giving service which is both valuable and honest. By valuable we mean not buying at the highest price of the day, correct registration and timely delivery of share certificates and giving advice based on sound, well-researched knowledge of the companies concerned.

A market has many of the characteristics of a living thing, and as such, it is made up of molecules, people in this case, all there for a common purpose but each performing its own function. Like any other organism, a market will respond differently to different types of treatment. A feature of the market organism is that if you treat it like a casino, it will behave like a casino, and if you treat it as a medium for serious, long-term investment, it will behave that way.

Many people, after a loss-making flurry into shares that were heavily tipped in a bar the night before, will blame the market, saying it’s a dangerous den of gamblers. But was gambling? What then are the rules making up the discipline of JSE investment?

Firstly, buy the best quality you can afford in companies reporting real growth in earnings and secondly, don’t change your investments except to upgrade.

It’s that simple.

Wealth is an accumulation of high-quality assets, and that is what most of us invest for. Those investors who do nothing more than follow these two rules, get richer.

By far the largest part of the market capitalisation of all financial and industrial companies quoted on the JSE is represented by less than 50 well-managed businesses (and subsidiaries) operating in the broad range of industries which form the base of the economy.

In fact, they represent a large part of the economy and, generally speaking, the healthier part of it. By healthier, we mean that they grow faster than the overall economy.

By investing in the best of these companies, one’s asset value will grow faster than the economy and, on the experience of the past, exceed the rate of inflation. That is clearly essential or one is not getting richer.

There is obviously much more to be said about investment and, over the next nine weeks in this column, we will be discussing the major aspects of investment and how the different needs of investors can be met through a large stockbroking firm offering a wide range of services.

Next week: The needs of the individual investor.
JSE acts to get the markets moving

By JULIE WALKER

THE JSE is seeking ways to increase the tradability of shares

The volume of shares traded in the year to February 1984 plunged to 2.4 billion from 2.8 billion the previous year. The value rose slightly from R2.1 billion to R2.3 billion.

Liquidity – a measure of tradability – fell from 5.3% to 4.3% of market capitalisation, prompting new JSE president Roy Andersen to hold a workshop on the problem this week.

Those taking part included representatives of stockbrokers, financial institutions and authorities, pension funds, banks and the ANC.

One of the issues before them was the weakness of the Rand. Institutions need to make the best possible returns on their funds and in the current socio-political and economic climate the JSE has been the most lucrative opening.

Foreign-exchange regulations prohibit them from investing abroad on a large scale, in turn, under these conditions the concentration of power intensifies.

The institutions’ defence is that they place considerable weight on small loans with the management skills to make primary investments in SA, but there is growing support for the reinduction of prescribed asset requirements – or a voluntary investment code.

Previously, institutions had to invest in non-liquid government stock. One idea is a cash-flow levy whereby a percentage of incoming funds would be channelled into socially desirable projects, but likely to give low returns.

Tax issues were doubtless also on the workshop agenda. Clarity about capital gains tax is likely to persuade at least some shareholders to part with their shares this week.

Mr Andersen told the JSE that the incremental scrapage of marketable securities tax in Sweden led to a doubling in liquidity.

"In some countries the Governments grant incentives to investors in the equity markets. We are allowed tax-deductible contributions to retirement annuities whose fund managers invest the money only in the stock market. It is an issue of levelling the playing fields." The lack of market-makers focuses on dual-capacity trading. The Big Bang in London increased the liquidity of easily tradable shares, but did nothing for smaller companies.

Unhinging is another important matter for the JSE has pure pyramids as well as conglomerate holding companies. Proportional distribution of the components to members of holding companies might help.

"Minimum spread requirements are good at all listings, but can change the next day without penalty," says Mr Andersen. Share splits, bear sales, derivatives markets, dealing costs and settlement periods would also have come under scrutiny.

Mr Andersen’s maiden review speech was well received on Wednesday when the JSE’s annual report was released. A surplus of more than R500 000 was made against the previous year’s R10.7 million loss.

Among the main proposals:

- The R2.4 billion accumulated by the South African Special Funds Association could be used to guarantee financial institutions against loss from bond boycotts and political unrest.
- A special relief fund should be set up for the unemployed to help them carry on with their bond payments.
- The Government should step up its support for group credit and loan guarantee schemes.

The rescue plan has been considered by the Government and sources indicate that many of its elements are likely to be approved. However, the plan has still to be negotiated with other parties, such as the ANC, as part of a general national housing policy.

Violence

The ANC has not officially responded to the proposals, but it is believed that the report has been seen by some of its national executive committee members.

The plan for rescuing the collapsing urban black housing finance market comes amidst warnings by developers and financial institutions that private-sector involvement is unlikely to increase while violence continues.

John Kruger, general manager at the Development Bank of SA, believes the proposal for some local authorities to engage in the low-income market.

The De Loe Report stresses the importance of non-discriminatory, market-related housing policy in which communities are involved.

It suggests a single housing department and financing authority, increased subsidies, relaxation of building standards and lending conditions, greater spending, the integration of local authorities, a higher density of population in urban areas and increased employee activity in housing.

The report identifies four reasons for restricted availability of small loans affordability, the risk of non-recourse, the breakdown of law and order and low profitability.

The report finds that the extent of defaults among those involved in housing, and especially in housing, has risen to unacceptable levels. Some bond boycotts also inflicted large losses on the banks.

Hard times for CNA

By DON ROBERTSON

CNA Gallo

A drop in consumer spending and a poor Christmas left CNA Gallo with a 4% decline in attributable profits in the year to March.

With little chance of an improvement in the economy for some time and a resultant clamp on spending, prospects for a lift in earnings in the current year are limited.

Group turnover increased by 5% to R890.3 million in the previous year. The entertainment division was hardest hit, sales falling by 4% to R180.1 million from R190.1 million.

The support division was barely changed at R12.9 million against R12.7 million.

In spite of efforts to contain costs and finance charges, operating profit fell by 6% to R84.1 million from R92.6 million.

A 10% fall in tax and a similar increase in the contribution from associate companies left taxed profits at R53.1 million (R55.2 million).

The improvement from associates follows the increased shareholding in Walkers and mast and a year’s earnings from Numetro.

As a result, earnings fell to 182.5c from 182.6c, out of which an unchanged final dividend of 48c was declared, leaving the total unchanged at 6c a share. Dividend cover has fallen marginally to 2.4 times.

The retail division remained the most important, contributing 61% to consolidated profits.
By JULIE WALKER

Terra's listing a problem for JSE

Even though the JSE's rules grant the committee the "sole and unfettered power" to deal with listings applications, it has to have a cast-iron reason for rejecting them.

Its decisions have been challenged several times and the JSE has come off second best in a few cases. It is fighting a battle in court against Crest Holdings, which has taken it to task because the committee could not satisfy itself on the ownership of assets to be injected into the cash shell.

Win or lose, the costs involved in litigation are high. A company's pre-listing statement or prospectus must carry opinions from independent professional bodies about the company's standing. Auditors must report on the accounts, geologists on orebodies and so on. The JSE is obliged to accept these opinions as bone idle.

The proposed listing of Terra Exploration & Development — already a limited company — brings into focus some of these issues.

At the end of 1999, Terra acquired shares in unlisted Hemispheres Mining & Development. It offered Hemisphere holders 5c a share to be settled by the issue of four Terra shares of 25c. That was ostensibly a 17c premium to the net asset value of Hemisphere Members had also to send R50 to cover costs. Terra bought Redbark, Great African Resources and New Era for R10.

Strength

Terra's directors of the day were David Romero, Mr Swan and a Mr Loftus-Eaton — the sole survivor. Today's board is a Professor Kriel, a Mr Hindmarsh and Kohn Maree.

Before Terra's takeover, Hemisphere's controlling shareholder was British citizen Mike de Puma. Almost every company in Hemisphere was dormant, every financial statement qualified by the auditors on the grounds of suspect valuations of assets and only net losses were reported.

In other words, worthless assets of a less-incurring company with no cash are rebased, renamed, control changed either normally or otherwise and the new vehicle applies for a listing. Yet on the strength of a geologist's report submitted to the JSE for Terra to be listed in the mining exploration sector, there is a chance the JSE might be obliged to say yes.

Application has been made to list 80 million ordinary shares of 0,001c (remember the value is 25c) and 68,3 million variable rate participating redeemable convertible non-cumulative preference shares of 0,01c — value and rate unspecified.

Sponsoring broker Lucky Kritz, Kritz, tells me there are no operating assets in Terra, but it is intended to acquire some.

He referred me to Mr Maree, who did not return calls.

A Pretoria investor proved to me he spent more than R14,000 on shares in Hemisphere, Redbark and New Era in 1973. He has received no returns, only attractive circulars about prospects for the mining of kiesegal, seis-carbonate, gold and how wonderful it is to invest on the stock exchange.

Deposit

An example of the prudent investment undertaken by Terra — Great African Resources sold its Multionland Development coal deposit for shares in listed Foton, which itself had to be bought out of liquidation at 3,5c a share in January.

For the JSE to arrive at an objective decision on whether Terra should grace its boards, much subjective searching might be necessary. The power of veto should be inviolate where there is reasonable doubt...
Depressing prospects for low-volume TOM

THE creation of an options-on-futures market at the SA Futures Exchange (Safex) within the next three months could depress further the low volumes on the JSE’s Traded Options Market (TOM).

An option-on-futures contract grants the right of one party to trade with another at a predetermined price on a particular financial index at a future date.

- Institutions already involved in a large informal, over-the-counter options market approached Safex to create a formal market, where the exchange would act as clearing and

guarantor, Safex assistant GM Patrick Birley said yesterday. The new Safex market would formalise the existing over-the-counter options market, in which all the major institutions, banks and merchant banks trade daily with each other in options on futures.

Setting up the new market would take six months and cost about R350,000.

At present there are about 55,000 open options-on-futures contracts and this is expected to escalate when they are formalised, says Birley. Activity on the informal options market compares favourably with negligible volumes traded on TOM.

Traders said the cost of hedging risk on TOM were prohibitive because investors had to pay clearing and broking fees, and the Marketable Securities Tax.

JSE president Roy Andersen welcomed the creation of another investment opportunity because it would increase the awareness of options.

“...but it will prove that TOM provides a slightly different product,” he said...
Standard Bank launches two new unit trusts

STANDARD Bank has launched two new unit trusts - an International Fund and an Industrial Fund.

The International Fund, the first of its kind in SA, invests in equities of listed companies whose operations are focused on the international markets or which operate businesses overseas.

"Many South Africans have typically concentrated their savings on investments available in the SA market," Standard Bank Fund Managers MD Derek Finlayson said in a statement released on Friday. "But, we have now created the opportunity for them to broaden their investment horizons by purchasing a stake in a unit trust with an international flavour."

A unit trust specialising in companies which trade and operate in foreign economies gives scope to SA investors to participate in the diverse and significant markets available in the international sphere, he added. "Diversification is a key ingredient of any successful investment strategy and this is an ideal opportunity for investors to spread their investment risk beyond the SA business areas."

Present exchange control regulations restrict the fund to investing in companies listed on the JSE, but there should be some relaxation in these regulations, he said.

The fund was earmarked to invest in companies listed on the international stock exchanges. The fund will also provide protection against possible further declines in the value of the rand, added Finlayson.

The Industrial Fund, comprises top industrial equities and high interest-bearing investments. "Industrial shares have provided excellent returns which are among the best on the stock exchange and well ahead of the inflation rate."

The combined value of industrial shares consists of about 44% of the total value of shares in the JSE all share index."
Foreign participation in futures exchange climbs

SHARON WOOD

FOREIGN participation on the SA Futures Exchange has climbed to 7% of open contracts and exceeds the current 4% foreign participation on the JSE.

Foreign interest has been concentrated on the all-share index since foreigners first started to use the exchange in December last year, said assistant GM Patrick Barley. He is confident that foreign interest will continue to grow.

Ruang foreign interest is in line with a general increase in domestic institutional activity on the exchange, he adds.

"Open interest is at all-time records and is exceeding these every day," he said. "There are currently 25 000 contracts open, three times last year's level. The value of open interest exceeds R1bn."

Volume

Open interest was the number of positions held which are subject to daily price movements. It was traditionally used as the measurement of the market's success, said Barley.

The value of future contracts traded daily was nearly double that on the JSE, with an average of 4,000 contracts a day. The value of contracts traded on the futures exchange averages more than R130m compared with the JSE's R70m.

The exchange's present volumes are double its break-even level of 2,000 contracts a day.

More people were taking a longer term view and there was more participation by major institutions than last year, Barley said. Pension funds and some of the larger portfolio managers were among the participants on the exchange.

"The futures market is now being used as it was originally intended — for hedging against future price risk. Last year institutions were dabbling in a small way but now their trade is far more sizeable," he added.
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PRETORIA — The dramatic increase this year in the number of businesses and individuals in financial trouble and the soaring value of their debts pointed to an economy still bogged down in recession, Information Trust Corporation (ITC) CE Tony Leng said yesterday.

Liquidations in March soared by 52% to 290 compared to March last year, he said.

It was clear more and more businesses were struggling to stay alive in a deepening recession and liquidations would increase this year, he said.

Sectors most affected were wholesale/retail, finance, insurance, real estate, manufacturing and construction.

During February, sequestrations increased by 18% compared to the same month last year. This appeared to be in line with inflation and the effects of the introduction of VAT.

Debt summonses in February increased by 10% to 85 195 and civil debt judgments rose by 8% to 43 872.

The value of judgments against individuals during February alone totalled R322.5m — an increase of 110% compared with February last year.

Civil judgments in February totalled R9 108 — an increase of 50%. 
MS&A sale massages interim profits

Strong interim results, with a 17% hike in taxed profits, were shielded by last year's MS&A disposal. Without this, profits would have been roughly R44m less at R788m, still 11% up on last year, itself commendable in the current climate. There were also good performances from packaging, textiles, food and pharmaceuticals.

About R9m of the R44m relates to eliminating MS&A's loss and R35m to savings in Barlow Rand's interest bill. Helped by the R1,1bn proceeds received in mid-December, the interest charge moved from a negative R22m in 1991 to a positive R13m.

The decision to sell MS&A has proven sage. Vice-chairman and MD Derek Cooper notes earnings will stabilise following the exit from the highly cyclical steel industry.

Through the MS&A deal and disposal of part of the platinum interests (with the sale of a majority stake in Barplats to Impala), the mining and mineral beneficiation division's contribution fell to around 22% from 35% in financial 1989. Remaining interests are in coal and cement, through Rand Mines (see p105) and PPC. Interim earnings at Rand Mines declined 12% while a marginal 3% increase was recorded at PPC.

After-tax profits at the food and pharmaceutical division, at 33% the largest contributor to group net profits, increased 13% to R276m on the back of all-round improvement in the CG Smith and Nampak's stable. Better performances at Romatex (off a low base) and Nampak pushed net profits at the packaging and textiles division up 14% to R133m, contributing 16% of the total.

Results were held back by the 8% rise in net profit at the industry division, contributing 20% of the total, despite a 39% better return from electronics group Reunert.

Activity fell sharply at the building material, steel and motor vehicle distributorships. Results were maintained at capital equipment and consumer electric durable operations and improved at the paint business.

The international arm, 79%-held J. Bobby & Sons, returned after-tax profits marginally up at R65m (1991: R64m). Though Bobby provides only 8% of profits this will change if its contested bid for the Caterpillar dealership in Spain and Portugal succeeds.

Last year's scrip dividend increased issued equity, limiting the gain in EPS to 11%.

Following the MS&A disposal and listing of CG Smith Sugar, cash flow moved to R1,1bn positive from R600m negative. It improved even without these items, thanks to the R200m increase in cash generated by operations and a reduction of R170m in the dividend payout as a result of the scrip div.

Short-term loans fell by R809m while cash holdings rose by over R600m.

As sitting on cash is inefficient in an inflationary environment, one can expect Barlow to apply the funds soon, though Cooper won't be drawn on how.

He predicts second-half earnings growth won't match the first six months as the bearish economic outlook has been exacerbated by the drought, which could hit food and packaging interests. The share price has jumped 48% to R59 over the past year, to give a p/e ratio of 13.7, and dividend yield of 2.9%. For all its blue chip status, it doesn't look intrinsically cheap.

WILLIAM GRIFFITHS

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Investment Returns
need not curb Social Responsibility

Anthony Asher

232

Afil 21/11/92

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The use of CPF contributions for investment purposes should not be seen as diminishing its role in saving for retirement. CPF funds can be used to invest in a variety of assets, such as stocks, bonds, and real estate, to generate returns that can enhance the retirement savings of CPF contributors. However, it is important to ensure that investment decisions are made carefully and that potential risks are considered.

The CPF is a critical component of Singapore's social security system, providing a means for individuals to save for their retirement and to support their families in case of unforeseen circumstances. As such, it is important to maintain a balance between the use of CPF funds for investment and for its primary purpose of retirement savings.

In recent years, there has been growing interest in the use of CPF funds for investment purposes, with some individuals and analysts advocating for the liberalization of CPF regulations to allow for greater investment flexibility.

While the use of CPF funds for investment can provide potential benefits, it is important to consider the potential risks and to ensure that the investment decisions are made with care, taking into account the individual's financial situation and risk tolerance.

In summary, the use of CPF funds for investment can be a valuable tool for enhancing retirement savings, but it is important to approach these decisions with caution and to ensure that the potential risks are carefully considered.
BEACON ISLAND

Paying on time

Beacon Island Shareblock Limited (BISL), the operator of the Beacon Island Hotel at Plettenberg Bay, has begun to impose a R250-a-week penalty on late payers of timeshare levies.

In a letter to holders of what are among the most expensive timeshare weeks in SA, BISL has informed them that as from “Week 05-1992 (the first week of February), all levies not received by Levy Administration not less than four weeks before date of occupation of said week will bear an administration penalty of R250 per week”.

But, as one recipient of this “Dear Timesharer” letter points out, BISL may be acting outside the law.

He points out that not only was the circular undated, with none of the names of the directors of BISL set out on a letterhead, but the penalty could well exceed the interest rate permitted in terms of the Usury Act on outstanding amounts due.

It could also fall foul of the Conventional Penalties Act.

According to attorney Arthur Schoeman, it has become very fashionable to impose “penalties” on late payments of timeshare levies.

The reason for the penalties is that the late payers prejudice the early payers and the collection of the late levy results in costly administration.

“I express no opinion as to whether the R250 is reasonable or not in so far as it actually relates to the cost of collection. If structured properly in my view, the so-called penalty is lawful.

“The correct procedure is to add on an amount as a contingency once the levy has been determined. Thus the so-called penalty is part of the levy. If a timesharer pays on time, then he gets a discount equivalent to the penalty.

“If the timesharer pays late, the penalty amount is included. It is part and parcel of the levy. If, however, the penalty amount is an add-on, that is added to the levy, then it may be unlawfully raised,” Schoeman says.

BISL board director Alan Louw, acting for BISL secretary Southern Sun Timeshares, tells the FM the penalties are raised in terms of a specific provision in the use agreement permitting penalties and administration charges according to the discretion of the directors.

He says the matter was raised at the last AGM of BISL and that the penalties benefit the levy fund directly.

“The board does not believe the fines are excessive,” says Louw, who maintains that “they are an add-on, as allowed for in the use agreement.”

R1 000 seems a rather heavy penalty for a timesharer to pay when his annual levy is R650 in the off-season. But, according to Louw, the costs of administration are astronomical.

Whether the penalty is reasonable or legal will no doubt have to depend on the finer points of law.
Focus delays its interim report

FASHION retailer Focus Holdings, which was to report its interim results by the end of April, has been granted an extension by the JSE to the end of June.

A JSE listings spokesman said the extension had been granted "as the company was being reorganised".

Analysis said yesterday they did not know what this reorganisation could entail.

The company has had two rights issues in the past two years, so it is unlikely that it would be coming to the market to raise capital. No cautionary announcement has been issued to date.

Analysts said that results for the six months to end-January were expected to be severely depressed.

They said the company—which held Smiley Blue, Cashworths, Bachelors, Aca Joe, Mattress World and Forty Winks, would show results reflecting a significant decline in consumer spending and a strain on the group's cash flow.

Focus directors would not comment other than to say an announcement would be made soon.

The share was unchanged yesterday at a ruling price of 6c, with offers to buy at 3c.

The share traded at a yearly high of 22c in September, and hit a low of 3c at the end of March.
Namibian first

The first Namibian company to be listed on the JSE since that country became independent, Niswa — a general dealer with two stores in the Gobabis region of central Namibia — has joined the DCM after a private placing. With an initial market capitalisation of R4.5m, it also owns a service station, liquor store, and 4% of Ambeef, a privately owned cattle trading operation.

Founded in 1983 by Namibian Nico Swart, Niswa operates a store, service station and liquor outlet on the family farm, 100 km north of Gobabis. A second store was opened in Gobabis in March to cater to construction crews and passing traffic for a major highway being built from Windhoek through Gobabis and Botswana to Johannesburg, says financial director Andrew Fraser.

This explains the surge in turnover forecast in the prospectus to over R7m for the 1993 year from an average of a little under R4m a year over the past four years. Though this may seem optimistic, Fraser says trading in the first month was on budget.

The listing provides a mechanism to generate funds to exploit opportunities in Namibia and SA, says Fraser. The group is looking at food-related opportunities in SA.

Namibia does not have a stock exchange. Fraser says the company will probably transfer its listing to Namibia should this change as has been mooted.

In the year to February, turnover of R4m converted to earnings a share of 1.86c. Turnover of over R7m this year is expected to generate earnings a share of 4.15c — on which a dividend of 2.08c a share is forecast.

Though the shares were placed privately at 37.5c, in the first day’s trade 5 000 shares changed hands at 55c, in line with the end-February NAV and giving a forward p/e of 13 and dividend yield of 3.8%. Swart retains a 28% holding and is staying on as MD.

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William Griffiths

FINANCIAL MAIL • MAY 22 • 1992 • 105
Pickard deal talks break down

CAPE TOWN — Eleventh-hour disagreements have resulted in the breakdown of takeover talks between the Pickard family and a consortium of Johannesburg and Cape Town businessmen.

The failure to agree on terms came after conditional agreement had been signed, guarantees furnished and a due diligence investigation undertaken.

However, consortium members said they wanted to leave the door open to future possible negotiations — although renegotiations would involve a new deal.

Conflicting reasons for the collapse emerged yesterday with some suggesting that the Pickard group had failed to meet the onerous conditions laid down by the consortium in the due diligence test.

Rumour also has it that the consortium was unable to reach an accord with operating management. Other sources suggested the consortium had not furnished, or did not want to furnish, the R21m required to settle the inter-company loan between Picard Investments (Picbel) and its subsidiary Picard Appliances (Picapli).

This was rejected by members of the consortium, which included former Altron deputy chairman Neil Davies, Anglo American deputy chairman Peter Gush, Cape Town attorney Brett Kehble and Sovereign Investment Trust directors Simon Koch and Mike Pflafl The consortium claimed the time period for the submission of the R21m had not expired.

Minority shareholders had been keenly awaiting the deal. The share prices of Picard Appliances, Picard Holdings and Picard Investments have traded at a large discount to net asset value and shareholders could benefit from a higher price offered by the consortium.
CAPE TOWN — Government yesterday proposed that medical schemes be deregulated and allowed to determine their own fee structures and minimum and maximum benefits.

Tabling the Medical Schemes Amendment Bill, National Health Minster Rina Venter said the proposals had been discussed with the Central Council for Medical Schemes.

A memorandum to the Bill states that should the proposals be accepted by Parliament the Minister would no longer regulate minimum and maximum benefits supplied by schemes nor the membership fees or the basis on which such fees were determined. These should be left to medical scheme managements to promote greater flexibility.

The Bill also proposes that all medical schemes belong to the Representative Association of Medical Schemes (Rams), which would act as a single mouthpiece for all schemes.

Bapa reports from Pretoria that the Medical Association of SA (Masa) expressed grave concern over the Bill tabled “at the 11th hour.”

Masa federal council chairman Dr Bernard Mandell said it could have far-reaching implications for access to health care.

While Masa understood the need to review deregulation of the health system, it was “totally unreasonable” to expect the joint committee on health and Parliament to take the responsibility of considering proposed amendments to the Act in the one month remaining of the Parliamentary session. It would be folly to introduce steps which might alleviate problems in one sector only to exacerbate those in another.

The memorandum states that the Bill also makes provision for medical schemes to set up their own health care facilities and to provide extra cover for members by offering reinsurance, reinsurance or underwriting.

Schemes will be allowed to establish or operate clinics, hospitals, pharmacies, nursing homes and maternity homes. However, the Bill seeks to prevent schemes from encumbering an asset merely to manipulate the total value of its assets.

The Bill will enable married women to become members of medical schemes in their own right.

The new definition of a service includes all health care services for which schemes should provide cover. Accommodation not arising from any physical or mental defect, illness or deficiency, such as an old age home or similar institution, is excluded.

The Minister may appoint people from a wider range than previously to the council and it is suggested that people with knowledge of schemes, members of schemes and employers are considered. It is also proposed that Rams prepare a guideline scale of benefits which schemes ought to consider affording their members.
Building a personal portfolio

Investing on the JSE

This is the second of 10 articles dealing with the relationship between the stockbroker and his client. The author is George Joubert, executive director, Davis Borkum Hare.

Inflation

The major change in trend over the years has therefore not been the disappearance of the individual but rather a declining direct role with the handling over of his savings and capital to professional managers.

Though the number of private investors has declined, the size of portfolios has grown considerably with the strong rise in share prices over the past 20 years. It must be remembered, however, that a significant part of this capital growth has been inflation, and salaries and the cost of living have also risen.

Because of the increasing size and therefore importance of the institutional investor, many individual investors have felt they were no longer receiving the service they had been accustomed to from their stockbrokers.

This phenomenon was felt particularly in the world’s major markets such as London and New York. An investor in Lon-
Serious Investors
Ideal Medium for

THE TRENDS OTHER INVESTORS DESIRE TO FOLLOW

232 S. May 21, 2

property investments are not the answer. Real estate has long been recognized as a reliable investment vehicle, offering potential for significant returns over the long term. However, the landscape of real estate investments has evolved, with new opportunities and challenges emerging. Today's investors face a complex market where traditional approaches may no longer suffice. This document highlights the need for a strategic, informed approach to real estate investing, emphasizing the importance of understanding the current market trends and identifying the right opportunities for growth and stability.

In today's dynamic market, successful real estate investments require more than just a purchase of property. Investors must consider factors such as market trends, economic conditions, and the specific characteristics of the property itself. This document outlines key considerations for investors, including:

1. Market Analysis: Understanding the local and national real estate market trends, including supply and demand, is crucial for making informed investment decisions.
2. Property Selection: Choosing the right property type—be it residential, commercial, or industrial—requires careful consideration of location, condition, and potential for appreciation.
3. Financial Management: Effective property management, including lease negotiations, maintenance, and property taxation, is essential for maximizing returns.
4. Legal and Regulatory Compliance: Navigating the legal and regulatory framework of real estate investments requires expertise to avoid potential pitfalls.

The document also discusses the importance of diversity in a real estate portfolio, highlighting the benefits of investing in different asset classes to mitigate risk and enhance overall returns. It concludes with a call to action for investors to embrace the spirit of continual learning and adaptation, ensuring that their strategies remain relevant and effective in the ever-changing real estate landscape.
Will bulls run on

IT'S well into the current bull run on the JSE, factors keeping it on the move appear to more than outweigh the belief among technical analysts that the market is overdue for a correction.

Stockbrokers point to the endless "paper-chase" for blue-chip equities by leading institutions, a resurgence in the gold price above $338 an ounce and — most importantly — the large-scale move into the market by parastatal pension funds paying premium prices for scarce, quality shares.

The head of the Transnet Pension Fund, Gideon van Zyl, said recently the fund had already invested R1.3 billion of its R16 billion in assets in shares and was switching more investments to growth assets.

Further fuelling optimism is the widespread anticipation of a further cut in interest rates — particularly with the Department of Finance now under former industrialist Derek Keys.

The Board of Executors's one-percentage point cut in its mortgage rate to 17 percent served only to raise hopes further.

Lower rates can only help embattled SA businesses.

And the feeling is that Mr Keys could well be sympathetic to a feeling — said to be widespread in the corridors of power — that Reserve Bank Governor Chris Stals's tightened monetary policy might be costing the country more than it is worth.

Unemployment figures show about five million people of working age do not have jobs.

Nevertheless, even if Dr Stals sticks to his guns, says Colin Crowhurst of Ferguson Brothers Hall Stewart and Company, home-loan institutions are likely to follow BoC's lead anyway and pre-empt a cut in the Bank rate by lowering their bond rates.

and on?

Prime overdraft levels would not be long in following.

Another view is that Mr Keys will avoid acting too hastily and will give a little more time to the Government's strategy of letting high real rates of interest curb inflationary demand.

David Cairns of Prankel Max Pollak V democrine Inc says the current administration remains unlikely to allow rates to come off until the stubbornly high inflation rate starts to move down.

"They would like to get rates down by four or five percent, but they aren't with the CPI (consumer price index) sticking stubbornly above 15 percent," he said.

Chris Stals: Governor of the Reserve Bank.

Looking Ahead: Hopes are high that interest rates will come down soon.
Barlows set to slow down

BARLOWS was one of the few companies to report improved earnings in a week when industrial share prices soared.

The conglomerate’s turnover added 9% to R16,9-billion in the six months to March.

The group benefited from the sale of Middelburg Steel & Alloys (MS&A) to Samancor and partners. Earnings were 20% up at R1,2-billion before tax and gearing was more than halved to 21%.

The group’s electrical and computer interests did well, textiles recovered off a low base and pharmaceuticals boomed. But building materials, steel and cars fell back.

Slow

Munro subsidiary Rand Mines fared well out of coal, but its gold mines are bittering for survival. A pay freeze has been proposed to help them stay afloat.

The directors see signs of a slow international recovery, but any impact will be deferred. Real growth in SA’s economy is not expected in the second six months, particularly because of the drought.

Earnings a share grew 11% to 207,3c, but the directors do not expect the same pace of advance in the second half-year.

Only three other companies reporting interim could boast an increase in earnings over previous comparable periods. Barlows, ISG (formerly TSI) being one.

Sanlam Insurance’s bottom line jumped by a third to 65,3c and the dividend was raised 21% to 17c in the six months to March.

The short-term insurer’s assets topped R1-billion in spite of the high crime rate. The directors expect the same again in the second half, barring catastrophes.

Lebowa Bakeries also lifted its earnings 15% in the 12-month interim to March. Fedfood raised its pre-tax profit by 6% to R98-million in the year to March.

Fedfood’s bottom line was penalised by a 28% higher tax bill. There is good and bad news from group chief executive Dirk Jacobs. On the downside are recession, low consumer spending, a traditionally slow trading period to August and higher grain prices.

These are countered by head-office rationalisation benefits, the closure of unprofitable operations (including 1590 acquisition, fruit processor Paloma), improved exports and better

Health

Chairman Neil Chapman was proud of the group’s investment performance. The share price of most of its holdings have been climbing recently – for example, First National Bank, SA Breweries and Safex.

Mr Chapman refers to the inequality of tax imposed on financial institutions and hopes the three-fund approach under discussion will be introduced.

The three-fund approach could be stretched to include a fourth arm. Life companies earn income from three broad sources – taxed, untaxed and corporate areas, such as fee income. The fourth arm concerns deferred compensation.

New air service

AIRMIDLANDS is to launch a daily air service between Maritzburg and Johannesburg next month.

The airline will use 15-seat...
JSE zooms ahead on cheaper borrowing

THE knock-on effect of falling interest rates on the capital and money markets this week helped to push the JSE's industrial index to all-time highs.

The index topped 4,600 points – 12% up since January and 33% in 16 months.

Scrip was virtually unobtainable as large bookowers accounted for much of the dealing.

Continued strength on foreign bourses helped, although Wall-Street and London eased on Thursday, on a consensus that the Federal Reserve would not cut interest rates soon and the other on profit taking ahead of a holiday weekend.

Governor Chris Stals underlined every opportunity the policy that rates cannot fall unless inflation does. Now that VAT's effect has been fully absorbed, inflation should drop.

Wisdom

Market rates fell on top of the previous week's decline. On Monday, the Eskom 2168 bond yielded 15.75% and the RSA 190 14.87% by Friday, the figures had fallen to 15.86% and 15.75%, respectively.

The average rate on the weekly three-month Treasury bill tender fell from 14.2% to 13.30%. Rates on six- and nine-month bills also fell.

Standard Bank cut home-loan and deposit rates on Friday.

Investec Bank's Stephen Koeack told analysts this week he believed the bank rate could be cut from July instead of September or October.

Traditional wisdom is that as rates receive a double boost from lower interest rates, investors achieve poorer returns on deposits and seek other avenues and companies with borrowings (most of them) can improve their bottom lines because of lower financing costs.

Stockbroker PJ van Reisburg's May newsletter attributes the JSE's buoyancy to the dramatic increase in SA's balance of payments last year and especially this year.

"Further," expected improvements in the current account as well as the capital

JSE boom

Because of the impact of exchange control, a surplus on SA's current account invariably leads to excess liquidity, which must be invested in SA assets regardless of yield.

UAL Merchant Bank economist Dennis Dykes told delegates at the Institute of Life and Pension Advisors' annual convention that investors and industry needed a consistent policy framework to gain SA the best chance of success.

The International Monetary Fund predicts growth of 3.5% in industrialised economies next year after 1992's weak 1.8%. If correct, SA's exports will benefit in both volume and value terms.

Mr Dykes says: "Under such circumstances equities can normally be expected to do well although the market has been discounting such a scenario for some time."

"By our historical standards equities are overvalued. The price-earnings ratio of 14.6 and a dividend yield of below 3% on the financial and industrial index look ominously similar to those of the early 1970s and 1980s."

Mr Dykes says one view is that the rerating is due to international investors who have prepared to pay higher prices for SA equity, but this has clearly not been the case as foreigners are still net sellers of shares.

In 1992 foreigners sold a net R31 billion of SA securities.

Mr Dykes says it is unlikely that equity prices – not only in SA – might suffer setbacks in the months ahead. But the prospects are strong and sustainable growth from 1993 should ensure they are only temporary.

"Equities will remain the best bet in the New South Africa, as they were in the old."

By JUICE WALKER

Louis Kruger

Mr Kruger says the surplus on the current account as a percentage of gross domestic product has been a most reliable indicator for the JSE.

*To Page 3

*From Page 1

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"Equities will remain the best bet in the New South Africa, as they were in the old."
Major bookovers in
Gencor, Genbeheer

Mining group Gencor and its parent Genbeheer featured in major bookover deals on the JSE on Friday with shares worth more than R170m changing hands.

Market sources said the Transnet pension fund might have been involved in the unchallenged, special bookover deals.

One dealer described the deal as “the feature of the year, never mind the day.” Another dealer said the transaction was “a semi-partnership which had been formed between one institution and another.”

The Gencor bookover saw 5-million shares worth R65.75m changing hands at R11.90 — its closing price. Parex saw 10-million shares worth 1.2% of issued share capital — worth R118m changing hands at R11.90 a share. The shares ended the day at R10.90.

A dealer said Gencor itself might have sold the shares. He said Gencor’s shares were looking underpriced but were returning to better levels.

Overall, the market ended steady on Friday, with the all share index gaining one point to 3 683. The industrial index hit a new high of 4 601.
European interests get control of Eersteling

Eersteling gold mine has been saved from liquidation by European interests.

The Supreme Court has sanctioned the scheme of arrangement and a reduction in the capital of the company. It has also discharged Eersteling's final liquidation order.

The measures approved by the court were the last steps in a rescue scheme comprising a scheme of arrangement to creditors and a rights issue to shareholders by Eser Establishment SA, a company registered in Liechtenstein and controlled by Dr Max Glauser of Zürich.

A new management appointed by Dr Glauser intends to keep Eersteling trading as a JSE-listed gold mine.

Application is to be made to the JSE to relist Eersteling. Pre-liquidation shareholders will end up with about seven percent of the company after the relisting even though their shareholdings would have been valueless had the company been liquidated.

Had the liquidation gone ahead, creditors would have received only 46c in the rand and shareholders would have received nothing.

Eser is to pay preferential and secured creditors 100c in the rand and concurrent creditors 90c in the rand.

While Eersteling shares had a negative value before the rescue proposals, Eser offered minority shareholders 2c cash per share or one new Eersteling share for every 100 previously held.

In the consolidation, the number of shares in issue will be reduced from 80 million to 800 000. After Eser has been issued 7.2 million new shares for settling creditors claims of about R8.5 million there will be eight million shares in issue.

About 68 percent of existing shareholders have elected to accept the consolidated shares in the hope that the new management can bring Eersteling to profitability. The other 32 percent either accepted cash or did not react to the circular to shareholders.

Dr Glauser has appointed Mr Stefan Hayden, chief executive of Eersteling. Mr Hayden is the sole proprietor of Industrial Brokers.

Eersteling was founded and listed in 1987 by the husband and wife team, Steen and Franka Severn. Initially R24 million was raised from some 9000 shareholders. The issue was 37 times oversubscribed.

In 1989 Eersteling started production and recorded a loss of R1.574 million. By May 1991, the mine had lost more than R11 million and was in liquidation.

As the share slumped from a high of 40c in 1992 to 4c when it was suspended.
Health care move for SA Druggists

IN A move to consolidate its health care holdings, SA Druggists Limited (SAD) has announced it will acquire parent company Malbak's pharmaceutical interests with effect from June 12.

Malbak's health care division currently includes Akromed, the former Wyeth Ayerst, which had a turnover of R400m last year. Akromed manufactures and distributes a wide range of pharmaceuticals, over-the-counter medicines and infant nutritional products. Malbak's other interests include medical supplies and equipment as well as health and beauty-care products.

SAD CEO Peter Bemongfield confirmed the acquisition of Malbak's health care division, but said SAD will not be expanding into new areas as a result of the deal.

He says the deal will put all SAD's health care interests into one company, resulting in the enhancement of an area in which SAD is already involved.

Malbak's purchase of SAD last year made it the largest manufacturer of health care products in SA. Although SAD could not confirm how the deal would be structured, a leading industrial analyst predicted SAD would have to pay for the division.

"Malbak likes to play the portfolio game," he said. "It will be able to increase its holdings in SAD and then may choose to sell the shares on the open market."

Analysts predicted the transaction would not have a significant impact on the health-care industry. "Malbak's holdings are relatively small," one analyst said. "Malbak likes to pigeonhole its interests."

Analysts said the move could eliminate the uncertainty surrounding the value of Malbak's health care division. "We have never really known what Malbak's health-care holdings are. Now, they will have to itemise their holdings under SAD."
Prima Property Trust launches rights offer

PRIMA Property Trust has announced a rights offer to raise R27.9m so it can buy two new properties.

About 44.37-million units will be offered on the basis of 50 units for every 100 units held at a price of 63c a unit. "Prima's expected final dividend for the six months to end-June is 5c, bringing the total dividend for the year to 10.25c," Prima Property Trust Managers director Neno Haasbroek says.

This represents a 9.5% rise over the previous year and a dividend yield of 16.3% on a unit price of 63c. For the year to end-June 1993, a dividend of 10.47c a unit is forecast, giving a dividend yield of 16.6%.

The creation of additional units will have a diluting effect on the trust's income in the short term, but creates a more balanced property portfolio that will enhance long-term rental growth, he adds.

The rights issue will increase the size of the fund by about 50% to around R$3m. The new properties to be acquired are a half undivided share in portion 1 of the Sammy Marks Square development in Pretoria and the Technotron Building in Verwoerdburg.

The trust holds the other half undivided share in the Sammy Marks development, which is located in the centre of the Pretoria CBD and is bounded by Muntoria, the Reserve Bank and the State Theatre.

"The redevelopment of the entire city block, of which Portion I forms part, will include the introduction of major retail chains, line stores and office space," he said.

The official opening is scheduled for September 24 and the initial acquisition yield is 11.1%.

The Technotron building was developed in 1989 and is situated in the Highveld Technopark, a township developed by the Verwoerdburg Town Council for high-tech companies.

The property will be acquired at an initial 11.8% yield. "Leases with retail traders are generally turnover linked, which will provide the trust with an inflation-proof investment," Haasbroek says.
Masterbond control at stake

CAPE TOWN — Outside 'partner' hopes of gaining control of the boards of directors of 11 Masterbond participation bond companies appeared to be dashed yesterday.

The parties had hoped to be able to gain control of the management contracts for the properties owned by the companies.

Shareholders who met yesterday to vote directors onto the boards of each company believed strongly that shareholders should control the boards, which would then appoint property managers.

This view was supported by Masterbond curators to ensure no conflict of interests emerged.

The votes were still being counted last night, but a partner of one of the contenders, Citygate Corporate Finance's Michael Addison, said he was not optimistic.

Other contenders were Pintex Consulting Group in association with the IPC group and Sefin Trust.

Holders' hopes of taking control of all the companies were also dimmed as separate boards were appointed for each company (232).

The curators had received offers to buy all the companies and for all their properties to be consolidated into one company which could be listed on the JSE.

These offers would have to be considered by each company's board, a spokesman said at the meeting.

The meeting was well represented, with up to 70% of shareholders present either personally or by proxy.
ANC to consider nationalisation this week

...
Strict controls, reduced debt give Lenco a fillip

CAPE TOWN — Strict control of operating expenses and a sharp reduction in interest-bearing debt enabled diversified industrial holding group Lenco Holdings to generate a 43% increase in attributable profit on a 3.3% rise in turnover in the year to end-February.

A dividend of 11.5c (10c) was declared by the group which consists of subsidiaries Amalgamated Shoes, men’s clothing manufacturer House of Monstic, plastic packaging company Combined Packaging (Compak) and newly acquired tie manufacturer Cravateur Tie.

Earnings per share increased 14% to 49.3c (45.2c), diluted by the rise in the number of shares in issue to 61.2 million (48.2 million). This was due to Lenco’s purchase of the minority shareholders of subsidiary Combined Packaging.

For the purpose of comparison, the transaction is treated as if effective from March 1, 1991.

Chairman Doug de Jager said the group experienced an extremely difficult year. All operations made positive contributions in spite of declining retail demand putting severe pressure on margins.

The group bounced back to positive earnings’ growth after the 4.6% a share decline last year. Turnover rose 3.3% to R105.5m (R104.8m) with margins strengthening to 12.6% (12.2%), and operating profit increased 7.7% to R15.4m (R14.2m). De Jager stressed, however, that while margins improved year-on-year, there had been a marked deterioration quarter-on-quarter at year-end.

The packaging division increased its contribution to operating profit to 37.4% (26.8%), Amshoe’s fell slightly to 47.8% (50%), while House of Monstic’s rose to 17% (14.8%) and the ancillary interests made a negative contribution of 2.2% (7% positive).

De Jager said the broad range of packaging products plus exports acted as a buffer for earnings. Clothing exports had also taken up the slack in productive capacity and contributed about 5% of turnover.

The gain at operating level was almost doubled at pre-tax level due to the decline in finance costs. Positive cash flow facilitated a cut in long-term interest bearing debt to R27.5m (R34.4m), and short-term debt was reduced to R18.7m (R37.6m). Gearing was slashed to 23.8% (46.4%).

The bottom-line growth was aided by a drop in the tax rate to 13% (19%) and the 38% decline in the amount paid to outside shareholders, although a loss was suffered from Lenco’s share of associated companies.

Exports

An extraordinary loss of R3.2m arose from costs suffered with the disposal of the Alfa Manufacturing Industries division and from the write-off of investments in certain associated companies. Net asset value rose to 199.5c (162.9c) a share.

De Jager was not optimistic about prospects for the current year and did not expect any marked improvement in trading conditions. Clothing exports would, however, provide a boost and were expected to contribute about 20% of turnover this year.

“While the effective tax rate is also likely to increase, we nevertheless anticipate a satisfactory performance. We foresee a further strengthening in the group balance sheet, which will enable us to take advantage of the upturn when it does arrive.”
Servgro is on course for JSE

Marcia Klein

Servgro International (Servgro), the renamed Federale Volksbeamsterungs (Fedvolks) services division, has upped its attributable profit 25% to R39.3m in the year to end-March.

The services group, which has interests in Teljoy, Interleisure, Avusa, Price Forbes, Interpark and Fedica, intends to list on the JSE in the second half of this year.

Fedvolks recently disposed of Fedfood and SA Druggists to Malhak, and its motor components division was to be sold to Murray & Roberts as part of a major reshuffle in Sankorp, of which Fedvolks is a wholly owned subsidiary.

Executive chairman Peet van der Walt said the results were gratifying, and trading conditions had become more difficult in the second six months.

Results for the year show that turnover rose 12% to R819.9m and operating income was 29% up at R99.9m.

After Servgro paid R15.3m interest and R34.2m tax, profit after tax was 28% up at R55.4m from R41.5m in the previous year.

Van der Walt said additions and increases in the group’s investment portfolio had taken place after year-end, and “these and other details will be disclosed in the prospectus.”

Previously van der Walt had said the group hoped to list in the beverages, hotels and leisure sector of the JSE as more than 50% of its income was generated in the leisure field.
No growth for Amaprop in oversupplied market

ANGLO American Properties (Amaprop) failed to show growth in the year to end-March, with attributable profit after extraordinary items falling marginally to R36.3m in the year to end-March (1991: R36.7m)

Total dividends 8.4% higher at 50c (47c) were declared on the back of earnings 8% up at 78,87c a share from 72,98c. Retained profit for the year almost trebled to R13.02m from R4.6m.

In the annual report also released yesterday chairman Gerald Leussner said the improved earnings were attributable to the continued growth of net rental income from its office and shop accommodation, as well as an improved performance from the Carlton Hotel in the last quarter of the financial year.

"However, over the next year rent levels will rise only where leases provide for an automatic increase. This is because the oversupply situation in the retail and commercial markets has been aggravated by new space. "This has resulted in falling office rentals and, at best, static rent levels in most retail situations," he said.

The group would continue to emphasise the need to retain tenants and would maintain its properties in excellent condition and offer good service. The company would not buy any new land nor start any infrastructural development on land it holds over the next year.

Leases due to expire in the next year, together with space presently unlet, amounted to about 18% of the total portfolio.

The Carlton, which reduced its loss for the year under review to R1.8m from R2.1m previously, is expected to move into the black in the short term.

The hotel is the only part of Amaprop's varied R1bn property portfolio that could show an immediate increase in profitability should the local economy begin an upturn.

The industry and other players have expressed concern about the perceived deterioration of the major CBDs.

Amaprop holds major investments in all of these and is attempting to correct these perceptions through its manager, Anglo American Property Services (Ampros).

"We are confident that profit from well maintained, well located CBD properties will grow at least as well as decentralised properties - possibly even at a greater pace," he said.

The total lettable area of the portfolio of completed developments is 446,491m² from 445,858m² in 1991. Retail space accounts for 32.5% or 150,324m² of this, with the balance being commercial space.

Some 76% of the space in the portfolio is located in Johannesburg, with 10.3% in Durban, 7% in Pretoria and 4.9% in Cape Town.
Strong support for the bull run, says broker

Own Correspondent

THE financial climate in SA is strongly supportive of the ongoing bull trend on the JSE, stockbroker Peter Trengove Jones said at a presentation by Simpson McKee in Claremont yesterday.

Economic recovery was closer and good shares "remain in fundamental short supply".

He advised investors to seek exposure to tourism and leisure shares, new foreign trade opportunities and suppliers who would benefit from moves to upgrade the social infrastructure.

Discussing sectoral strategies, he said primary rand hedge shares such as De Beers, Richemont, Charter and Mineco had ongoing high "insurance" appeal, excellent liquidity and reasonable valuations.

The long-term growth potential of shares in the consumer sector was assured — but many current ratings were still relatively too demanding and liquidity could be a problem. However, "cycicals should be put back on the menu".

Mining conglomerates had good liquidity and excellent relative value, and were attractive in the medium- to long-term cyclical outlook. Gold and platinum producers were best for traders.

The financial sector offered good relative value and reasonable liquidity, although banks might be headed for slower relative growth in earnings a share.

Appealing blue chip value in industrial conglomerates was scarce and there was a risk of overpaying.

There were opportunities to buy underpriced shares in the chemical sector. The phase of underperformance appeared to be over.

The capital goods sector was well placed to emerge from a long period of contraction, but liquidity was a problem in most cases.

Discussing the SA economy, Trengove Jones said that on current monetary policy the chances of a meaningful fall in SA inflation towards the end of the year were favourable.
Prosperity can flow from union funds

WALTER SCHIFFER

The benefits of union funds depend on the
success of their investment policies. The
most effective investment vehicle in the
world is not gold. However, the
example proffered here should interest
the laborers in the union funds. The
same applies to other labor unions whose
benefits will have to do so. The
principles that govern the
operation of union funds, which
are often neglected by other people,
are the principal assets of the
unions. The laborers should
realize that by investing
wisely, they can achieve
higher wages and better
working conditions. The
future of the labor movement
depends on the success of
its investment policies.
No talk of liquidation, says Bester

PROPERTY and township developer Bester Investments executive chairman Themba Bester moved quickly yesterday to counter reports that the company was in dire financial straits.

Responding to allegations in the latest Finance Week that Bester Homes was to be provisionally liquidated in the next week, he said: "There is definitely no talk of the liquidation of Bester Homes at this point and, while market conditions are tight, we believe we are able to sort it out until things improve."

However, he confirmed a meeting was held last week with all of the group's major bank creditors. Finance Week named them as Absa, FNB and Boland Bank.

Bester said there was "absolutely nothing significant" in the meeting as he had held meetings with his banks throughout the life of his companies.

Bester confirmed that the company last month tried to sell off about R20m of its Pretoria portfolio in a move designed to offset some of its debt, which the 1991 annual report put at R165,852m.

However, only about R1,5m of these assets had been sold "due to difficult market conditions."

To Page 2
Tollgate keeps up its return-to-profit trend

CAPE TOWN — Tollgate Holdings (TGH) chairman Johan Askim and his team have sustained the return to profitability of the leisure, tourism and distribution group — 1991 annual earnings a share were in the black for the first time since June 1988.

The first profits were made at the interim stage and this momentum was maintained for the full year to end-December, despite the recession.

Fully diluted earnings amounted to 34.2c a share compared with the previous year’s loss of 68.3c. Undiluted earnings were 13c (loss of 138.6c). A 10c final dividend was declared, bringing the total dividend to 13c. An amount of R46.5m was written off last year as a result of the disposal of Gants and Norths Industries assets. This brought total write-offs in 1990 and 1991 to R104m. Director Alex Wilmot-Sitwell said there would be no further write-offs.

He said the final restructurings and rationalisations of the group were in the process of being completed and would be announced shortly. These would have a positive impact on group debt and earnings.

Wilmot-Sitwell added that negotiations under way for the sale of City Tramways properties would bring in about R48m and help to cut further TGH’s interest-bearing debt.

Particularly noteworthy were the gains made at operating level and the slashing of interest-bearing debt. Gearing at year-end stood at about 94%.

Interest-bearing debt was cut to R193.3m (R224m). On a pro forma basis interest-bearing debt fell to R156m, if the proceeds of the R71.5m sale of City Tramways was included retrospectively.

Turnover dropped 8% to R511.5m (R591.5m), but the operating margin soared to 7.9% (4.3%) to produce a 68% growth in operating income to R43.5m (R25.3m). Interest paid fell to R30m (R47.7m), so that pre-tax income before abnormal items showed a profit of R7.9m compared with the previous R21.8m loss. A R3.8m abnormal gain, compared with the previous abnormal loss of R3m, and a higher contribution from associated companies, further strengthened performance.

An attributable profit of R3.6m (loss R25.3m) was produced.

Askim said in the profit announcement the restructuring of the group, which involved the sale of non-operating assets and retrenchment, had taken longer than originally foreseen because of the severity of the recession. The group was now well-structured and well-focused and had a firm base from which to follow a policy of expansion and growth into areas of leisure and tourism and distribution.

All operating divisions were trading profitably and a continued recovery was expected. The UK company Jalon Holdings, acquired in December, would make a contribution this year.
Anglo’s ability to make most of upturn in doubt

Anglo American Corporation has successfully pulled through local and international recessions, but question marks hang over its ability to take best advantage of the economic upturn when it comes, say market sources.

The corporation’s preliminary results for the year ended-March 31 1991 are published next week Analysts said yesterday that Anglo would post solid results for the year, with predictions of a minimum 5c dividend rise to 330c a share.

A leading industry source forecast a 5c dividend increase with equity accounted earnings falling a little more than 1% to 1,104c from 1,118c a share.

Matheson & Hollidge analyst Barry Sergeant said his conservative estimates put the dividend at 330c with attributable earnings 3% higher at 620c compared with 604c a share in 1991.

Eggy Rogers analyst Keith Bright said equity accounted earnings would “disappoint”, but Anglo’s dividend declaration would be a good barometer of how the corporation saw the future economic climate.

If Anglo’s view was bullish, confidence of an upswing in the third quarter this year, the dividend could be as high as 345c a share, he said.

Matthew Curtin

Analysts agreed the highlight of the year was Anglo’s decision to go-ahead with the Moab gold mine at a cost of R1.7bn.

Paper producer Mondi’s expansion into the European paper industry, Minorco’s gathering interest in Europe’s aggregates business, and the completion of the Botswana soda-ash project were signs of Anglo’s diversification.

However, analysts questioned whether this would be enough to boost earnings significantly.

Rewards

Last year, chairman Julian Ogilvie Thompson said Anglo’s results compared favourably with rival international mineral resource companies such as Rio Tinto Zinc, CRA, Amax, Miranda and Alcan.

Sergeant said a group like RTZ, recently restructured and with broad mineral interests especially in base metals, might be better placed to reap the rewards of a new commodities boom, unlike Anglo with its concentration in gold and diamonds.

Analysts said the question of “un-bundling” and unlocking value within the group was likely to be on the corporation’s agenda, but not a priority.

Anglo had at least R1.2bn worth of projects underway or in the pipeline, and for the moment was raising funds by disposing of non-strategic assets, such as part of its stake in First National Bank (FNB) and its holding in Gencor, which raised R1bn last year.

Another analyst said that Anglo’s interest in the Columbus stainless steel venture and Minorco’s cautious acquisition programme were signs the group was concentrating on add-value projects at home and abroad to bring it real returns in the future.

Analysts said the lion’s share of Anglo’s earnings in 1991/92 would come from its diamond subsidiaries, which contributed nearly 30% of equity earnings in 1990/91.

The group’s financial services holdings — Anglo has a 30% interest in FNB and 40% of Southern Life — would bolster earnings as would associate gold mining companies Vaal Reefs and Western Deep Levels, with a flat contribution from Amcor.

However, weak gold prices had hit Anglo’s gold mining investments in general, and those held by subsidiary Amgold. Recession at home and abroad had taken their toll on industrial associate Amc, Rustenburg Platinum which cut its interim dividend by 30% — Samancor, and its overseas groups.
Taking a scalpel to high prices

Health Minister Rina Venter finally appears to have realised that she will never be able to appease the vested interests in the healthcare industry as she tries to halt spiralling medical costs for the public.

Certainly, introducing the Medical Schemes Amendment Bill in parliament last week, despite continued strong opposition from the Medical Association of SA, shows a resolve few of her critics could have anticipated. With only a month to go before parliament closes, Venter seems determined to deregulate the industry. Her proposed changes will give medical schemes more scope to keep costs in check and halt doctors' sole discretion in dispensing healthcare.

If passed, the Bill will put an end to guaranteed payments and scales of benefit. It will allow schemes to provide healthcare services, by running hospitals and clinics and employing doctors, nurses and pharmacists, a move that has lowered costs by as much as 40% elsewhere in the world.

In cutting medicine costs, the Minister's resolve to deregulate the pharmaceutical industry will have to be just as unflinching. SA drug prices are among the world's highest.

Last week's annual conference of the Pharmaceutical Society of SA showed little initiative in addressing the costs issue. The debate merely reflected an industry wracked with internal tensions and lacking direction. While retailers, wholesalers and manufacturers battled to define their roles in the industry's apparent identity crisis, little consensus was reached on containing spiralling medicine costs.

The industry is not short of suggestions. Several recommendations — based on the findings of the Browne Commission and believed to contain many of the recommendations of the uncompleted Wim de Villiers report — were canvassed earlier this year at a forum convened by the Minister.

Generic substitution, ending the ban on imports of medicines that could compete with locally made ones, pharmacist-initiated therapy, rescheduling some medicines so that you would not need prescriptions to get them, and allowing other retailers to compete with pharmacies are all proven cost-cutting mechanisms that have dropped medicine prices in other countries. But vested interests — mostly doctors and drug manufacturers — continue to prevent their being implemented in SA.

The heated debate on generic substitution is a case in point. Manufacturers and doctors are still debating the efficacy and safety of generic drugs in SA. Yet generic drugs have been used safely for 30 years in State hospitals, resulting in huge cost savings. The anomaly is that, legally, the widespread use of the drugs remains prohibited.

Still, there has been some progress on the issue of generics. In February, Venter's department tabled a list of 36 substances that could not be substituted by generics, implying that all other medicines could be. Considering the discord on the issue, she is expected to table legislation allowing the widespread use of generics long before consensus is reached.

Medical administrator David Boyce says, "While the pharmaceutical industry broadly favours generic substitution, the multinational drug companies do not. Boyce, a former retail pharmacist who heads TPS, a claims processing arm of MediCredit, says the multinationals are preoccupied with protecting the market share of their patented drugs and with recouping their research investments.

International studies suggest manufacturers secure a return of more than 45% on capital investment.

The conference did resolve to investigate allowing the parallel import of cheaper medicines in the UK, parallel imports accounted for £253m in medicine purchases last year. But local manufacturers have already begun to stress that these imports could pave the way for counterfeit medicines, lowered standards and lost jobs.

The call for volume-based prices from manufacturers remains a great source of controversy in the industry. Wholesale and retail pharmacists have persistently criticised manufacturers for giving big discounts to dispensing doctors, who buy only small quantities of drugs compared with the far higher prices paid by retail and wholesale chemists for larger quantities.

"This encourages doctors to drive the product through the (prescription) pen," says Len Keating, CEO of wholesalers AGA and PDC. "They get deals for buying a thousand rand's worth of merchandise that a pharmaceutical wholesaler could not secure when buying even a million rand's worth of the identical product." This matter is now before the Competition Board.

Rescheduling schedule 2 and 3 medicines to allow pharmacists more room to initiate therapy would lower prices and sometimes save on a doctor's consultation fee. Tom Carse, past president of the Pharmaceutical Society of SA, says a list has been compiled by Potchefstroom University detailing no less than 96 ailments that could be treated by a pharmacist without any need to consult a doctor.

Venter has indicated her support for such a move but the powerful Medicines Control Council appears to be the stumbling block to implementing this reform.

The council's director, Johan Schlebusch, asks why too little has been done to familiarise pharmacists with the clinical aspects of medicines in higher schedules "in anticipation of the day when these schedules become a reality." However, many argue that the council, a scientific body, must consider the economic needs of a Third-World population rather than apply unsuitable First-World standards.

Regrettably, nothing was said at the conference about dropping the ban on pharmacists working for nonpharmacists in retailing. Such a move would certainly pave the way for large retail chains such as Pick n Pay and Clics to enter the market and challenge the manufacturers' drug-price stranglehold, described by a conference observer as "obscene and inappropriate to the needs of the country".

THE DROUGHT

Fuelling the price spiral

Government says food prices have soared by nearly 30% over the past year, while Pick n Pay's Raymond Ackerman and the Premier Group's Peter Wrighton put the figure at around 15%. But, whatever the increase, food prices are sure to rise faster in the months ahead as the effects of the drought kick in.

With much of the maize crop wiped out, downstream users of imported yellow maize will be hit hard, sending a ripple effect of higher prices through the food chain.
Top unit trusts gain from surge

SHERIDAN CONNOLLY

The recent surge in the JSE industrial index to new annual highs over the past few weeks resulted in leading unit trust funds recording strong growth levels, portfolio managers and analysts said yesterday.

Unlike new funds such as Telkom and Transnet, the more established or mature funds did not have to take up shares at the current high prices as they were already positioned in the market, an analyst said.

These funds were investing in giltts which offered higher returns than the market, together with capital gains as market-driven yields dropped.

Over the last month, the industrial index has risen 402 points, climbing to a new yearly high of 4 658 yesterday.

The surge in industrial share prices has been attributed to keen institutional, pension fund and unit trust demand for blue chip stock coupled with a shortage of scrip.

Momentum Fund Investment director Peter du Toit said the fund had gained from firmer industrials.

Guardbank senior financial manager Errol Tate said the industrial fund had performed well, in line with the rise in the industrial index, which had risen consistently for 20 days.
Bumper year for Eureka put down to management

Diversified holding company Eureka more than doubled its after-tax profit in the year to end-February, in spite of a 20% decline in turnover.

A dividend of 1c was declared on earnings of 2.1c (1.2c) a share.

Chairman Ronnie Price attributed the performance to effective cost control and working-capital management, which had contributed to an improvement in operating margins and return on assets.

Significantly positive cash flows and a reduction in gearing of R4m were achieved, even after substantial cash outflows of R10m for the purchase of minority interests in Eurex and Computermatic.

Turnover fell to R108.5m (R135.7m), partly reflecting the closure or disposal of certain operations. Improved operating margins and lower funding costs lifted pre-tax profits by 19% to R3.35m (R2.52m).

After higher payments to outside shareholders, attributable earnings came to R1.29m, 75% up on last year's R755,000.

Price said the extremely unfavourable economic environment had provided the opportunity for an in-depth examination of all operations.

Underperforming or peripheral operations were closed or disposed of.

He said efforts were being made to find a buyer for suspended cash-shell Computermatic, whose operating subsidiaries were sold to Eureka at the beginning of the year.

Eureka intended making an offer to buy out minority interests if a buyer was not found within the eight-month period required by the JSE for the company to acquire new assets.

The cash shell's attributable profit came to R169,000.
Hefty interest bills plunge Abbey deeper into the red

HEFTY interest bills saw property and textile group Abbey Holdings and its subsidiaries Fenix and Propcor post substantially increased attributable losses in the 18-months to end-December.

As the year-end was changed from June to December to facilitate reporting by manufacturing subsidiary companies, and these figures reflected an 18-month period, both former reporting periods were given.

However, the figures for the year to end-June 1991 reflected the first reporting period after the companies were reorganised and management stated that these were "not comparable with prior periods.

Abbey posted an attributable loss of R15.2m in the 18-months to end-December compared with a R392 000 loss in the year to end-June 1991. The group showed a profit of R2.9m in the year to end-June 1990.

Management cited losses sustained in the textile and homewear divisions due to the effects the socio-political and economic environment.

Extraordinary items of R7.1m for goodwill written off, the net loss from disposing of a subsidiary company and the loss on the disposal of debentures brought the loss for the period under review to R22.3m or 65.6c a share. This compared with a net loss of R743 000 for the year to end-June 1991.

Net current assets fell to R21.3m from R26.47m in the 1991 year and R46.8m in the 1990 year. Net asset value a share dipped to 195c from 246.3c in 1991.

Management could not be reached for comment.

Abbey holds 65% of textile group Fenix industries and a 92% interest in property company Property Corporation of SA (Propcor).

Subsidiary Fenix itself has two subsidiaries, Debonair and Ivitex, which are both trading companies in the textile industry.

Both of these had substantial overdrafts, which were reflected in both Abbey's and Fenix's interest bill.

Fenix reported an operating loss of R10.74m, which included a R2.7m interest bill.

A R4.9m interest bill over an operating income of R3.8m moved Propcor into the red, giving a net operating loss of R1.15m and seeing an attributable loss of R50 000 or 4.4c a share.
Investment product being tailored for stokvel members

STOKVELS and a major financial institution are edging closer to producing a new investment product for stokvel members.

And a number of investment companies in the US and Britain have signalled they would invest in the product, provided it yielded good returns and was "benefiting the people on the ground."

National Stokvels Association of SA (Nassaa) president Andrew Lukhele recently announced that his organisation planned to help alleviate the black housing crisis by diverting millions from banks to unit trusts, which would serve as collateral for home loans since banks were reluctant to lend money to township residents.

Lukhele said the arrangement would allow black savings to be ploughed back into black community rather than having the money lent to affluent whites.

The latest Markinor survey of the informal financial sector indicates a 62.5% growth in the money collected by stokvels in urban areas.

In 1991, stokvels collected an estimated R64m a month compared with R28m in 1989. Membership also rose to 1.3-million from 650,000 in 1989.

Nassaa consultant and Tremont Broker Services MD Stephen Japp said yesterday although some Nassaa members had invested in Syfrets-administered unit trusts, the service group was unable to produce "the type of product which Nassaa wants."

Nassaa had, therefore, entered into a joint venture with a major financial institution with a view to developing a "unit trust product tailored to meet the needs of the stokvel members."

Japp said the arrangement would not name the financial institution, but said it was anticipated that the unit trust product would be available within three months.

Lukhele said the recent De Loo Commission report on housing supported Nassaa's conviction that stokvels could play a role in meeting the black housing backlog.

"Affirmative quotas fail"

"AFFIRMATIVE action programmes fail in SA because they are geared towards meeting recruitment quotas rather than developing the potential of blacks and women."

This is the view of human resources consultant Linda Human in a paper to be delivered at next month's fourth annual conference of the Institute of Personnel Management (IPM) human resources development division.

She says other reasons for the failure of affirmative action programmes are:

- That blacks and women are expected to function in a white male world which remains uncommitted to people development;
- A lack of commitment on the part of top management.

"It is time for managers to accept their responsibilities in relation to the disadvantaged. It is also time for blacks and women to accept responsibility for their own development," says Human.
New fund calls for extra difference

Joe Gates

ATTENTION OF INVESTORS AND ADVISERS

As a well-established company, we can no longer ignore the increasing pressure on the financial market. The need for innovation and diversification is not only necessary but essential in order to maintain our position in the competitive landscape.

Our current strategies include focus on new technologies, expansion into international markets, and strengthening our financial position. However, these initiatives require substantial investment.

In conclusion, we are seeking additional funding to support our growth and expansion. We are open to investors who share our vision and commitment to excellence.

Thank you for your consideration.

Joe Gates
Investment product being tailored for stokvel members

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Affirmative quotas fail

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- That blacks and women are expected to function in a white male world which remains uncommitted to people development;
- A lack of commitment on the part of top management.

“It is time for managers to accept their responsibilities in relation to the disadvantaged . . . it is also time for blacks and women to accept responsibility for their own development,” says Human.
Unlock Your Savings: It's the Key to Prosperity

Richard

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To Fortune

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Safex comes right at last

SAFEX — the South African Futures Exchange — is starting to thrive after a patchy past in which many sought to condemn it to oblivion.

Pruning of the non-profit-making exchange's overheads last year, both through cutting heads and abandoning the trading floor, left Safex with only two executives and 12 support staff to run an exchange where daily trade is now worth almost twice the value of the JSE's.

Patrick Birkley, who has been with Safex through the doldrums, can at last report that the exchange is more than breaking even.

Safex is managed by Safecom, owned by the banks and financial institutions.

Mr Birkley says that this year, particularly with the JSE running at record, the pension funds have been actively hedging their portfolios by buying futures contracts on the JSE's indices.

Futures contracts are new territory for South Africans, but volumes on other exchanges around the world have been outstripped in

Paper power in law

This snippet from the Sunday Telegraph concerns Sappi's recent European foray.

Amid much to-ing and fro-ing, legal representatives from England proposed that six of their party advising finance house Warburg Securities should fly to SA on a fact-finding mission.

The Telegraph says this proposal was overtaken in the last week, without Sappi's team even mentioning that the temperature in London last week was actually hotter than in Johannesburg.

But the experience has left Sappi's chief Eugene van As bullish about his business. "There will never be a paperless office," he sighed, "as long as there are London lawyers!"
Back on the JSE in Servgro colours

ONLY two years after the delisting of Federale Volksbeleggings in a minority buy-out by Sankorp, a good whack of the assets are to be re-listed under the Servgro banner.

Servgro, which is to be listed soon, is Sankorp's services arm.

Fedvolks - a perennial dog if ever there was one - used to be a miscellaneous bag of bits. They included tyres, china, drugs and tractors as well as some of the investments now under the Servgro logo, such as Interleisure, Teljoy, Avus, Intepark, Fedies and Price Forbes.

To these six has been added 22% of Nationale Pers (Naspers), the embattled holder of interests in magazines, newspapers, M-Net and outdoor marketing.

Tender

The amount paid in this intra-house deal - the sellers were Federale Peanuts Fun and Sanlam - is not disclosed. Such trade in listed shares would have had to go through the JSE at least as a nominated deal.

Servgro bought 2.3 million Naspers, the last tender for which was at R39 a share. Managing director Feet van der Walt says Fedvolks is history and that Servgro has focus.

It is hard to spot focus in such diverse operations as cinemas, TV rental, car hire, car-park management, catering and actuarial evaluations as well as publishing.

Mr Van Der Walt says Servgro is the new image of a services group developed with strategy over 15 years. He says the institutions accept this and say they will place a premium rating on Servgro.

In 1990, Fedvolks' share price jumped from 2.5c to 300c above the majority take-out proposal, which was done at 46c a share. Alternatively, members could take part cash and part SA Drugg, Teljoy and Fedfood scrip.

The scheme of arrangement cost Sankorp more than R300 million.

In the year to March 1991, Fedvolks made R124 million attributable profit. Since then, restructuring in the greater Sankorp empire has resulted in Fedfood and SA Drugs going to Malpak and the engineering entities, such as Fedstone, to Murray Roberts, leaving Servgro with a batch of service companies.

Servgro made R33 million attributable profit in the year to March 1992 - up by a quarter on the previous year.

Mr Van der Walt says 65% of the group's income comes from the leisure-related services.

His challenge is to see that Servgro is listed in the premium-rated business, beverages and leisure sector of the JSE as opposed to the diller industrial holding sector.

Servgro has management responsibility for most of its investments without necessarily having 51% control.

Nosa gets the nod

THOSE executives from Australia's and the world's largest mine are in SA to sign a licence agreement for the National Occupational Safety Associations (Nosa) five-star safety and health programme.

The signing of this agreement is seen as a coup because the team from Hamersley iron-ore mine travelled the world before deciding on Nosa.

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PROPERTY values in most areas of SA are at low levels, mainly as a result of the deepening recession and the gloom that normally accompanies the low point of the business cycle.

Investing in property at a time like this can be extremely profitable. Unfortunately property investment is highly specialised with few of us able to achieve real success in a competitive environment.

Yet the smaller investor can participate in any future growth by making use of existing organisations, such as the property unit trusts listed on the Johannesburg Stock Exchange.

Apart from the fact they provide excellent cash returns there is also the virtual certain appreciation of the capital value of their underlying properties.

The 15 property trusts listed on the JSE cover virtually the entire spectrum of real estate investment in SA. Your money is safe as the trusts are regulated by the strict provisions of the Unit Trust Control Act of 1981, the same act that controls the activities of the popular equity trusts.

But note that equity trusts are so-called open-ended trusts in that they continue to grow by selling new units to investors, while they also guarantee to buy back your units, less certain fees, at any time. Property trusts are close-ended in that they do not issue new units automatically, nor do they buy back these units. They acquire new capital by making regular rights issues to unit holders.

To buy units in property trusts you must go to a bank or stockbroker to buy them on the open market for you.

Some of the country’s leading banks and financial institutions have invested millions in property trusts.

They are popular with these institutions because they are well-managed and provide a spread of risk by holding a number of properties in different parts of the country. These properties are normally occupied by well-established organisations.

At current prices yields of up to 16 percent are obtainable on property trusts and with the prospects of rising property prices and lower interest rates as the economy recovers you can be assured of capital appreciation as well.
R100m hopes for unit trust

THE Community Growth Fund (CGF) trade union unit trust could grow to R100m by the end of its first year, a spokesman for the trust's managers said at the weekend.

The fund, which will invest workers' pension and provident funds in blue chip companies on the JSE, officially comes on stream today, but it has already attracted several millions from investors.

It will be managed by Syfrets, which has itself invested R2m in the CGF Contributions of R1m have already been raised from Times Media Limited and the NUM's Johannesburg branch.

And Syfrets spokesman Ian Hamilton said pledges and commitments had been received from "mining houses, banks, retail groups and industrial conglomerates".

"We can safely say that the market response has far exceeded everyone's expectations," said Hamilton.

The fund aims to marry high returns and socially responsible investment. It is being backed by the NUM, the Construction and Allied Workers' Union, the Transport and General Workers' Union and the Paper, Print, Wood and Allied Workers' Union.

Nactu unions are also involved. Portions of the pension and provident funds of these unions will be invested in the CGF.

The fund will target a portfolio of blue chip shares, but will exclude those of companies involved in weapons manufacture, environmentally harmful businesses and offshore investments with little benefit to SA workers.

Three union representatives will serve in a joint Syfrets-union company managing the portfolio.

NUM spokesman Martun Ncul said the

CGF unit trust

 fund would invest in companies promoting job creation, recognition of trade unions, affirmative action and environmental awareness.

"It is not a fund which seeks to invest in low-return housing projects, for example," he said. He said the fund would also attempt to influence companies to follow policies consistent with criteria decided on by the managers and the union.

Hamilton, who is also a director of the fund, said client confidentiality precluded him from disclosing names and figures, but said the commitment from major investors had exceeded expectations.

"We have been constantly on the road presenting the concept to major pension funds," Hamilton said. "If this level of interest continues, we would not be at all surprised if the fund reached R100m within the first year."

Labour Research Services (LRS) - a Cape Town-based labour advice unit - would play a major role in investment selection. Chief LRS spokesman Gordon Hoping said three provident funds and two pension funds had committed money to the CGF.

Two of them are connected to the NUM. A large provident fund associated with the Paper, Print, Wood and Allied Workers' Union had committed a large sum from both cash flow and assets.

NUM assistant general secretary Marcel Golding said "Companies have been taken by surprise by the CGF. They had not thought of applying social criteria before."

Syfrets expects the fund to remain fairly liquid in the initial stages until a well-rounded portfolio of shares is put together.

Syfrets will make the initial share selections based on standard commercial and investment practices.

A joint board, chaired by Prof Anthony Asner of the Wits Actuarial Science Department, will then approve these investments after receiving input from the LRS and the unions.
Servgro buys 22% of Nasionale Pers

SERVGRO, the services arm of Sankorp, has purchased 22% of Nasionale Pers from the Federale Pension Fund and Sanlam n/a's tidying-up operation within the Sanlam group.

The amount paid in this intra-house deal was not disclosed, but the sum is thought to be in the region of R72m.

Naspers, which has interests in magazines, newspapers and M-Net, is unlisted and shares trade sporadically on a tender basis with the latest price being quoted at R30.

Naspers profits stood at R45m in the year to end March 1991 and for the six months to September 1991 they rose 51% to R50.7m over the same period in 1990.

Servgro chairman Peet van der Walt said the investment in Naspers would blend neatly with Servgro's interests which included Inter leisure, Telpay, Avis, Interpark, Fedics and Price Forbes.

Leisure-related services account for 65% of the group's income.

Servgro is to obtain a JSE listing after its holding company Fedservices issues 25% of its 100% stake in Servgro to the public.

The price at which Servgro is to be issued has not yet been decided. The Rand Merchant Bank valued Servgro at R687m without Naspers.

Servgro increased its attributable profit by a quarter to R55m in the year to end March 1992.
D-Day for union-linked unit trusts

The Community Growth Fund (CGF), a union-controlled unit trust dedicated to investing in "socially responsible" JSE-listed companies, officially starts operating today.

The fund, managed and administered by Cape-based Syfrets, has attracted unprecedented attention from investors and employers since it was first announced on May 4.

Syfrets spokesman Ian Hamilton said the market response had exceeded expectations.

"We have received commitments and pledges from mining houses, banks, retail groups and industrial conglomerates," he said.

"If this level of interest continues, we would not be surprised if the fund reached R100 million within the first year," he said.

Labour Research Service, the Cape-based union advisory organisation which devised CGF, will play a pivotal role in investment selection.

Three provident funds and two pension funds have committed money to the CGF. Two of them are connected with the National Union of Mineworkers and another with the Paper, Printing, Wood and Allied Workers Union."
CAPITAL market rates hardened yesterday following threats of imminent mass action by the ANC and the organisation's adoption of a hardline investment code.

Dealers said rates moved higher on the back of the ANC's statements.

The benchmark Eskom 168 finished 10 points up at 15,83% yesterday compared with 15,73% on Friday, while the government RSA 150 stock weakened to 16,02% from 15,98%.

Disappointing consumer inflation and money supply data also boosted bearish sentiment. Rates were expected to edge up a further 10 points by the end of the week.

The financial rand weakened as foreign investor sentiment waned.

The unit dipped to R3,5087 a dollar at the close of trade after finishing at R3,5650 last week.

Analysts said the ANC's nationalisation stance and investment policy that eliminated incentives for foreigners and limited domestic borrowing would harm confidence.

Sacob said yesterday that it would be difficult to create sustainable economic growth unless there was substantial agreement on important aspects of policy.

It said the continued emphasis on nationalisation and curbs on foreign investors would weaken foreign investor interest.

Sacob said clarity could only be reached with in-depth discussions between the ANC and business.

Comment: Page 10
LANGEBERG Holdings, which made its debut on the JSE's food sector yesterday, exceeded an expected listing price of between R8.50 and R7.50 to open at R8.30 a share.

In heavy trading on a quiet market, 642,000 shares valued at R5.4m were traded in 68 deals.

The share price quickly climbed to a R9.25 high by day's end. However, after a sell-off in the afternoon the price dropped to a R7.75 low before rising slightly to close at R8.50.

The food processing and canning conglomerate has forecast a 26.7% increase in earnings to 49.3c (38.9c) a share for the financial year ending September 30. This is based on the directors' estimate that taxed profit of at least R73.8m will be achieved in the current financial year.

Langeberg is 56% held by Tiger Cuts and 30% by Langeberg Co-operative. Other co-operatives have smaller stakes.

The last new listing was in March.
Jitters, but no big sell-off on ANC stance

NERVOUSNESS in the capital market continued yesterday following the tough line on foreign investment adopted by the ANC this week — but there were no major overseas sell orders, analysts said.

They said the ANC’s rejection of investment incentives or special treatment for foreign investors would not encourage much needed inflows of foreign capital in the short term. In the meantime, foreigners would still benefit from buying SA gilts at a discount via the financial rand while earning interest at the commercial rand exchange rate.

The ANC’s foreign investment stance had prompted bearish sentiment in the market and rates were expected to be steady in the next week or so, they added. The yield on the benchmark Eskom 168 climbed another ten points yesterday to finish at 15.32% from its previous level of 15.32% and the RSA 150 closed at 16.15% from 16.02%.

Analysts said although capital market rates were sensitive to foreign sentiment, overseas investors had not reacted as strongly as expected to the ANC’s policy announcement.

In a future market environment, the abolition of the financial rand would remove the present investment incentive for foreigners. But, a lower value of a unitary rand might still be cheap enough to attract foreigners to purchase SA gilts, analysts said.

The financial rand at first reacted negatively to the ANC’s policy moves and then recovered slightly yesterday and finished to R3.43 per dollar after dropping to R3.50 on Monday.

11% earnings rise for Specialty

RETAIL group Specialty Stores aimed to improve earnings for the eighth consecutive year in financial 1983, joint MDs Stewart Cohen and Laurence Chappman said in their annual review.

While traditional department stores worldwide had declined, they said international specialty store chains had shown superior growth.

They had the benefit of narrow and deep assortments — which yielded lower purchase costs, shorter lead times, higher sales densities and lower markdowns:

These factors gave management confidence and confirmed that Specialty had strategically positioned itself in the fastest growing and most profitable sector of retailing internationally,” the directors said.

They said the group had an advantage as it could respond quickly to changes in consumer lifestyles.

Specialty, which owns Milady’s, The Hub, Mr Price and Footgear, had an 11% earnings rise to 43.4c (79.1c) a share in the year to end-February on a 19% turnover rise to R293.6m.

Cohen and Chappman said Specialty would continue to focus on maintaining financial strength and improvements in asset management. They said it was comfortable with its 55% gearing as the proportion of cash sales continued to rise and should exceed 30% in the coming year.

Margins were also expected to increase.

Milady’s had performed exceptionally well after an average first half.

The Hub’s sales were lower than budget, but it showed a 17% increase in its profit contribution.

Seven new Mr Price cash stores had opened, but the chain’s rapid growth had stretched management and it had showed a profit decline.

The 11-store cash chain Footgear had made “a meaningful increase in its contribution to group profits”.

New plan for sale of Qantas

CANBERRA — The Australian government yesterday announced plans for its international airline Qantas to acquire the state-owned domestic carrier Australian Airlines for A$400m and for 100% of the merged company to be sold to investors and other international airlines.

Last weekend Prime Minister Paul Keating proposed a merger of Qantas and Australian Airlines and the sale of a 70% stake in the merged company.

Since then, the government has decided to sell 100% of the merged airline, provided it retains a share that allows it to protect the national interest in the airline. — AP-DJ
Civil debt judgments soaring

By Sven Lunsche
3/6/92

The total value of civil debt judgments could soar to R3.5 billion this year, as the recession is leading to an ever-worsening debt spiral for individuals and private companies.

Central Statistical Service figures released this week show that the value of default and consent judgments for the first three months of this year reached R227.63 million, an increase of 88.7 percent on the same quarter last year.

Credit Guarantee economist Luke Doig comments that the average monthly figure of R309 million this year was significantly higher than last year's average of R214 million and pointed to total debt judgments of R3.5 billion this year.

"While this represents an increase of 40 percent on 1992's R2.564 billion there are no indications that the Reserve Bank will drop interest rates — recessionary conditions are now prevalent in most sectors of the economy and will remain unless drastic measures are taken now," Mr Doig warns.

Providing a detailed breakdown of the figures he says that the average amount per judgment increased by an annual 49.5 percent from R4 554 to R6 807.
JSE concerned at illiquidity of market

By Leigh Hassall

The JSE slogan of “Own a share of South Africa's future” could easily be changed to “Own one share”, which would be a fair reflection of the low level of private investor participation on the market.

Indicative of this is the case of Lonrho Sugar, with only 0.6 percent of the shares of the company available to the investing public.

While Lonrho Sugar represents the worst-case scenario, on average only four percent of shares of any listed JSE company changed hands this year — down from five percent last year.

This compares extremely unfavourably with Taipei’s 350 percent, Tokyo’s 60 percent, New York’s 50 percent and London’s 30 percent, JSE president Roy Andersen said at a seminar yesterday.

He attributed the JSE’s illiquid position to a number of factors, the most significant being the government’s foreign exchange restrictions and the resulting concentration of power among existing shareholders.

The foreign exchange controls prevent overseas investments and largely limit investment opportunities to the JSE markets or fixed property.

The big investors, namely the pension funds, life-assurers and unit trust funds, thus compete for a limited number of blue-chip shares that become available to the market.

This causes the share prices of these 30 or so companies to spiral upwards and limits tradeability even further as they become too expensive to repurchase.

Mr Andersen said the JSE was currently examining ways of boosting liquidity.

“The abolition of the existing one percent Marketable Securities Tax (MST) will go a long way to improving liquidity,” he says, quoting the case of Sweden where the withdrawal of the tax resulted in a 50 percent rise in liquidity.

Efforts are also being made to persuade the big shareholding companies to “unbundle” their existing shareholdings.

It is doubtful, however, whether these companies will release their control, while the current foreign exchange restrictions remain in place.
Company liquidations rise 72%

PRETORIA — Liquidations of companies and close corporations increased by 72.6% to 711 in the three months to end-April, compared with the same period last year.

The CSS disclosed yesterday that in the previous three months — November to January — the increase was 47.6%.

And insolventcies of private individuals tell a similar story.

They increased by 18.3% to 1 069 in the first quarter of the year compared with January-March last year.

Over the previous three months the increase was 5.8%.

The CSS said 224 companies and close corporations were placed under final liquidation in April alone. This was an increase of 49.3% compared with April last year.

Earlier this week CSS figures showed debt summonses in the first three months of the year had increased by 8.5% and averaged about 3 000 a day in the three months. Civil judgments for debt increased by 11.5% — and averaged about R500 a day in the quarter.

Stellenbosch University’s Bureau for Economic Research head Ockie Stuart said the debt pattern was consistent with an economy in deep trouble. And he stressed the number of individuals and businesses going to the wall would continue to rise until at least the end of the year — and well beyond the economy’s turning point.

In another CSS release yesterday, figures showed a decrease in the workforce in the manufacturing industry of 14 100 to 1.4 million in the four months to end-February. And in the construction industry, the number of workers decreased by 3 500 to 376 600 in the same four months.

The number of blacks employed in manufacturing fell by 7 606 to 743 500, and in construction the numbers decreased by 4 500 to 268 100.

Policeman misled investigator

A SENIOR policeman investigating the death of assassinated ANC lawyer Bheki Mlangeni yesterday admitted he had misled an independent forensic expert hired by the deceased man’s family.

Capt Andre Kritzinger admitted that when questioned by David Klitzow he had denied knowledge of a police explosives expert, Capt Wal de Toit, whom renegade policeman Dirk Coetzee had alleged was responsible for the booby-trapped cassette player which killed Mlangeni.

He told the court he had known de Toit was in fact a colonel but had misled Klitzow because they had been arguing earlier and he was angry.

He denied he had lied to Klitzow.

The policeman told the court he had no specific motive for misleading the forensic expert.

Kritzinger made these admissions under cross-examination at the inquest into Mlangeni’s death, being heard before Judge B O’Donovan in the Rand Supreme Court.

Mlangeni was killed on February 15 last year when he activated a booby-trapped cassette player posted to him from Luaka.

The cassette player and a tape marked “evidence of hit squads” had originally been posted to Coetzee in Luaka where he had taken refuge with the ANC following his claims that he had been a member of a police hit squad.

Coetzee did not collect the package and it was redirected to Mlangeni who was killed as the sender.

Mlangeni was killed when he put on the earphones to listen to the tape.

Kritzinger, who investigated Mlangeni’s murder under Lt-Gen Ronnie van der Westhuizen, has denied police had not made a serious attempt to investigate the case.

It was put to him by counsel for the Mlangeni family, G Rautenbach, that when Kritzinger spoke to him a month after the police were informed of Coetzee’s allegations about Du Toit and his work at a police explosives laboratory, the allegations had still not been investigated.
Share services angry at JSE royalty

SERVICES providing electronic information on equity prices have slammed the JSE for introducing royalty charges for private investors.

Sharenet, Progressive Systems College and MM Computers, which disseminate information from the JSE's computer system to about 3,000 small investors, were recently slapped with a monthly R10 royalty charge on each client.

"However, the charge for corporate clients was reduced to R50 from R200," said a spokesman for one of the companies, who did not want to be named, said the JSE was doing little to encourage small investors to return to the market and help solve the exchange's problem of low liquidity.

One of the service companies already charges clients R24 a month for the service. "This has now risen to R34, an increase of 42% which the small investor is expected to fork out."

JSE president Roy Andersen said the charges were meant only to recover the exchange's costs.

The JSE, which had been providing the service at a loss, did not intend to make any profit. Research had also shown that the charges were in line with those on the London Stock Exchange.

Andersen said the JSE had readdressed the situation and reduced the charge for corporate clients to R50. The R10 monthly royalty to be paid by individuals was essential to recover costs.
Top banks accused of insider trading

JSE president Roy Andersen is to protest officially to Reserve Bank governor Chris Stals that commercial banks traded on confidential information when they learned of the Bank's three-point plan to drain liquidity from the money market.

Senior capital market dealers yesterday repeated allegations that banking institutions had indulged in insider trading after a routine monthly meeting between Stals and top commercial bankers on Tuesday. Andersen said yesterday he would contact Stals in writing in an effort to avoid a repetition of the matter in the future.

"It would appear that Stals made mention of certain factors to bankers and that they may have abused this confidence — the net result being that JSE brokers, who didn't attend the meeting, lost a great deal of money," Andersen said.

A source said all of the major banks, including Absa, FNB, Standard Bank, Nedbank, Volkskas and all of the smaller banks and discount houses were present.

"It was very careless and irresponsible of the Reserve Bank to discuss price-sensi
tive information during trading hours," one dealer said.

Numerous dealers alleged that bankers who attended the meeting contacted their dealing rooms shortly afterwards and divulged details of Stals's comments. Around the same time, trade on both the money and capital markets picked up and rates hardened sharply, they said.

Stals confirmed yesterday that he would announce measures to curb high levels of liquidity in the market within the next few days. Dealers said the move was the result of strong market pressure on the Bank to lower official interest rates after market rates dropped significantly over the past few months.

Sources said Stals had proposed plans to drain excess liquidity by raising the cash requirements for banks by one percentage point to 5% from 4%. Other proposals suggested were plans to increase the limit of the banks' offshore forex holdings to $540m from $360m and to introduce nine-month Reserve Bank bills.

Capital market rates drifted lower yesterday — the benchmark Eskom 168 finished easier at 15.78% from a previous 15.93% while the RSA 150 stock was down to 16.03% at the close from 16.16% on Tuesday. Money market rates were unchanged.
Paraguay offers perks

PARAGUAY offered SA investors a potential 200-million consumers for anything from beer to motor vehicles, Gustavo Leite Gusmány, director-general of its first trade mission to SA, said yesterday. The country offered a five-year tax holiday, free flow of capital and no personal tax. Corporate tax was only 30%, he added.
Floods force thousands from homes

GENEVA — Tens of thousands of people have been forced from their homes by devastating floods in Paraguay, Argentina and Brazil, a major humanitarian organisation said yesterday.

The International Federation of Red Cross and Red Crescent Societies said heavy and continuous rain since April had saturated the basin of the rivers Parana and Paraguay.

Reporting what it said was a very serious situation with generalised flooding in all three countries, the federation launched an appeal for funds to provide food and medicines to refugees.

In Paraguay, the federation reported, about 80,000 people were homeless.

In northern Argentina, disaster zones had now been declared and 100,000 people evacuated from their homes.

In the southern Brazilian states — all declared disaster zones — about 80,000 people had been made homeless.

— Sapa-AP

EC forges ahead but keeps door open for Danes

OSLO — The 12 EC states, meeting after Denmark rejected the Maastricht treaty, agreed yesterday that the other 11 states should press on with ratification, Portuguese Foreign Minister Joao de Deus Pinheiro said.

The doors remain open for Denmark to participate in Europe, but all 12 ruled out any renegotiation of the treaty.

The EC foreign ministers reaffirmed an aim set at in Maastricht in the Netherlands in December to strive for ratification of the treaty by the end of 1992, to coincide with the formal advent of the EC's barrier-free internal market.

The treaty cannot come into effect unless ratified by all 12 EC governments. It opens the way for a single currency and common foreign policy.

British Prime Minister John Major, confronting head-on a matriny of "Euro-skeptics" in his own Conservative Party, yesterday said he rejected the idea of killing off the Maastricht pact.

"It is unrealistic to think that everything has been changed by the Danish vote, just as it is unrealistic to think nothing has been changed by it," he told a rowdy session of parliament.

There was also the danger that Britain could end up with a worse deal than the Maastricht treaty on closer economic and monetary union.

"If we went back to square one I don't think we could assume that our partners would agree all those matters that were of interest to this country," he said.

At the same time, in what may be seen as a warning to EC members talking of going ahead with union without Denmark, he said he was not about to let Denmark be isolated.

— Sapa-Reuter

— When the people say 'slow down' — Page 13

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The surprises some analysts

**Treading Water**

<table>
<thead>
<tr>
<th>Year to March 31</th>
<th>1991</th>
<th>1992</th>
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<td>1 526</td>
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<td>Equity-acc earnings (Rm)</td>
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<td>Earnings per share (c)</td>
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<tr>
<td>NAV (R)</td>
<td>123.12</td>
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"Unwise" They could result in some companies laying off more staff — at a time when unemployment is critical.

Deputy chairman Leslie Boyd confirms that the Columbus stainless steel project is well on track and that recommendations to the various boards will be made in July. Columbus, a multibillion-dollar project, is expected to catapult SA into the first league of stainless steel producers.

Questions about prospects for Minorcoro were turned aside at the press briefing. Referring to reports that De Beers is on the verge of opening new mines in Russia, deputy chairman Nicholas Oppenheimer confirmed that ties with Russian producers have strengthened. However, he says "there are no immediate plans by De Beers for the development of new mines in Russia."

On economic prospects, Ogilive Thompson said SA has experienced an extraordinary decade, including a major debt crisis, a substantial fall in the gold price, a significant war in Angola and a relatively dry decade which impeded agricultural output Since these factors, weather excluded, are not likely to recur, he feels there is scope for "a nice pickup in the economy."

The intimation of satisfactory growth in the 1993 year suggests that dividends may increase to about 380c. Some analysts have a contrary view; however, since the group is powered primarily by precious metals and diamonds, prospects for which are relatively dull, they do not expect exciting results. Indeed, they point out that equity-accounted earnings in 1991 are no better than for 1989 and see no reason for 1993 to be exceptional. At R122.50, Anglo is on a p/e of 10.9 (equity-accounted) and 17 (attributable) and effectively a future dividend yield of 3.1%. It trades at a discount of about 22% to NAV, which must be some comfort to investors. But it looks fully priced.

David Glasson

**Tollgate's Askin must be doing something right**

Industrial fasteners and wire mesh products (Leaders November 15), was effectively acquired in December. The balance sheet includes Askin, but its earnings will accrue only this year.

The assets of Gants Holdings and Norths Industries were finally disposed of. These transactions involved the write-off of R31,2m in 1991 and R46,1m in the previous year. Complex negotiations finally led to the sale of Cape Town bus company Tramway Holdings soon after year-end.

The Tramways sale will cut interest-bearing debt from R224m to R156m but came too late to have any effect on interest paid, of R35.6m (R47.7m) after various write-backs and adjustments, attributable earnings of R3.6m show a swing of R28.9m.

On a weighted average 28.1m ordinary shares in issue, nominal EPS is 13c, but this is such a gallimaufry of normal and abnormal items that it has no real meaning and is no indicator of this year's prospects.

The first phase of the corrective procedures is almost over. Most entities that were either hopelessly unprofitable or required too much time or resources have been ended or sold.

But neither chairman Julian Askin nor the other members of his consortium anticipated that their plans to resurrect the group would have to be carried out in the worst recession since World War II. So results for 1991 are not as good as they had hoped for but show signs of significant potential.

The 67% rise in operating income to R43.5m is encouraging. It indicates that someone is doing something right. Granted, much of the improvement comes from eliminating unproductive expenditure but there is clearly a core of quality earnings. The year coalesced much activity.

UK-based Jaton Holdings, a wholesaler of...
Grasping the nettle at last

Despite the long bull market, trading is light.

These days the journalists, not traditionally noted for their affluence, take the stockbrokers to lunch. The Johannesburg Stock Exchange (JSE) is exhibiting all the signs of gross illiquidity. Since stockbroking is a volume business, with brokers earning commissions on the deals they conclude, an inevitable consequence is that all firms are struggling to cover their overheads. In some cases, firms have been obliged to retrench staff.

The burning issue is that very few shares are changing hands. It is widely known that the JSE needs to do a cash volume of around R800m a day and it is widely spread business if its members are to tread water. R100m a day would provide levels of profitability which would enable brokers to begin returning to their desired lifestyles.

Brokers, however, are not, by and large, a much-loved section of the community. Indeed, there is a perception that they are among the fat cats of society and when they fall on hard times there is not much sympathy for them. And hard times are much in evidence. The Porsches are disappearing, there are concerns about job security, etc.

Why, then, should so many brokers be struggling to keep their heads above water? And why should there be so many persistent rumours about mergers, take-overs and impending failures within the broker community?

The reason is that it is one thing for share prices to rise almost unabated, it is quite another for this to be accompanied by heavy volumes of trade. On the JSE, trade has been light, share prices reflecting large increases on the basis of small volumes of shares changing hands.

This state of affairs cannot simply be wished away and the reasons for it illuminate a deeper malaise. The new president of the JSE, Roy Andersen, repeats an accepted wisdom in the recent annual report: He says that a healthy stock exchange lies at the heart of every strong economy. But last year, our market traded shares with a value of a mere 4.3% of the total capitalisation of all companies listed on the JSE.

Comparisons are necessary here. Johannesburg is the 14th-ranked exchange out of 38 in terms of market capitalisation (US$137bn at end 1990). However, 19th-ranked Taiwan achieved a turnover last year of nearly 350% of its market capitalisation of $2.82bn and $2.69bn respectively, achieved turnovers approaching 50% of market capitalisation. Zurich is at 240% and London is close to 30% (see hologram).

So what is wrong with Johannesburg? Recognising early that this will be one of the most critical issues of his tenure, Andersen has moved swiftly to identify the causes. At a closed meeting held recently, a cross-section of the financial community began the process of analysing the problems.

The broadening of the net to include the major users of the JSE is in itself encouraging as at least brokers are recognising that they can no longer cocoon themselves in a private club, isolated from the businesses they purport to serve.

Interestingly, the ANC's Tito Mboweni was the only representative of a political organisation present. Andersen says the ANC was invited because Diagonal Street property, now heavily oversubscribed as managers of commercial buildings throughout the country will confirm. Another is the capital market (Eskom and RSA stocks), the third is into equities.

Our institutions, by and large, choose to invest heavily in equities. They spend much of their time chasing the same 30 or so blue-chip stocks.

One result is that the prices of those stocks are driven to levels at which they no longer offer reasonable value. This is certainly the view of potential overseas investors who perceive better opportunities in our gils and it is one of the reasons Old Mutual's efforts to establish an international SA fund last year met with such a muted response.

Another effect is that the stocks themselves achieve a certain scarcity, institutions are reluctant to part with their previously compiled holdings for fear they'll never get them back.

During the delivery of a carefully worded script, which one delegate said sounded very much like an impassioned defence of exchange control, the Reserve Bank's Tom Eunten told the JSE meeting that the intention was to narrow the gap between the financial and commercial rand and then proceed cautiously with the lifting of exchange controls over a four-year period, providing adequate levels of stability were achieved and maintained.

This merely repeats statements made two years ago in London by the State President. No visible progress has been made since then and the only conclusion is that the fear of an instant flight of capital is so substantial that the removal of exchange controls at any foreseeable time is a chimera.

The second issue revolves around tax — specifically, marketable securities tax (MST) and the treatment of profits arising out of share trading.

Andersen says that the removal of MST in Taiwan and Sweden produced an instant increase in the volumes traded on those markets. In Sweden, where MST was phased out over two years, a 50% increase in liquidity levels was noted in the first year, followed by a further 75% when MST was scrapped entirely.

During his Budget speech last year, Barren du Plessis undertook to remove MST over two years, beginning this year. But when the 1992 Budget came around, overshadowed by the referendum excitement, the MST issue was simply ignored. If government takes seriously the matter of the poor performance of the JSE, then this is one area in which it can act. Finance, Trade & Industry and Economic Co-ordination Minister
Derek Keys must be persuaded to honour his predecessor’s promise. The taxation of share trading is vexatious. There are no simple rules, in the absence of capital gains tax, to indicate when profits fall within the Receiver’s net. Previously, Du Plessis indicated he thought stock should be held for 10 years before trading in it qualified for tax-exempt status. Later, this was amended to five years, a number which the Receiver, is now treating as written in stone. It is known, for example, that a number of unit trusts have received letters recently from the Receiver asking for reasons as to why certain share transactions should not be taxed — which prompted an uproar in that industry.

But the fact is that there is no clarity as to when profit from share trading is deemed a capital gain — with no tax payable — and when the Receiver believes it should be taxed at the marginal rate. This is a matter which the Receiver has been asked by the JSE to rectify by issuing a practice note.

Before he does, the Department of Finance would do well to examine the experience of the Taiwan Stock Exchange.

Taxation on share trading was removed for one year. Volumes on the exchange boomed. The exemption was extended for a further year, an action which has been continued progressively for six years. The result is that Taiwan has the most active exchange in the world, with trading volumes exceeding the market’s capitalisation more than three times. Even discounting the well-known Chinese propensity for a gamble, this is a remarkable result.

There are other issues, too. There is the matter of the JSE making a major effort to encourage the small investor, the man in the street, to return to the market. Andersen says he recognises that there is very little spare cash available in the form of individual discretionary savings, but he is anxious that when this changes the small investor should be clearly aware of the benefits available through the JSE.

To this end he is instituting a PR campaign which will concentrate on the market as the best hedge against inflation, without suggesting that it’s risk free. He wants members to participate in publicising their own services, specifically in the area of the sound advice they can give (though cynics would question that), and he will be questioning why unit trusts are automatically considered to be the most appropriate investment medium.

Of course, there have been similar campaigns in the past. These mostly yielded small returns. What will attract the man in the street will be the perceived opportunity to make money. That will require both buoyancy and liquidity, neither of which is much in evidence on the JSE.

Splitting shares, another area to which thought has been given, does not appear relevant to long-term liquidity. While it offers an immediate one-off solution, its effects are too short-lived.

The consequences of pyramids for market turnover are rather more complex. At worst, pyramids may mildly depress turnover because they permit the presence of strong owner-shareholders who don’t normally trade their shares. On the other hand, pyramids minimise the underlying equity needed to retain control of a company. On that basis, it can be argued that pyramids actually have the effect of releasing stock on to the market.

However, preliminary evidence from stockmarkets around the world shows no clear pattern as to the effect of pyramids on market liquidity.

Then there is the matter of the market in derivative instruments. Andersen says, in what must be a candidate for the understatement of the year, “there have been disappointing volumes in the traded options market (TOM).”

Considering that trading in TOM is a two-week period, it recently resulted in a solitary deal, his disappointment is hardly surprising.

The reason is that many people simply don’t understand the underlying principles — or the mechanics — and they are distrustful. While it is true that poor liquidity can be overcome substantially by the use of derivative instruments, the JSE and its members have only themselves to blame if they haven’t vigorously pursued the business of educating potential users.

It would help, of course, if more stocks were listed. But Johannesburg hasn’t done badly on that score, it is ninth-ranked in the world for the number of domestic companies on the boards. Besides, any board of directors looking at the present moribund state of trading on the JSE must be asking themselves whether a listing is something they really need.

Other issues, all of which will impinge to some degree on turnover levels, need to be attended to. These include the continuance of an open outcry market, whether dual capacity dealing should be introduced, and how the institutions can be permitted participation in the market mechanism. Some of the banks have strong views on these matters, and have expressed themselves forcefully — particularly in regard to the heavily restricted membership of the JSE, and on negotiated commissions.

One senior member of the JSE is known to have expressed his profound disapproval that Andersen permitted the involvement of the banks and institutions in a consideration of the JSE’s future. But a stock exchange must serve its users and provide them with a means of raising capital for economic development. There can be no good reason to exclude them.

The conclusion must be that there is no quick fix to the JSE’s liquidity problems. But at least the nettie has at last been grasped. Countermeasures are being considered through the JSE’s recently appointed Katz Committee.

A comprehensive package must now be put together which includes the removal of MST, a clear delineation of when share trading constitutes taxable income, and a determined movement towards the removal of exchange controls, however much that may horrify our central bankers.

There are a few other areas worthy of consideration. First among these is a re-sumption of the privatisation programme which has stuttered to a whimpering halt. It is not enough for government, paralysed as it is by a lack of will and mesmerised by the student protests of the ANC, simply to walk away from its own programme. The successes of privatisation policies, notably in the UK, are too immediate for the programme to be aborted in mid-stride.

Putting public ownership directly into the hands of the public is what matters and greater liquidity on the JSE will be a consequence.

The second is to get our inflation under control, and that means below 10%. Nothing will spur interest in the JSE more than this, when individuals see that channeling their money to the institutions runs a poor second to direct investment in well-run companies through the JSE, a concomitant result will be growing demand and better trading.

Then we might have a stock exchange worthy of the name.
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Parastatal threat to private sector

THE Government's commercialisation programme is running into opposition from the private sector which fears unfair competition.

Under the programme, State corporations are required to start paying their way before being privatised.

The private sector fears state corporations will have an unfair advantage because their assets were bought with taxpayers' money or low-interest guaranteed loans.

There is no cost of servicing capital and borrowings are generally long-term with interest rates below 15%.

Wing

Of particular concern is the possibility that the privatisation programme will be prolonged in the face of ANC opposition.

SA Chamber of Business deputy director-general Ron Haywood says: "It is imperat...".

Private-sector companies have high interest rates and inflation, provision for their business to grow, depreciation of assets and dividend payments.

"An acceptable return would be 25% State-owned companies may go for less."

Pieter van Huystee, chairman of the Policy Unit for Public Enterprises and Privatisation, says: "It is the major concern to us that assets in State-owned companies be properly valued and accounted for. State-owned assets should not be abused. The Competition Board is instructed to act proactively where it sees unfair competition. But in improving the efficiency of State assets, some competition must be expected."

Fire

The damage caused by State corporations unloading their assets on private-sector markets has been severe in some instances at Sasol, now listed on the JSE, hammered AECI in explosives with a rumored price war that Sasol's capital was comparatively cheap and it enjoys import protection.

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Government and Reserve Bank get to work

New plan for SA's revival

FINANCE Minister Derek Keys and Reserve Bank Governor Chris Stals are laying the foundations for an economic program to nurse the economy out of recession and back to economic growth. Measures were announced this week to restore business confidence and maintain monetary stability.

Dr Stals told Business Times that the time has come for SA to implement a structural adjustment program (SAP) to break the deadlock of stagnation, high inflation, low capital and labour output ratios.

The Reserve Bank is developing a programme which could catalyse economic growth through 96, a level at

Ducking and diving in great bank leak

By JILL WALKER

The council of SA Bankers says it does not have facts about alleged insider trading by dealing accounts of banks which attended Dr Stals' meeting Monday.

Mr Norton says he will talk to the market up front about the clearing banks.

Johannesburg Quotations Market managing director David Bellard denied that the JSE brokers had made a lot of money if they had written information on the volume being traded.

Mr Bellard, an independent trader, said: "If they had, it means they must have been holding positions that went against them."

"This means they have acted as both principal and agent. Although they are entitled to do that, stockbrokers have insufficient leverage. The brokers cannot sell stock before it has been bought.

The JSE traders acting in some cases as principal and withholding large market movements.

Mr Bellard finds it interesting that JSE trades in United Western Authority stock were not active before the JSE announcement that it had been bought. The JSE traders are not buying and selling, but buying large blocks.

Mr Bellard says the market speculates on whether the Reserve Bank will buy gold or not.

"There is a lot of money on the floor. There is a lot of buying activity. The Reserve Bank is buying, turning around market, but there is a lot of buying and selling."
Cluff to seek JSE listing

CLUFF Resources plc, the UK-based gold producer and oil company with gold interests in Ghana and Zimbabwe, is to seek a listing on the JSE.

Chairman and chief executive JG Cluff says "The decline in the London market as a centre for mining investment following the disappearance in recent years of most of the major UK mining companies is reflected in a lack of interest in mining stocks. "We have thought about this and the desirability of broadening our shareholder base and are considering a listing on the JSE as the foremost mining market in the world as well as in Africa."

Company representatives will visit SA soon with a view to placing some shares with institutions.

Cluff aims to reduce or sell its oil interests, but Mr Cluff says the past year was not a sensible time to do so.

One London broker recently placed a value of $80/oz on Cluff's 1.8-million-ounce gold reserves.
Pik sticks on federal model - By MIKE ROBERTSON

THE ANC has told the government it will not renegotiate agreements reached with Codena over a six-month period, but little else was achieved at a closed-door meeting this week aimed at averting civil protest in July.

The ANC, represented by secretary general Cyril Ramaphosa and negotiation committee members Mohamed Yallie, Mosu and Joe Sho, and the government, represented by Deputy Minister of International Relations and Cooperation, Minister of Science and Technology, and Minister of Communications, and Cabinet Minister Phumzile Mlambo-Ngcuka, met at the ANC's head office in Pretoria this week.

But the ANC said it was not satisfied with the meeting and that the government had made it clear they were not prepared to discuss those concepts except for clarity about the role of the ANC, which had been discussed at a previous meeting.

Government members said Mr Sho and Mr Mlambo-Ngcuka had told the ANC the government had made it clear they were not prepared to discuss those concepts except for clarity about the role of the ANC, which had been discussed at a previous meeting.

The ANC rejected the view that the government had made it clear they were not prepared to discuss those concepts except for clarity about the role of the ANC, which had been discussed at a previous meeting.

DP calls for judge to hear CCB evidence - By MIKE ROBERTSON

THE Democratic Party’s national party president, Mr John Joubert, and the DA’s national party president, Mr Helen Zille, have called for the National Assembly to be opened to the public to allow the public to hear the evidence presented by the Commission of Inquiry into the circumstances surrounding the death of Mr Joubert.

The commission, which was set up by the DA after Mr Joubert’s death, is investigating the circumstances surrounding his death and the role of the DA in his death.

The commission has so far heard evidence from witnesses who claimed they were not involved in the death of Mr Joubert, but that the DA had been involved in the death.

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Fancourt to seek R90m JSE listing

PETER GALLI

UPMARKET leisure resort Fancourt would seek a R90m JSE listing to ensure its 1,600 debenture holders received an interim return, chairman Andre Pieterse confirmed yesterday.

The listing on the property loan stock sector is subject to the approval of debenture holders and the Masterbond curators. Effectively debenture holders will be issued with loan stock units to the value of their debenture holdings. They will then be able to trade these freely on the exchange.

In addition, they will be given an equity share in the Fancourt Group, which is also set to list.

"We believe it is necessary to list the debentures in property loan stock while simultaneously equity listing the Fancourt Group. It has not yet been decided what equity stake the debenture holders will be given, but it will be sizeable," Pieterse said. Those who wanted or needed to cash in the loan stock in the short term could do so while retaining their equity interest.

Meetings will be held in all major centres to allow debenture holders the opportunity to vote on the listing. Should this be rejected, the recent agreement with Group Five, the Masterbond curators and Fancourt shareholders, will remain in force.

Under this agreement, until all infrastructural work on the development is complete, debenture holders could have to forego interest payments if there are insuffic

Fancourt

tenant funds from sales to cover both

"As Golf Investments directors — the controlling shareholders in the Fancourt group — we anticipate this return will be higher than the original return promised by Masterbond," Pieterse said.

This move, designed to distance the group from its Masterbond connection, would further allow Fancourt to gain bank finance.

This would result in debenture holders, who had been kept waiting for interest payments on their R80m worth of debentures issued by Masterbond in Fancourt since October, to realise the maximum return on their investment, Pieterse said.

No major problems were envisaged in securing the listing. "A JSE listing provides additional security for the debenture holders as a listed company is subject to rigorous reporting and disclosure requirements,"

About R10m still had to be spent on additional amenities like a conference, health and sports centre, an equestrian centre and a beach club, but the listing would ensure this happened, he said. About R10m still had to be received from sales concluded, while R50m worth of sales were pending.

"We have never been a Masterbond company. They were our bankers/financiers, and the sooner we can put that ghost to bed the sooner debenture holders will receive their returns," Pieterse said.
JSE sets an example
A mission to decide on the most suitable stock exchange for Zambia has chosen to recommend the model set by the JSE (232).
A Zambian Finance Ministry treasury counsel who led the four-man mission to SA, Botswana and Britain said in Lusaka the JSE model was best suited to the Zambian environment.
Forbes halts trading pending merger

ANDREW Forbes & Co withdrew its dealing team from the JSE trading floor at noon on Friday in a move which triggered speculation among stockbrokers about the firm’s position.

Director Andrew Forbes said the stockbroker had voluntarily withdrawn its team pending a merger. He said talks about a merger were at an advanced stage, but would not give further details.

JSE president Roy Andersen said on Friday the JSE was told the firm had withdrawn its dealers "while addressing the recapitalisation of its business".

A source said the firm had done the honourable thing by taking early action before outside intervention was necessary.

The firm’s problems come at a time when the broking community is under siege from low volumes arising out of poor liquidity on the exchange. Difficulties have been marked by surging blue chips which have lifted the JSE industrial and overall indices to record highs. However, there has been little trade on the rest of the market.
Clients reject JSE claim on royalty charges

CLAIMS by the JSE that its new royalty charge for information drawn from its databank was "only meant to recover costs" have been rejected by clients using the service.

The royalty charge would swell the exchange's coffers by about R250 000 a year, they said at the weekend. The JSE made a surplus of R57 000 for the year to end-February.

In a Business Day report last week, JSE president Roy Andersen, reflecting criticism from Sharenet, Progressive Systems College (PSC) and MBM Computers, said the service had been provided at a loss and that the new charges were in line with those charged by the London Stock Exchange.

"The additional cost to the user is virtually nothing," Milne said the JSE, after wasting money on white elephants like the Traded Options Market (TOM) and its own massive mainframe installation, was now recovering these costs from the small investor. The exchange would receive an additional R9 000 a month from PSC alone.

MBM Computers MD Derek Kremmen, whose company will pay an extra R6 000, said it was wrong to compare the JSE with the London Stock Exchange because the two did not operate in the same way.

Andersen, however, said the new charge was genuinely meant to recover costs. Stockbrokers had been paying for the service all along, and it was only right that other users made a contribution.
R59m raised to salvage Phinda

The UK-based Hambros Bank yesterday formally announced R59m had been raised by SA and offshore investors for the Conservation Corporation.

The announcement is the final step in salvaging the Conservation Corporation subsidiary, Phinda Game Reserve. The Corporation owed Phinda debenture holders R43m, raised by Masterbond prior to its collapse.

At a meeting on May 22, Phinda debenture holders approved the release of R43m to Masterbond curators for distribution to debenture holders.

Of the R59m raised, foreign organisations had invested 40% and local investors 60%.

Foreign investors were Scottish fund management company Martin Currie, the Getty family and Hambros Bank, while local investors were the AECI Pension Fund, Anglo American, Fedlife, Southern Life, Metropolitan Life, De Beers, Investec and Harry Oppenheimer.

The funds raised offshore had been used to buy a tranche of SA Reserve Bank debt, Hambros Bank director Jonathan Klein said.

An investment company on the Isle of Man — Conservation Corporation International — had bought the Reserve Bank debt and lent it to the Corporation.
CNA Gallo takes control of Nu Metro

CNA Gallo (Chagalo) has acquired the remaining 50% of the Nu Metro Entertainment Group in a R38.7m cash deal.

With the group's full resources behind it, Nu Metro could become a more serious competitor to Ster-Kinekor, which has a larger slice of the entertainment cake.

Chagalo said yesterday it had also entered into a joint venture in scholastic publishing company Heinemann SA, which was owned by Heinemann UK.

The acquisitions were aimed at positioning the group for growth and had a long-term strategic value, Chagalo MD Dennis Cuzen said.

"They represent excellent opportunities to boost growth in operations directly related to our core businesses."

In September 1996 CNA Gallo acquired 50% of the Nu Metro Group, which comprises 175 cinema screens, Nu Metro Home Video and Nu Metro Distribution. The group had now acquired the remaining 50% from Avi Lerner with effect from April 1.

In addition to the cash consideration, Cuzen said further amounts could become payable in April 1993 and 1994 "dependent on the profits achieved by Nu Metro" in the

Nu Metro

years to end-December 1992 and 1993. The aggregate of these payments would not exceed R38m. B10/6172

Nu Metro would focus on "strategically placed multiplex cinema complexes" and long-term objective would be a focus on "the largely unexplored black market". The acquisition would have no effect on Chagalo's March 1993 earnings.

In a second deal, Cuzen said Chagalo had launched the Heinemann/Centaur joint venture "at a time when SA was actively involved in attempting to improve its educational system."

Cuzen said the general retail book market was worth about R700m, and the current scholastic book market was worth about twice this amount.

The group also announced some board changes. Gallo Group founder Eric Gallo was appointed honorary life president of Chagalo.
Business confidence rapidly ebbing away

By Michael Chester

The overall business mood has slipped into deeper pessimism, with forecasts of still more cutbacks in investment and employment levels in the pipeline, a survey by the SA Chamber of Business (Sacob) shows.

The business confidence index, which sets a base rate of 100 as a neutral marker between optimism and pessimism, tumbbled back to 90.7 points last month in a sharp reversal of marginal rises recorded at the start of the year.

Sacob director-general Raymond Parsons said the economic evidence showed the recession had actually deepened in the first half of the year rather than showing signs of bottoming out.

Sacob had been forced to revise previous predictions of a recovery timetable. It now feared 1992 as a whole would show the economic growth rate at zero — with all hope pinned on the start of an upswing in 1993.

As the initial euphoria sparked by the "Yes" vote in the referendum wore away, the level of business confidence was both volatile and vulnerable.

No fewer than eight of 13 main economic indicators had declined in the May count, despite a slight improvement in the rand/dollar exchange rate, a marginal slowdown in inflation and stronger share prices on the JSE.

The contraction of the economy in the first quarter had been the most severe since the recession started in late 1989.

Confidence has also been badly hit by:

- Growing evidence that the impact of the drought looked likely to be even worse than first estimated
- The apparent political logjam in Copeisa, and the economic damage threatened by mass action or general strikes (Sacob calculates the cost of a total standstill at no less than R1.2 billion a day)
- Recent policy statements by the ANC, which, Sacob said, though showing signs of more realism, "still reflected a reluctance to accept the domestic and global imperatives of a market-driven economy."

Sacob economist Keith Lockwood said confidence in the manufacturing sector was at its lowest since mid-1989, nearly all the indicators measuring the outlook over the next month and over the next 12 months were down.

Especially worrying, he said, were signs of cutbacks in capital expenditure in the industrial sector, which were almost bound to deter overseas investors from pumping more funds into SA.

"If foreign investors see that new fixed investment is being cut back at domestic level," he said, "it is not surprising they will be reluctant to plough in cash themselves."

The employment outlook was bleak, with forecasts of labour cutbacks among both skilled and unskilled workers reported from all regions.

Looking ahead, however, said Mr Parsons, Sacob had been encouraged by the speed of the normalisation of foreign trade relations and the record number of inward and outward business missions that were creating opportunities for expanding two-way import and export trade.

More and more, he said, exports had to be regarded as the key to a sustainable economic recovery.

Sacob now pinned hopes on a recovery next year.

More bad news for motor industry

By Sven Lunsche

Car sales are running at almost 20 percent below the depressed levels of the same period in 1991, with industry leaders expecting sales to fall well below 200,000 for 1992.

Figures for May, released by the National Association of Automobile Manufacturers (Namsa), yesterday, show that new car sales at 157,277 dropped by 19.3 percent compared with May last year, even though there was a nominal 0.6 percent increase over April 1992 sales.

Sales for the first five months of the year, at 75,959 units, were well below (13 percent) the 85,959 units sold in the same period last year.

The trend was also evident in light commercial vehicle sales, which in the first five months were 22 percent down.

Medium and heavy vehicle sales declined by 17.9 percent and 12.2 percent respectively.

The fall in sales indicated an ever-deepening recession, Namsa said, warning that unless the industry managed to improve sales substantially in the second half of the year, aggregate sales would be well below those of 1991.

It said difficulties in the industry were due to the generally low level of consumer and business confidence, tight monetary and fiscal policy, the instability surrounding socio-political development and the impact of the drought.

Stephanus Loubsor, MD of Nissan SA Marketing, said, "Even if there is a moderate recovery in the second half, the worse-than-expected first half of 1992 could result in a market in the order of 180,000 passenger vehicles, which would be four percent down on a disappointing 1991."

Brand Pretorius, MD of Toyota SA Marketing, said his company had been forced to adjust its sales forecasts at the beginning of the year, Toyota's forecast for passenger vehicles was 205,000. We now believe that a realistic figure will be 186,000 units," Mr Pretorius said.

While both Messrs Pretorius and Loubsor call for more affordable cars, there is no indication, as yet, that this is being achieved.

Industry sources say prices so far this year have risen by just over seven percent, although some manufacturers, benefiting from the local content requirements under the Phase VI programme, have managed to maintain increases below inflation.
Soft shoe shuffle ‘from one elite to another’

Reports by MAGGIE ROWLEY

NATIONALISATION on its own would merely result in the shifting of wealth and resources from one elite group to another, said general secretary of the Pan Africanist Congress (PAC) Benny Alexander yesterday.

He told about 500 delegates to the 25th Annual Convention of the South African Property Owners Association (Sapoa), whose 100 members control total assets well in excess of R50bn, that nationalisation on its own would not result in redistribution on all levels.

"History has shown that any transfer of wealth from one elite group to another elite group with the sincere belief that the latter will control it for the interests of all has run into problems."

"The PAC believes redistribution needs to take place at the point of production."

"This does not however mean that we are opposed to nationalisation, but that it cannot constitute the primary approach to the redistribution of wealth."

Alexander said the PAC had targeted three categories to benefit from redistribution — namely black workers, black managers and black entrepreneurs.

The PAC, he said, believed redistribution needed to take place through programmes supported by the state.

Private business and estates would be asked to create black equity programmes of some scale either through the issuing of new shares or by the reduction of other shareholders' interest. Voting rights and representation at management level would have to go hand in hand.

In addition business would be required to contribute to a human resource enhancement programme through an entrepreneurial promotion and development fund established by the state. Interest bearing and non-interest bearing loans from the private sector were also a real possibility.

Alexander said these contributions could be either on a short term or permanent basis.

He stressed the country could not afford bad management of its economic transition and the form and structure of negotiations that had occurred at Codesa which had resulted in deadlocks would have to be avoided. Neutral facilitators would be required.

The PAC’s policy regarding redistribution did not emphasise a retribution for past injustices.
Telemetrix, a star performer on JSE

DUMA GOUNALE

The shares of UK electronics group Telemetrix had become one of the best performers on the JSE since they were listed in November.

The shares of the little-known company, once Altron's offshore arm, were listed with little fanfare when Altron reduced its holding to 7.2% from 67%.

Altron and Ventron shareholders were given the opportunity to buy the shares at 140c. They opened at 150c and soared to a high of 410c this week, before easing to 400c yesterday.

The shares, on a price of 43 times historic earnings and a dividend yield of 1.4%, are the most highly rated on the JSE's electronics sector.

After the listing, SA shareholders held 16% of the company, while shareholders on the London Stock Exchange held 35% Altron and its executive chairman Bill Venter held the remaining 49%.

The Telemetrix share price has mainly been driven by the performance of listed US company GTI Corp, in which Telemetrix has a 88% stake. GTI, which is involved in the growing local area network (LAN) market, reported an 83% increase in earnings for the year to end-December. First quarter 1992 results showed a 114% increase in earnings.

Altron deputy chairman and Telemetrix director Charles Stride said the market was now recognizing the value of Telemetrix and GTI's investment in the company. GTI shares traded at a low of 1.7/8c on Wall Street during 1990 and have since risen to 16.3/4c.

Telemetrix's investment in GTI was always worth more than the market value of Telemetrix itself, but UK investors never gave Telemetrix a high rating because few were satisfied with its management's performance.

That came to an end in October when Stride, who sits on the Telemetrix board with fellow Altron directors Bill Venter and Don Snedden, spearheaded a major restructuring of the company.

The investment profile was altered when Altron reduced its stake and the entire board and management were restructured. The UK operations were trimmed and more discipline and cost-control enforced.
JSE broker declared a defaulter

STOCKBROKING firm Andrew Forbes & Co has been declared a defaulter by the JSE. It is alleged that clients' funds have been misappropriated and the matter has been referred to the SAP's commercial crime unit.

The JSE said in a statement yesterday that investigations into the affairs of Andrew Forbes showed that the firm was not in a position to meet its obligations to clients and creditors.

"In view of this, the JSE committee has declared Andrew Forbes a defaulter under JSE rules. This follows the firm's suspension from trading on Tuesday."

The statement said the JSE had taken control of the firm's books and records pending an application for its winding up.

To conclude the matter as soon as possible, the JSE is appointing a major firm of chartered accountants to assist its inspectorate division in the investigation. Clients of the firm have been requested to direct all queries to the JSE general manager, administration.

The firm's problems became known when Andrew Forbes voluntarily withdrew its dealing team from the trading floor at noon.

Director Andrew Forbes said the move had been made pending a merger and the JSE later issued a statement saying that the firm was "addressing the recapitalisation of its business."
A decision to invest the provident funds of ANC staff through Sanlam caused some surprise but it is a measure of the extent to which the Bellville assurer has managed to change its image from a mutual set-up for Afrikaner savings.

"It was a very democratic decision," says an ANC official, adding that several presentations were received and then voted on. Derek Hanekom, of the ANC economics unit, says Sanlam made the best all-round presentation from "an investment point of view."

What is not clear is whether Sanlam will be requested by the trustees to put any of the money into the Community Growth Fund, the unit trust announced last month that will invest only in "socially responsible" companies.

It makes sense that the ANC would want to join trade unions sending money to the CGF. So far, apparently, that issue has not been discussed. Hanekom suggests it is possible to separate ANC policies, to some extent, from the wishes of the 600-plus staff who ultimately control the fund. But the question was raised, when Sanlam presented, to what extent the sensitivities of fund members would be taken into account when the portfolio was compiled. Hanekom says satisfactory assurances on this issue were one of the factors in Sanlam's favour.

Sanlam says it will under no circumstances divulge details of a client's investment policies and directions but adds that clients' wishes are always taken into account.
INVESTING on the JSE

MARKET ANALYSIS VITAL TO SUCCESSFUL INVESTOR

1. Market analysis vital to successful investor

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10. Market analysis vital to successful investor
The small saver with his R50 or R100 a month is climbing into the booming Johannesburg Stock Exchange as never before. The big companies, instead of getting out, are so desperate to buy good shares that they are bidding up the prices because nobody wants to sell.

More than a million people now save through unit trusts, which pool their money to buy shares. And their numbers grow daily. But securities, the assets of the unit-trust industry, had soared to more than R12 billion as investors tried to beat inflation.

The stock market, as measured by the Industrial Index, has long been past the overheated mark. It creeps higher almost daily, in contradiction to the country's devastating depression.

"So are these the danger signals that now is the time to get out?" Not so, claim the experts, several of whom are warning a year ago, "Look out, prices have gone too high and could nose dive."

The picture changed this year with billions coming on to the share market.

Value

This factor helped a dramatic recovery in SA share prices in April, when world markets fell in the wake of a crash in Tokyo, where prices plunged to a six-year low. As much as R7 billion a day was wiped off the value of shares on the JSE before bargain-hunting started a recovery. Then South Africans took their cue from New York, where heavy buying sent Wall Street soaring.

The new cash coming to the JSE is from five main sources. They are personal savings, small trusts, large institutions and the government. There is also considerable buying by foreigners, despite the devaluation of the rand.

Private investors jumping into JSE

THERE'S an old saying that it's time to get out of the market when the man in the street starts buying shares. This may not be the case. A vest in shares and property for the first time. Previously, the government had tied them to low-earning investments, but fund managers wanted to get better returns to protect pension values.

Transnet disclosed this month that its pension fund had invested R2.3 billion of its R16 billion in assets into shares and was switching more investments into growth assets.

Brokers say these parastatal pension funds are driving share prices higher because they are prepared to pay premiums for quality shares.

John Winship, an investment chief at The Board of Executors, sees other important factors that could help to stoke up the share market.

There is improved perception of world economic recovery and because of that, the domestic economy will start recovering, he says.

Short-term interest rates here have fallen sharply. This normally causes investors to switch funds into shares to safeguard their capital.

From a 19% low at the end of April, the JSE All-Share Index rose by 11% percent to hit a high near the end of May.

Positive factors included the strength of world markets, lower money and capital market interest rates and increased optimism about future reductions in the Bank rate. Some good company results, a positive statement from the chairman of De Beers and a weaker rand.

An Old Mutual analyst said companies that borrowed heavily from the banks would benefit from lower rates and their profits would increase.

"We are still living in an inflationary environment and the only way to protect yourself is in growth assets and equities."

High

Share prices were high, he said, but to investors looking further ahead than two years they offered reasonable value.

The JSE was dampened in the first quarter of the year by R8 billion of new shares from rights issues landing on the market. But that source had dried up and nothing of that magnitude was on the horizon.

The Star Investors' Club meeting on unit trusts, next Tuesday at the Sandton Holiday Inn, has been fully booked. The next meeting of the Investors' Club will be at the same venue on July 13. The subject will be the derivative markets, including futures and options. Bookings: Rosemary at Cordve Marketing at (011) 483-3215. The price is R111 for Investors' Club members and R22 for non-members.
Third strike by JSE

Andrew Forbes, who set up on his own a few years ago, received generous acclaim when a week ago he withdrew from the JSE floor pending capital restructure.

The firm was formally suspended by the JSE itself on Tuesday and declared in default on Thursday. The firm will be wound up.

Thursday's arrest of the pair came after the JSE warned the Commercial Crime Unit. The JSE's investigations disclosed that the firm was unable to meet its obligations and customers' funds had allegedly been misappropriated.

Speculation is that the amount involved is about R7-million. Market sources believe the firm has been in financial difficulty for some time.

Brokers were shocked to learn of Mr Forbes' arrest. He is much liked and respected. Many were worried about another knock to the JSE's image. Small stockbrokers are especially vulnerable to a confidence crisis by individual investors.

There has been a high turnover of staff and partners at Andrew Forbes in past two years.

It is believed that some of Mr Forbes' partners resigned last year. The JSE's latest handbook lists him as the only member, but last August's edition named Heather Zietsman and S Neave.

Mrs Zietsman declined to comment on talk that the Forbes company or ex-partners were seeking business with Nasala — the National Stokvel Association of SA. They are said to be interested in placing Nasala's large cash flow in shares. Nasala's offices are at the same physical address as Andrew Forbes.

Stokvels handle about R1.3-billion annual savings of blacks through clubs and societies.

The JSE guarantee fund will protect Forbes' customers.

The other stockbrokers to fall foul of the JSE committee in the past six months are sole trader Hilary Creody who fled the country and Koos Bosman who was found guilty of prejudicing clients.
Avoid compromising investors cannot
Socially responsible

While the union-interested Community Growth Fund is a novelty for

The concept of what is good

America. David Turner Reports

SA: 'Consensual investment' is common in Europe and North

m11
LEADING industrial shares rode a capital market rally came under pressure and foreign investors shed away from the rand as nervousness gripped financial markets yesterday ahead of the start of ANC-led mass action.

The JSE industrial index slumped 1.4% or 67 points to close at 4,623 but futures dealers ascribed part of the downturn to window dressing of share prices on the close out of June futures contracts.

The sharp falls of blue chips were seen as an indication that the market was more concerned about the campaign and possible violence than was expected last week.

The overall index fell 22 points to 3,638 with losses outnumbing gains by more than two to one and only precious metal shares bucking the softer market trend.

The buoyancy of gold shares came on the back of the metal rising nearly $3 in London to flirt with the $345 level before easing back slightly. Analysts were looking for the metal to break through $345.

But part of the 35-point gain in the JSE all gold index to 1,145 was said to have come from buying of index-weighted shares by futures traders. Platinum shares also made solid gains despite the metal slipping back to $371 in London.

The weakness of the rand, which tumbled almost 3% to R3,615 to the dollar from Friday's R3,515 as jittery investors squared positions, provided support for currency-linked shares.

SIMON WILLSON reports that bond prices fell for a second successive day as the capital market viewed with growing alarm the threats of mass action.

The yield on the Eskom 188 bond rose to an intraday high of 15.62% before ending off the top at 15.89% against Friday's closing 15.79%. The R150 gilt fell closed at 16.12% against Friday's 16.01%.
Concerned investors given reassurance

THE JSE yesterday reassured investors, worried by last week's default of stockbroking firm Andrew Forbes & Co, by spelling out protective measures given to clients of its broking members.

The reassurance by executive president Roy Andersen came in response to queries by investors to the hotline set up by the JSE in the wake of the firm's collapse.

Andersen said investor protection was essentially covered by the JSE Guarantee Fund and by Fidelity Insurance taken out by the JSE on behalf of member firms.

"In addition, other measures governed by the rules of the JSE provide an added safeguard to clients of broking firms."

Any claims against the fund and the Fidelity Insurance policy were subject to the discretion of the Trustees and the insurers, respectively. Each claim, including any which might arise from the default of Andrew Forbes, therefore had to be considered on its merits.

Following the final sequestration of a broking firm, claims could be made against the fund for transactions conducted either on an agency basis or on a principal basis.

Investors

Remuneration of full included losses to clients.
- Where cash had been paid by a purchaser or was due to a seller of securities who complied with the relevant provisions of the Stock Exchange Control Act.
- Where cash and securities had been lodged as minimum cover and in instances when additional minimum cover had been lodged including cover of option transactions.

Other losses sustained by clients of the insolvent broking firm, acting as either agent or principal, would be reimbursed to an amount of R1m for transactions in equities and R10m for gilt transactions.

Transactions and losses not covered by the fund were Krugerrands, money market instruments, money market deposits not deposited with JSE Trustees, consequential losses, any liability to another broking member or firm or to a member of a foreign stock exchange or foreign dealer.

The assets of the Guarantee Fund were R70.9m at February 22, 1992.

Insurance cover of R120m for all broking firms covered.
- Loss or damage to actual securities or documents criminally tainted as a result of being stolen or forged.
- Loss of securities by theft, fraud, dishonesty, conversion or manipulation by a partner, director or employee, including trading losses due to dishonesty with the manifest intent to make an actual improper financial gain, and.
- Other physical loss or damage to securities or cash including theft, loss, and financial loss through computer crime.

JSE Trustees held cash belonging to clients of broking firms where managed accounts and other similar arrangements are in operation. In the event of a default, monies held on behalf of a client do not form part of the assets of the insolvent firm.

All safe custody and minimum cover scrip held by a broker must be tagged with the client's name and deposited with a bank. It must be reconciled monthly and a return to the effect lodged with the Inspectorate Department of the Exchange.

In the event of a default, securities held in safe custody for a client do not form part of the assets of the insolvent firm.

Andersen added that a broking firm may act as an agent only in accepting monies from a client for deposit directly with an institution in the name of that client. The institution must acknowledge receipt of the deposit and the client must be advised of the acknowledgement.
The changing face of corporate SA

By Jacques Magliolo

Serious investors should keep a careful eye on the JSE board because of the rapidly changing corporate environment.

With a growing number of listed companies being involved in some form of corporate alteration — official name changes, delistings, consolidation or rationalisation, mergers and takeovers the face of the JSE is changing rapidly. Consider the following statistics.

The number of companies removed from the JSE board doubled in 1990 — to 30 listed firms across all sectors. In 1991 this number rose to about 40.

While some listings were terminated by the JSE (Afcom Packaging & Industrial Corporation), other factors include a redemption of preference shares (Derby Industries and Greatermani, Natal & Free State Holdings), mergers (Allied and Volkskas into Absa) and takeovers.

In fact, analysts say that while 15 delistings were caused by obvious takeovers, many others were in the guise of "mutual" mergers.

Companies which concluded successful takeover bids in 1989 include Momentum Life Assurers (Lifegro Assurance) and Anglo-Vaal (Steelmetals).

In 1990 such companies included Kohler (Graphite Holdings), Kinet (Interhold), Siltek (M & PD Electronics), AECI (Swamline Holdings), Kanbym (Miellie-Kip), Kangra Holdings (Union Wine) and Metro Group (Jazz Stores).

Other major companies to be delisted in 1991 included Cape Investment Bank, Claude Neon, Cortech Electronics, Gants Holdings, Protea Chemicals, Robor Industrial Holdings and Staalchem.

During this period, more than 75 companies formally changed their corporate names. This took place across 65 percent of all JSE sectors, with the retail and wholesale sector registering the most changes, while three sectors — diamonds, engineering and beverages — each had only one company changing its name.

To add to the difficulty of keeping track of these changes, some of these companies were involved in both a name change and takeover.

For instance, Pep recently took over Tradhold, which had previously been known as Kinet and, in turn, had taken over Interhold.

Directors repeatedly cite strike action, violence and the recession for their companies' poor performances and thus the need for change either in name, merger or whatever.

JSE statistics show that in August 1990 there were 870 companies listed on the JSE with a total market capitalisation of about R454 billion.

Eighteen months later, there were 60 fewer companies listed, but the total market capitalisation rose to more than R517 billion.

With such statistics at hand, shareholders had better keep a serious check on their investment, as it may just not be there tomorrow.
basilisk of capitalism
Liquidations of firms, close corporations soar

Liquidations of companies and close corporations increased 49.8% to 224 in April this year compared with the same month last year, the Central Statistical Service disclosed yesterday.

From February to April 1992 there were 711 liquidations, 72.6% more than in the same period in 1991. There were 1,261 liquidations in 1991, 18.3% higher than in 1991.

The number of insolvencies of individuals in the first quarter of 1992 was 18.3%

Arsa economist Hans Pilkens said liquidations lagged behind the business cycle and businesses should retain conservative financial management measures.

Although an improvement was expected by end-1992, he forecast liquidations and insolvencies would peak only in February or March 1993.
The need to attract investors was at least 17.3%. The federal government and the international community are actively promoting the country's economic development, particularly in the areas of infrastructure, tourism, and agriculture. The government has implemented various measures to attract foreign investment, including tax incentives, streamlined regulatory processes, and improved infrastructure. The country's location at the crossroads of Europe, Africa, and Asia makes it an attractive destination for businesses looking to expand their operations.

In the past, the government has faced challenges in attracting foreign investment due to political instability, corruption, and a lack of infrastructure. However, recent reforms have improved the business environment, and the government is now more open to foreign investment.

The World Bank has identified several sectors where investment is needed, including agriculture, tourism, and manufacturing. The government has implemented various programs to support these sectors, and there is a growing interest from foreign investors in these areas.

One of the key challenges for investors is the lack of reliable information on the country's investment climate. The government has taken steps to improve transparency and provide more accurate information to potential investors.

Overall, the country has made significant progress in attracting foreign investment in recent years. The government is committed to further improving the business environment to ensure continued growth and development.
Sappi to list in London despite late JSE hitch

CAPE TOWN — Sappi shares will be listed on the London Stock Exchange from today, despite a last-minute hitch with the JSE. Listing on the Frankfurt Stock Exchange and Paris Bourse would follow in due course, Sappi said yesterday.

It said the hitch arose this week over the over-allocation option, which it said was common practice in an Euro-equity placing. Part of its fundraising to pay for its recent acquisition of Hannover Papier in Germany had been a successful Euro-equity issue of Sappi shares.

Sappi said 21.5-million shares were placed at R44 with SA and international institutions, one of which was the German bank, Commerzbank. Due to demand for its shares, Sappi had called into play the over-allocation option. The lead manager to the issue, London's SG Warburg Securities, was able to over-allocate, if demand existed, up to a maximum of 15% more shares than the face value of the issue.

In Sappi's case the full 15% option was exercised — equivalent to 2.8-million shares. Sappi had agreed to certain provisions, including that Warburgs could buy shares in the market to stabilise or maintain the Sappi market price.

This could only be done during the stabilisation period, which could not exceed 30 days after June 18. The maximum price for the shares was $12.45, equivalent to the R44 market price on the day the placing price was determined.

Sappi said the objective of the over-allocation option was to stabilise, not necessarily to maintain the share price at the $12.45 level. Investors should not expect the share price to be held at $12.45 or any other level.

Sappi's sponsoring brokers Martyn and Co cautioned that the stabilisation exercise could be terminated at any time.

The JSE said the stabilisation practice would not comply with its requirements, but advised Sappi that it was prepared to exercise its discretionary powers. The over-allocation of shares could be implemented subject to certain conditions. Sappi and the JSE differed as to whether one of those conditions had been met.

An announcement today said that despite the difference of opinion, the JSE had taken the view that it was in the best interests of the public to have a listing of any Sappi shares issued in this regard.

While not expressly permitted by the London Stock Exchange, it had recognised that stabilisation had long been an internationally accepted practice. Sappi said Warburgs would obviously comply with specific stabilisation rules issued by the UK Securities and Investments Board.
Open those doors

It's that time of year again. The JSE is about to hold the annual election for its governing body, the committee, which comprises 15 people (paid president included), only two of whom are appointed from outside the JSE membership. This year, 13 candidates have put themselves forward for 12 places. What this doesn't disclose, however, is that the 13 include 11 present committee members.

In other words, it's the same old faces with the exception of Richard Lure. This year's JSE committee will be as last year's, with the gracious addition of one new member. This raises some rather fundamental issues about the way in which the JSE regulates itself and conducts its affairs.

Conventional wisdom holds that people get the governments they deserve. This applies as much to the JSE as anywhere else. Many of the exchange's more prominent members will not stand for election. They argue that the time it absorbs is prohibitively expensive.

This year and next may be the most critical period the JSE has ever faced — confronted as it is by mounting problems most of which revolve around its lack of trading liquidity. And the JSE has a much wider responsibility to the companies listed on its boards, to the investors who trade in its paper — and, ultimately, to the economy.

If enthusiasm from the brokers is so limited, then perhaps it is time to draw strength from the diverse sectors the JSE says it serves. Doors could be opened to enable companies and major users, along with JSE members, to elect the institution's controlling body. It should not be beyond the ingenuity of the JSE's better brains to devise an electoral system that takes these needs into account. It's an idea.
DIRECTORS' FEES FM 19/6/92

As you were 232

Directors of private companies will no longer be subject to PAYE on fees for services rendered to the company, or on advances on those fees. The same applies to members of CCs rendering services to the CC. This is the effect of proposals in the latest Income Tax Amendment Bill.

Coopers Theron Du Toit tax partner Koos van Wyk says the wheel has now gone full circle - the position of directors of private companies and of CC members has been restored to where it was in 1990, before the Income Tax Act was amended. At that point they were subjected to tax on their fees on the provisional basis only.

From March 1 1991 directors and members were subjected to PAYE requirements as well as to the provisional tax rules. Some companies and CCs had to register as employers to enable them to withhold PAYE from directors’ or members’ fees or from service-related advances.

One damaging anomaly arose because, in most cases, remuneration that accrues to a director in respect of a particular tax year is determined only some time after the end of that year. In those circumstances, PAYE might have had to be deducted from fees even where provisional tax had been fully paid on all taxable income.

A practice note issued on December 6 1991 set out important concessions. It provided that PAYE need not be deducted from advances paid, or payable to, directors of private companies, or from CC members, where the remuneration is quantified only after the close of the year of assessment in which it accrued to the director or member. The concession also applied if the company’s or CC’s year of assessment ended during the last six months of the director’s or member’s year of assessment.

Not surprisingly, many private companies changed their financial year-end to gain this benefit. Effectively, says Van Wyk, most directors of private companies and CC members were back fully on the provisional basis.

Now the 1992 amendments formally restate the original position for directors of private companies and CC members.

However, to provide for the activation (possibly on July 1) of the labour broker rules for private companies and CCs, the Commissioner for Inland Revenue has retained the power to direct a specific employer to withhold PAYE from remuneration payable to any employee (including a director of a company or a member of a CC). The definition of employee was last year broadened to include any company or CC falling within the definition of labour broker.
FIRST it was a corruption scandal by brokers last year, then claims of insider trading by banks two weeks ago — now the collapse of one of its broking members. It's all just coming too fast for the Johannesburg Stock Exchange.

In the wake of the collapse of broking firm Andrew Forbes and Co, JSE president Roy Andersen this week sought to assure investors the exchange had the JSE Guarantee Fund and Fidelity Insurance safe-guarding the clients of member firms and that the JSE rulebook provided for clients of other firms.
ANDREW FORBES

A curious history

When stockbroker Andrew Forbes was arrested in his firm's offices last week by members of the SAP's Commercial Crime Unit, it was the latest in a line of events that has JSE president Roy Andersen "concerned." Forbes' brokerage, Andrew Forbes and Co Inc, has — according to a press release by JSE executive president Roy Andersen — allegedly misappropriated clients' funds.
Forbes said from his home as the FM went to press that he had not been charged but was cautioned that he might have to appear in court. The sum involved could be as high as R7.5m. The JSE committee has declared Forbes a defaulter in terms of its rules.

The incident follows the default of Hilary Crosby (who apparently fled overseas last year) and the disciplining by the JSE committee of Koos Bosman for prejudicing the interests of clients. In August Forbes was instructed by the committee to recapitalise his business, an instruction with which he complied. Nothing since then, says Andersen, indicated anything untoward.

However, after the submission of the usual twice-yearly audit certificate in respect of the six months to March (which Forbes filed only on June 5), the JSE inspectorate department found Forbes' firm failed to meet the minimum capital liquidity requirements. The inspectorate pinpointed significant differences between his monthly statutory reporting and the audit report. Forbes voluntarily withdrew from the market on that day.

Four days later, and following further investigation, the JSE committee "ordered" Forbes to discontinue trading activities. Two days later — on June 11 — the JSE decided the information it had garnered was sufficient to warrant intervention by the police.

The situation now is that the JSE inspectorate, assisted by a professional accounting firm, is examining Forbes' books and records in minute detail. Clients of the firm who have proven claims will be protected by the JSE's guarantee fund or by fidelity insurance. Andersen says the guarantee fund holds assets exceeding R70m and the JSE's fidelity insurance, carried on behalf of all member firms, is for R120m.

Andersen adds he is confident clients who complied with the JSE Control Act will be covered.

David Glennen

The business needed to be recapitalised
Guidelines to minimise risk of loss

Investing on the JSE

THIS is the sixth of 10 articles dealing with the relationship between the stockbroker and his client. The author is Dr MANNY POHL, head of research, at Davis Berkum Hiare.

Negligence

"The higher the return, the higher the risk" is a fundamental principle of investment.

Risk of loss through fraud or negligence can be minimised by investing in government stock or debentures, or depositing one's cash with a major bank. Unfortunately, loss is thereby guaranteed through inflationary corrosion of the value of money.

Investment in financial assets for preservation of capital or growth of capital means investing in equities or ordinary shares where the shareholder receives a share of profits but, of course, will also share losses. And herein lies the risk.

The allocation of a risk rating to a company is an inelegant computation and depends upon several factors, internal and external. The external factors might include an assessment of economic conditions such as the present state of, and outlook for, the industry in which the company operates.

Mining shares can be very volatile and will not be a good investment medium when metal and commodity prices are falling. Other factors beyond a company's control are interest rate patterns and the imposition or removal by the authorities of import tariffs or other controls on imports.

Textile and tyre companies have had a very changeable operating environment and have suffered from the sudden removal of limitations on imports, resulting in a flooding of the local market with cheap imports.

The degree of control which a company has over its existence, its source, its operations, markets and so on is a measure of its probability of long-term success. It is also a measure of the skill and motivation of its management.

We therefore need to look at the internal factors affecting its risk rating - those under management's control.

A high risk rating would tend to be ascribed to a company which has a high level of debt, measured as a high debt equity ratio.

A simple measure of the degree of risk to ascribe to a company's debt is the ratio of cash flow to debt. Cash flow for this purpose is the net cash which is generated by the business each year after all deductions. A simple but useful calculation is to divide the total net debt (that is, after deducting cash held in deposits) by the net cash flow to give you the number of years it would take to repay the debt out of cash flow. Obviously, the fewer the number of years, the stronger the business in cash flow terms.

A risk factor of a different sort is theft or fraud on the part of a company's employees or even its controlling shareholders.

How then does the investor, who does not have a detailed insight into the industry or the company he is investing in, handle the problem of risk? There are a few guidelines to be followed.

Firstly, maintain a spread of investment over a number of companies in different industries, with the greater part of the funds in top-quality mining, financial, financial and industrial companies.

Beware

Invest smaller amounts in mining shares and financially sound second-line industrials with good profit-records. Secondly, be as well informed as you can by reading the companies' publications and the financial press.

Beware of tips and bar-room talk. Thirdly, seek the advice of professionals with a track record in the investment industry.

An occasional and not too large loss in the stock market fades into insignificance compared with the substantial gains made from sound investment over the long term.

Next week's article will deal with administration of stock exchange investment and the vital aspect of trust in the relationship between stockbroker and client.
Success Stories must be encouraged, and ANG officers are key to the "awakening ANG to the joys of privatization".

NG officers are key to the "awakening ANG to the joys of privatization".

(From Simon Barter in Washington).
DEGREGULATION WOULD BRING FEW BENEFITS TO JSE

PETER LEON

DEPARTMENT OF TRADE & INDUSTRY

LETTERS

The process of deregulation would bring few benefits to the JSE. The exchange continues to face intense competition from other stock exchanges around the world. The JSE has already been forced to lower its fees and margins in order to remain competitive. However, this has had little impact on its market share.

The JSE currently has a market capitalization of over R5 trillion. This is equivalent to approximately 10% of South Africa's GDP. The exchange plays a crucial role in the country's economy, providing a platform for companies to raise capital and facilitating trade in securities.

In recent years, the JSE has faced increasing competition from other exchanges, particularly in regions with rapidly growing economies. This has put pressure on the exchange to innovate and improve its services in order to retain its position.

In conclusion, while deregulation may bring some benefits to the JSE, it is unlikely to have a significant impact on the exchange's overall performance.
Finrand tumbles as share prices dip

Mervyn Harris and Hilary Gush

The financial rand tumbled 6% against the dollar to a three-month low yesterday, and the withdrawal of foreign and local buyers because of the political crisis resulted in a sharp markdown of share prices. Losses on the overall market outpaced gains by 120 to 19.

Capital market rates also fell. The JSE overall index slid 1.1% or 44 points to 3,627 as the lack of buyers left prices largely unaffected in rand terms in spite of a sharp drop in the finrand investment unit, which usually tends to support rand hedge shares. A dealer said: “While we did not see much selling from overseas, there was minimal buying. This indicates that the events of the past week will delay potential foreign investment.”

The industrial index declined 1.1% or 52 points to 4,149 as a 3.6% fall of the Tokyo Nikkei index to below 16,000, a tumbling London FTSE and sharply lower Wall Street also weighed on the market. But the Dow Jones industrial index rose last night to close just 4.5 points down at 3,280.

The JSE all gold index slipped 15 points to 1,143 as precious metals held steady, with attention focused on the start of the World Gold Conference in Montreux.

London bullion traders said reaction to escalating violence in SA would be seen first in platinum, as supplies from SA would be affected more quickly than gold.

Gold recouped early losses to trade between $395 and $393 for most of the day in London, while platinum was fixed at $360.50 at both London fixing sessions. New York gold ended up $3.75 at $349.45. Platinum rose $2.50, trading late at $360.50.

The finrand ended at R3.83 from Fri.

To Page 2

Finrand

day's R3.61, after touching a low of R3.69.

Dealers said Frankfurt and Hong Kong had been active sellers from the local opening, with light buying coming from Germany around the R3.85 level later in the day.

Dealers expressed disappointment that the Reserve Bank had not taken a more visible stance in the market, but speculated it had provided support around the R3.85 level. The Bank refused to comment.

Dealers said “gapping” — which occurred when there was no physical dealing between the quoted closing and opening rates — had taken place. “This adds to the nervousness in the finrand market,” one dealer said.

The unit gained support at R3.85, and was expected to firm to a range of R3.75 to R3.57 after the ANC had clarified its position on negotiations.

From Page 1

Dealers said the financial to commercial rand discount widened to 27% yesterday. Analysts usually expect the Bank to intervene when the discount exceeds 20%.

Reserve Bank Governor Chris Stals announced in March that the Bank would, at its discretion, intervene directly in the financial rand market to try to reduce the unit’s volatility. Market players warned yesterday if the Bank did not intervene and support the currency, foreigners would unwind their positions and sell off finrands.

Confidence would fall and investment plummet, traders predicted.

The benchmark Esky on 100 traded at 15.94% yesterday afternoon after reaching a mid-morning high of 15.87%. Foreign selling was seen in the capital market.

Government R150 stock traded at 16.09% after reaching highs of 16.14%.
Study proves positive points to the issue of privatisation

“PRIVATISATION” remains a dirty word for the strugglers Tito Mboweni, one of the ANC's better economists, says he argued manfully to have it included in the final version of the movement’s latest policy guidelines but it evidently stuck in his colleagues’ collective throat At this point, the most the ANC can bring itself to say is that it will “flexibly” consider “reducing the public sector” in light of “the balance of evidence” Happily, the World Bank recently pulled together a raft-load of empirical data that tips the balance heavily in the direction of the unmentionable. In a new study entitled “The Welfare Consequences of Selling Public Enterprises”, the bank has produced what it calls the “first systematic and quantifiable evidence of what happens when governments implement the P word The answer “Countries, on the whole, are better off after divestiture than they were before.”

This conclusion is based on case studies of 12 privatisations in Chile, Malaysia, Mexico and Britain between 1984 and 1988. The industries included telecommunications, airlines, electricity utilities, a lottery, a port and a transport firm. In all but one case—Mexicana airlines—the newly privatised companies enjoyed significant gains. On average, their annual sales were 26% higher than pre-divestiture levels. In more than half, annual gains exceeded 10%.

Compa{ía de Teléfonos de Chile (CTC) saw its turnover grow by 145%, Malaysia’s Kelang Container Terminal by 50%, and Aeromexico, the second of two Mexican airlines studied, by 59%

The study attributes these gains to four principal factors: the first being increased investment, the star example, benefited from the massive infusion of foreign and domestic equity attracted by the sell-off; and which in turn gave the company increased room for borrowing. As a result, it had been able to double its capacity times in 1987, is expanding into a variety of value-added services and has dramatically enhanced labour productivity.

Regulation

Second is the improved productivity posted by nine of the 12 companies and which in most instances resulted from a smaller workforce, improved labour-management relations and better incentives and internal reorganisation.

Third, most of the privatised firms raised previously state controlled prices to realistic levels. Underpricing of output under public ownership had regularly led to the waste of valuable resources. Divestiture enabled governments to restructure prices to better reflect the value of these resources to their economies.

In most instances, regulation prevented privatised monopolies from exploiting their market power. An exception was British Airways, which gobbled up its main domestic competitor, British Caledonian, to raise fares.

Finally, several divested firms were able to diversify at low cost, capitalising on their existing strength. British Telecom and, as already noted, CTC, used their existing networks and expertise to provide new value-added services. Sports Toto, the Malaysian lottery, introduced new products. While many of these activities could have been carried out under public ownership, they had mostly gone unexplored.

cause civil servants had no incentive to pursue them or were prevented from doing so by bureaucratic constraints. Who won and who lost from the divestitures?

Perhaps most important from South Africa’s standpoint, in no instance did workers lose. To be sure, there were layoffs and forced retirements in several cases, yet all who lost their jobs were compensated and found new employment as privatization policies helped spur the general economy.

Consumers won, but not always. Those who did win were generally helped by competition and, importantly, by regulation in five instances, British Airways among them, they were net losers. Telephone services in Mexico are an example. The cost savings achieved by the divestiture of Telefones Mexicanos were not passed on to consumers, with the result that prices increased across the board.

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Buyers

Foreigners benefited. As of last month foreign investors owned 35.7% of Telmex stock and had reaped more than 80% of post-privatisation gains. Yet it must be remembered that it was fully foreign capital that made those gains possible in the first place. Furthermore, the very act of privatization has in many cases encouraged outside investors to put their money in countries they previously avoided.

Buyers, including a host of small shareholders in Britain and pension funds in Chile, came out ahead in every case except Mexicana. So did the governments that sold. After divestiture, most state treasuries received more in sale proceeds and new tax revenues than they would have received if dividends and taxes had had public ownership continued. In only three instances, two of them in Chile, did governments lose, and then by narrow margins.

The bank concludes that successful privatizations, defined as those which produced economic gains for society as a whole, occurred where pre-divestiture enterprises were relatively inefficient, where governments established effective post-divestiture regulatory regimes, where the state lacked resources for new investment and service expansion and where the sales did not involve concessions to “sweeten the deal.”

That said, even efficient parastatals can be usefully privatized to harness “the entrepreneurial spirit of the private sector.” It is not always essential for governments to shed their stakes in an enterprise entirely. For example, the Malaysian government retained effective control of both KTC and the national airline while letting the private sector take a substantial share. This led the state to exercise its control function differently than it would otherwise, to the benefit both of the companies and the overall economy.

The bank feels that its sample—covering as it does three developing and one developed country and firms of widely differing sizes and structures—is broad enough for its conclusion to be widely applicable. Exceptions are extremely poor countries with highly distorted and underdeveloped markets and the formerly centrally planned economies. Unless the ANC thinks South Africa belongs in one of those categories, it should pay attention.
In my view...

A daily commentary on current economic affairs by writers of The Star.

Capital gains tax difficult to justify

By Derek Tommey

From time to time people of leftist persuasion, possibly dazzled by unit-trust claims about how they have generated untold wealth for unit-holders, advocate a capital gains tax on share market investments.

The question that has to be asked about any new tax is whether it will generate sufficient revenue to make it worth while — whether the income will justify the additional cost and the public resentment.

With this in mind, I did a few rough calculations to find out just how large have been the capital gains made by investors in JSE shares in recent years.

The result is rather staggering. It shows that over the past eight years there have been no real capital gains. In fact, investors have actually suffered fairly substantial losses.

It is true that shares listed on the JSE have in nominal terms risen sharply in recent years. In fact, according to Reserve Bank figures, the prices of commercial shares on average have doubled in the past eight years and the prices of industrial shares have tripled.

As the consumer price index virtually doubled in this period, it is clear that the value of an investment in shares generally has to keep abreast and even ahead of inflation.

But the rate of inflation is not the only thing to be taken into account when determining whether a capital gain has been made.

A factor that tends to be overlooked, but which is most important in determining capital gains, is that every year most companies reinvest a large sum of money in their businesses.

This is equal to a half to three-quarters of their taxed profits and belongs to the shareholders.

If this annual injection of capital adjusted for inflation is taken into account, a completely different picture emerges.

It shows that without any internal growth, prices of commercial shares should not be double but treble their 1983 levels and that prices of industrial shares should be almost four times higher than in 1983.

What this means is that if industrial and commercial shares fully reflected the capital investment, they would be 61 percent higher today than they actually are.

If one were to add in a 2.5 percent annual increase in productivity — which is what company chiefs are supposed to achieve in order to justify their big salaries, prices of industrial and commercial prices should be almost double what they are today.

These calculations, admittedly, are not precise, but they are accurate enough to show what the real situation is.

This is that in the past eight years SA commercial and industrial companies have dreadfully underperformed so that capital gains have been non-existent, which is understandable, given the poor performance of the economy.

However, there is a silver lining in the dark cloud.

Once the resources amassed by commerce and industry in the past eight years are fully utilised, one should be able to expect industrial performance, profits and share prices to soar.
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Malbak revises forecast as recession tightens its grip

THE Malbak group has made a downward revision to its earnings forecasts for the year to end-August in view of the poor economy.

Yesterday Malbak issued a special third quarter report to investors, revising its earnings forecast for the year down from 117c a share to 105c a share.

Executive chairman Grant Thomas said advance warning of lower than expected earnings was necessary due to the marked deterioration in business conditions and the fact that there was no likelihood of any improvement before the end of the current financial year.

In April, when it published its interim report to end-February, Malbak said the group was on track to achieve its earnings forecast of 117c a share made at the previous year-end.

"This forecast recognised the fact that the full effect of the recession was only then being felt by the consumer and that there was unlikely to be a significant upturn in demand for the group's products in the second half of the financial year."

However, consumer demand had weakened markedly in the quarter to end-May, and trading conditions had been "far worse than most expected."

Malbak directors said there had been no indication of any improvement in consumer demand. In addition, the threat of extended stayaways added to the short-term uncertainty.

Malbak said earnings for the third quarter were below expected levels, and this had necessitated the downward revision of the group's earnings.

Earnings for the full year would be down 15.4% on a weighted average basis and by 13.2% on a fully converted basis.

The previous forecasts had pegged the earnings decline at 5.7% and 3.5% respectively.

Among Malbak's interests are Foodcorp, Holdans, SA Druggets, Kohler and Tedelix.
Drop in tax rate pushes up profit

Finance has reported a 12.6% advance in attributable profit in the year to April, helped by a sharp drop in the tax rate. Attributable profit increased to R5,7m (1991: R6,5m) which translated into earnings of 38c (33,7c) a share. The total payout for the year rose to 15,5c (13,5c).

MD John Cowper said business conditions had deteriorated in the second half of the year, which was reflected in the fact that second-half earnings were only 1c a share ahead of the first half.

He said group pre-tax profit and tax payable had been reduced by the need to write off bad debts incurred during the year.

The tax rate fell to just under 6% from 9% last year.

Cowper said the group's 64%-held subsidiary African Shipping had showed a 63% increase in after-tax profit to R2,4m, reflecting the company's growing market share and economies of scale.

The turnover figure was not disclosed in the preliminary report, but pre-tax profit slipped marginally to R11,5m (R12m).

The sharp drop in tax paid boosted after-tax profits by 14% to R10,9m (R8,5m).

Looking ahead, Cowper said he expected difficult trading conditions to continue for some time. Notwithstanding this, management believed the company could deliver a further satisfactory performance in the new financial year, he said.
Malbak revises forecast as conditions deteriorate

Malbak has revised downwards its profit forecast for the year to August.

In February it forecast earnings of 117c a share, but this has now been revised to 105c.

Chairman Grant Thomas said yesterday that in the March-to-May quarter conditions weakened markedly.

"There is as yet no indication of any improvement in consumer demand and the threat of extended stayaways adds to short-term uncertainty," he said.

Two key subsidiaries, SA Druggests and Ellerine, have reported reduced earnings and there have been problems in what is now Foodcorp.

Malbak’s fortunes are now tied to consumer spending.

Mr Thomas said that as there was no likelihood of any improvement before the end of the current financial year, the board believed it was only correct to give shareholders advance notice of lower earnings.

“We take our communications with our shareholders seriously and don’t like them to give them surprises, hence the revised forecast,” Mr Thomas said.
JSE tightens up as another broker collapses

THE JSE had stepped up its surveillance of stockbrokers' financial affairs because of the weak economy, JSE president Roy Andersen said yesterday.

The announcement led to speculation that further closures of cash-strapped traders could be imminent.

Andersen's comments on the surveillance came hard on the heels of news during the day that stockbroking firm Ben Janse van Rensburg & Co had been prohibited from trading.

Sole trader Ben Janse van Rensburg was unavailable for comment, but market sources said the firm's four JSE staff members were informed of the move soon after today.

Wednesday's market close

This brought to four the number of stockbroking firms which had closed since December. The others were B G Crosby, J Bosman & Co and Andrew Forbes & Co.

Andersen confirmed that Ben Janse van Rensburg & Co had been unable to meet the JSE capital requirements regulations.

In terms of these rules, sole traders needed at least R10,000 in capital. Firms with three or more partners needed an additional R10,000 for each partner.

"We need to be super-vigilant to protect the interests of investors and the broking community." Andersen said.

He would not comment on speculation that as many as three other firms were being scrutinised by the JSE. Most firms were healthy, he said.

Sagging volumes were affecting mostly the smaller stockbroking companies. "The JSE needs around 200 equity deals daily just for it to break even, and these have amounted to an average of 190 deals so far this year. June has been a particularly good month, and the JSE's own profitability is now on budget."

Andersen said a further statement on the probe into Ben Janse van Rensburg & Co's affairs would be issued today.
Financial rand goes for a burton

By REG RUMNEY

THE African National Congress' withdrawal from negotiations after the Boipatong massacre was reflected immediately in the key indicator of overseas political and economic confidence — the financial rand discount.

The discount is the gap between the amount of ordinary or "commercial rand" a dollar can buy, and the amount of cheaper financial rand it can buy.

Stripped of its complexities, the financial rand discount shows the desire of non-residents to disinvest from South Africa.

The commercial rand rate mid-week was around $1 = R2.80. The financial rand rate mid-week was $1 = R3.82. This is a discount of around 27 percent. The discount at the close of trading on Wednesday, before the Boipatong massacre hit the headlines, was 22 percent.

It had dwindled to an average 86 percent for November 1991 after hitting a high of 52 percent over the month of January 1987.

The JSE overall index was 3638.0 midweek, only 1.6 percent down on the figure recorded a week ago. The index of gold shares was 1121, just 2.7 percent down. The index of industrial shares was 4,474, hardly changed from 4,545 a week ago.

Indicative of a lack of consumer confidence is the sudden quiet in the residential property market. Coming on top of the already depressed economy, the political uncertainty seems to have knocked the breath out of it.

Aida Holdings managing director Aida Geffen remarks that a surge of activity after the referendum meant May sales doubled Aida's turnover.

June, even before the Boipatong massacre, saw the property market slump, says Geffen. "Our computer listing of buyers has halved," she notes, and only desperate sellers are putting their houses on the market.

Threats of sanctions will also have an effect on business and consumer confidence. So far, however, sanctions threats have been confined to a delay in lifting trade sanctions still in place, such as those imposed by Sweden and major US cities.

"I don't see the European Community and the US going back to sanctions," says South African Foreign Trade Organisation economist Bruce Donald. "These are the primary areas of concern."

Aside from dealing a further blow to business and consumer confidence, a political impasse will hurt growth prospects — if not this year, then next.

See PAGE 22
Disunity over union fund

LEADING unionists have questioned the timing and the rationale of the union-initiated Community Growth Fund.

The fund was launched with much fanfare recently as a socially responsible way for unions to invest in the Johannesburg Stock Exchange.

Some unionists argue its launch is premature and that the time is not right for union investment in the JSE. Others accuse the National Union of Mineworkers — one of the unit trust’s biggest proponents — of blazing ahead and taking other unions by surprise when other investment options are still being considered.

Only seven affiliates of the Congress of South African Trade Unions and the National Council of Trade Unions endorsed the fund.

A number of wealthy and well-organised unions are notably absent from the list of endorsements. Among these are the following Cosatu affiliates: the National Union of Metalworkers of South Africa, the Chemical Workers Industrial Union and the South African Commercial Catering and Allied Workers Union.

Nactu’s largest affiliate, the South African Chemical Workers’ Union, has also not endorsed the fund.

A NUM member, who did not want to be identified, told The Weekly Mail the discussion on union investments had been left open-ended after a Cosatu workshop a year ago.

“About the time people believed the JSE was problematic and there was no way to identify socially responsible companies, the JSE is precious. Your money is never safe, you are gambling with workers’ money,” he said.

The same workshop considered the establishment of community banks, which offer guaranteed returns albeit at lower interest rates, an option which now seems to have been forgotten.

“You cannot invest money now, especially if you don’t support the country’s present growth path,” he concluded. Other union leaders contacted by The Weekly Mail agreed that the National Union of Mineworkers had jumped the gun and not considered other investment options.

A Cosatu representative said the federation may discuss the fund at its central executive committee meeting next month. But he added that the fund had taken Cosatu by surprise and that it would have been preferable if the launch had been co-ordinated and been endorsed by the whole labour movement.

Nactu assistant general secretary Mahlenkosa Skosana said his federation was “still looking at the CGF”. But Skosana believes the CGF is premature: “It paints the cart before the horse,” he believes.

“IT uses the economy to tame black people and favours employed workers over the unemployed.”

He also thought it was a problematic that only individual members of provident funds benefited from the profits of the fund and suggested that a percentage of the profits should go to union coffers.

But Skosana did conceede the fund’s plans to invest only in companies with sound social responsibility programmes and industrial relations practices was positive: “It will force companies to listen,” he said.

Gordon Young, of the Labour Research Service (LRS) which designed the fund, said: “We followed the correct channels through both federal and provincial parties.

He said that discussions with Cosatu about the fund had “gone into limbo”.

The LRS had also met Nactu head office officials as well as with representatives of all affiliates. Young believes only a limited number of unions have joined the CGF because provident funds are at different stages of development.

UNions which have endorsed the fund all have well developed funds.

Young knows that a “couple of individuals are not convinced of the merits of the Community Growth Fund”, but added: “When we address workers, they immediately understand what we are trying to do.”

Responding to the accusation that the LRS and the NUM had jumped the gun in launching the fund, he said: “There is a lot of competition in the financial market. When you move, you have to move fast.”

He also added that if union funds wanted to beat inflation, they had no choice but to invest on the stock market.

“Many of the reservations about the CGF is that it does not solve all the problems. We know that there must be other options as well,” says Young.

To this end, the LRS is also considering ways in which unions can invest in co-operatives and fixed interest funds which could make low interest loans available to members.

In the meantime, the CGF is going full steam ahead. It has had indications that three more unions will soon join the fund and Cyril Ramaphosa also pledged African National Congress support for the fund.

The LRS also recently launched a provident fund training programme for provident fund trustees.
Pros and cons of reducing the interest rate

RUMOURS have resurfaced that interest rates are to be reduced.

Investors have heard the story before and are wondering whether this time it will provide them with a real increase in purchasing power.

While this will be the second interest rate reduction this year, investors are still waiting for February's cut to have an influence on the market.

Market pundits are questioning the Reserve Bank's objectives. Is it to lift the economy out of the recession or merely to boost public morale?

The rumour on the JSE trading floor is that rates are to be reduced by one or two percentage points. The question now is whether such an amount will influence the market.

Economists are divided on the subject.

The optimists say such a reduction would be beneficial to the JSE and, in turn, to the market as a whole, basing their assumption on a three-fold argument.

Firstly, a decrease makes holding interest-bearing securities less attractive. The alternative to such an investment (placing money in the bank, buying gilt or debentures) is for investors to channel these funds into the equity market.

Secondly, a decrease lowers the interest burden on corporations. A look at a number of companies across numerous sectors shows there will be a rise in pre-tax profits and bottom-line growth will improve.

Thirdly, if interest rates are low, companies and individuals are induced to borrow, for example, to expand businesses and acquire new equipment and machinery or other assets which they expect will yield a positive rate of return.

It follows that if business expansion does get off the ground, corporate profits will grow, unemployment levels will fall and the purchasing power of the individual will improve.

The pessimists' view -- the gloomier, more realistic side to a rate cut -- is seldom published.

An analyst and head of research says: "The rumour was recently started as a result of the one percentage point fall in bond rates, which usually precedes a cut in interest rates.

"However, while we would gladly welcome such news, it would make little difference to stock prices."

He believes rates have to fall by at least four percentage points before a difference can be felt by the market.

For instance, a two percentage point reduction in the rate would hardly make a dent in a company's ability to finance a bank loan of R1 million.

If the company was paying prime of 19 percent, its interest bill would be more than R2 million a year, but a rate cut would save the firm only about R200 000.

Another problem associated with a cut in interest rates could be a softening of the rand, increasing costs for importers, but be beneficial for exporters.

A lower interest rate would also dissuade overseas investors.
Strict stockbroking regulations there to protect clients

THE administration of the Johannesburg Stock Exchange (JSE) and its members is covered by the Stock Exchanges Control Act of 1985, amended by the Financial Institutions Acts from 1990 to 1991, and by JSE rules. The degree of regulation to which stockbrokers must conform is much greater today than it was 20 years ago—a steady trend throughout the Western world.

Its purpose is to protect the investor. The effect is more stringent requirements for both the stockbroker and his client to settle the money and scrip aspects of transactions speedily and correctly. Scrip is the word commonly used for the share certificates which record ownership of shares.

Let us look at the administrative side of dealing in shares listed on the JSE.

There are basically two categories of clients defined by the Stock Exchanges Control Act. These are described as “the cash client” and “the cash delivery client.”

Settle

The first deals directly with his broker, the second makes arrangements for his bank to settle his transactions for him or is a corporate body which has assets exceeding liabilities by R1 million.

In terms of the Act, the cash client has seven business days in which to pay for shares purchased for him. The cash delivery client or the corporate client can settle when the scrip is delivered by the broker.

As delivery could take place at any time, it is essential that the cash be available to pay for the shares.

If the cash client has not paid by the seventh day, the broker is obliged by law to sell on the eighth day the shares purchased unless he is satisfied that the cash is in the process of being remitted. The profit or loss resulting from such a sale goes to the client’s account.

Where shares are sold, the same rule applies to both categories of client. They then have seven business days to deliver the shares. They will receive payment only if and when the shares are in good order.

When a cash client does a switch, using the proceeds of a sale to pay for a simultaneous purchase, the sale leg of the switch should be done first or finance must be available for the purchase in case the sale cannot be done immediately.

It can happen that there are no buyers for a particular share at the time. If no transfer deed is submitted with the shares sold, the purchase is not automatically deemed as paid. Signed transfer deeds should always accompany scrip for speedy processing.

Registering shares in a buyer’s name can take seven to 21 days from date of purchase, depending on the company concerned.

Investing on the JSE

This is the seventh of 10 articles dealing with the relationship between the stockbroker and his client. The author is NORMAN BAKER, head of administration, Davie Borkum Hare.

Mandates

Other administration services offered by brokers include protection of the client’s rights to dividends or rights issues where shares purchased have not been delivered to the client by the last day to register for a dividend or rights issue.

Under different mandates from the clients, a broker may hold shares in safe custody or deposit surplus cash on the client’s behalf with JSE Trustees or in the money market. Some brokers will manage investments under a mandate.

Next week’s article will deal with investment in gilts, options and futures on the JSE.

Protect your portfolio

Here are a few tips which are, in effect, safeguards for investors:

☐ Keep share certificates in a safe place. Replacing a lost certificate is nowadays a costly business.
☐ Always insist on a receipt or cheque when delivering shares sold.
☐ Make sure you receive computer-generated monthly statements.
☐ If your broker provides a portfolio service, check that the shareholdings reflected on the portfolio agree with your records of shares in your possession. Mistakes are easily made if these do not reflect the same holdings and decision can be taken on portfolios showing incorrect holdings.

This is only a brief look at the work of the stockbroker’s administration department and the controls under which it operates. But, no matter how many rules and regulations are made, there remains the question of trust between broker and client. Nothing truly replaces the value of a harmonious relationship that is formed by a real sense of service and sound practice on the part of the broker and honest and co-operative behaviour on the part of the client.
Devices that profit market operators

Buying a put option allows delivery of the shares at the price agreed when the "put" was purchased. If, however, the price continues or if the price remains static, the put merely falls away.

Double Options are extravagant variations of the above two. They give the purchaser the right to either buy or sell the shares in question, hedging against any loss and offering the potential of speculative profit at low cost.

Short Sales, as I explained recently, the Russian roulette of the share market. People who engage in them are known as bears and such transactions are officially defined as, "Selling on extended terms, shares which the seller does not actually own, in the hope that he will be able to purchase them after the price has fallen".

Clearly there is the potential to make or lose considerable sums. The bear trader who concludes that the price of a particular share is likely to fall steeply cannot, however, offer to sell it unless he is prepared to buy it at a considerable volume for doing so he aids his own initiative.

Scramble

Ordinary investors who notice that a number of people are buying shares may be tempted to buy. Often they will find that the shares are not available and the "bears" will be able to sell at a profit.

A bull market

The call option at the magic device that allows him to do just that. He sells his shares and simultaneously buys a call option, ensuring that at the cost of the call money he can re-enter the market if the price rises.

A put option is the reverse of the call option. It gives one the right to deliver shares at a specified price within a specified period. It is a useful option to have if one fears a market fall may be imminent, a form of insurance that allows the investor to hold onto his shares in a rapidly rising market, such as the final tenancy phase of a bull market.

When the inevitable crash occurs he can get out via the back door of his put option. It is a loss risky variation of the short sale or bear trade.
Holdaines to apply for delisting of Sunpak

PAPER and packaging groups Holdaines and Sun Packaging (Sunpak) have announced details of their proposed scheme of arrangement involving Sunpak, Sunvest and Biopolymers.

Holdaines said it would apply for a scheme of arrangement whereby the Sunpak group of companies would be delisted and become wholly owned Holdaines subsidiaries.

Sunvest minority shareholders will receive 130c for every ordinary share or 120c for every deferred ordinary share. Sunpak shareholders will receive 140c a share and Biopolymers shareholders 50c a share.

Holdaines last year acquired 65% of Sunvest, an investment holding group which controls Sunpak and Biopolymers.
Dividends worry property analysts

THE property industry was worried about whether listed property loan stock and property trust companies could maintain or improve dividends to shareholders under present market conditions, property analysts and market players said at the weekend.

There are 30 such companies, some of which are battling.

Abcon MD Niki Vontas said the past year had seen a relatively insignificant performance from all the companies in these sectors, with growth in an 11% to 11.5% range. This would be quite diverse this year.

Frankel Max Pollak Vinderne analyst John Rayner said vacancy levels were high, the number of bad debts was increasing and present market conditions were not allowing any rental growth.

Attractive

"All of these factors contribute to a very tough market until the middle of 1993, at the earliest. Listed property vehicles which normally react positively to an interest rate cut have shown no response at all," he said.

The market needed at least a 2% cut in interest rates to make the yields of these sectors look attractive. The index yields for the loan stock sector was 12.5% and for property trusts 11.2% at present.

"However, the sectors have already discounted a lot of bad news and I do not think they have much more downside potential beyond a further 5% to 10%. They are currently trading at a price that is far lower than the value of their underlying assets," he said.

However Vontas said there were two elements to these shares, capital appreciation and income growth. Regarding income growth, the present financial year would separate the good portfolios from the bad, he said.

On capital growth, the shares were rated on a historic yield basis and discounted events as far as 18 months down the road. Thus the present feeling was bearish as 1993 was not expected to show rental growth or any real improvement.

However, at the beginning of 1993 factors for 1994 would be discounted and the mood would be more bullish as rental growth on the back of reduced vacancies was expected.

"Abcon expects to beat its distribution forecast at the time of listing as we have secured rental income for 1993," Vontas said.

Property loan stock company KH Props financial director Peter Whewell said the company's portfolio was holding up well and was 86% occupied.

The company had budgeted for growth of between 10.5% and 11%.

Certain companies had overdeveloped as they had not properly investigated market needs or the economic cycle. "The industry needs to exercise caution and watch the development and letting scenarios closely, particularly in the decentralised nodes," he said.

"If a portfolio finds itself with vacancies, these affect rental income. However, the installation of new tenants also affects this as partitioning and other such expenses, as well as agents fees for letting the property, have to be covered," Vontas said.
COMPANIES

Unit trust 'with a conscience' launched

A NEW unit trust aimed at "socially responsible" investors is to be launched by Southern unit trusts tomorrow.

The Southern Pure Specialist Fund targets investors whose moral code prohibits investment in certain industries, as well as those groups which are environment-friendly.

Southern investment GM Shams Pather said in Johannesburg yesterday that the new fund is not specifically a Muslim or Islamic fund investing only in Halal companies.

Pather said the fund would not invest in companies concerned with any of the following activities such as alcohol or tobacco, hotels, gambling, pork, interest-bearing instruments such as banks or insurance companies.

"The fund will also not invest in companies that produce commodities deemed harmful to the environment," Pather said.

Although the fund would be limited to about 60 JSE-listed companies, Pather was confident the Pure Specialist Fund would not underperform relative to the unit trust industry.

"The portfolio will consist of share investments in gold, mining, industrials and property as well as cash," he said.
Ownership & Control

1992

July - August.
Life Offices come to the aid of the under-privileged

By Derek Tommey

The life insurance companies have formed an investment development unit to assist in projects helping the under-privileged obtain funds from the life industry. But companies made it clear yesterday they did not intend simply to hand out cash to any supplicant with a plausible case.

Finance would be forthcoming for projects only if they satisfied reasonable investment criteria, they said.

Lous Shill, chairman of the Life Offices' Association, said the task of the investment development unit would be to evaluate and develop investment projects benefiting deprived communities, while providing investors with security and adequate long-term returns.

Criteria

Mr Shill said it was not possible to say how much the insurance companies would invest through the unit.

"The only limitation will be the ability of a project to satisfy reasonable investment criteria. If acceptable projects are made available, the money will be forthcoming," he said that Barry Adams, former managing partner of Arthur Andersen & Co, and currently chief executive of ABR Corporate Finance, and David Geary, a former Sanlam executive, and until recently managing trustee of an investment trust, had started work at the unit.

They would initially set investment criteria and establish project ratings.

It was intended that initial investments would be in the areas of greatest need, such as housing, education, health and related infrastructure.

The unit would also actively seek investments to create sustainable employment in the commercial and industrial sectors.

The move is seen as a reply by the life offices to the continual criticism by labour unions and political groupings in recent years that they have not used any of their billions in investment funds to benefit the socially and economically deprived communities.

Mr Shill strongly denied that the insurance companies had not helped the under-privileged.

He said the life insurance companies had already committed some R10 billion to social development projects.

It also had some R4.5 billion invested in the broader infrastructural sector.

This excluded their substantial investments through shares, properties and other instruments which provided the country with long-term development capital.

The unit was a more obvious manifestation of the life insurance industry's more intensive support for development investments which would provide both social upliftment and adequate returns, he said.

"Given the current socio-economic situation in South Africa, the life insurance industry feels that a more focused approach is necessary, if it is to assist in developing a phase of societal and economic growth," he said.

The unit has been under development for some months.

Extra-parliamentary groups such as the ANC, PAC, IFP, Cosatu and Nactu, together with the Government, have been involved in the development of the unit, or have been kept informed about its development.
Progress's shares drop

CLOTHING, footwear and textiles group Progress Industries' shares yesterday reached a low of 100c, having fallen by 33% since the beginning of June.

The share stood at 290c a year ago, but fell steadily to its present low of 100c.

Ferguson Bros analyst Howard Cantor said the drop was probably a result of poor consumer demand.

Cantor said it was also possible that investors were getting out of the market, as shown in the high volume of shares traded over the past two weeks.

The Natal-based group recorded a R250 000 trading loss for the year ended December 1991.
Investec's Metfund wins fight with inflation

METFUND, the Investec group's unit trust, has earned an inflation-beating 19.9% return for the year ended June 1992.

Fund manager Hendrik du Toit said the fund's exposure to the mining sector had been increased, despite the reduction of its Anglo American holdings.

"This action is consistent with Metfund's stated strategy of increasing exposure to commodities and other beneficiaries of an expected US recovery," he said.

In the mining sector, De Beers was partially switched into Anamant on rating considerations, while Metfund's direct gold holding was reduced to around 2.7% of the portfolio through the sale of Vaal Reefs and a portion of the SAB holding is consistent with a move away from consumer stocks," Du Toit said.

It was hugely unlikely the SA economy would attain a positive rate of growth during 1992. "Due to the drought and recently created political uncertainty, the onset of the local recovery is unlikely to commence before 1993," he said.
INDUSTRIAL holding company W & A Investment Corporation has made a strategic offshore acquisition of an undisclosed scaffolding business for R118m.

Late last night chairman Jeff Liebenberg refused to disclose the name of the company or its location. "The matter is still too sensitive," he said.

However, sources said the acquisition was the Kwirkform scaffolding business in Australia which was in direct competition with the W & A group. Kwirkform is said to have net assets of about R150m.

Liebenberg said the deal had been funded by equity and all major future acquisitions would be funded in the same way. The deal would be settled in five tranches, the first of which had already been raised.

The group had, in the past few days, raised R80.3m by way of a placing of 21.9 million W & A 15% "C" unsecured debentures of 400c each and 1 million ordinary shares issued at 400c each with select financial institutions. The statement said the remaining proceeds would be used to the JSE for the listing of the ordinary shares and convertible debentures on July 10 and July 23 respectively.

The W & A statement said the acquisition would enable W & A to increase product offshore interests, except for UK-based AP Investments. It is estimated that the group's offshore interests now have a net asset value between R120m and R200m.

The W & A statement said the acquisition, if it had been effective for the year to December, would have resulted in a 6.86% decrease from 78.7c to 72.8c in fully diluted earnings per share.

Little is known about the group's offshore interests, except for UK-based AP Investments. It is estimated that the group's offshore interests now have a net asset value between R120m and R200m.
Futures a good hedge against market moves

Being relatively high risk investments, the downside value of listed shares can be hedged against equity market uncertainty using derivative instruments. Investors in a portfolio of shares are encouraged to use futures as a hedging tool against market movements which might adversely affect the value of their shares.

Mathison & Hollidge head of derivatives William McKinnon, who cautions against using futures contracts as a means of speculation, says it is not necessary to hedge one's portfolio at all times.

A normal portfolio hedging strategy would leave it hedged or insured to the same degree that the market is likely to fall.

"Ordinarily, this would be up to 25% and thus the investor need not invest vast sums to take advantage of the futures market. Futures also do not suffer from the same liquidity problems as equities.

"They can therefore be used to increase or decrease the liquidity of a portfolio, without costly delays and handling fees."

Weighting

Since each futures contract is a representational "portfolio" based on the index weighting of certain shares it will accurately reflect the general trend of the market.

"It is thus possible to hedge against a fall by taking a contrary view and selling a proportional amount of a portfolio in the form of a future contract."

"In this way, should the market fall the cash appreciation of the futures contract will offset any diminution in value of the portfolio."

McKinnon says that by using futures, which are not without risk, one obviates the need to sell and then buy back stock.

Futures contracts can be used to boost the performance of a portfolio by increasing its sensitivity to market movements.

By buying and selling futures contracts at the correct time one can make additional profits which may later be used as insurance for the portfolio.

Contracts may be entered into and closed out faster than the underlying shares can be bought or sold. They are also cheaper to deal in on a percentage basis than equities.

"Given a reasonably volatile market the indices, which futures represent can easily move by 40 to 50 index points a day."

"In terms of the standard futures contract this represents R4 000 to R5 000, or 4% to 5% of a R100 000 portfolio."

He says that investors should know that when trading futures one takes a view, either bullish or bearish on a potential market movement.

Investors would need a minimum up-front collateral or margin of R20 000 as required by the SA Futures Exchange. In addition, a booking fee of R40 per trade (10 contracts minimum) is paid to the clearing bank.

"Remember, a futures contract is open until closed out. Once bought it must be sold within the contract lifetime of three months," he says.
JSE creates post of surveillance director

THE JSE yesterday announced it was creating the new post of surveillance director to strengthen its surveillance procedures as part of a continuing strategy to ensure the securest possible market.

The new official will be appointed from the accountancy profession and will be seconded to the JSE for a period of two to three years.

The person appointed will be selected in consultation with the SA Institute of Chartered Accountants and will have full authority over the exchange's inspectorate and surveillance department.

Mervyn Harris

In another move to improve surveillance of trading by broking firms, the JSE plans to introduce volume and value of foreign legs of arbitrage transactions in daily trading statistics.

Sources said that this system been in place it would have exposed arbitrage deals of the nature which were said to have taken place in the alleged Old Mutual share dealing irregularity scandal.

The exchange also announced that a former director of expelled stockbroking firm J Bosman & Co, Jacobus Oosthuizen, was yesterday suspended for one year as a non-brokering member after being found guilty of transgressing market rules.

The two charges related primarily to the sharing of brokerage with persons other than broking members, and the operation of a branch office without the consent of the JSE committee while he was a director of J Bosman.

The penalty in each instance was suspension as a non-brokering member with retrospective effect from April 29 for one year. The penalties will run concurrently.
The JSE, contrary to fears voiced recently by some investors, has not dumped the idea of an index relating to second-tier companies. But it appears the idea is on hold until somebody works out just how to construct such an index.

Shareholders' Association of SA chairman Issy Goldberg has fired the latest volley in the long debate, claiming in the association's newsletter that while "the JSE was prepared to listen and comply, almost enthusiastically" to his pleas for an index representing second-tier shares to be formulated, "their enthusiasm has been killed by a pronouncement by the Actuarial Society that such an index is not necessary."

Goldberg's views, however, seem a little strong. Actuarial Society spokesman on JSE actuaries indices Isak Mostert says the organisation would construct a second-tier in-
The first FM Top Company Awards were presented by Editor Nigel Bruce in Johannesburg last week. The overall Industrial Company of the Year is Royal Corp, which is also the winner for companies with total assets of R100m-R500m in the last financial year.

Other winners are:
- Top Industrial Company with total assets exceeding R500m: Murray & Roberts Holdings;
- Top Industrial Company with total assets below R100m: Scharrighuisen Holdings;
- Best Investment Performance: Trencom

The top industrial companies are selected from the Top 300 table in our Top Companys survey, published last week, by calculating the average rate of increase over the previous financial year of total assets, market capitalisation and net profit.

To qualify for consideration a company must show growth in all of these measures as well as in turnover. It also has to be profitable in the previous two years.

The overall winner is chosen from the three top industrial companies by the FM’s senior staff. The overall winner is

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The overall winner is chosen from the three top industrial companies by the FM’s senior staff. The overall winner is

Royal Corp executive chairman Vivian Imerman

not necessarily the company with the fastest growth rates because these may be a function of size. The panel considers other factors of concern to investors, such as the quality of management, growth strategies and ability to seize opportunities.

Royal Corp was chosen because it:
- Had consistent growth in all three criteria;
- Showed itself to be imaginative and creative company with a controlled acquisition policy, seizing opportunities presented by disinvesting multinationals;
- Is strongly developing its trademarks;
- Has a strong export-orientation, earning about 70% of turnover from exports.

The top five companies in each category are:
- Assets exceeding R500m: Murray & Roberts Holdings, Engen, PepsiCo, Malbak, LTAC;
- Assets R100m-R500m: Royal Corp, Smart Centre Holdings, T&N Holdings, Carlton Paper Corp, Shoprite Holdings;
- Assets below R100m: Scharrighuisen Holdings, IB Joffe, Buffalo Corp, Logtek Holdings, Ots Elevator

The Best Investment Performance winner was selected by using a formula to calculate the combined return to investors from dividends and the increased share price over the past five years.

The top five companies in this category are, in order: Trencom, Ulco Holdings, SunBop, Suncrush and CNA Gallo. The full table was published in the survey.

It is intended to make these awards annually.
COMPANIES

Unit trusts declare distributions of R9.6m

CAPE TOWN — Four of Old Mutual's unit trust funds have declared distributions totalling R9.6m for the period to end-June.

The Top Companies Fund will pay out 8.0c a unit for the six months to end-June, bringing its total declaration for the first eight months of its existence to 9.0c a unit.

The Old Mutual Mining Fund will pay out 5.15c a unit for the six months to end-June, bringing its total for the year to 11.0c a unit, the Old Mutual Gold Fund has declared a distribution of 2.53c a unit, giving a total of 5.6c for the year to end-June. The Income Fund has declared a distribution of 3.56c a unit for the three months to end-June, bringing the year's total to 14.86c a unit.

MICK ELLINGHAM reports that Fedgro Unit Trust has declared an income distribution for the six months to end-June of 2.5c a unit after achieving growth of 20.1% for the year ending June 30.

During the second quarter of 1992 FNB, Amgold and Mobile Wits were added to its portfolio and a number of existing shareholdings were topped up. Assets under management grew to almost R35m.

Southern Unit Trusts sees assets grow R22m

SOUTHERN Unit Trusts reported a R22m growth in assets under management to R151m for the quarter ended June 1992.

Unit prices in the Southern Equity Fund increased to 183.51c from 175.86c a unit and to 139.83c from 125.91c in the Southern Mining Fund.

All shares held by Southern Equity Fund in East Dagga, Tongaat and Sasol were sold while Genbel stock was reduced.

Anglovaal, Bevon, SA Breweries, Dimension Data, Afinx and Consol were introduced into the fund.

The holdings in a number of companies, including Rembrandt, Tegkor, Keeley, Anglo, SEI, Richemont, Southern and Safren, were increased.

Liquidity increased marginally to 15.6%.

The Mining Fund returned 4.23%, having yielded a 13% annual compound growth since inception.

Elandsrand, Lebowa Platinum, Keeley and Lonrho stocks were sold by the Southern Mining Fund and exposure to Implats and Genbel was reduced.

De Beers, Randfontein and Vaal Reefs shares were increased and liquidity rose to 13.8%.

Southern Life GM (Investments) Carel de Rudder said trading conditions and economic growth remained under pressure globally.

While the current recession had not been particularly deep, it had lasted "for an exceptionally long time", he said.
ANOTHER SHAKE-UP

The leader board was shaken up again last week as a result of difficult trading conditions in which the All Share index futures frequently moved against the JSE overall index. Moving into the sixth week of the Saffa Futures Risk Management Competition, it is clear there could be more surprises.

WHO WILL WIN?

1. Lance Coogan, Lorenzani & Coogan 9.50
2. SMB3 8.14
3. Chris Greyling, Securities Inv Bank 8.66
4. Finansbank Treasury 6.56
5. SMB1 5.29
7. National Futures and Options 3.49
8. Trevor Tanchel, Discount House 1.80
9. SMB2 0.07
10. G Morkel-Bank, Genbel Investments 0.92

The mild JSE recovery on Thursday sparked a dramatic rise in futures. This was attributed to short covering with futures by some big corporate treasurers, allowing Lance Coogan to move into first spot. Then, on Friday, the futures retreated unexpectedly against the JSE index. This took its toll on the bulls and most contestants finished the day well off their impressive midweek highs.

Given the wild day-to-day swings in the fortunes of the top 10, even the back markers could make significant progress in the race for the R75 000 prize money sponsored by Prima Bank, RMB, Investec, Standard Merchant Bank and Reuters.

SMB remains a highly consistent performer in terms of the FM Top Trading Desk Trophy, with three contestants still in the top 10. It is leading, with Finansbank second and Genbel third.
JSE BROKERS

Shrinking industry

There goes another broker. Late last week the JSE announced that Ben Jame van Rensburg & Co, represented by sole proprietor Ben van Rensburg, was in default of the JSE's minimum requirements in respect of brokers. Many brokers now say the JSE costs too much.

Executive president Roy Andersen says the JSE's costs increased by a paltry 2% in 1992 and he is budgeting for another mere 2% increase before the losses incurred by the Traded Options Market, this year. "Where else," asks Andersen, "does anyone find cost increases in operations limited to such a low number, given SA's inflationary economy?"

In addition, JSE charges to broking firms have fallen from 19% of brokers' total costs in 1982 to 12% in 1992.

That is not the point, say aggrieved brokers. Computer costs are too high and the JSE's membership has been required to finance the fiascos of the past, they allege.

Andersen retorts that the JSE's mainframe computer gave an extraordinarily high available time of 99.7% in the last year and its operating costs are low and "highly competitive." This kind of criticism, he says, is merely "JSE bashing."

But brokers claim it is one thing to say that costs are now being contained when they were allowed to spiral out of control in a fit of uncontained profligacy in previous years.

Some brokers are demanding that the new JSE committee should turn its attention to zero-based budgeting, a system which requires that each item of budgeted expenditure should be examined, and justified, from its base.

Andersen says, shaking his head, that the JSE is doing all in its power to hold costs. Charges to listed companies in the new year will be increased by only 8% and to broking members by a low 10%.

He says the budgets have been drawn on the most conservative of estimates. 2 000 equity and 500 gilts deals a day, down from 1992's 2 200 equity and 500 gilts deals.

He says equity deals in the first quarter of the new year averaged 1 957 deals a day and gilts 604. From the budget viewpoint, he adds, this is not a bad record.

Nevertheless, brokers are now more vulnerable to rising costs and static turnover than they have been for some years. It looks increasingly as though broking is a shrinking industry. Unless someone smart comes up with a way to lift the country's self-imposed liquidity ceiling, caused as much by rigorous exchange controls as it is by the marketable securities tax — which government promised a year ago to remove and has not.

There are rumours in the marketplace that another three broking firms will soon fall foul of the JSE's capital asset base requirements. Andersen refuses to be drawn on this.

He will say only that increased surveillance has been instituted by the JSE's inspectorate division.

David Glasson

Activity static...but brokers are bleeding

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Market activity (Total number of shares purchased and value - year ended 29 February 1993).

Rand value Share purchased

JSE's Andersen smiling despite a gloomy background

its capital base. The firm was promptly refused trading facilities.

This makes it the fourth broking firm to be disbarred from trading on the JSE in the past six months, and it follows the fine tradition set by Hilary Crosby, J Bosman and, just two weeks ago, Andrew Forbes.

The question must be why this is happening, and why in such a lemming-like way? The answers are diffuse. Aside from a natural desire for the aggressive accumulation of wealth — and, to be fair, the JSE's members are not alone in their quest for material affluence — the checkens of appalling liquidity are coming home to roast. Turnovers on the market are no longer sufficient to support the number of brokers offering services to the investing community (see Leaders June 5).

Since 1990, the rand value of shares bought and sold on the JSE has declined from a peak of R241bn to a low of R21bn in 1991. The 1992 figure of R22.7bn was not much better. These are numbers which matter a great deal to brokers. Their own costs continue to escalate. They employ highly paid people and consider it necessary to rent well-equipped premises. All of these cost money and, in the current inflation-driven environment, their costs, in aggregate, can only go up. To survive, turnover must increase commensurately. It has not (see graph) and this is certainly one reason for brokers failing.

Another factor may be that broking firms are required to support not only themselves, but their institution, the JSE. Last year the JSE cost its members R62.6m. Many
Servgro likely to trade at a premium on its listing

ANALYSTS expect Sankorp leisure and services group Servgro to trade at a premium to its 500c share offer when it lists on the JSE on August 7.

Servgro, which published its prospectus today, holds 46% of listed entertainment group Interleisure, which is the major contributor to its earnings, and 47% of risk management services group Price Forbes, the second largest contributor.

It holds 48% of TV rental company Teljoy, 85% of Avis, 46% of Fedics food services, 43% of Interpark and a 22% investment in Nasionale Pers.

The private placement of 28-million shares at 500c a share is being underwritten by Sankorp. The offer opens today and closes on July 29, after which it plans to list in the beverages, hotels and leisure sector of the JSE.

The listing will raise R140m, of which R108m will be used to repay the holding company loan which arose from acquiring interests in the operating companies.

It forecasts an 11.4% turnover rise to R903.2m and a 16.1% higher attributable profit of R49.1m in the year to end-March 1993. At 500c a share, it is on a forecast P/E of 11 and an historic dividend yield of 3.3%, which is better than the beverages, hotels and leisure sector.

Analysts expect the offer to be fully subscribed. Servgro has been valued at 655c a share, and analysts expect it to trade at between 600c and 600c.

One analyst said the valuation was conducted prior to the recent steep decline in share prices, and this would affect the value of its interests in Interleisure and Teljoy.

Senskal, Mouton & Kisthoff analyst Chris Gilmour said all of the group's interests had well known brand names and had performed well in their own right. The group also provided an entry into some high-quality unlisted companies.

One negative factor was that its focus on leisure and services meant it was linked to the level of private consumption expenditure which had a poor short-term outlook.

The R40m cash raised in the listing and the potential for holding company Fedservices to reduce its holding from 75% would leave Servgro with the potential to generate substantial amounts of cash, Gilmour said.

Martin & Co analyst Jerome O'Regan said cash flow characteristics of the major earnings contributors Interleisure, Price Forbes and Teljoy were excellent, and gearing was low.

He expected a substantial recovery in unlisted companies from a low base, largely due to Avis Avis's profit record was volatile, and it was largely responsible for the group's earnings dip in financial 1991.

He expected the shares to trade above 600c on the basis of a valuation of the underlying businesses and allowing for a holding company discount.
For Pure Unit Trust

No Bacon or Booze

THE WEEKLY MAIL: JUly 3 to 9 1995
Fund managers doing well

UNIT trusts are well-known for their propensity to make money for holders. What does not seem to be so widely appreciated is the amount they draw in for their management companies.

Figures issued by the Registrar of Unit Trust Companies show that in 1990, the management companies, controlling R7.55 billion in unit holders’ assets, earned R119 million in revenue and had a net profit before tax of R34.4 million.

The Old Mutual Unit Trusts Management Company, which started in the late 1960s, was the top runner in terms of revenue and profits. In 1990, it had a gross income of R438.9 million from managing five unit trusts — the Investor’s Fund, the Mining Fund, the Industrial Fund, and the Modern Fund.

Purchase and sale of units in the five trusts brought in R6.05 million, the service charge another R10.7 million and “other income” (usually from the creation of new units) R17.4 million.

Expenses took some R32.8 million, leaving R11.3 million in pre-tax profit. Taxed profit was R5.8 million, giving a return of 116 percent on the R438.9 million invested in the management company.

The total value of the assets of the five funds administered by the Old Mutual was R2.5 billion.

Next was Guardbank, which started operating in the early 1970s. Its investment in its management company at R2.26 million was higher than the Old Mutual’s, mainly as a result of a significant ploughing back of profits.

Guardbank’s 1990 revenue from managing its three unit trusts was R21.0 million. However, net profit before tax at R10.8 million was only slightly less than that of Old Mutual. After-tax profit, at R5.6 million, was virtually the same as Old Mutual’s.

Guardbank’s three unit trusts together had assets of R1.635 billion at December 31, 1990. Because of a change in management, no figures were available for Investors’ Mutual Funds, which managed the Sage Fund and Sage Resources Fund.

The next two big earners were Sanlam with a gross income of R19.36 million and Standard with a gross income of R13.2 million. Sanlam’s profit before tax in 1990 was R3.4 million and Standard’s was R3.3 million. Sanlam had R4.8 million invested in its unit trust management company and Standard R2.18 million.

Revenue of the other unit trust management companies in 1990 and, in brackets, their pre-tax profits were Syfrets, R6.53 million (R3.06 million); JAL, R6.46 million (R1.78 million); Southern R2.78 million, loss of R1.6 million; Momentum R1.24 million (R150 000); NES, R522 000 (R48 800); Investec R647 000 (R20 300); and Senbank, R356 000 (R237 000).
Futures are a way to hedge or speculate.

FUTURES trading in commodities such as gold, wheat and maize has been in operation in South Africa for some years but is far more restricted in scope than in the developed countries. Only authorised foreign currency dealers may trade in currency futures. As this series of articles is about stock exchange investment, I will mainly discuss the relatively new activity of trading in futures contracts in the JSE indices.

What is a futures contract on a JSE index?

An equity index futures contract represents an agreement to buy or sell the market value of stocks included in a specific market index at a stipulated future date. Each contract represents a hypothetical portfolio of equities, and what is bought or sold is the entitlement to share in the price movement of the JSE index futures contract. No asset, apart from cash, changes hands. At present, there are futures contracts trading on the JSE all share index, the JSE industrial index and the JSE gold index.

What is the function of a financial future?

Just as commodity futures exchanges grew out of a need for protection against price fluctuations, financial futures markets have developed in the same manner. The effect of fluctuations in interest rates, currency exchange rates and share indices can be vastly reduced by the use of financial futures.

What are futures' main uses?

Broadly speaking, futures transactions are entered into for speculation, hedging, investment or arbitrage purposes. Speculation means taking risks to make a capital gain. Hedging reduces risk as the investor takes an opposite position in the futures market to that which he holds in the cash or spot market.

How do you buy or sell a futures contract on one of the main JSE indices?

A futures contract is purchased or sold through a futures broker. One contract represents 10 times the index. Futures contracts are usually traded in lots of 10, less than that is an odd lot. Brokerage is at a lower rate than in the case of shares. An initial margin of R2 000 a contract is lodged with the Futures Clearing House. It has to remain constant at R2 000 a contract so that if the price of the futures index goes down on a particular day, and the investor has bought the futures, he has to top up his margin to the original R2 000 the next day. Similarly, if the price rises he is credited with that amount on the following day. Daily adjustment is made by a process called marking-to-market. If the contract is allowed to run to the expiry date stipulated in the futures contract, the settlement is based on the level of the actual JSE index.

Why are futures attractive for speculators?

Futures can be bought or sold as an initial transaction. This means that both the bullish and the bearish investor are catered for.

Also, for a relatively small initial outlay, the speculator obtains the price movement of a large rand amount of equities. For example, with the JSE industrial index at 4 500, one futures contract represents 10 times this — R45 000.

How can the investor, as distinct from the speculator, benefit from dealing in futures contracts?

In two ways, firstly, through hedging to protect his market exposure (for example a share portfolio); and secondly, the utilisation of futures to invest future cash flows for anticipatory purchases. If someone wants to invest in industrial shares, he can instead invest in an industrial share futures contract. If the industrial share market and therefore the industrial index goes up, the futures purchaser will profit even though he does not own any of the major industrial shares. He still, via futures, shares in their price movement. At the moment there is an advantage in that the industrial index futures price more often than not trades at a discount to the price that it should be trading at. This phenomenon, unusual abroad, occurs here because speculators have a greater effect on the futures market than investors.

This situation provides an opportunity for investors seeking a broadly based industrial share portfolio to purchase such, via futures, at a discount to the actual prices quoted on the JSE.

Space has permitted only a very brief look at financial futures trading. Investors who are interested need to know considerably more than this and should bear in mind the risk involved in speculation in futures.

Next week's article will look at the complex relationship between the share market and the economy.

Magnus Heysteek is on leave. His 'Money Matters', as well as the readers' letters column, will resume next week.
Understanding economic cycles

As I illustrated last week, some funds are clearly better than others. There is also a right and a wrong time to buy them and in order to identify the right investment times it helps to have a simple understanding of South Africa's economic cycle.

There are always times when money is in short supply, and times when it is freely available. Money shortages lead to rising interest rates, and, because share dividend yields bear a relationship to prevailing interest rates, share market prices must fall at such times in order to bring their dividend yields into line.

Fluctuating

Since investment into a unit trust fund is really the purchase of a share in a big portfolio of shares listed on the Johannesburg Stock Exchange, it is obvious that the value of each unit trust fund will fluctuate with the fluctuating value of the shares that it is composed of.

Timing your ideal point of entry thus involves identifying the point when money again begins to enter the money market and the interest rate pattern of the country peaks out, for as interest rates fall, share and mutual fund unit prices will rise as they did this week when the Reserve Bank lowered its lending rate.

But let us consider the cycle that, in part, determines money supply and interest rates.

South Africa's economy has traditionally been controlled by the agricultural crop and consequently the weather, by the international prices of the minerals we produce and, of course, by the price of gold. The latter for many years represented nearly half of our export earnings.

Picture then a time of good rains and bumper crops, hopefully at a time when the rest of the world has had harvest failures. Assume that the rand is weak in its relationship with other overseas currencies and that we are consequently able to competitively export our food surplus at a profit, that our national balance of payments situation accordingly moves strongly into credit and that farmers, as a result of these export sales, have a lot of money to spend.

It is not, of course, just farmers who benefit from a weakened rand. Our mineral producers and our exporters of processed goods benefit also from being in a position to undercut their competitors in foreign markets.

While the farmers are out spending their money on new cars and tractors and so forth, the industries that supply these goods are obviously working at full capacity and paying out a lot of overtime money to their workers.

Industrialists seek to cash in on the booming market by expanding their factories. They borrow money to build and to import machinery, and, because our balance of payments position looks good, overseas lenders deduce that the rand is strongly underpinned and are happy to lend us money.

However, as this cycle develops further, we begin to run out of skilled labour. Firms compete for staff and push up wages in the process. This process puts more money in the pocket of the man in the street who can, in turn, afford to spend it on luxury goods.

Soon the point must be reached when, despite all its efforts, local industry cannot supply all the desired goods. Retailers then start switching to imported goods. But, with all this importing of luxury goods and machinery, our balance of payments moves into deficit. The rand starts looking weak and overseas investors become wary of lending money to South Africans.

As money dries up, companies which have committed themselves to capital development programmes are forced to start outbidding one another. Interest rates rise and share prices tumble in sympathy.

As this cycle is, with minor variations always repeating itself, it is clear that one should be able to buy every few years when shares are cheap and sell when they are expensive. Analysts of the past decade proves that the investor who was able to buy at the bottom and switch out of his general funds into an income fund when the former was topping out, would have achieved an 808 percent better growth rate than the man who simply went in for rand cost averagings.

By contrast, if one simply buys and holds on forever, one will only gain by the amount that the nation and more specifically the unit trust one is invested in, grows wealthier.

Cycle

The latter does, of course, assume that both do prosper for, quite obviously, it is not wise to invest in a diminishing economy as you would grow steadily poorer.

One should note that in the early 1990s, when the cycle itself remained intact. The only real change was that the boom phases became shorter and the recession phases longer.

Footsteps to Fortune is a serialisation of Richard Cluver's latest book "How To Make a Million" which, together with his other titles, "Making Money With The Mutuals", "Investment Without Tears" and "Advertising For Free" is available from the Promotions Department, The Daily News, PO Box 4760, Greyville 4023. They are priced at R40 each inclusive of postage and VAT. Demonstration disks of his ShareFinder sharemarket analysis computer programmes cost R55.
A UNIT trust fund geared towards investors whose "ethical values prohibit investment in certain industries" was launched this week by insurance giant Southern Life.

This follows the positive response by investors to a "socially responsible" investment fund launched by trade unions last month.

"After two years of research in which its viability was determined, the Southern Unit Trust Management Company launched the Southern Pure Specialist Fund this Wednesday."

Although the latest fund is open to all, it's commitment to socially-responsible investments clears the way for Muslims, who are governed by religious injunctions regarding business dealings.

"We would like to make it clear that this is not just a Muslim fund. It is open to all investors whose moral code and ethics prohibit investment in certain industries," Southern's general manager (Investments) Mr Shamsodien Pather said.

"The fund will exclude investments in interest-bearing institutions (such as banks), life assurance, liquor, intoxicants, hotels, gambling and commodities harmful to the environment."

The fund will comply with the rules of the Unit Trust Control Act, meaning investments will only be made in companies listed on the Johannesburg Stock Exchange.

Pather acknowledged that "compromises" would have to be made regarding investments as "we are not living in an ideal world — we live in South Africa where it is difficult to find companies that will meet our requirements."

According to Pather, however, fund managers "will try to go a fair way" in ensuring that money is invested in companies which make positive contributions to society.

These would include, for example, "the contribution a company makes to education or housing. The impact their activities have on the environment will also be considered, and environment-conscious groups will be consulted," Pather said.

Pather said although fund managers faced limited choices, which excluded many excellent companies, he was confident the fund would not underperform relative to other funds.

"Already one third of our investment portfolio for the fund points to returns of between 20 and 50 percent. Say, for example, you buy a share for R10 and sell it after 10 years. If it was invested in a company which managed a return of 25 percent annually, you would make a profit of R25 — and that is without re-investing the returns along the way."

"We would like to see the fund achieve a performance similar to that of other funds. Many of the shares to be included in the portfolio are shares in which Southern Unit Trusts already invest," Pather said.

If the success of the two funds is anything to go by, their latest fund promises similar results.

Over the past financial year, the Southern Equity Fund proved itself as one of the country's top funds with a return of 34,38 percent. Assets under management rose from R58 million to R129 million, while the 40 percent increase in the number of clients is indicative of the strong public support.
AFTER two months and three successive years of losses, Focus Holdings, Hamburg and Mattress World were provisionally liquidated in the Rand Supreme Court on Friday.

Focus joined the JSE in the 1987 listing boom and grew from a 10-store chain to more than 100. Interests include Mattress World, Smiley Blue, Cashworths, Bachelors, Forty Winks and Ace Joe.

Creditors include Nedbank, Investec, Unibank and Mercantile Bank. A creditor told Business Times that the application was not intended to put Focus into liquidation, but to "perfect a general natural bond over movables" or take cession of stock and other movables.

A liquidator will be appointed next week to run the company. Acting chairman Peter Alexander says Focus hopes to trade its way out of difficulties.

"The major creditors have indicated they want us to continue trading and if our sales in May continue, I think we can do it," Mr Alexander says the group will be trimmed by destocking, rationalisation and selling shops.

The group had sales of R35-million in 1991. Losses of R72-million in 1991 and R748 000 in 1990 were blamed on poor economic conditions. Mr Alexander says the cumulative loss continued to grow this year.
The going's rough in the JSE trenches

THE JSE's 50-odd brokers need trade worth R100-million a day to break even on costs. For every day the figure fails to reach that, someone is incurring a loss.

But in these tough times, trade of R50-million is regarded as a good day.

Stockbroking is in recession and casualties are inevitable. Most JSE trade is in a core of blue chips.

The JSE is said to lack liquidity. The term applies to the volume of shares available and means there is too little scrip to meet demand.

The hot-house effect is well documented — the best shares climb on dwindling trade while the rest stagnate.

It can be said that there are too many stockbrokers.

In the past six months, three brokers have been found in default and another to be acting against his clients' interests. All were small firms providing little or no research to institutions.

Often, struggling brokers fail prey to a takeover — the rate of change of broking firms' names bears witness to this. For example, in my six years' involvement with JSE activities, the Frankel firm has been Frankel Kruger; Frankel Kruger Vinderne, Frankel Kruger Vinderne Incorporating Menell Jack Hyman, Rosnburg and is now Frankel Max Pollak. Vinderne.

There was a Simpson Frankel before all that.

A stockbroking analyst says: "If a firm pays top rates for analysts, they command expensive packages and wins brokerage in proportion to the cost, then it thrives."

"But if it pays only 60% of top rates, the research will not be good enough to attract enough business. Trouble lies ahead."

Analysts study the investment merits of leading companies and make recommendations to clients, mainly institutions, about buying or selling shares.

The more an analyst calls the market correctly, the more business will come the way of his broking firm. But it takes a long time to build a reputation of credibility. It takes time to lose it, when wrong.

A dealer says the key is to find a niche market. It may be done through specialised research into one or two areas, financial market trading, cornering the preference-share market or providing an information service.

One mining analyst, who moved from a large firm to a smaller one to help it establish a research division, received several job offers.

One he turned down was at Andrew Forbes, which later defaulted and is in liquidation.

How easy is it to rip off one's stockbroking employer? Ghost accounts are a favourite. Brokers' employees are required to pay for shares dealt in on personal account within 24 hours. Obviously, this does not suit the jobber, who aims to take a turn within the seven days' grace on payment extended to clients.

The usual ploy is to open an account in the name of a willing relative.

Some firms have uncovered fictitious accounts on their books, particularly after the October 1997 equity-market crash.

In practice, dealers buy shares and want to see what happens to the price before booking them to accounts. If it turns positive, the shares are booked to themselves, normally or otherwise.

If not, the employer's book is the destination. It is not supposed to happen, but it does.

The JSE's new president Roy Andersen knows only too well that until the exchange is purged of the bad element, its future is in jeopardy.

For these reasons the JSE has created the post of surveillance director. He will help it to achieve a more secure market. So far, the president is receiving the thumbs up from institutions which comprise the JSE's client base.
New investment channels consider moral objections

TWO new investment channels initiated by the Muslim community but available to all South Africans were launched in Cape Town this week when top directors of the Albaraka Bank flew in from the Durban headquarters for the opening of the local branch, and Southern Life introduced its Southern Pure Specialist Fund.

Details of the new Southern unit trust fund were given at a media conference where it was explained that the fund was aimed at investors whose moral code and ethical values prohibited investment in certain industries.

"It will exclude investments in interest-bearing instruments, life assurance, intoxicants, tobacco, hotels, pork-related products, gambling and commodities deemed harmful to the environment," said the general manager (investments) of Southern, Shamsie (Shams) Patheer.

He pointed out that the fund would comply with the prescriptions of the Unit Trust Control Act, which stipulated investment in listed securities on the Johannesburg Stock Exchange.

"As a specialist fund, the portfolio will consist of share investments in gold, mining, industrials and property as well as cash.

"Liquid assets will be held with institutions which practise interest-free banking such as the Islamite Bank in Johannesburg and the Albaraka Bank."

Cash in the fund will be deposited with these interest-free banks although the listed companies in the portfolio utilise the normal banking system.

"Intensive research was undertaken before construction of the portfolio to establish the parameters under which the fund would be managed."

Mr Patheer said while the universe of assets from which the fund manager could select was limited and excluded many blue chip stocks, he was confident the Pure Specialist Fund would not underperform relative to the unit trust industry.

"Many of the shares which will be included in the portfolio are shares in which Southern Unit Trusts already invests in its other portfolios."

"Southern Unit Trusts launched its first funds in October 1993 and has become a major player in the market."

"Over the past financial year ended March, the Southern Equity Fund proved itself as one of the country's top funds with a return of 34.48 percent."

"Assets under management rose sharply from R68 million to R123 million." (17117)

The opening of the Cape Town branch of the Albaraka Bank on the corner of Spin and Plein Streets was attended by top executives from the Durban headquarters, including Mr Y M Paruk, first deputy chairman, Adv A B Mohamed, second deputy chairman, Mr E E Vawda, chief executive officer, and one of the auditors, Mr M S Paruk.

In his welcoming address, the bank's religious adviser, Sheikh A B Kajjar, said the bank was part of the Albaraka group of companies with 21 banks and financial institutions throughout the world and assets of more than R11 billion.

In an interview, a Cape Town director of the bank, Nauser Osman, who is a prominent businessman and community leader, said the bank would be established on sound economic principles "without having to indulge in interest."

The Durban headquarters had made big strides over the past 16 months and its main activity was finance for trade, housing, motor vehicles and partnerships. "We intend to spread into other fields as well," said Mr Osman.

"The support we have received in Cape Town has been overwhelming and one of our first account holders was the Muslim Judicial Council."

"The bank does not pay interest but declares dividends. It helps large and small entrepreneurs and encourages them to start new ventures."
Creditors can claim R7-m in dividends

THE liquidators of the AA Mutual short-term insurance business will make a third general distribution to creditors in September.

The third dividend of 25 cents in the rand will bring the total distributed to 80 cents in the rand, with a final dividend to be paid next year.

Cheques returned
A large number of dividend cheques sent out to date with a value of R7-million have been returned because certain creditors have not notified the liquidators of a change of address.

Money that remains uncollected is by law passed to the Guardian's Fund and is forfeited to the State after the final dividend is distributed.

Change of address details, plus a policy or claim number, should be directed to: The Liquidators, AA Mutual Short-Term Insurance Business, PO Box 9595, Jhb 2000.
Crisis pulls share prices sharply lower

FADING sentiment in the wake of the political crisis pulled share prices sharply lower on a depressed and nervous Diagonal Street yesterday. "The market is in turmoil and things are looking terrible," a dealer said as share price losses outnumbered gains by 98 to 18.

The 64-point decline in the JSE industrial index to 4,435 took its fall to 5.5% from its month-ago peak, while the overall index shed 51 points to 3,999.

Currency dealers reported an increase in rand volumes. After falling from R3.98 to the dollar to an intra-day low of R3.98, it rebounded to R3.93 on news that the Goldstone commission exonerated government from the violence sweeping SA.
Servgro bullish ahead of JSE listing

LEISURE and services group Servgro, which is expected to list on the JSE on August 7, has forecast an 11.5% turnover growth to R982.2m in the year to end-March 1993.

The group, which has interests in Inter- leisure, Teljoy, Avis, Fedics, Interpark, Price Forbes and Nasionale Pers, said in its prospectus that operating profit would increase by 18% to R118.1m and attributable profit by 16.1% to R49.1m.

Earnings per share would rise by 10.4% to 45.6c and the dividend would increase to 18.6c a share from 16.7c.

The balance sheet at end-March shows cash of R136.9m, and gearing of 24%.

At its listing price of 50c a share, the group was on an historic PE of 12.1 times and a forecast PE of 11, with an historic dividend yield of 3.3%.

Servgro, which has an expected market capitalisation of R700m, is raising R149m to list in the beverage, hotels and leisure sector of the JSE. Leisure contributed 66% of Servgro's attributable profit, while services interests contributed 34%.

The share offer, which opens on July 13 and closes on July 29, was expected to be well received by institutions, said executive chairman Peet van der Walt.
Sappi counting on overseas activities to reverse decline

PULP and paper giant Sappi's aggressive foray into international markets could be the catalyst for reversing its declining profit trend of the past two years.

At end-February, the group's turnover had increased to R2.84bn from R2.67bn, but net income had dropped to R122m from R174m in the previous year and from R605m in financial 1999. Operating income and earnings a share had shown a similar decline, but international activities could change this trend.

Sappi supplies about 50% of SA's total pulp requirements, and exports almost half of its production worldwide. About 50% of the income from its SA operations comes from international sales.

International links include Sappi Europe, which owns five fine paper mills in the UK, Sappi Trading, which markets the group's products internationally from SA, Zurich, the US and Hong Kong and the Usata Pulp Company in Swaziland. In a massive overseas drive, Sappi recently announced the R825m acquisition of 90% of Germany's largest coated paper producer, Stora.

The turnover of Sappi's non-SA operations increased by 7% to R1.8bn to end-February, and improved profitability is expected in the coming year. Chairman Eugene Van As said in the annual report that exports to Europe, the US and the Far East were expected to improve "by well over the 10%" recorded last year.

At the group's AGM earlier this week, Van As said Sappi was trading better than a year ago and expected to show positive earnings growth in the current financial year.

Trading conditions had remained difficult in the first four months since the year-end, but there were "encouraging signs of further price increases in both the pulp and kraft liner board market sounded off".

The local market remained in a low growth phase with no signs of improvement on the levels obtained in the last financial year. Despite significant improvements in productivity of its mills in Europe, trading conditions remained difficult.

Van As said Sappi was well placed for a better economy in the UK. The acquisition of Hannover Paper, and the international vendor placing of 198-million Sappi shares at R44 a share, had put the group in a stronger position.

Presmed shares to be increased

PRESIDENT Medical Investments (Presmed) would increase its number of ordinary shares from 11.5-million to 18.3-million each to 16.4-million shares at 15.6c to improve tradeability and introduce a share option scheme, it said today.

The exdating 11.5-million issued ordinary shares would be consolidated on a 1-for-5 basis. The consolidated shares will then be subdivided to create an issued share capital of 18.4-million ordinary shares at 16.25c.

Authorised share capital would also be consolidated and subdivided on a similar basis, and increased to ensure that Presmed would have sufficient authorised but unissued shares in reserve.

Each shareholder's 100 shares would increase to 160. The effect of the shareholders' earnings and net asset value would increase to 160. The earnings per share would increase to 160 from 30.5c to 19.2c, while dividends would move from 6.7c to 4.2c. Net asset value a share would amount to 69.4c from 56.7c before the proposal. Although the earnings would be diluted by 37.5%, share price earnings per share and net asset value would remain unaffected.

Sanlam's five trusts raise liquidity levels

CAPE TOWN - Sanlam's five unit trusts all raised liquidity levels significantly during the quarter to end-June to take advantage of buying opportunities expected to emerge in the stock market.

The level of cash in the Sanlam Index Trust increased to 11.7% (8.6%), Sanlam Trust to 12.4% (7.8%), Sanlam Dividend Trust to 21.2% (12.4%), Sanlam Industrial Trust to 13.7% (10.9%) and the Sanlam Mining Trust to 9.3% (8.8%).

The Industrial Trust has declared a distribution of 13.6c per unit, the Index Trust 21.2c and the Mining Trust 5.9c.

Senior portfolio manager Stafford Thomas said the market had been unstable in the last quarter, largely due to adjustments on most foreign markets and the uncertain local political situation.

In the short term, the local market would benefit from the underpinnings of the US stock market by the presidential election campaign, which had depressed US interest rates. But industrial shares in SA were relatively expensive and significant growth could not be expected.

Thomas said higher growth in dividends and earnings was necessary before industrial shares could be expected to advance. Commodity shares were the top performers in the last quarter. They benefited from the upturn in some world economies. Production shortages of some commodities were possible, which could positively influence SA's commodities and precious metals, Thomas said.

The biggest purchase by the Sanlam Trust over the quarter was the acquisition of 800 000 Midwits shares, and Tempora, Anglovaal Industries and Sappi shares.

The Dividend Trust bought Midwits (200 000), Datakor (471 600), AVI, Richemont and sold Q Data (563 200), Santam (242 700) and Caricor. The Industrial Trust bought Tempora, AVI, Richemont, AG Players, and sold Caricor, Placor and Tiger Oats (322 500).

The Index Trust bought Abo shares (549 700), Palamun, Johnnie's, CG Smith, Rangers, Richemont and sold Liivest (200 000) and Tiger Oats (640 377).

Total returns over the last three years were — Industrial Trust 27.4%, Sanlam Trust 22.3%, Dividend Trust 20.8%, and the Index Trust 19.6%.

UAL files solid return

UAL Unit Trust recorded excellent results for the first half of 1992, due mainly to substantial investments in Rustenburg Platinum, JCI, First National Bank, Liberty, Richemont and the Premier Group. A return of 20.21% for the 12 months to 30 June 1992 was achieved.

A distribution of 27.4c a unit was declared for the second quarter of 1992. In the past 12 months, the UAL Mining and Resources Unit Trust has outperformed the Mining Producers Index. A distribution of 3.9c a unit was declared.

The UAL Selected Opportunities Trust, a specialist fund, achieved a return of 16.11% for the past 12 months (2.32).

The UAL Gold Unit-Trust experienced a decline of interest rates during the second quarter of 1992. The fund achieved a return of 21.4% over the past 12 months.
Do you ever doubt the ethics of the investment you have made? Well a newly set up fund might be the answer for you and your money.

A new fund aimed at investors who do not want to invest in companies whose products are morally and ethically unacceptable to certain investors has been launched by Southern Unit Trusts.

Investment manager Mr Shamadien Pathar said: "As a specialist fund the portfolio will consist of share investments in gold, mining, industrials, property and cash. Liquid assets will be held in the institutions which practice interest-free banking."

Exclude investments. "It will exclude investments in interest-bearing instruments, life assurance, intoxicants, hotels, gambling and commodities deemed harmful to the environment."

Mr Pathar said serious misconceptions had been created in some Press reports which gave the impression that the fund was a Muslim or an Islamic fund investing in Halal companies. "In the South African environment it is virtually impossible to design a fund which will satisfy its prerequisites absolutely, he said.

Small investor

Unit trusts enable the man in the street to invest in companies listed in the Johannesburg through the purchase of units of shares. He purchases these units via a fund managed by, in this case, Southern Life. Other financial institutions and life assurance companies also have these funds.

The advantage is that the small investor can invest in major companies from R50 a month."
Session of selling leaves JSE bruised

Mervyn Harris

Political uncertainty left the JSE bruised yesterday after another session of selling which knocked the overall and industrial indices by almost 3% this week.

The pessimism on the market was reflected in share price losses outnumbering gains by 136 to 16 as the JSE overall index tumbled 54 points to 2,845 — representing a decline of 6.4% from its month ago peak.

For the second successive day the industrial index shed more than 59 points to end 155 down at 4,907, but off its low on institutional nibbling of shares at their lower levels towards the close of trading.

Eden, Rogers & Co's Mark Eden said the market had been on high ground for some time and people had been looking for a correction. "Institutions will come into the market for quality shares when they start showing values."

Meades de Klerk's David Meades said share prices had been marked, rather than sold, down. "The market has, over the years, shown that it has a short memory as far as negative political events are concerned. By the week's end, we should see moderate demand for quality shares."

On the back of foreign jitters the rand fell 2.2% to R3.92 to the dollar.

A sell-off of silver put pressure on gold and platinum. After briefly falling below key support at $345, gold rallied slightly to close 5¢ lower in London at $343.95, while gold in New York ended at $343.95. Platinum eased more than $2 to a London afternoon fix of $332.75. In New York it drifted down slightly on the back of silver, losing $1.75 to close at $394.00.
Coal mine cannot pay salaries

WITBANK coal mine New Arbor Colliery, which has debts of R3.7m and is unable to pay staff salaries due today, was provisionally liquidated in the Rand Supreme Court yesterday.

Rappfos Holdings, which conducts its business under the name of New Arbor Colliery near Kendal in the Witbank district, is a wholly owned subsidiary of Foston Ltd which brought the urgent application for the winding up of the mine.

Foston chairman Glenn John Stuart Laing, said in an affidavit that Rappfos was insolvent with assets amounting to R1 891 000 as opposed to liabilities of R3 722 240.

Laing, who is also a director of Rappfos Holdings, said the company owed Foston R3 412 232 on an unsecured loan account which was now due and payable.

A creditor, Andru Mining, which was owed R460 000 had already obtained judgment against Rappfos Holdings, he said.

Laing added that the winding up of Rappfos Holdings was urgent because the company was unable to pay salaries and wages to employees today.

This meant that employees would refuse to return to the colliery, leaving the company's assets unprotected and vulnerable to theft and vandalism.

The company had also been unable to pay the monthly royalty due to the owner of the mineral rights who was now entitled to cancel Rappfos Holdings' rights to mine at the colliery.
Syfrets fund focuses on mining shares

CAPE TOWN — Syfrets Growth Fund focused its buying activity on mining shares in the last quarter and generally adopted a cautious approach to the equity market, fund manager Tony Gibson said yesterday on release of Syfrets’ quarterly unit trust results.

He said a too heavy weighting in equities was risky in the present local and international climate. While growth of the world’s major economies would see commodity prices and hence mining shares rise, this would not be sufficient to offset the impact of an international correction in share prices.

However, Gibson advised worried investors against knee-jerk reactions which might result in them selling out of unit trusts at the stage because of short-term economic and political considerations. The stock market had needed a correction and investment strategies had been revised.

The downside was limited because of large institutional cash flows.

In the last quarter exposure to mining shares increased to 29.5% from 25.8% but, apart from buying in the potentially high value counters, liquidity was allowed to build up. The focus was on consolidation and there was little significant selling.

Cash, short-term deposits and gilts accounted for 15.8% of the portfolio, the market value of which was R327m. Holdings in De Beers, Rusal, Anglo American, Gencor, APL, Richemont and Rembrandt were strengthened and new holdings acquired in Malhak and Lebie.

Syfrets Growth Fund’s income distribution for the quarter was 2.66c per unit and the purchase-to-repurchase return over the past 12 months was 23.57%. The fund is the top performer of all general equity unit trusts over five years with an annual return of 31.7%.

The R327m Syfrets Trustee Fund concentrated buying on De Beers, Gencor, Malhak and Sasaol with the proportion of industrials little changed at 56.8% (58.5% in the previous quarter). Cash constituted only 2.3% of the portfolio, with the balance of the non-equity holding invested in shorter dated negotiable certificates of deposit and gilts.

The Trustee Fund distributed 1c per unit in the last quarter.

The Syfrets Income Fund, which switched to longer-term instruments and high yielding bonds over the quarter to enhance capital performance and improve yields, distributed 3.54c per unit bringing the total for the year to 10.82c.

The recently launched Syfrets Gift Fund declared an income distribution of 32.67c per unit.
ING facility for investors. Jürgen Kögl of brokers J Solms & Co says the instrument has come at a good time, given the high volumes which capital markets have experienced in recent months. "With equities relatively expensive, the secondary gilt market has become an attractive option for investors," he says.

Eskom also launched a zero-coupon bond last week, the E171, which matures in 2002. It has had a mixed response due to the novelty of the instrument and the uncertainty that lingers over the tax treatment of zero-coupon stock (Economy June 26). But dealers say the instrument was better priced and marketed than the RSA zero-coupon stock of a few weeks ago.

The money market shortage shot up to R5,13bn last Friday, from R1,89bn the Friday before. On Monday, the Reserve Bank reduced the shortage with an offer to enter into three-day Corporation for Public Deposits repurchase agreements. The CPD received applications for R1,55bn and paid out R500m at an average rate of 15.24%.

The big shortage arose from a mismatch in cash flows in the Exchequer Account of the Bank’s books for July 2 to 15. Provisional tax payments at the end of June and the issue of stock last week, combined with a lower-than-expected level of government spending in early July, will only be countered by the maturing of government stock on July 15.
Kessel Feinstein tax partner Ernest Mazansky explains the requirement to elect has been inserted to prevent taxpayers who are already regarded as dealers (or who might become so regarded) from manipulating their safe-haven status.

But for the requirement, they could switch status from year to year to claim losses on share dealings in some years while protecting profits in others.

He feels Revenue had its eye mainly on mining houses in formulating this section — as they have frequently been taxed on their share transactions (and so have concurrently been entitled to claim losses).

A corporate tax adviser says it could well be argued the wording of the section imposes an election only on a particular quoted share, and not on a portfolio as a whole. Revenue, he says, takes the contrary view — that an election operates over a taxpayer’s entire portfolio. He argues the section should be amended to spell out Revenue’s intention that an election should take effect over an entire portfolio, to do away with the uncertainty.

Ernst & Young says the 10-year rule was really only of value to a share dealer who wished to hold some counters for long periods as capital.

The reduction in the period to five years makes the section relevant to many more taxpayers — those who run the risk of being taxed on their transactions because of their “levels of activity and portfolio management style.” They should seriously consider electing safe-haven status.

Lastly, Mazansky and Ernst & Young agree that no presumption of any kind about the capital or revenue status of share gains can arise — over shares realised within a five-year period — through either a positive or negative election on safe haven. The normal rules for determining whether such a gain is taxable will continue to apply. In other words, a taxpayer will not prejudice his existing status as an investor through making a safe-haven election.

MacKenzie

SHARE GAINS

Safe-haven complexities

There are pitfalls for investors who use the “five-year safe-haven rule” for share disposals. Disposals of shares held for more than five years cannot be taxed in terms of the recently amended section 9B of the Income Tax Act.

But the section requires that the taxpayer must elect safe-haven status when he submits his first return reflecting disposals of quoted shares in a post-amendment tax year.

Ernst & Young tax partner Ian MacKenzie says taxpayers who might previously have had to elect or abstain from election under the “10-year rule” will be obliged to make a fresh election under the five-year rule (which became effective on March 19).

However, says MacKenzie, if a taxpayer sells a listed share held for more than five years and does not elect safe haven, he will never again be entitled to elect safe haven for that or any other quoted share. If he does elect safe haven, the decision will affect not only that share but also all other shares he holds or will in the future hold for more than five years.

If the taxpayer does not dispose of any “five-year plus” share in the current tax year, he will have to make the choice only in the year he first sells a share.
Cheap way into JM

With three of its four operating cylinders firing higher profits, Charter Consolidated's dividend increase at the end of a tough year smacks of confidence. The 0.5p hike to a total 21.5p, however, echoes the 0.4p improvement at Johnson Matthey, Charter's 38.5%-owned associate, which also bristled with optimism though its profit stood still.

With interest rates down — every one point move in UK rates produces a £2m swing in earnings — and the construction industry in tatters, Charter did well to hold the decline in pre-tax profit to 4.65%, at £73.8m, in the year to end-March. Margins in Charter's biggest operating division, building products and services (via Cape), were bludgeoned last year with profit falling by 26% to £12.5m, on sales up by 11% at £203m. Net interest received, the third-biggest source of earnings, was cut by a quarter to £14.6m.

But strength at PanMol (rail track equipment), cost-cutting at Anderson (coal mining plant) and Cast (quarrying and coal mining) combined to limit the decline. PanMol, which picked up a Queen's Award for Export Achievement, boosted in markets from China, Hong Kong and Japan to the US, with sales up 13%, at £94.4m, and operating profit 9% better, at £11.6m.

Anderson, blighted by the slump at its biggest customer, British Coal, saw the benefits of cost-cutting and halving of its workforce to 1,100 in two years. Profit, which fell from £8m to £1.5m in the previous year, pulled back to £2.8m — though its margin remained woefully thin at 2.5%.

In addition, Cast benefited from disposals of contract mining operations in the US, while Hargreave, the quarrying business, managed to increase profit. Overall, its surplus nudged up 11% to £3m.

With net cash of £122m (£133m), Charter is sitting pretty after spending £55m on acquisitions and investment.

Charter, however, still leaves unanswered the question of its holding in Johnson Matthey, whose equity-accounted £25.5m was 43% of its group operating surplus. The stake is worth £307m and, with JM's dividend yield of only 2.9%, the opportunity cost is considerable.

To some London commentators, the position makes Charter an extension of its 36%-owner Mincor's wider strategy, despite management's independence in building the group's focused four pillars. The connection, however, is doing the share price no harm. Charter was at its year's high of 545p (up 17% from the low) and on a dividend yield of 5.4% and p/e of 12.5 after the figures.

That makes it a relatively cheap indirect way into JM — which, after a 39% gain, to 440p, is yielding just 2.9% and commands a multiple of 18 on the promise of future demand for platinum-based car exhaust catalysts.

John Cadill
Abacor almost ready for privatisation move

PRETORIA — Preparations for Abacor's privatisation were almost complete, chairman Frans van Rensburg said yesterday.

He said the corporation's value would be determined within a month. Indications were shares would be available at R1 each, with the extent of the issue depending on the corporation's gross value.

Shares would be available on a priority basis — 45% to producers, 30% to the trade, 20% to the private sector and 5% to Abacor personnel.

Abacor manages and operates 11 of SA's largest abattoirs, providing meat for more than 15-million people.

Van Rensburg said the corporation had been managed and operated commercially for some time. Privatisation would, therefore, not necessitate special adjustments.

Abacor was not blinded by the short term agricultural economical and political circumstances of the country.

"We cannot sit around waiting for things to happen," van Rensburg said.

He said there was a growing need for high quality meat in SA and the industry's future looked bright. Abacor was a leader in Africa, especially southern Africa, and had the facilities and ability to provide for SA's needs.

The privatisation move came from Abacor itself.

Abacor MD Frans van der Vyver said the organisation was eager to compete in the open market. Its standards were high and complied with consumer demands.

Shares not sold would be made available to the public.

Van der Vyver said most of the groundwork for privatisation had been completed. An application for a JSE quotation would be made after the final valuation.

A Rand Merchant Bank spokesman said the final valuation before issue would be completed just before registration.

Meanwhile, red meat producers are divided over the merits of privatising Abacor. The Red Meat Producers Organisation (RPO) has welcomed it, but the Organisation of Livestock Producers (OLP) claimed it was an attempt by Abacor to retain its tight grip on the industry.

RPO chairman Gerhard Bronn said the move would lead to greater competition in the industry, which would ensure a better deal for producers and consumers.

He advised producers to take up their shares in Abacor, as this would give them a more effective say in the industry's administration and decision-making.

OLP executive member Sandy Speedy said the entire privatisation operation was "back to front". The industry should have been deregulated before it was privatised.

OLP believed each of the 11 abattoirs controlled by Abacor should be allowed to function independently.

Speedy said allocation of 30% of shares in Abacor to the trade would mean the big three meat distributors — ICS, Vlaaskraal and Kanhyrn — would continue to dominate the industry.
drop in the JSE Industrial index.

Market talk is that a seller of around 400,000 shares is forcing the price down in an already weak market. Also, W&A's rating has been weakened by the group's level of debt. Despite the roughly R590m proceeds received from asset sales in 1991 and a R104m reduction in working capital, year-end net borrowings decreased by only R130m, to R796m, after including a R211m investment in JD Sales preference shares as cash.

There is still room for improvement in gearing and interest cover, but the acquisition should strengthen the group's finances, as W&A's equity base at the centre has increased by R88.3m with the placement of compulsorily convertible debentures and ordinary shares. As the company acquired is free of debt, gearing of the consolidated entity will be lower.

The balance of the purchase price will be financed from future cash flow. Though the 12% debentures will incur annual interest of R10.5m, Liebesman believes interest costs will be comfortably covered even though the acquired operation recorded a trading profit of around R9.5m in its last financial year.

Trading profit at both W&A's current offshore scaffolding operation and the new business stand to increase steeply, as the price war between the two will cease. He reckons the war sliced roughly R27m off W&A's offshore operation's trading profit, while the new business's profit was cut by around R40m.

If this is the case, then the acquisition looks cheap, particularly as he reckons a further R17m in costs should be saved through rationalisation. Liebesman notes, though, the benefits gained from higher prices and rationalisation will only be felt in the medium term.

Taking the acquired operation's results for last year, W&A's 1991 EPS, on a fully diluted basis, would have declined roughly 7% if the acquisition had been effective over the period, though this must be considered academic if the price war is to cease in future. The market has probably overreacted to concerns about high debt, particularly as the group could benefit significantly from any interest rate drop.

Willem O'Gilden

W&A's R118m offshore scaffolding acquisition reflects the group's strategy in its "mature phase" — making global acquisitions, financed primarily through equity, in businesses it understands. Scaffolding is one of W&A's core activities. If investments are to be made at all, then it probably comes as a relief to some shareholders that the group is increasing its exposure in this arena, sticking to its knitting.

The local and international scaffolding, shoring and formwork operations accounted for a third of the group's 1991 attributable earnings and this will increase as a result of the acquisition.

Chairman Jeff Liebesman declines to name the company, but sources believe it is the Kwikform scaffolding business in Australia, which is in direct competition with W&A's Australian operation.

However, though the R88.75m equity issue was supported at 400c by respected institutions, including Liberty, Sanlam and Genbel, the market price is now 50c lower. This can be attributed partly to the weak stock market, but there is more to it, as the decline is significantly greater than the comparable
BROKERS' PORTFOLIOS

Mid-year rankings

Selections at the beginning of the year for the 1992 brokers' portfolio competition included a wide choice of shares based on divergent thinking. Not surprisingly, results at the half-way stage of the six firms that entered the competition, as well as the FM, show a similar divergence of performance, ranging from capital appreciation of individual portfolios by over 20% to as low as 3.7%.

Mid-year results show aggregate gains in the prices of the 10 shares selected for the original portfolios based on the closing prices at June 30. At this stage brokers may make changes to portfolios, something which all participants, with the exception of Davis Borkum Hare, have done (see table).

Leading the field is the FM's portfolio, which appreciated by 24.3% overall. Top performing share so far has been Publico whose price gained 75%, though we thought it time to take profit and have dropped it from the portfolio, together with underperforming Kinross Mines (down 34%), AECI (down 5%), and Fidelity Bank (up 18%).

Insurance shares in the FM's portfolio have held up above average, particularly Protea Assurance (46%), and both Datakor (37%) and Kanlyum (41%) have proved to be strong performers.

Davis Borkum Hare, placed second, is leaving its portfolio of largely bluechip shares unaltered. Best choice in its portfolio so far has been high-flying Telemetrix, which gained 126%.

Martin has made five changes to its portfolio, introducing a wide new selection spanning financial services, food, electronics and platinum. It has dropped Santam, Sentracem, Dobryl, Ellerine and Telpoy.

Martin's changes are interesting. Of those taken off, only Sentracem's and Ellerine's shares have not performed better than the portfolio's aggregate gain of 19.3%.

Newcomers to the remaining portfolios show a strong move towards financial services shares. Both Senegal Mouton Kitshoff and Martin have introduced Momentum Life to their portfolios, presumably influenced by its recent merger with Rand Merchant Bank.

First International Trust has been included twice, by Anderson Wilson and Senegal Mouton Kitshoff, while the former also brings in NBS Holdings, Martin introduces Sechold, Simpson McKie includes Liberty Life, Ed Hern Rudolph Nedcor and the FM African Life.

Engen however is the most popular midway choice, selected by Ed Hern Rudolph, Simpson McKie and Senegal Mouton Kitshoff.

Of all the entrants, only two portfolios have so far failed to outperform the JSE Industrial index (9.3%) over the same period, and only one is lower than the All Share index (5.7%).

Anderson Wilson, which started the year with the heaviest exposure to mining shares, has shifted its portfolio from mining slightly.

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Appreciation (%)</th>
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<tbody>
<tr>
<td>FM</td>
<td>24.3</td>
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<tr>
<td>Davis Borkum Hare</td>
<td>21.4</td>
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<tr>
<td>Martin</td>
<td>16.3</td>
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<tr>
<td>Simpson McKie</td>
<td>16.6</td>
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<tr>
<td>Anderson Wilson</td>
<td>11.2</td>
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<tr>
<td>Ed Hern Rudolph</td>
<td>6.3</td>
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<tr>
<td>Senegal Mouton Kitshoff</td>
<td>3.7</td>
</tr>
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though it retains an emphasis on shares with a rand-hedge exposure.

The most altered portfolio is that of Ed Hern Rudolph, which drops Mad Wits, Deelkraal, Afrox, Ellerine, NBS, Kanlyum, Sage and Cullinan.

With little between the top performing portfolios at the mid-way stage, and some substantial changes to portfolios further down, the remaining six months could well introduce a new order before the end of the competition. There are few obvious trends in the selections, apart from the favouring of financial services shares. But there is an emphasis on industrial stocks like Engen, and shares with a rand-hedge exposure like PIT and Minero. Most participants continue to avoid gold shares and other mining producers, platinum being an exception.

Readers should note that all these shares are chosen as part of an equity portfolio game. They should not be seen as recommendations or tips.
Share price devastation as scrip flies

SHARE prices were sold down heavily for the fourth successive day on the JSE yesterday to send the overall index tumbling 1.8% or 65 points to 3,446, representing a decline of 6.4% so far this week.

The devastation as present, local institutional investors and private clients off-loaded scrips was reflected in share price losses, curtailing gains by 167 to 16.

"It is looking pretty grim. Economic fundamentals are coming home to roost on top of worries about the political situation to deepen despondency," a dealer said.

The JSE industrial index fell 1.6%, or 73 points to 4,342 this week.

The rand ended marginally firmer at R4.01 to the dollar (23/2)."
LOCAL investors' fears about South Africa's future were reflected in falling share prices on the Johannesburg Stock Exchange today.

The short-term rate of interest rose to 32.5 percent as the Rand continued to slide, falling to a record low of 510.40 yesterday. Industrial shares were also down, while the commercial and financial shares had dropped even further.

The key indicator of inflation, the South African Consumer Price Index, showed a decrease of 3.7 percent in May compared to last year. However, there are concerns about the stability of the Rand, which has weakened significantly.

Investor confidence in South Africa's economy continues to decline, and this is reflected in the stock market. The rise in interest rates is a sign of concern about the country's economic prospects.

Despite these challenges, some sectors of the economy are showing signs of recovery. The manufacturing sector, for example, has been performing well in recent months.

Overall, there is a sense of uncertainty in the market, with investors looking for stability in a volatile economic environment.
Unit trusts once again beat inflation

SOUTH AFRICANS ARE STILL POURING THEIR

wealth into unit trusts in a bid to beat inflation and, to a lesser extent, to

provide a hedge for their

portfolio. Unit trusts, with

some exceptions, continue to

perform above the

market average, and analysts

are optimistic about their

future. However, caution is

in order, as the unit trust

industry is not immune to

market fluctuations.

The cautious approach

Cautious approach

of the fund managers to

invest in sectors that offer

potential for growth is

continued, with a focus on

emerging markets and

tech-driven industries.

The unit trust industry is

continuing to grow,

attracting new investors

and retaining existing ones.

Despite the challenges,

the future looks promising

for the unit trust industry.
Interest rates are pointer on investment path

Your Money
Sound investment and spread of risk

INVESTMENT in property is an essential component in any serious investment portfolio. The objective is the same as an investment in equities, namely, an overall return comprising income, growth thereof and capital appreciation.

Property units trusts (PUTs), which are an effective large property syndication, provide an ideal mechanism for property investment and for achieving diversification of risk, says Lee Woll, chairman of the J H Isaacs group and the Association of Property Unit Trust Management Companies. "PUTs listed on the Johannesburg Stock Exchange represent a market capitalisation of about R50 billion and their portfolio covers all categories of real estate — office, industrial, retail and residential. All 12 management companies that manage the PUTs are members of the association, which is the comprehensive representative of the industry.

Both PUTs and equity trusts are regulated by the Unit Trust Control Act (UTCA). The main difference compared with equity trusts is that PUTs are closed-end, which means the management company does not repurchase units for investors.

Satisfied

The units are traded on the JSE in the same way as shares of any listed company. Property trusts have hitherto expanded through rights issues, thereby offering unit holders an ongoing opportunity to take part in portfolio growth. In order to achieve the same comparative investment advantages as other categories of investors, the association believes that in addition to expansion through rights issues, properties should also be acquired for scrip, and discussions with the unit trusts advisory committee of the Financial Services Board are currently under way.

As in the case of equity trusts, the Registrar of Financial Institutions or the Financial Services Board will not register a management company unless satisfied with its financial standing and ability.

Major investors in property trusts comprise commercial and financial institutions with long-standing investment track records. The property portfolios are managed by experienced and professional property management organisations. The management company is responsible for investment decisions and administration of funds under its control. The trustee, normally a large financial institution, approves each investment.

In addition, the trustee is the custodian of each unit's assets — that is, the holder of funds awaiting capital investment — and of little deeds, and is responsible for the issuance of unit certificates and ensuring that each trust's assets are properly insured.

Weil states that in contrast with investing in a single property, PUTs provide an avenue for spread of investment risk. This is achieved through holding a multitude of properties in different geographical locations and tenanted by a large number of sound tenants.

There are also advantages that the units are readily marketable through the JSE and an investor will experience no problem in realising all or a portion of his units. A programme permitting units in elected PUTs will ensure an investment spread covering numerous quality properties. PUTs are not themselves taxable, as a result of a special clause in the Income Tax Act, and since PUTs distribute their entire rental and other income at least twice annually, investors receive their income in the same way as though they were directly invested in the properties.

Encumber

Investors will pay tax at their usual marginal rates on such income but will receive the benefit of the interest income deduction of R2 500. It is important to note the PUTs are not permitted to mortgage or encumber properties in a unit trust portfolio in any way, thereby substantially reducing investment risk.

There is, however, nothing to stop an individual investor using his units to secure borrowing at his own bank — they are a most acceptable collateral.
Try to see the big picture when investing.
Unit trusts bear the brunt as JSE starts crumbling

On Thursday, the unit trusts were knocked down by a wave of selling, with investors seeking to cut their losses. The JSE All-Share Index fell by more than 2%, reflecting the broader sell-off in global markets. This came as a surprise to many investors, who had been expecting a mild correction in the market after a strong run-up in the preceding weeks.

The selling was triggered by a combination of factors, including profit-taking by institutions, caution among retail investors, and a general shift towards more conservative asset allocation. The selling was particularly heavy in the unit trusts sector, which has been one of the most popular investment vehicles in recent years.

Many investors who had been relying on unit trusts to provide a steady stream of income were now faced with the stark reality that the performance of their investments was not as good as they had hoped. The sharp correction in the market has raised questions about the suitability of unit trusts for all investors, particularly those who were not prepared for the possibility of a major downturn in the value of their investments.

The situation is expected to remain volatile in the short term, with further selling pressure likely to continue. However, some analysts believe that the market will eventually find its footing, and that investors who are prepared to take a longer-term view may still be able to benefit from the opportunities presented by the current market environment.

The bottom line is that investors need to be prepared for the possibility of volatility and to have a clear understanding of their investment objectives and risk tolerance. It is important to have a well-diversified portfolio and to avoid taking on too much risk in any one asset class.

In the face of a major correction, the temptation to panic-sell can be strong, but it is important to remember that the unit trusts sector is still a viable and attractive option for many investors. While there will be ups and downs, a long-term perspective can help investors weather the storm and come out ahead in the end.
Survivors go to the wall

COMPANIES which may have survived shorter recessions than the present slump are no longer able to hold on.

Liquidations average 220 a month this year and March's figure of 290 was the highest in almost six years.

Civil judgments in February and March were the highest on record — a factor which is expected to raise liquidation figures further.

The recession has persisted for 35 months and is set to become the longest since the Second World War. The last recession started in 1984 and lasted 21 months.

Credit Guarantee Insurance Corporation (CGIC) senior economist Luke Duig says companies that may have learnt asset management in the previous slump are now finding it hard to keep their heads above water.

Companies are being hammered by the length of the recession, high interest rates and rising customer defaults.

By ZILIA EFRAT

Some businesses that weathered the last recession and which were monitored by CGIC have not survived.

Mr Duig says the worry is that companies that form the core of South Africa's productive sector, as opposed to service-type and less well-managed firms, are now failing.

Highs

Liquidations averaged 157 a month in 1989 and 133 in 1990, both years of recession.

They are fast approaching the unprecedented highs of the previous recession — 223 a month in 1984 and 255 in 1985.

A contributing factor to the business difficulties is that the expected mini-Christmas boom never materialised.

Business failures in the first four months of this year are 69% up on the same time last year. March liquidations are the highest since June 1986's 301.

Mr Duig says liquidation levels are likely to continue until at least early 1993. This is because all previous high interest-rate periods were followed by a lag of six to 12 months before liquidation numbers soared.

High interest rates lead to rapid rises in the value of default and consent judgments. SA is now suffering from an unprecedented number of civil judgments.

In the first four months of 1992 the value reached R176-million February's R369-million and March's R351-million were the highest ever recorded.

If the figures are annualised, judgments could top R3.5-billion, an increase of almost 40% on last year, says Mr Duig.

Insolvencies have been rising steadily since the recession began. From 2,553 in 1983, they jumped to 3,154 in 1990 and 3,970 in 1991.

Mr Duig says the rising number of judgments and insolvencies is expected to boost liquidation rates as companies struggle to maintain cash flow.
The dog sits in Nairobi

DIAGONAL STREET

by JULIE WALKER

ALL those JSE-listed companies enjoying prominence in Nairobi last week should heed the sad tale of a Johannesburg businessman's abortive venture in Kenya.

The man, who prefers not to disclose his name because he still has to return to Kenya to sort out the mess, went to set up a factory in Nairobi two months ago after being wooed by officials.

Members of Kenya's Export Processing Authority (EPA) visited SA this year. They were promoting a series of Export Processing Zones (EPZs), the first of which is Sameer Industrial Park in Nairobi.

The businessman was told he would enjoy the benefits of belonging to the Preferential Trade Association of 18 Central African countries as well as an import tariff reduction from the normal 35% to 25% and a tax-free holiday for 10 years.

He was told that investment and trade would be in US dollars and all EPZ customers would be granted import licences.

"We tied up with a British company and opened a factory in Sameer Industrial Park. My South African company was to provide the equipment and the management. Selling the plant for dollars earned valuable hard currency for SA," he said.

But when he got there, he found two fundamental problems. Government departments had no understanding of, nor had they been instructed about, the operation of an EPZ or the promises made by the delegation that visited Johannesburg.

Second, most officials thought that the EPZ was for multinationals to add value to imported goods for re-export to European markets.

"Anyone who believes that goods can be taken into Nairobi, 500km from the coast, with storage, rillage, clearance and tariffs paid, is living in a dream," he said.

The factory was opened and began work.

"The customers in Kenya alone were queuing up to buy, but they had to pay in dollars. When they applied for foreign currency, they were turned down and we could not make any sales. It was stalemate."

Peripheral problems include half-day electricity outside the EPZ because the hydroelectric power stations on the Tana River are shutting down and there is a drought, unreliable telephones and appalling roads.

So with no tariff protection, no benefits of Kenyan trading and no customers with the money to pay, the venture died and the man is back in Johannesburg.

His dog is in Nairobi kennels, his furniture in storage in Johannesburg and he and his family live in a furnished flat where the employees are on strike.

"After all the publicity about doing business in Kenya last week I want to warn others who believe they can do business there. There will be a shortage of foreign currency until there are free elections because all aid has been cut off. Until then, forget it."

"232

The Times 18457 12.7.72

ST. TIMES 18457 12.7.72
MORE than a million South Africans invest in unit trusts, 280,000 having opened accounts in the past year.

At the end of June the market value of the 46 unit trust funds topped R12,8-billion, a rise of 6% on the March quarter.

Association of Unit Trusts chairman Clive Turner reports a net inflow of nearly R60-million.

Gross sales were R1,1-billion and repurchases R234-million. These figures include an estimated 10% of switching by investors from one class of trust to another.

About two-thirds of gross sales go to general equity trusts.

Mr Turner says that with the share market looking uncertain, there has been a swing to high-income trusts.

Swing

The returns from income funds have tended to be stable, but equity trusts swing from gain to decline, depending on the SSE.

About a third of gross sales comes from monthly savings and from income reinvested.

"This has made our industry far less volatile than it used to be," says Mr Turner.

The average return on unit trusts in the past 12 months was 10.6%. Top of the general equity pales was Southern Life with 23.6%. Momentum’s was worst at 12.6%.

Among specialist equity funds, UAL Manag doubled growth in the mining financial index, with an all-in return of 11.5%. Both Old Mutual and Standard’s gold funds were down on the year. But Old Mutual’s industrial fund was the top of that class with a return of 22.8%.

Guardians’ income fund returned 21.5%, six points ahead of the inflation rate, and UAL’s gilt fund returned 21.4%, slightly below the rise in the all-bond index.

All figures are based on one-year repurchase-to-repurchase prices sourced from the University of Pretoria’s June quarterly unit trust survey.

Mr Turner appeals for calm among unit-trust investors in the political turmoil that lies ahead.

TRADE union-backed Community Growth Fund (CGF) raised half of its R100-million target for the year in the first month of operations.

The Syfrets-managed unit trust attracted most money from pension and provident funds, says Syfrets senior manager Ann Hamilton.

An NAM source says its provident funds have committed 10% to 25% of monthly subscriptions to CGF individuals have committed R1-million to the fund.

CGF, the first venture between financial houses and unions, is accessible to low-income earners because it requires a minimum lump-sum payment of R250 or R300 a month, as opposed to the R1,000 or R50 other funds insist on.

Mr Hamilton says shares have not been bought because the market is overvalued.

"Political pressures have softened share prices and we expect to start making acquisitions in the next few weeks."

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The Community Growth Fund — a socially responsible unit trust launched by seven trade unions in May — has already received farm commitments totalling R50m for the next 12 months, says Syfrets senior manager Ian Hamilton.

"This means the fund is halfway towards its goal of raising R100m within the first year of operation," he said at the weekend.

Another R14m in contributions was in the pipeline.

"We encourage monthly contributions and not lump sums, in order to maintain an ongoing flow of money into the fund. It is remarkable that not one investor approached has refused to contribute. And I will continue to make about three presentations to potential investors every week until the end of the year.

He refused to give details of investors, saying only that mainly provident funds — including two in the mining sector — had contributed so far, while Times Media had contributed R1m from its pension fund.

Notwithstanding the inflow of money, funds would not be invested in the JSE just yet, he said.

While Syfrets was technically ready to place the first rand into socially responsible stocks, market conditions were not right.

"Given the uncertainty in the political and economic arenas, we are likely to continue with the prudent wait-and-see approach," he said.

Fund money would be invested in JSE-listed companies which adhered to 12 union-defined criteria such as union recognition, acceptable employment practices and black advancement.

"The Syfrets board determines the financial eligibility of companies, while the Labour Research Service — a non-profit economic advisory body to trade unions — tries to match these to socially responsible investment criteria."

The unions, however, had the final say and made recommendations accordingly.

At present there were between 30 and 40 companies under investigation for the final selection list.

Hamilton would not disclose which companies had been chosen. "But, management attitude to unions is emerging as a key selection factor."

Performance statistics on socially responsible funds in the UK, the US and Canada showed that they outperformed other unit trusts over a number of years, he said.

National Union of Food, Wine, Spirits and Allied Workers spokesman William Makhunga said the fund had been introduced to most retirement funds associated with his union and the response had been positive.

Andrew Krumm
Commuters offered a chance to hop on board

NEWCASTLE's black community was being offered equity in the town's new bus and taxi rank development, which was soon to be extensively upgraded and improved. Taxi City Centres director Norman Boxshall-Smith said in an interview.

The bus and taxi rank in use at present had already been acquired from the municipality and a company had been formed to offer all users equity in the development, a move which could help prevent boycotts of the facility.

A million linked units at R10 each will be offered. They comprise par value shares of one cent at R4 each, each linked to 19% unsecured redeemable debentures at a par value of R6 each.

"The shares offered are only linked with the debentures for subscription purposes, after which they can be traded separately at the discretion of the shareholders," director Matt Oliver said.

While the debentures would be redeemed at the discretion of the directors, this would only occur after five years. The debentures guaranteed a 19% return and would probably be redeemed once the shares were producing a similar return, he said.

However, the directors were looking for a private placement of at least 200 000 shares or 20% of the scheme. If this did not happen, they would probably refund the money to subscribers and retain a 100% interest.

The offer was not underwritten as the directors had sufficient funds of their own for the development.

Negotiations had been under way for more than four years with Kwanza Transport, the SA Black Taxi Association (Sacta), the SA Long Distance Taxi Association (Saldta), the local Hawkers' Association and the more formal end of the retail business sector.

The final design for the development had been approved by all of these and was now out to tender. Construction should start in the next two months.

Some 800 taxis now use the rank, for which they pay the municipality about R20 a month. "We have advised the various associations that members can pay their contribution, but in return for this users would have to see to basic security and the cleanliness of the area," Boxshall-Smith said.

The 7,5ha site, three blocks from Newcastle's CBD, would offer 4 500m² of retail space, including a butchery, bakery, general dealer and other shops.

An open plaza has been incorporated in the development to cater for hawkers, while slightly more formal trading kiosks will be provided along the eastern boundary of the complex.

Net average rentals of about R25,80/m² are being asked, with an additional R3/m² for operating costs. All of the leases have 12% escalation clauses, while about 40% of the shops have turnover clauses.

"About 72% of the retail space is already let, while BP has put in R1.3m for its petrol station. The station will only cost between R400 000 and R500 000, but BP has donated the rest towards upgrading," Boxshall-Smith said.

A return on the R10 investment of 15.1% was predicted for 1994, rising to 15.3% in 1995 and hitting 15.8% in 1996. These figures were based on revenues expected from leases after expenses at 9% occupation and had been confirmed by auditors Ernst & Young, Oliver said.
Buyers bid for Debonair Group

CAPE TOWN — Various offers to purchase the provisionally liquidated quilted products manufacturer Debonair Group had already been received, MD Hein Calitz said at the weekend.

Trading in the company's shares was suspended last Thursday because of the application for its provisional winding up. Calitz said that last year a merger deal with a Frame-associated company, the Cape-based Highams, had fallen at an advanced stage through as the banks involved felt the balance sheet of the combined company would be over geared.

He said Debonair had assets of R10m and liabilities of R13m — R6,5m of which was owed to First National Bank (R4,5m), Allied Bank (R1,2m) and Societe Generale (R800 000). The R2m deficit related to a loan account to parent company, Abbey Holdings, which had been prepared to write off the debt provided the banks supported Debonair.

Calitz claimed the consortium of banks had delayed for seven months in drawing up an agreement to support the business and keep it financed. The banks' refusal to allow the company to open letters of credit during this time had cut off its source of cheap overseas fabric.

This, together with tough economic conditions and uncertainty over import permits when the tariff structure was under review, had led to Debonair's demise.

In January this year Debonair had refocused itself on its core quilting business after successfully selling off all its Johannesburg manufacturing operations.

Bank debt had been cut by R1,5m, rationalisation costs were covered and the company was making a turnover of R2m per month. By June Debonair had broken even, Calitz said. But last week it could not pay the wages of its employees and was provisionally wound up.
FSI reassures investors on debt, pref servicing

FSI's Jeff Liebesman has used his latest chairman's statement to reassure shareholders that the top pyramid company of the W & A group can service its preference shares and debt from cash flow developed lower in the group.

Top company FSI also reports that arrangements have been made to defer redemption of its own redeemable prefs beyond the April 1992 start date.

Liebesman explains that, since the group's 1990 restructuring, FSI's holding of convertible debentures, ordinary shares and pref shares has been balanced to ensure a straight flow of funds from W & A and Waccor to FSI.

He adds that FSI's own cash flow is not dependent on ordinary dividends declared by W & A, lower down the group.

In other words, cash flow from W & A covers FSI's own debt servicing and dividend payments.

"At the end of 1991 FSI's own long-term debt totalled R211,4m against R401,2m at end-1990. The reduction was made possible by the sale of the honery division, agreed in 1991 but only completed in 1992."

The remaining long-term borrowings were unsecured in addition, FSI had outstanding redeemable prefs totalling R171,2m at end-1991 and permanent capital — ordinary and preferred ordinary shares — of R179,4m.

FSI's own interest and dividend income slipped fractionally to R44,5m in 1991 from 1990's R46,8m and its pre-tax profit was marginally lower at R44,3m against R44,5m.

Dividends on the redeemable prefs absorbed R23,7m (1990: R24,6m) leaving R20,6m (R21,0m) attributable to ordinary shareholders.

Ordinary and preferred ordinary dividends totalled R20,6m against the previous year's R20,4m.

"FSI's ordinary dividend is unchanged at 35c."
Saficon switches sectors on JSE

Saficon Investors Investments and its controlling company, Safico's Finance and Investments Company, has agreed to transfer the listing of its suite of financial products to the JSE. As a result, it is no longer a building supplies and building materials company, says John Mole, Safico's managing director.

"We are focusing on our core business, which is the wholesale trade of building materials," he says. "We believe that the JSE is the right place for us to list our financial products, as it provides a platform for our customers to access a wider range of investment opportunities."
Unit trust liquidity increases

UNIT trust fund managers — cautious about the uncertainties that lie ahead for SA — are increasing liquidity in their funds.

Statistics released by the Association of Unit Trusts last week showed liquidity had increased to 16% for the quarter ended June 1992 in both the general equity and specialist equity trusts. This compares with a liquidity level of 15% three months ago.

The statistics also showed that 280 000 new accounts had been opened with the SA unit trust industry in the year ended June 1992.

The industry had 1.08-million accounts spread across 45 unit trusts, with most accounts invested in general equity trusts.

The market value of assets managed by the industry rose 6% to almost R12bn in the three months to end-June.

Gross sales rose during the quarter to more than R1bn while repurchases rose marginally to just more than R500m.

"The net inflow into high income funds during the June quarter was at a record level and almost three times the previous level," said association chairman Clive Turner.

The average total return of the general equity trusts for the past year, at 18.4%, is ahead of both the 14.8% inflation rate and the 14.1% increase in the JSE All Share Index.

The specialist equity trusts — designed for investors seeking a higher risk profile and a focus in one specific area of the share market — have produced more varied returns for the year, ranging from -20.8% (Old Mutual Gold Fund) to 25% (Sensbank Industrial Trust).

Turner advised a cautious approach to the equity market in the months ahead. "However, unit trusts have proved their worth over the longer term and few investments can rival unit trusts for their flexibility, convenience and performance."
Value of judgments 'could exceed R3bn'

THE combined value of judgments for debt could well exceed R3,3bn by year-end, the Information Trust Corporation (ITC) warned yesterday.

This would be accompanied by an increase in unemployment, poor consumer confidence and dull trading.

"The current state of our economy together with predictions of a worsening situation will ensure a record year in terms of bad debt judgments," ITC CE Tony Leng said in a statement.

Central Statistical Service (CSS) figures released last week showed the value of judgments granted for debt in the first four months of 1993 rose by almost 50% to R1,185bn from R783bn.

Leng said: "While there were some positive signs during the first few months of 1993 and a possible slow recovery in the last quarter, current political developments in SA will allow little improvement in the short to medium term."

In April, 224 close corporations and limited companies were liquidated, in which 12 daily liquidations were reported during April's 19 working days. March's liquidation figure of 330 was the highest in almost six years.

Furthermore, consumer confidence was at its lowest.

"More than 1,000 individuals have been sequestrated this year and have lost everything," Leng said.
ISCOR shares hit a record low at 12c yesterday, but analysts remained doggedly bullish with the view that the steel maker represented a cheap buy for investors prepared to take a longer-term view.

The share toppled from a high of 270c on July 15 1991 to a low of 146c on April 27 1992 after which it recovered slightly in May before falling steadily during June to the current low of 8.8c.

Analysts described the share as the perfect barometer of short-term economic sentiment, with institutional buyers holding and buying in the hope of better days while individuals, who watched their shares fall well below the 500c listing price, were prone to sell.

Simpson McKee analyst Henne Vermeulen believed a man reason for the low share price was Iscor's low earnings potential in the year to June 1992 based on lower than anticipated domestic steel sales.

Although Iscor's earnings at about 18c a share would be significantly lower than last year's 33c, he believed profits would recover strongly in line with a forecast improvement in the domestic economy in the first quarter of 1993.

ISCOR exports at significantly lower than domestic prices — mainly to recover fixed costs — so earnings would depend on an improvement in the local steel markets.

An Iscor spokesman said the share price reflected a drastic cut in local steel demand and a 15% to 17% oversupply of steel on international markets.

Frankel, Max Pollack-Vanderme analyst Kevin Kartun said even though business confidence levels were low, the share was a cheap buy for those taking a longer-term positive view of the economy.

Factors which would contribute to Iscor's prospects included the curtailing of capital expenditure, the completion of a modernisation programme and Iscor's technology which made it a low cost producer.
As inflation batters, unit trusts are tops

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JSE investors nervous

By Stephen Cranston

Investors on the Johannesburg Stock Exchange are reacting nervously to the prospects of the ANC-led mass action campaign.

Heavyweight investors among the financial institutions are waiting to see what direction mass action takes before committing more funds into shares.

Turnover was small yesterday with many fund managers away on holiday rather than at their desks making selling orders.

De Beers led the market declines, posting a R3, or 3.8 percent, fall to R80.25 before recovering to close at R80.75.

Most gold shares were marked down but oil shares seemed to be in favour.

Dealers expect the market to drop further this week with most experts agreeing the predicted downwards "correction" is now fact.
Rand hedge shares
desert usual role

LEADING rand hedge shares on the JSE have not played their traditional role of attracting interest in times of volatile currencies.

There had been no undue interest in leading rand hedge shares in the wake of the recent political developments, the weakening of the franc and the subsequent meltdown on the share market, JSE analyst said yesterday.

Many of the shares, with a few exceptions like Minenco and Charter, had drifted down with the rest of the market. The widening of the financial rand's discount to around 20% had not cushioned the shares from the sliding market, they said.

Rand hedge shares, which derive all or a significant portion of their earnings offshore, have traditionally attracted interest in times of political and economic uncertainty. But Matheson & Hollidge analyst Barry Sergeant said many of the shares had not performed according to their traditional role this time.

Bellwether Richemont, which has no local assets, has tended weaker and closed yesterday at R36.50.

MFM has fallen to R10 from R12.75 at the end of April, but Minenco has gained nearly 10% to R49.75 over the past two months.

Charter has soared R10 to R38.50 in three months.

Sergeant said Minenco was gaining ground because of a fairly good earnings outlook and the ever-present possibility the company would make a good value acquisition. Charter's outlook was also fairly good and market expectations of a statement on the group's stake in Johnson Matthey had also driven the share price.

Another analyst, however, said the dominant price setters for Minenco and Charter shares were in London. The price increases were largely a reflection of the weaker financial rand, he said.

However, Southern Life's Paul Beachyhead said now was not the best time to buy pure financial rand hedge stocks, which derive all their earnings offshore, as the financial to commercial rand discount was at the wider end of its traditional range.

"With hindsight the best time to have bought these shares was in November, when the discount was still at 8%. If the political situation were to return to normal and the financial rand discount narrowed, we could actually see financial rand stocks underperforming in relation to the rest of the market," he said.

A portfolio manager with a large institution said investors had now turned their interest to the bond market. This was very strong on good local and overseas interest," he said.
Uncertainty hits JSE engineering index

GLOOMY sentiment on the JSE’s engineering board was the result of a decade-long decline in local fixed investment coupled with political and economic uncertainty, stockmarket analysts said yesterday.

The recent performance of the engineering index, which has declined from 1 761 points in May to yesterday’s 1 626, reflects the disinterest in engineering stocks. These leading shares are tightly held but trading volumes in the rest have been low.

From July 1991 to June 1992 shares worth R245,6m were traded averaging out at R23,5m a month. Although the average improved to R28,3m this month, it compared with a monthly average of R35,8m in the paper and packaging sector. The average trade in the beverages, hotels and leisure sector was R60,5m.

In terms of market capitalisation, the bright star in the sector was the gas group Afrox, which, with its R13,22bn capitalisation, accounted for 52% of the sector. Correspondingly, Afrox’s monthly trading average was R6,3m compared with, for instance, Haggie, which only averaged R70 000 a month.

Unlike the other groups on the board, Afrox’s income was not solely derived from engineering but also from other industries such as health care. Its 13% interim earnings increase to March 1992 was significantly lower than the 22% seven-year annual compound growth. But consistent growth in the past testified to its ability to weather recession better than most.

With gross fixed investment in the construction, mining and capital intensive industries showing negligible growth over the past decade, prospects for engineering groups serving them were gloomy.

Industrial groups were operating well below production capacity with most opting for replacement or refurbishment of existing plant rather than investment in new productive capacity, the analysts said.

If, for instance, the economy improved slightly before the end of 1992, gross domestic fixed investment (GDFI), which traditionally lags behind GDP by nine to 12 months, would only begin to translate into real earnings growth by 1994.

However, the analysts believed the start of the Columbus stainless steel and Alunasa aluminium smelter projects could stimulate demand as would the growing trend towards exports. Groups on the board successfully opting for the latter route were Derby, Haggie and Standard Engineering.

Derby, which had the second highest capitalisation in the sector at 15.8%, exported 15% or R230m of its turnover in the interim period to March 1992. However, because of reliance on fixed investment levels, lower earnings were forecast.

Steel wire, wire rope and copper-base products manufacturer Haggie, with a capitalisation of 10.8%, exported about 20% of its total sales of R1,18bn to over 60 countries in the year to December 1991.
Disaster may be looming for many manufacturers

Edward Osborn

The three years of recession - in particular the decline in personal disposable income accompanying retrenchment - have been closely matched by a decline in capital formation in the form of building and construction and the ravages of the drought - have had a devastating impact on the manufacturing industry, whose output has undergone a substantial decline in the three years.

Production levels have been severely curtailed, but the extent of the decline in output is not yet apparent.

Industries that were relatively static in the sense of holding their own between 3% and 4% amounted to 12% only about 19% showed a slight growth of 10% to 3% over the three years, and a further 11% experienced stronger growth.

Given the general malaise in manufacturing it is remarkable that as many natural causes can be assigned to show increased production levels. But conversely, 70% were either maintained or at a lower level.

At the broad industrial level, there were only three industries that showed any vitality, namely beverages, food and tea, and coffee, and the third, tobacco, probably dominated by petroleum refining and synthetics.

Industries that suffered the most decline in the past three years are clustered in textiles, motor vehicles, transport, electrical and non-electrical machinery, as metal products, building materials and, worst of all, fertilisers.

Not only the growth of exports of manufacturing products in the three years of recession, encouraged by structural adjustment programmes and the like, have been sufficient to sustain overall production levels - for instance, in such industries as industrial chemicals, basic iron and steel, metal products, machinery and motor vehicles.

Only two manufacturing sectors can be said to be essentially export-oriented - pulp and paper and basic non-ferrous metals (Pulp and paper, nevertheless, declined by 5.8% whereas non-ferrous metals rose by 2.2%)

The industries that have crashed rather badly in the past year include non-metallic mineral products, electrical machinery, oil and cake products, steel pipes, knitting mills, motor vehicles, and rubber products.

On the assumption that capacity utilisation is proportional to gross output of the industry, about 54% by weight of manufacturing industry was at a capacity utilisation level below that in 1965, indeed on average 84% of the 1965 level, but with a wide dispersion. As a result there has been a big loss of jobs. According to Central Statistical Service figures, total employment in manufacturing industry has dropped by 46 000 or 3% in the three years and there are further losses of employment in stores as the recession persists through 1966.

Reductions in employment are not necessarily to be temporary, for contraction of the industry may have been accompanied by internal rationalisation. Any structural change of this kind brought about by retrenchment could be permanent, in that recovery of the industry will not be accompanied by a proportionate recovery in employment.

It is one of the sad ironies of the SA situation that the consequences of economic developments in recent years have been exactly the opposite to what is needed. All scenarios point to the need for manufacturing development in order to provide greater employment opportunity. And unfortunately the result of the prolonged recession has been to force a rationalisation on industry to effect economies at the expense of labour.

The implications for inflation, too, are not altogether reassuring, although not clear-cut. The lower levels of capacity utilisation could result in higher unit costs of production with fixed costs taken into account, which the industrialist could attempt to recover through higher prices. So although he may be less favourably placed to access to increased wage demands, which could be the primary source of transmitted inflationary pressures, a rise in unit costs may nevertheless force him to increase the price of his products.

Finally, with reduced capacity utilisation that is little incentive to expand through investment in further plant. The only investment that will occur is in replacement or renewal. But here again the industrialist can be in doubt whether he should take this course, when there is a threat of international competition arriving with various proposals to reduce tariff protection. He is likely to be much more vulnerable to international competition if he is operating below capacity.

Rather than intensify competitive pressures, further reduction in capacity could result in elimination of industry. Any steps towards liberalisation may be carelessly introduced, and really should be delayed until a fair degree of recovery has been achieved. It should be phased in to a rising plateau of recovery.

A significant part of SA's manufacturing industry could be missed at the brink of disaster, in part due to circumstances, in part due to political uncertainties, and in part due to self-imposed monetary constraints and disciplines.

Liquidations in the manufacturing sector have risen from 38 in the first quarter of 1955 to 112 in the corresponding quarter of 1962. Many enterprises that have survived so far could have eaten into reserves and could be at the point of collapse. There is the prospect of an implosion in manufacturing because of the collapse of consumption in these circumstances. The so-called 'fiscal occupation with savings' is misplaced.

The author is Nedbank's chief economist.
Report on future of JSE is due soon

The first report of the independent research project into the optimal future structure of the JSE would be completed in early October, JSE president Roy Andersen said yesterday.

The JSE set up a subcommittee chaired by Prof Michael Katz in April to determine the direction future deregulation of the stock exchange would take.

A central issue to be addressed by the subcommittee would be the strengths and weaknesses of the present floor trading system and whether this should be supplemented by screen trading. Other issues would include whether commission should be negotiable and whether corporate membership of the exchange should be permitted.

Andersen said input had been sought on the appropriate future structure of equity trading and 438 questionnaires were sent to major investment and financial institutions and political parties last week.

Universal Exchange Corporation (Unexcor) MD Bev Jennings said an investigation into a computer system designed for screen trading was still in the early stages.

Unexcor is designing a clearing and settling system for the bond market. This should be in place by the end of the year and will merge the informal and JSE bond markets, Andersen said.
After the fall is over

JSE watchers have good reasons for explaining the 'correction' in stock exchange prices. But where do we go from here? REG RUMNEY reports

On the basis that bullishness is more forgiven if wrong than bearishness, one could point to various factors. One, according to Brown, is that interest rates will come down more than people suspect. This should be good for the stock market — because interest rates have already softened, those who have switched to income funds will find even now that returns are not as good as they have been recently.

Another, Brown adds, is that though economic growth looks dismal for the rest of the year, the economy might see some improvement off a low base in the fourth quarter and a slow recovery next year.

Finally, the gold price (that straw South Africans always grab at) has looked shiner recently. Midweek it had gone up to $350,90 at the London afternoon fix.

SP Reid Mackeanian director, David Klotz, says what he calls the three uglies that have characterised booms before busts are absent now. One is high or increasing interest rates. Another is rising inflation. The third "ugly" is too high valuation of shares. Klotz believes most shares are now fully valued or undervalued.

In all though, he is reasonably optimistic. "After one-and-a-half years, a 10% to 15% correction won't have broken the bull trend."

Given a solution to the political breakdown and no other external shocks, like a collapse in the gold price or a big tumble on Wall Street, he could be "right.

In contrast, the economy has looked more difficult, with the Reserve Bank finally calling a recession a recession and forecasting lower growth.

This is quite apart from the violence, labour unrest and political deadlock, which are as much caused by recession as contribute to it.

The rapid shift in the political mood after the breakdown of CODESA II and Boipatong provided the nudge that pushed the JSE indices over the edge.

Bag private investors who have stayed in or come back to the market since the last big shakeout in 1987 panicked and investors in unit trusts made the logical move out of funds which focus on shares into "income" funds focusing on interest, or just sold their units.

F rankel Max Pollarck economist, Mike Brown notes institutions, the big buyers who underpin the market most of the time, are buying at attractive levels as they are not supporting the previous highs.

The JSE All Share index had by midweek dropped 7.4% percent against its recent high of 3,744 at the close of trading on June 4.

There are two facets to the loss of confidence.

International investors sold, among others, gold shares. These are insulated against bad disinvestments by the financial rand. The financial rand discount, which measures the extent of disinvestment, widened to 29 percent midweek against single figures at the end of last year.

The movement of industrial shares, which are mainly held by residents, better reflects the domestic mood. These fell around 9 percent midweek against June 4.

So what now? What - aside from hope that negotiations will get under way again - can be held out as hope for individuals who didn't get out in time and are nervously holding on to their shares? Or advanced as evidence for those looking for the bottom before buying again?

Clearly the longer the political impasse and the accompanying mass action, labour unrest, and political violence the longer the pessimistic mood will last.

Hence brokers will keep a wary eye on negotiations and moves to get business and labour to coalesce to one another.

Because of the underlying weakness of the economy, the portfolio manager of a large financial institution reckons, political progress would do little more than stabilise the market. "The market might climb one or two percent."
TRADEx on the SA Futures Exchange (Safex) is roaring ahead, with open interest contracts reaching a record high of 24,937 yesterday, Safex CE Stuart Rees said yesterday.

Values had reached a record high of about R1.65bn and a record R135m on margin.

"If open interest stays this high for a considerable length of time Safex will have to increase the guarantees in the form of a line of insurance with an insurance company... open interest has reached a critical point for the exchange," Rees says.

During April more than 6,000 contracts had been traded daily, compared with the average 3,200 contracts last year and well above the budgeted 2,000 a day.

"The extra volatility is probably coming from the threat of strikes," Rees added.

He attributed the large growth in interest in the futures market to the maturation and acceptance of the futures market as another investment vehicle.

Rees expected trade on the exchange to experience exponential growth in the future.

Foreign interest was disappointing because it was only about 5% of turnover and 12% of open interest, he said. "The political problems are having an impact on the futures market."

Foreign interest would have been a significantly larger part of Safex's business if the political situation had sorted itself out, he added.
Act relaxes controls on JSE bear sales

BEAR sales on the JSE may now be made only at the last recorded cash sale price or at a higher price after a Stock Exchange Control Act amendment was gazetted yesterday.

The Act previously provided for a bear sale — selling shares on the assumption that they can be bought later at a lower price — to take place at a higher price.

The amendment will bring bear sales on the JSE into line with the trend in major world markets where bear sales can be made at an even lower price than the last sale price.

JSE president Roy Andersen said last night: "The change will now make it easier to hedge in the equity market positions taken in derivative markets such as futures and options. "We welcome the flexibility the change in the Act will now provide as it will help trade on the Traded Options Market," he added."
SHARE PRICES

A taste of reality

It was the steepness of the fall, more than anything, that shook the market. On June 4, the JSE All Share index stood at 3,744. By July 13, it had fallen to 3,448—a decline of nearly 8%, most of which had taken place over a few days. The fall had private investors running for cover and for a brief period last week there was a surge in volumes traded on the JSE.

Accompanying this was unusually heavy demand from investors seeking either to liquidate their holdings in unit trusts or to switch them. Guardbank assistant GM George Mixula says his trusts were inundated with an extraordinary number of inquiries from investors and many withdrawals. It was tantamount to a collective panic. It was the worst situation we've experienced since the Crash of October 1987.

Mixula blames media hype for much of the reaction, which he describes as being "very negative" in recent weeks about the market. Many investors, not illogically, gave instructions for their holdings in equity-linked funds to be switched to fixed income funds where they believe they will be better protected.

Talk in the market recently has centered around the potential effects on the JSE of the recent fall in the Dow Jones index and the prolonged Japanese bear market. However, Franklin Max Pollak Vinderine, technical analyst Derick Bourguignon says the old correlation between the JSE's performance and the NYSE Dow has long been broken.

"International markets have been vulnerable in recent months," he says, "but in fact, the Dow has declined only by 3.5% on a total. This puts the correction on the JSE in perspective. The additional 5%-6% fall on our exchange can be attributed almost entirely to SA's political and economic uncertainty. Stockbroker Irish & Co portfolio manager Mark Sonik says the market has been outpaced for some time against fundamental factors. "The market was looking for better earnings from companies, for significantly lower interest rates and for a safe haven in the political arena," he says.

Having been disappointed in all these areas, a correction was inevitable. Sonik believes the full extent of the correction will be about 15% unless there is a return by all political parties to the negotiating table and this is accompanied by positive evidence of an improvement in economic activity.

Other market analysts agree the market was overpriced. They say perceptions now are that the failure of negotiations will result in a further delay in economic recovery which may now be delayed indefinitely. In these circumstances, there was nowhere for the market to go other than down.

Investor fears of the threats of mass action, a general strike and burgeoning unemployment all indicate further disruptions in the life of the country. Forecasts of earnings, which had been predicated to grow on the back of an economic recovery, are now "being wound back. There's no knowing where this will end," they say.

Compounding the genuine fears of local investors, says one analyst who declined to be named, was a significant element last week of foreign selling. Foreign investors have been growing increasingly angry and frustrated with the volatility of the financial market. The promises of the Reserve Bank that it would intervene in the currency market to smooth out the wilder movements in the financial market haven't borne fruit. One consequence is that the foreign holders of SA stocks have been switching into North American and Canadian gold counters. Chartists confirm the market could fall by a further 7%-8%, bringing the total fall to about 15% before a recovery begins. Camourouglo says the market will be vulnerable for the next three to four months and believes cash now offers a better short-term alternative. However, she adds that a contrarian view would be to take advantage of the existing vulnerability, particularly in sectors such as platinum and mining financials, which she believes will become the motor of the JSE over the next year.

Meanwhile, sharply increased activity in fixed interest stocks on the JSE has seen the E168 stock lose more than 60 percentage points in three trading days, a reflection of the scramble by investors to seek a safe refuge. Camourouglo says "this can't continue indefinitely. I'm expecting a sharp reaction within the next few weeks."

The lesson to be drawn from the recent behaviour of the JSE is that SA's economic performance is indubitably linked to the process — or lack of it — in the political field. As long as political irresolution dominates the country, for so long will economic growth and performance of equities be stultified.

David Glacon

KLOOF/LIBANON/VENTERS

Manning the pumps

An accommodating attitude by the Department of Finance on lifting the tax ring fence has allowed Gold Fields to come up with a scheme to save the Libanon and Venterspunt mines that should keep most shareholders happy.

Both mines survive to fight another day, while savour Kloe's net after-tax benefit of between R200m and R250m — depending on how gold prices over the next two years affect its tax base — for taking the two cripples on board.

There remain some cavils. Some investors are unhappy that the acquisition must increase Kloe's average working cost per kg of gold produced, but Gold Fields executive director Alan Munro says the alternative of letting Libanon and Venterspunt (Venters) close would be far worse for Kloe.

The key issue is pumping. All three mines are interconnected and, should Venters and Libanon close, the total burden would fall on Kloe, which needs down to Murro estimates Kloe's capital cost to install equipment to deal with the greater volumes of water at R100m and the increase in annual working costs at R70m. It's cheaper to deal with the problem at the shallower depths under. The house is seeking to ensure the Libanon and Venters operations continue to generate enough revenue to cover their pumping costs.

Kloe will manage Libanon/Venters as a separate division and management expenditure will be on a tight rein. The No 4 shaft project at Venters has been shelved and forecast
MONEY BROKING

Light on the grey market

For a number of years, regulators of financial institutions have been committed to a process labelled "leveling the playing fields." But, despite their best efforts, they are unable to achieve a field which all players will concede is level. Each piece of legislation is greeted with cries of "fool play" from one or other of the participants.

Once again, proposed legislation is stoking controversy. It relates to money broking - the raising and placing of funds by people who act as agents not principals. What bankers describe as "radical proposals" were put to them at a recent meeting of the Standing Committee on Banking. Bankers are now waiting for a position paper clarifying the situation.

The issue was raised in the 1991 annual report of the Reserve Bank's Bank Supervision Department, tabled recently in Parliament. It says the "possibility of granting of exemption to money brokers" provided they are registered as portfolio managers or trust companies and adhere to certain requirements regarding mandates and general disclosure is under investigation.

Before the DTI Act, brokers operated freely in the grey market - in which banks equally freely participated through money broking subsidiaries. This raised prudential issues as grey market activities were not subject to regulatory authority.

Under the DTI Act, passed in 1990 and effective since February 1991, the money broking activities of deposit-taking institutions was seriously constrained. Money broking could be done only through the subsidiary of a holding company and banks themselves were prevented from acting as agents and were allowed to raise and lend funds only as principals. And the pooling of funds by anyone other than a deposit-taker was prohibited. Brokers were required to place funds on the day of receipt in individual accounts with a DTI.

This, theoretically, put a stop to money broking. But the Registrar allowed brokerages a period of grace. While they are required to place the money with a DTI on the same day, they have not been forced to open separate accounts but only to provide the DTI with a list of names of individual investors. The period of grace was to have ended with the publication of the position paper.

Now it seems there may be a total rethink. Representations have been made, among others, by the SA Institute of Chartered Accountants (Saica). Says technical director Monica Singer. "Our concern is the public interest. Currently the activities of money brokers do not fall under any specific regulatory framework and this loophole could have significant consequences for the public if irregularities should occur. We propose, therefore, that money broking be regulated within an existing framework - the Stock Exchange Control Act." Saica has accepted that the funds should be placed with a DTI within a day of receipt. And prudential concerns, Singer suggests, could also be addressed by requiring brokers to receive a mandate from clients, dealing comprehensively with the risks involved and the brief assigned to the broker.

The Bank Supervision Department's report says "The existence of brokers can be justified from an economic point of view." If the legislation is amended to allow non-brokering DTIs to pool funds, banks would presumably be free to extend their own agency business through holding-company subsidiaries. But this would raise a host of regulatory issues.

On the other hand, if they are specifically excluded from doing this, the amendment would contradict the spirit of the DTI Act which was designed to monitor functions rather than institutions. It would place the banks at a disadvantage acting as principals, they are obliged to hold liquid assets against their liabilities as a prudential measure. In such case, they argue, it is unfair to allow money brokers, who are not subject to liquidity requirements, to continue in business.

However, some of the heat has gone out of that debate because changes to requiring requirements could substantially reduce marginal cost of funds. It is proposed that the interest-free component of the cash requirement be dropped from 4% to 1% and the liquid asset requirement from 20% to 12%. Depending on interest rates, say bankers, the impact of requiring requirements on funding costs is presently about 60 basis points. But if the proposed changes are implemented, the impact is estimated at around only six basis points.

A decision on money broking will be made by a committee set up to investigate "level playing fields in the financial markets." Says Finance Minister special adviser Japie Isandlumisa.

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**FUTURES FINALE**

The pace heated up as dealers in the Safia Futures Risk Management Competition galloped to the finishing post as the competition ended on Wednesday.

The rapid fall in JSE prices last week upset the leader board again. Genbel Investments' Daron Walker and G Moelker-Brink sprang back into the top five from well down the log as leaders lost ground.

With three trading days left, Genbel was frontrunner for the FM Top Trading Desk Trophy, while SMB champlse at the bit after its strong lead in past weeks. Finansbank Treasury stood third in line for the R15 000 company prize.

Finansbank's Fred nel Meessenhell did just to hold on to the number one spot for the R30 000 dealer prize.

This year's contests have shown there is money to be made from futures in a bear market. They have performed almost as well as last year's players, after adjusting the underlying portfolio.

The winners of the trophies and R75 000 in cash awards from sponsors RMB, Prima, SMB, Reuters, Investec and the FM will be announced at a gala dinner-dance tonight.

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**THE FINAL LAP**

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**THE FINAL LAP**

1. Finansbank Treasury 11.21
2. Daron Walker, Genbel Inv 10.06
3. SM53 8.88
4. G Moelker-Brink, Genbel Inv 6.67
5. Trevor Tshembe, Discount House 6.76
6. Bear-Essentials 6.01
7. SMB1 5.29
8. Andrew Hurwitz, Loneworth & Co 4.68
9. John Coton, Hayes Coton 2.10
10. Mark Frenzel, First Financial Futures 1.48

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Financial Mail • July • 1992 • 35
ECONOMY & FINANCE

We have already drafted some legislation to put before the Cabinet this year. But we have still to consult with the private sector. We expect to release the report by August.

DTI Deputy Registrar Christo Wiese says, “Though a position paper has been finalised, it will not be released before finality has been reached on a regulatory framework contemplated by the Jacobs Committee. Money broking fits neatly into the proposed framework, but the document cannot obviously not be released until the framework is in place.

“Until then, the status quo should be maintained in the market.”
Options market swaps Barlows with Gencor

THE Traded Options Market (TOM) will replace options on Barlows with Gencor today in a move which could help pull the JSE's formal options market out of the doldrums.

This is just one positive development in a market which seemed doomed to failure. Interest in TOM has increased significantly during the last week, derivative dealers say. This is clear by the 90 contracts traded last week compared with 10 the previous week.

In addition, there has been a surge in overseas institutions' interest. At present they are prevented from trading in TOM, but the Reserve Bank is addressing the issue.

Simpson McKie derivatives head Elaine Stol says foreigners could become a major force on TOM.

She attributes foreign interest last week to the fact that the institutions can protect themselves from adverse movements in equities.

The outlook for TOM is quite optimistic, she says, because the stockbrokers are making a united effort to raise interest in the market.

However, it is difficult for stockbrokers to make markets because they do not have sufficient capital and TOM needs institutional players to do this, she says.

Frankel Max Pollack Vnderme joint MD David Shapiro says: "TOM was dying and has now been taken off the heart and lung machine and is starting to breathe for itself."

"In the next few months we hope to get a few hundred contracts," he adds.

Gencor's replacement of Barlows will make a big difference because the share has a lot of exposure and is tradable.

TOM has struggled to gain liquidity since its opening and has been criticised for its high fees, which are believed to be deterring major institutions from trading in the formal options market.
Hopes for a good second half

COMMERCIAL property and international financing group Marshalls expects to achieve similar results in its second half as the 18% earnings increase to 17.4c (14.7c) a share in the six months to June 1992.

An interim dividend of 12c (10c) a share was declared, covered 1.5 times.

Income from sales and commission showed a robust 26% improvement to R753m (R597m) while rental income increased 18% to R501m (R476m). This brought turnover 22.5% higher at R1314m (R1073m).

Operating profits were 18.2% higher to R378m (R320m).

Directors considered the group’s 95% occupancy rate satisfactory in view of the recession and the difficult trading conditions being experienced by its tenants.

The confirming and indent financing divisions continued to make satisfactory contributions to earnings although many industries were keeping inventories low.

If interest rates were lowered to boost the economy, the division was well-structured to benefit from increased imports, the directors reported.

The earnings of pyramid company Marshalls Controlling Investments, which derived its income from a 69% holding in Marshalls, improved 25% to 6.4c (5.9c) a share. An interim dividend of 5.75 (4.75c) a share was declared.
July 3, were followed by net sales of R206m in the week ending July 10.

Jurgen Kögl, of J Solms & Co, says the fall of 60 basis points in long rates, between Thursday lunchtime and Monday afternoon, was due to a combination of factors. Domestic investors, he says, became more optimistic about the resolution of the present political conflict, at a time when paper was in short supply on the secondary market. The downward trend in rates was reinforced by trade activities of option book managers who had to adjust to the fast fall in rates.

Meanwhile, the discount of the financial rand against the commercial rand continued to widen. It rose from 21.9% before the massacre at Boipatong on June 17 to 30% on Friday and 31% on Tuesday afternoon. This pushed the effective yield on the Escom 11% bonds to over 20%. Whether this will tempt nonresidents to come back into the market remains to be seen.
Right attitude paramount

With the proper portfolio strategies in place, you can pursue your financial goals and achieve the returns you desire. The key is to understand your risk tolerance and be patient. In the long run, a diversified portfolio can help manage volatility and reduce the impact of market fluctuations.

1976-1992
The S&P 500

Your Money

STFC 18/742

Right attitude paramount

Saturday Star July 18 1992
Heavy market sell-off sends blue chips reeling.
ON MONDAY evening, during a seminar held by The Star Investors Club, one of the speakers, Bryan Chinese of Investec Bank, asked: "How much of you think that the Industrial Index is likely to go down in the next 12 months?" A sea of hands was the reply.

Then he inquired who thought the market was likely to go up. Of the approximately 250 people only one raised a hand.

If so many private investors think the market is likely to go down, what are their options? Do they sit and sweat it out (as unit trusts and managers keep on telling them) or do they sell and get out of the market?

Both options merit discussion. The performance of the Johannesburg Stock Exchange during the crash of 1973 bears mention. On 30 October 1977 the market fell by 12 percent in one day, and in the next four months dropped another 20 percent.

Less than two years later the Industrial Index again exceeded its pre-1977 peak and kept on rising, peaking at 4890 on June 9 last month. Since then the index has dropped 10 percent before recovering somewhat this week.

**Similarities**

Despite this slight improvement, mostly as a result of the higher gold price, almost everyone still seems to agree that the market is currently hopelessly overvalued.

The similarities between the JSE now and just before October 1977 are quite striking. In September 1977 the average dividend yield on the overall market was 2.2 percent, by the end of last month it was 2.4 percent. The earnings yields were 6.0 percent and 6.9 percent respectively.

One important difference was that in 1977 the dividend growth was still averaging 25 percent. Currently the growth in dividends has slowed down considerably to only 2 percent.

So, using the argument that the JSE normally discounts future values, it is now much more overvalued than in 1977 Omnibus indeed.

"But many investors, especially the wealthier ones who have built up blue-chip portfolios over a number of years, cannot all just sell their shares and wait until the market recovers. Does this mean private investors are totally defenseless in this scenario?"

Not at all. Investors with large unit trust portfolios have the option of selling out of all or part of their equity-based investments into a fixed-income fund. This has the advantage of preserving capital, as fixed-income funds are not linked to the JSE.

Income funds are not as volatile as equity-linked funds, and the investment returns, while not matching most equity-linked funds, have averaged between 16 and 20 percent a year over the last ten years.

The alternative would be to completely sell out of one's units and buy them back later. The total cost of this is much higher than switching which, incidentally, also entails costs.

The advantages of switching are obvious, provided you switch at the right time and for the right reason.

Say for example you have R1 million invested in unit trusts (at the repurchase price) but you think the market is highly overvalued. You have been investing in unit trusts for a long time, have been very happy with the returns, but don't see any reason why you should lose anything between 20 and 50 percent of the value of the market.

You decide to switch your units into an income fund to protect your capital. Understanding the cyclical nature of stock markets, you will buy back later.

By selling your units you preserve the value of your capital at R1 million, and in the meantime you will also be earning up to 16 percent on your money.

Your timing is spot on, the market drops by 30 percent, whereafter you decide to repurchase your units. Not only have you preserved your capital at R1 million (and earned some interest meanwhile) but you are now in a position to buy back for R423,000 (50 percent of the original price of one's own share portfolio).

**Insurance**

If you invest in an option (either put or call) as an insurance premium, much like fire insurance on one's home, if your house does not burn down, you have lost the premium.

Very much the same principle applies with options. Remember that an option differs greatly from a futures contract; it is an option, never an obligation.

Alternatively, if you firmly believe that the market is going to come crashing down, but still would like to benefit from a rising market should you be wrong, you can sell your entire share portfolio and purchase a call option with a portion of your capital. Doing this will also protect your capital gains of recent years, while you will not lose out on any further gains in the market.

But try to gain some understanding of the futures and options market before you make any decision. In the next few weeks YOUR MONEY will run articles on the options and futures market.
Royals back in the good books

ROYAL companies regained favour after losing ground in the time between warnings to shareholders.

Talk is that the Del Monte deal has been signed and will be announced shortly. The vehicle to back, it appears, is Royal Foods.

Royfood rose from 675c at the start of the week to close at 715c. Royal added 100c to 725c and Royhold 50c to 750c.

There is a whisper that the group might concentrate solely on food and sell out of Roychem.

'\(^{1}\)Tiger Oats took a knock to R33 after looking overpriced at R44, but recovered R2.

There was a bookover of 1.1-million Curfin at 630c on Thursday, Momentum selling out of a portfolio. Syfrets was reportedly the buyer. Curfin was 770c in June.

A deal of 229,000 Pep was booked at R11.50 on Friday.

The market rebounded on Wednesday on technical elements after eight days of falls. The United Nations debate, Gosta's possible softening stance on strikes and a merrier gold price all played a part in stemming the market's slide.

Gold was buoyed by fears about reduced Russian production and about the disruption of SA supply. Speculative buying of platinum on similar grounds rubbed off on gold. It held above $350/oz nearly all week, rising close to $357 late on Friday.

Kloof rallied as investors digested the implications of the deal with Venters and Libanon. Unang Friday afternoon's prices Libanon at 265c looked the cheapest way into Kloof at 2.875c.

Lonrho put on more than 20% to 635c in spite of concern about debt and management.

De Beers came under pressure when it ought to have been cushioned by a generally weak florin. Its high liquidity counts against it in bearish times — everyone knows he can buy it back at any time.

There was a stampede in the gilt market; rates dropping by amounts not seen for years. Rates have eased more than 50 points in recent weeks.

Although foreigners have been sellers, SA buyers have grazed stock at a good price. The SA gilt market is a haven in equity-market disruptions.
Union’s trust fund
halfway to target

Finance Staff

CAPE TOWN — Just a month after its launch by seven trade unions, the Community Growth Fund is already halfway to its first year target of R100 million.

R50 million has already been pledged for the fund, set up in June by four Cosatu-affiliated unions — including the powerful National Union of Mineworkers — and three Nactu affiliates for the placing of workers’ provident and pension fund money.

The CGF plans to invest in JSE-quoted companies which satisfy social as well as profitability criteria.

Job creation, wages, trade union recognition, health and safety and affirmative action programmes to promote blacks and women will all be taken into account.

Through their representatives on the trade union-controlled company Umta which controls the fund jointly with Syfrets, workers will have a decisive say in where their money is invested.

Thirty to 40 companies are under investigation for the final list, says Ian Hamilton, senior manager of Syfrets, which administers the fund and which is contributing R2 million per annum towards unions as emerging as a key selection factor,” he says.

But, insists Mr Hamilton, the first criterion is one of profitability.

“We’ve been approached by companies which claim to satisfy all the social criteria. If they don’t have the growth record we’re looking for we don’t consider them.

Cash flow

The fund is looking for cash flow rather than lump sum investments, says Mr Hamilton. “We recommend that the provident funds leave their capital sums in guaranteed funds so if the market slumps, members don’t suffer losses when they leave or are retrenched. Cash flow can be invested in non-guaranteed funds which offer better returns.”

“The public’s interest in the fund has been remarkable, especially considering that we haven’t yet done any advertising,” said Mr Hamilton.

Syfrets is technically ready to start investing on the JSE, but Mr Hamilton says he is in no hurry.

“With the market likely to go on see-sawing in the immediate future, there’s no reason to rush.”

The fund’s first quarterly report will be published at the end of September.
JSE’s non-resident gilt sales rocket
down on the previous week to R70.3m
from R84.3m
In the week ended July 10, non-
resident transactions netted R206m
in sales against the previous week’s
net gilt purchases of R39.8m.
These figures are not comprehen-
sive as they represent only those
transactions by foreigners which are
executed through the JSE.
Meanwhile the capital market re-
mained steady with quiet trade on
Friday.
The yield on the benchmark R150
stock was little changed at the ses-
son’s close at 15.29% from its open-
ing of 15.3%.
Similarly the yield on the Eskom
168 — the bellwether semi-gilt — re-
mained stable through the day from
an opening of 15.175% to a 15.19% close.
Bad debts add to woes

PETE GALLO

THE increasing risk of bad debts and subcontractor insolvencies must be added to the construction industry's numerous woes, Ovcon director Jan Kapusti said in the latest annual report.

"Extremely difficult market conditions reported last year have worsened, becoming by far the longest recession in our memory. However, in spite of this all our divisions' unproved profitability compared to their budgets, even on the lower turnovers available," he said.

Chairman Andrew Ovestone said the group was concerned about the state of the economy, but expected it would at least maintain pre-tax earnings in the present financial year. "The economy needs to move forward so that jobs can be created and advances on the political front are successful. Ovcon is presently operating below capacity and is well poised to take advantage of renewed infrastructural spending."

Ovcon was restructured and listed in March 1991 to involve broader management in its shareholding. The relationship between Ovcon and its previous controlling shareholder, Ovbel Holdings, remained close, he said.

In the year to end-March, Ovcon declared dividends of 12.6c a share on the back of earnings of 46.6c a share.
Traded options on Gencor to be listed

THE JSE would list traded options on Gencor shares from Wednesday, JSE executive president Roy Andersen said on Friday.

Options would be settled in cash and allocated to the March expiry cycle. With the share price ranging between R11 and R12, puts and calls would be listed with strikes of R10, R11, R12 and R13 when trading commenced, said Andersen.

On recent speculation which indicated that the Gencor option was replacing the option on Barlows, he said "While the JSE regularly reviews the performance of existing contracts and considers the introduction of new ones, no decisions have been taken regarding the replacement of any TOM listed options."

Although no Barlows options were available currently, they remained a valid candidate.

The listing was motivated by interest from the broking community and institutional investors, he said.
Old Mutual Unit Trusts has launched its biggest multimeida campaign which underscores the advantages of investing in their six unit trusts.

Old Mutual, which has more than 30 percent of the unit trust market, began the campaign with a 40-second TV commercial.

The environmental theme features the honey badger, listed as a vulnerable species by the SA Red Data Book.

"The concept is the symbiotic relationship between the honey guide and the badger, the guide being the investor and the honey badger — Old Mutual Unit Trusts — accessing the wealth for him," says Lindsay Smithers-FCB's Anton Oosthuizen.

The new campaign by the unit trust division is in synergy with the parent's corporate campaign — handled by Ogilvy and Mather.

Old Mutual Unit Trusts are positioned separately with great expertise but still within the folds of Old Mutual itself.

The campaign on television, radio and in the print media will have a broad mass reach and marks a new stage in Old Mutual Unit Trust's marketing.

At the end of last year Lindsay Smithers-FCB began reviewing the strategic positioning of Old Mutual Unit Trusts.

"We decided to emphasise their leadership," he said.

"The basic positioning of the campaign is that if thousands of other South Africans are profiting through investing in Old Mutual Unit Trusts, why not you?"

"The campaign has a strong call to action and will support the sales force in their operations by creating interest," he said.

"Old Mutual Unit Trusts have always been highly responsible in marketing unit trusts.

"In the past the approach has been educational, featuring the R3 billion flagship fund, the Investors' Fund.

"But with the growth of Old Mutual Unit Trusts — there are now six funds — the educational approach an mass media has become outdated.

"Old Mutual's track record and expertise applies to all the funds and we are urging investors to consider the wide range of investment opportunities offered by Old Mutual Unit Trusts.

"Their leadership flows from the spread of funds which have consistently beaten inflation and is reflected in their dominant market share and number of account holders," Mr Oosthuizen said.

The financial category of advertising is probably the most cluttered.

Old Mutual's is a fresh campaign which would be both different, relevant and unexpected.

"Our second objective was to invest as much as possible in fighting the commercial and not in production.

"While we did shoot locally, stock footage was sourced from Kenya, London and the United States which was cost-effective," he said.

"Unit Trusts are the main vehicle for the small investor to get into the stock exchange. It now has more than a million account holders and all the major institutions run unit trusts. Stephen Cranston interviews some of the principals in the sector."

"Old Mutual’s biggest
STAR 26/11/92"

"Unit Trusts"
Unit trusts can have educative role

Unit trusts can make a large contribution to cultivating an understanding of the advantages of the free-market system among everyone in the community, says deputy chairman and chief executive of Sanlam Pierre Steyn.

Mr Steyn was speaking, at a recent occasion where Sanlam Unit Trusts' top marketers were recognised for their achievements, about the role of unit trusts in the economy.

Recovery

Mr Steyn said that as South Africa was on the verge of a new political and economic order, the country could not afford to make the wrong choices.

"The recovery of South Africa's economy will depend on the role that the free market plays in it."

"The IMF and the World Bank state categorically that a free-market economy based on capitalist principles will guarantee foreign loans and aid."

Mr Steyn said "Other alternatives like nationalisation will have exactly the opposite effect."

"Communism as an economic system has been proved to be a failure throughout the world," he said.

"In South Africa, many big companies which are known for their role in job creation and prosperity have free-market principles to thank for their existence," said Mr Steyn.

"Unit trusts have a large role to play in helping everyone to savour the advantages of the free market."

"Buying shares on the Johannesburg Stock Exchange is widely regarded as something that only the rich and privileged have entry to," he said.

"Sanlam and Sanlam unit trusts take a great deal of trouble to bring the message home that unit trusts are there for everyone."

Mr Steyn said thousands of South Africans had a feeling of mistrust about the free-market system.

Exploited

"Many regard it as a system in which people are exploited to make a handful of people rich."

"Through unit trusts, Sanlam strives to convey the message to investors and to the community, that we want to establish and maintain a healthy economy based on sound principles," Mr Steyn said.

In units we trust . . . . Sanlam chief executive Pierre Steyn says unit trusts can help illustrate advantages of free-market system.
Syfrets is top performer

The Syfrets Growth Fund has been independently rated as South Africa's top performing general equity fund over the past five years with an all-in annual return of 21.7 percent — more than the two full percentage points ahead of the nearest rival.

The rating, released by the Association of Unit Trusts for the quarter ended June 1992, puts the Syfrets Growth Fund ahead of the 15 other general equity funds, which boast a five-year track record.

Backbone

General equity funds, which are invested in a spread of JSE-listed equities, are the backbone of the unit trust industry and account for R10 billion of the total R1 billion market capitalisation of all South African unit trusts.

The five-year return is regarded as one of the industry's most important benchmarks because it illustrates a unit trust's ability to sustain income and capital growth over a meaningful investment period.

The Syfrets Growth Fund was launched in April 1987 during the pre-crash bull market.

Despite subsequent market turbulence, the fund has managed to consistently deliver good investment returns.

Hugo Lambrecht of Pretoria University said of the Syfrets Growth Fund: 'This fund became five years old in April and can, in my opinion, be regarded as by far the most successful unit trust established since 1987.'

The Syfrets Growth Fund, which has 41,000 investors and a market value of R627 million, is one of five unit trust managed by Syfrets.

The others are the Syfrets Trustee Fund, the Syfrets Income Fund, the Syfrets Gift Fund and most recently the Community Growth Fund, which was launched on June 1 in conjunction with the union movement.

Syfrets unit trust marketing manager Kevin Hinton says: 'The five-year performance figure for the Syfrets Growth Fund confirms our ability to deliver good investment returns on a consistent basis.'

Anniversary

Mr Hinton attributes the performance of the fund's portfolio manager, Tony Gibson, and to the strong skills base Mr Gibson has been able to draw on within Syfrets Managed Assets, the firm's investment management company.

'The blending of diverse talents into a strong team structure is a key element of our portfolio management,' says Mr Hinton.

The Association of Unit Trusts' recognition of the Syfrets Growth Fund is expected to enhance the growth prospects of all Syfrets unit trusts.

A fifth anniversary advertising campaign kicks off today in the press and on radio.

The Unit Trust that beats inflation!

For as little as R50 a month you can enjoy:

Regular savings
Tax-free capital growth and dividends
Assured liquidity

What safer way to profit?

Unit values fluctuate re the market value of the underlying securities. The offering price includes a maximum fee charge of 5% plus any company charges. A service charge of 0.25% of the fund's market value is deducted from income.

The management company undertakes to repurchase units at the offering price if necessary reserves will be created.

FUND PERFORMANCE vs CPI

170
160
150
140
130
120
110
100

S MARCH 87 88 89 90 91 92

NBS HALLMARK MUTUAL FUND

Geoff Richardson
UAL MD

Pioneering products for SA's needs

The UAL unit trust division is both an innovator and an ongoing participant in this increasingly popular investment arena.

The division manages and markets opened-end unit trusts and a comprehensive range of related investment/retirement products.

Through UAL Management Company, the department administers three equity and three gilt unit trusts. According to UAL's MD, Geoff Richardson, the department has been highly creative in pioneering the successful design and marketing of products for personal investment, pension, and retirement needs.

Unit trusts are sold into the retail market by UAL Investment Planning Services, largely through independent intermediaries such as personal financial advisors, lawyers, accountants and brokers.

The main UAL Unit Trust is the flagship and is a general trust seeking value from exposure to quality shares in all the major sectors of the JSE. UAL Mining and Resources is a specialist trust primarily investing in the natural resources and mineral extraction industries.

UAL's Hallmark Select Opportunities focuses on medium-sized companies that are undervalued and have rising potential; as well as on companies whose equity may not be sufficiently tradable for the general equity trusts.

UAL's Gilt Unit Trust is designed to meet the prudent guidelines followed by pension funds and insurance companies. However, with its focus on total return on capital and income, it has attracted the individuals as well.
Investment that caters for the small man

A unit trust has many features in common with a stokvel, the most common kind of saving mechanism in the townships.

But a direct comparison between the two investment instruments shows the unit trust to have more going for it from an ordinary investor's point of view. The stokvel is widely used as a means of raising funds for a variety of purposes, ranging from social functions to a convenient and effective savings vehicle for its members.

The unit trust similarly caters for the small man, being geared to accommodate modest monthly contributions pooled and invested in a spread of blue chip shares on the stock exchange.

Most stokvels abide by a constitution containing the rules by which it is managed, enabling would-be investors to assess it

The majority of stokvels put the money entrusted to them into a bank or building society account and control and monitor the funds carefully.

Unit trusts are also generally carefully managed, as they are managed by specialist fund managers and blocks of shares are regularly reallocated in accordance with trends in the stock market, so as to get the best returns for investors.

Both the stokvel and the unit trust are geared to release investors' funds at short notice, but the unit trust is generally superior in that it will pay out within 48 hours of a request being lodged, whereas stokvel members wanting to draw funds have to wait longer — in some cases more than a week, where all the signatories need to get together to sign bank withdrawal forms.

Some stokvels are dedicated burial societies holding and accumulating members' savings to ensure that burial expenses are fully covered when needed.

Certain unit trusts make special provision for burials and funeral expenses through life insurance-related schemes and are often available as add-ons to provide a comprehensive package in which the unit trust is just one component.

In addition, some packages, such as IGI Life's Complete Savings Plan, even have a premium waiver on disability, ensuring that the endowment policy (life product) and unit trust portion can be maintained.

Both the stokvel and the unit trust, because of the relative accessibility of funds compared with long-term savings plans such as endowment policies, are a useful resource for large purchases such as a car, an appliance or a deposit on a house.

In addition, they can serve as emergency funds.

Both savings vehicles can also cater for the provision of loans to investors but unit trusts, as the more widely recognised of the two, enjoy greater acceptance by banks to stand as collateral against loans.

However, should a stokvel invest in a unit trust, then the members can benefit from bank loans.

Finally, the deciding issue is how stokvel and unit trusts compare as inflation-beaters. Here the unit trust is the hands-down winner, as unit trusts have consistently yielded an annual return of 20 percent a year for the past two decades.

Stokvels, though, as with the majority of savings vehicles in South Africa, have almost consistently fallen victim to the ravages of inflation.
Specialist funds bring in more than R28-m

Standard Bank's two new specialist unit trust funds, the International Fund and the Industrial Fund, have brought in more than R28 million since their launch on May 18.

"Sales inflow from these two funds has vastly exceeded all expectations," says Derek Finlayson, managing director of Standard Bank Fund Managers.

The new funds complement the existing Mutual, Gold and Life Income funds.

The International Fund, a basket South Africa, is made up of equities in JSE-listed companies whose operations are focused on the international market, or which operate businesses overseas.

The Industrial Fund, a first in South Africa, is made up of equities and, where appropriate, high interest-bearing investments.

Mr Finlayson says that the specialised requirements of the investing public and the need to broaden its range of funds to meet these demands prompted Standard to launch the new funds.

South Africans have typically concentrated their savings on investment available in the local market, but the International Fund has created an opportunity for them to broaden their investment horizons by purchasing a stake in a unit trust with an international flavour.

He says South Africa is being increasingly welcomed back into international business, and fuller participation signifies considerable opportunities for many JSE-listed companies.

The fund will maintain a substantially fully invested portfolio in order to optimise investors' exposure to the international counterparts held in the portfolio.

"A unit trust investment specialising in companies which trade and operate in foreign economies gives scope to South Africa's return to the international business arena and to accumulate assets with an international pedigree," says Mr Finlayson.

The Industrial Fund is a specialist unit trust offering the opportunity of investing in the industrial market.

Mr Finlayson says. "The industrial sector of the South African economy has a track record of dynamic performance and contribution to the local economy."

"Its importance is likely to grow as the country builds up an economy less dependent on gold and precious metals."

Mr Finlayson says that industrial shares have provided excellent returns - among the best on the stock exchange and well ahead of the inflation rate.

Top industrial equities spearhead the selection of the portfolio and are supplemented by high interest-bearing investments when appropriate.

He says: "Having recently attained the R1 billion mark in assets in our existing three funds, we felt that the time was right to launch these two specialist funds."

"The fund aims to provide a return comprising long-term growth of capital and income which will exceed inflation and the return associated with the industrial index."

Mr Finlayson says that Standard Bank's family of funds now offers investors a more diverse spread of unit trusts.
Easy route to balanced portfolio

According to John Bowman, MD of the Norwich Management Company, which manages the Norwich Unit Trust, unit trusts are unique in being able to offer investors the combined features of growth, flexibility and liquidity.

There is little need to re-emphasise that in the SA context, equities (or ordinary shares) have consistently been the best performing investment category, whether looked at over a period as short as five years, or as long as 30 years. They are the only investment — apart from property — which has consistently beaten inflation.

This fact has been convincingly highlighted in various surveys and there is little reason to suppose this trend will change substantially during the years ahead.

Accordingly, provided an investor does not have an immediate high-income requirement, is prepared to live with short-term fluctuations in the value of his investment and has medium-term investment horizons, equities remain a good investment. And there is no doubt for the man in the street, unit trusts are the most practical way into equity investment.

There is no other way in which such an investor can obtain exposure to a balanced portfolio of shares at so little cost. In the case of the Norwich Unit Trust, for example, for a lump sum investment of R500, or a monthly investment of R25, an investor can get exposure to a broad spread of gold, other mining, mining financial, financial and industrial shares.

The investor would have to be wealthy to obtain such a spread on his or her own. The managers of this unit trust believe in a focused approach and at 23, the number of counters in the portfolio is low by comparative standards — this is in order to streamline effective portfolio management.

However, for an individual investor to construct such a portfolio, buying only 100 shares in each of these 23 companies would cost no less than R103 000. So as a proven growth vehicle, unit trusts have no equal.

On the other hand, in terms of flexibility and liquidity, unit trusts are also unique. Some other investment and savings plans do offer exposure to a balanced portfolio, including a high proportion in equities.

However, the features of flexibility and liquidity are absent from virtually any other such plans, where early redemption of investments is usually accompanied by cost implications.

Fund managers will always emphasise that unit trusts are to be regarded as medium-term investments, with an investment horizon of at least three years — in view of the short-term price fluctuations which are a feature of any equity investment.

But in the event of the unexpected, an investor can cash in his units immediately. The costs of doing so are moderate, as there is a maximum 7 percent spread between buying and selling prices. So liquidity is assured and easy.

Moving finally to flexibility, there is no other growth investment which provides the investor with the ability to increase or decrease his regular investment, or add a lump sum at any time, as easily as one does with unit trusts.

So the benefits of unit trusts, offering the combined features of growth, liquidity and flexibility are very real for the individual investor.
Niche markets 'key to future growth'

While the local unit trust industry has shown phenomenal growth over the past five years — with assets increasing by 238 percent and the number of mutual funds growing to 46 — there are still extensive opportunities for expansion, says Francois Goosen, head of the Southern Unit Trusts operation.

And he believes that future growth will be in the area of niche markets, where funds are tailored to the needs of specialist investors.

An example of this trend was the recently launched Southern Pure Specialist Fund, which caters for specific groups who have certain socially responsible investment criteria in common.

Mr Goosen said: "The fund was developed for investors whose moral code and ethical values prohibit investment in certain industries. "It has also been designed to attempt to comply with the specialist requirements of environment-friendly groups. "Catering for this niche in the market means that investments in interest-bearing instruments, life assurance, intoxicants, hotels, gambling and certain commodities have been excluded."

Mr Goosen said the fund was not a specifically Islamic fund investing in Halal companies — an impression he added, which had been created in some media reports. "However, as the Muslim community represents an important market, the Pure Specialist Fund does its best to meet their specific value systems."

Compared with the unit trust industries in the United Kingdom and the United States, the local industry was small, said Mr Goosen, even taking the relative sizes of the economies into account.

A mere five years ago the combined assets of all unit trust funds in South Africa stood at R3.8 billion, a figure which has now grown to R12.8 billion.

The US offers investors a choice of more than 2500 funds while about £60 billion has been invested in unit trusts in the UK.

The recent growth in the number of funds and the increase in assets under management resulted in the local industry becoming even more competitive, and the race has been on to be the first to launch specialist, targeted funds.

"When competing for a selected target group, it is important to be the first in the market as any similar funds will be seen as copies and naturally attract fewer investors," Mr Goosen said.

This competitiveness is also apparent in the area of investment performance where investors carefully monitor fund returns over the short term (periods of anything from one quarter to one year), medium term (three to five years) and even longer periods.

This has led to Southern Unit Trusts adopting a relatively conservative investment philosophy.

"If a fund manager aimed to be in the number one spot each quarter, he would need to go out on a limb and take some bold decisions which would increase his risk significantly," he said.

"If these decisions didn't pay off, the fund could show a highly volatile performance.

"We have tried to eliminate the volatility, and over the past six quarters our general equity unit trust is the only fund in the industry to have consistently performed above average in survey rankings."

This strategy has produced handsome dividends as the Southern Equity Fund, with a return of 24 percent was in the number one position for the 12-month period to the end of June in the Association of Unit Trusts survey.

Since inception of the fund in October 1988, investors have received 25.4 percent return during a period in which inflation averaged 14.7 percent.

Mr Goosen said that unit holders were regularly offered advice on their investments via the media, but that it was important not to lose sight of one of the key elements of a unit trust investment.

"When investing in a unit trust, one is transferring cash into units and this allows one to build up more units when the JSE underperforms — in other words, the same rand value buys more units in a weak stock market cycle."

Sanlam Unit Trusts' total assets broke through the R2 billion barrier in June. The five portfolios reached the R1 billion mark in February 1990. The number of investors grew over the same period from 159,000 to more than 230,000. Inflow market share also trebled.
NORWICH UNIT TRUST

PORTFOLIO PROFILE
30 June 1992

Other Mining 18.9
Financials 4.1
Mining Finance 21.7
Gold 3.1
Industrials 35.1
Liquid Assets 17.1

STAR 20/7/92

(232)
COMPANIES

JSE fund may soon process claims

The JSE said on Friday that accountants Deloitte PM Goldby had compiled a list of Crosby's creditors who will receive the necessary documentation to prove their claims. The firm should be in a position to present a preliminary list of Crosby creditors within the next two weeks when the processing of claims can begin.

In both cases, however, certain claims can be processed only when the final liquidation and distribution accounts have been lodged by the liquidators and confirmed by the Master of the Supreme Court.

The investigation into Crosby's affairs by the loss adjustor appointed by the insurers under the JSE's fidelity insurance policy has been completed. The investigation into Forbes's affairs is nearing completion.

The JSE hopes to receive the reports on the admittance of claims under its policy shortly.

A final liquidation order is expected soon on Forbes, which was placed under provisional liquidation on June 17. This follows Supreme Court approval of Oliver Powell of Kessell Feinstem and Lieb van Jaarsveld of Ernst & Young as provisional liquidators.
Demand for Benco paper

THE shares of marine diamond exploration company Benguela Concessions Ltd (Benco) attracted demand in mid-afternoon trade on rumours of a R100m deal with Broken Hill Proprietary (BHP).

Analysts said the shares were boosted by rumours that Benco chairman John Gurney was negotiating a R100m BHP investment in Benco.

Gurney, a consultant on BHP's latest Yellow Knife diamond discovery at Point Lake in northern Canada, was not available for comment.

Benco, in which Old Mutual owns a 33% majority share, rose two cents to 47c.

This takes the gains to 213% since April 1 1992.

Reuters
Minorities accept Holdain's cash offer

By Stephen Cranston

Minority shareholders in Sunpak, Sunvest and Biopolymers have accepted a cash offer from holding company Holdains for their shares. The buyout will cost R35 million.

Sunpak manufactures polystyrene packaging, and Biopolymers is a specialist polystyrene material manufacturer. Sunvest is the holding company for both.

Holdains is offering 130c (compared with a market price of 128c) per Sunvest share, 144c per Sunpak share (149c) and 50c per Biopolymer share (47c).

Holdains has applied to the Supreme Court for sanction of the scheme to delist the companies. If the court approves, the three counters will be delisted at the end of the month.

Holdains CEO Ian Wills says that Sunpak was not likely to realise significant profits in the short term and it would take time to bring it up to speed.
Safex slowed down by snags

THE SA Futures Exchange's proposed options-on-futures market was six weeks behind schedule because of problems in the system's development, Safex CC Stuart Rees said yesterday.

He now expected the market to be up and running by late-August or the beginning of September.

The creation of an options-on-futures market was expected to be completed this month and would formalise the existing over-the-counter options market.

Major corporations and institutions had approached Safex about formalising the market because it would reduce the risk of deals placed in the informal market.

The planned physical delivery of E163 futures had also hit a few snags, Rees said. At present there is no physical delivery of scrip.

He said there were difficulties in removing the theoretical risk of stolen or forged scrip being introduced to the market.

But Rees said Safex had found a solution in the last few days and was involved in negotiations with a settlement agent. "Hopefully an announcement will be made soon," he said.
Confrontation looms at Masterbond

A CONFRONTATION is looming between the provisional curators of Masterbond and the board of directors and management of Fancourt because the curators are considering applying to put the upmarket golf resort into judicial management.

"Judicial management will not only severely affect current negotiations, but could also substantially reduce the value of the assets securing the interests of the debenture and part-bond holders," chairman André Pieterse said yesterday.

The Fancourt board believed that the uncertainties surrounding the future of Masterbond, the inability of Masterbond companies to operate effectively and to provide the normal administrative duties required of them "effectively incapacitated the Masterbond companies from acting as trustees," he said.

As a result, a meeting of debenture holders is to be called in Cape Town on August 11, to consider appointing Sseff Trust as trustee for the debenture holders.

"This move will enable the Supreme Court to be aware of the wishes of the debenture holders when it reconsider the confirmation or otherwise of the appointment of the Masterbond provisional curators," Pieterse said.

The judicial management application raised, but will probably be about 56% to the consortium, 25% to developer Golf Estates and 23% to debenture holders," Pieterse said.

The proposals were tabled to the provisional curators, who said they could be considered only if the consortium gave an undertaking that the R20m proposed new funding be on a fixed five-year basis and the project be maintained as a going concern during that time.

Masterbond provisional curators could not be reached for comment last night.
Flurry of bear sales ushers in a new era

THERE was a flurry of bear sales on the JSE yesterday after last week's amendment to the Stock Exchanges Control Act, which allows such sales at the last recorded sale price or at a higher price.

The Act previously provided for a bear sale, selling shares not owned on the assumption that they can be bought later at a lower price — to take place at a higher price. 8(1)(4) 241792

The change has made such sales easier.

Mervyn Harris 2323

and yesterday's bear sales involved leading industrial shares. They included Barratts at R51.75, Engen at R41, SA Breweries at R39.75 and Rembrandt Group at R24.25.

All the sales were at the last recorded cash sale price. This brings the JSE into line with the trend of major world markets, where bear sales can be made at an even lower price than the last sale price.
Capital market hits 5-year low

CAPITAL market rates hit 57-month lows yesterday as bullish sentiment mounted following large institutional buying on Tuesday.

The yield on the bellwether Eskom 160 slumped to 14.38% at the session's close after opening at 15.07%. The yield on the benchmark government R150 stock closed at 15% from a 15.24% opening.

Rates on long-term bonds last sagged to "similar lows in October 1987."

Dealers said traders short on gilts had bought up stock on the back of significant R150 bond purchases by the public investment commissioner on Tuesday. Both local and foreign institutions had been active in the market, they said.

Simpson McKee gilts analyst Marilyn Vassar said market sentiment was bullish on institutional demand and technicals. She said that although there was no longer a short-term relationship between the gold price and capital market rates, traders were getting "quite excited" about the bullish mood in the gold market.

She added that the higher gold price acted more as a reinforcing, rather than initiating, factor in the bull run.

Analysts said the move out of equities and into gilts which started in the first quarter was maintaining its momentum. Market players described money market rates as "flat" while shares on the JSE were not performing well. The capital market was the one area where investors could find value.

As the 15% technical level for Eskom stock yields had been breached, analysts expected a further drop in capital market rates today.

Meanwhile, economists who participated in the latest SPS Banking Services' Forecasting Project expected the yield on the E168 to fall to 14.47% by December and to 14.37% by this time next year. The prime overdraft rate was predicted to fall two percentage points to 16.25% by year-end and to 15.5% by July 1993. Other short-term rates were forecast to show similar drops which would cause a steepening of the positive yield curve.
International slump catches up with JSE

MERVYN HARRIS

SHARE prices were hammered on Diagonal Street yesterday in the wake of a renewed shakeout on the major global share markets on concern over the ailing world economy.

The latest downtrend on international bourses started in Tokyo as the Nikkei index slumped 666 points to 15 542, its lowest level for six years. It spilled over to London, where the FTSE 100 ended 1.6% or 28 points down to 2 388, and then to New York where Wall Street ended almost 1% lower.

Offloading of shares by worried investors on the JSE pulled the overall index down 1.5% or 54 points to 3 586. Share price losses outnumbered gains by 119 to 21.

The index has now fallen almost 10% from its early June peak of 3 746 while yesterday's 57-point fall in the industrial index to 4 156 took its decline from the June peak of 4 694 to 11.5% or 538 points.

National Futures and Options MD Brett Stacey said: "Futures are trading below the JSE cash market which is indicative of a bear market. Volumes have been good for the past week as a lot of institutions and funds are using futures to hedge."

Poor market sentiment rubbed off on gold shares and the index ended 10 points down at 1 111, but off its low as the metal rallied in the afternoon on rumours, later denied by US Defence officials, of Western forces bombing Iraq.

In volatile trading, gold closed $1.25 higher in London at $369.10 and at $359.40 in New York. Analysts said the metal could make a renewed assault on the $369 level on concern over Iraq's defiance of Gulf War ceasefire terms. Platinum ended firmer at $300.50 on the Nymex.
Effects of political irresolution are finally working their way through to the market. One consequence is that the unit trust portfolios have shown a marked swing away from holding industrial shares and towards increased liquidity. This reverses the trend seen over the past 18 months or so, where portfolio managers had been reluctant to sit on cash.

Throughout most of the June quarter, cash flow into the market remained strong, with a record net inflow of R600m. More than 280 000 new accounts were opened and the market value of assets managed by the 46 unit trusts rose some 6%, to exceed R12.8bn.

But Unit Trust Association chairman Clive Turner advises a cautious approach to the equity market in the coming months, again emphasizing the long-term nature of this type of investment. This comes after an unusually heavy demand during the past few weeks by private investors to liquidate their holdings or switch them.

Uncertainty in the market has also seen a swing by unit holders towards high-income trusts, this represented a tenth of the quarter’s gross sales. Industrial shares still make up the bulk of portfolios, though this is probably due more to capital gains than a continued high level of purchases.

Average annual return from general equity funds, which account for 81% of the industry’s assets and accounts, was 18.5% — outperforming both inflation and the JSE All Share Index. Best return was achieved by Southern Life’s equity fund (24%), followed closely by Syfrets Growth fund (23.6%).

Strategies of the two companies differed in terms of their preference for liquidity. Southern Life increased its cash and short-term holdings to 15% of its portfolio, while Syfrets reduced its liquidity from 15% to 10%. Both marginally increased their exposure in mining finance. Sygro outperformed the industry average of 16.7% on a five-year performance, with a return of 21.7%.

For general equity funds as a whole, cash holdings increased by 18.5%.

Performance by the more volatile specialist equity funds in the year to June ranged from a negative 20.8% by Old Mutual’s Gold fund, to a positive 25% by Sanbank’s industrial fund. The divergence in results reflects the poor performance of the mining and related sectors of the JSE in the months to June.

There still remains, not without reason, a strong preference for mining financials and other mining shares over gold producers, though with some exceptions. Momentum holds 11% of its portfolio in gold, reflected in its one-year performance, which showed a return of 13%, well below the average.

Sage remains the only unit trust with a foreign portfolio, where 80% of the funds are held in cash and bond holdings.

Five new funds were established in the quarter, providing further choice for investors. In addition, the former Safregro fund was taken over by IGI and the Volkskas equity fund was renamed ABSA.

The broader spread of trusts available to investors reflects the continued sophistication of the industry. The choice ranges from the traditional portfolio under the umbrella of companies such as Commercial Union to the more high-risk investment such as the UAL Select Opportunities fund.
One out of 10 listed firms risks failure, says survey

ABOUT 10% of companies listed in the industrial sector of the JSE are “at risk of failure”, says a recent survey.

The ratings survey of 522 listed industrial companies was based on information gathered over a three-year period by Status Corporate Services (SCS), a joint venture between McGregor and KreditInform. All the companies were given a survival probability on a scale of 0-100%, which “immediately tells you if a company is good or bad,” McGregor director Simon McGregor said.

The term “at risk of failure” was defined as the potential for bankruptcy, the placing of a company under judicial management, non-payment of dividends, recording of trading losses for three out of five successive years.

DUMISILE GIYUBULE

The level of net profitability after tax and before extraordinary items during the same period, or takeover of a weak company.

The ratings process employed six ratios – given weights according to SA conditions – which cover conventional areas of liquidity, profitability, leverage, activity, working capital management and control.

KreditInform MD Iver Jones said the survey was the most definitive study of the industrial sector available. A couple of companies had gone into provisional liquidation over the past three months and the survey’s ratings of these companies had been spotted, he said.

Gideon van Rhyn, who helped construct the model, said users would be able to identify good or bad risks and to extend or reduce exposure accordingly. He said he was amazed at the unscientific approach to rating companies. This was usually undertaken by a panel of people expressing opinions without the benefit of solid information.

SCS would monitor future activity, enabling the investment community and all companies granting credit to make more profitable decisions.

Jones said a similar study of listed companies on the London Stock Exchange, carried out before the current recession, found that 16% were at risk of failure. Economists conservatively predicted that the figure now was more than 20%, due to the continuing worldwide recession.
Foreign capital ‘waiting for political settlement‘

ANDREW KRAMMP

LARGE inflows of foreign capital — desperately needed to develop major projects and create jobs — would wait for a political settlement, said Investors Mutual Fund chairman HJ Shill.

Reviewing unit trusts, Sage Fund’s and Sage Resources’ results for the year ended March 1992, Shill said a political settlement would halt violence and strikes, and promote productivity and foreign interest.

“As we progress politically, the lifting of the last sanctions and the opening of additional markets for export should result in SA’s access to World Bank and IMF finance should emerge and promote easier monetary policy as the need for a large current account surplus is diminished.”

The outlook for the domestic economy was also dependent on political progress and a mild international recovery in 1992.

The domestic upswing would be delayed due to the effect of drought on agriculture. “The R15bn budget deficit — at 4.5% of GDP — combined with the relaxation of IFP restrictions and the lowering of bank rate shows governments attempt to stimulate the economy.”

Meanwhile high levels of social expenditure would boost building and construction, while accelerated depreciation allowances to export industries should assist major capital projects.

Shill said the unit trust industry had continued to expand during the year. Total industry assets rose by nearly 46% to pass the R12bn mark, while the number of unit holders’ accounts increased 33% to exceed one million for the first time.

The net inflow to the industry, which increased 39%, was a record R1.5bn.

Shill said Sage Fund posted a 29% return for the twelve months ended March 1992 and unit holders received 98.7c a unit. The Fund’s total assets increased to a year-end record of R967.7m, while unit sales hit their highest ever at R101.5m. However, net inflow at R17.6m was substantially down from R68.7m in the preceding 15 months. “This was due to one institutional holder distorting repurchases with a large redemption.”

Specialist unit trust Sage Resources — which focused exclusively on natural resources — only recorded a marginal net inflow. However, Sage Resources posted a return of 14.4% this year, substantially up from the -12.8% in 1991, reflecting the improved performance of the mining and resources sector, Shill said.
Many JSE-listed industrial firms at risk of failure

By Sven Lünsch (232)

Some 30 industrial companies listed on the JSE — about 10 percent of the total — are at risk of failure, according to a new ratings survey.

The survey, carried out by Status Corporate Ratings, a joint venture between Kreditinform and Mcgregors, has rated 360 companies on the industrial sector in terms of past and present financial performances.

Ivor Jones, managing director of Kreditinform, yesterday refused to provide a detailed sectoral analysis, but said the model used to conduct the survey had been successful in forecasting company failures on the London Stock Exchange.

He said “at risk of failure” could imply potential for bankruptcy, but also the non-payment of dividends or net trading losses for three out of five financial years.

He added that once a company had been identified as risky, action to restore its financial viability or closure could follow within a very short period of time.

The model had been applied to a number of recently liquidated companies and had provided evidence of their precarious positions well in advance of the final liquidation order.

Since the beginning of this year a number of JSE-listed companies have been delisted, either as a result of a takeover or after liquidation or insolvency.

Over the past two months alone, five companies have been delisted as a result of liquidations — Kemtrade Holdings, Europa Acceptances Group, New Company Investments, Debonair and Money and Management Holdings.

Apart from the industrial board, the development capital and the venture capital sectors have been particularly vulnerable to liquidations.

Mr. Jones said, however, that the ratings were only a “predictor”, judging JSE industrials on their creditworthiness, rather than the potential investment position.

“The rating process employs six financial ratios — liquidity, profitability, leverage, working capital, management and control — each accorded a specific weighting in the model,” he said.
World woes send shares tumbling

WORRIES about the health of world stock markets sent the Johannesburg Stock Exchange sliding again this week.

Blue chip shares dropped by 1.3 percent on Wednesday, though a new firmness in the gold price underpinned gold shares. Midweek the gold price was heading towards $360 an ounce.

The overall index of the JSE midweek at 3,385,0 was around 10 percent lower than its June peak of 3,749, and the industrial index more than 11 percent lower than its June peak of 4,694.

The drop in world stock markets was precipitated by a fall on the Tokyo stock exchange to a six-year low as pessimism over Japan's economic outlook and falling corporate profits took hold.

Wall Street stocks fell as soon as the market opened and the Paris bourse plunged to its lowest close this year.

London shares were also hit by figures showing little sign of the British economy pulling out of its long recession.
...
In view of the stock market's current uncertain conditions, investors are urgently urged to take a view, with a long-term perspective. But it is widely expected that markets will remain volatile for some time, as well as being influenced by changes in interest rates. The recent rise in bond yields may indicate a shift in investor sentiment, but it is not clear whether this will translate into increased risk appetite.

Markets can boom in shaky times, but investors need to be cautious. The recent volatility in stocks and bonds shows the importance of diversification and risk management. While some sectors such as technology and renewable energy have performed well, others like fossil fuels and transportation have struggled.

The current economic landscape is characterized by low growth rates and high unemployment rates. This has led to a marked increase in inflation, which has eroded the purchasing power of consumers. In addition, the uncertainty surrounding the pandemic and its impact on the global economy has added to the challenges faced by investors.

Despite these challenges, there are opportunities for investors who are willing to take on higher risk. The recent rise in commodity prices, for example, presents an excellent opportunity for those with a long-term perspective. However, it is important to note that the market is cyclical and that swings in sentiment can be rapid.

Investors should also keep a close eye on the actions of central banks, as they are expected to continue with their quantitative easing policies. The recent rise in bond yields may indicate a shift in investor sentiment, but it is not clear whether this will translate into increased risk appetite. The current economic landscape is characterized by low growth rates and high unemployment rates. This has led to a marked increase in inflation, which has eroded the purchasing power of consumers. In addition, the uncertainty surrounding the pandemic and its impact on the global economy has added to the challenges faced by investors.

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Change of mind for Rosenberg

By JULIE WALKER

It took 10 weeks of negotiations between McCarthy and Prefhold before the proposed merger was agreed on.

Prefhold's Terry Rosenberg says it started when McCarthy chairman Bruce McCarthy asked him to become a non-executive director.

"I turned it down because I didn't think I had anything to contribute."

Now Mr Rosenberg is to be chief executive of a group with a market capitalisation of nearly R1-billion.

"I had no idea what a wonderful company McCarthy was until I was invited to have a look. But I'll have to learn a lot about motor retailing," says Mr Rosenberg.

Mr McCarthy, who will chair the group, says growth opportunity in motor retailing is not high because manufacturers are reluctant to allow any one retailer to dominate. With a 14% share of the car market and 100 branches, McCarthy can be considered a mature business.

Prefhold has room to grow as a mass marketer through its three divisions - Game, Bearen and draper Clovea.

The deal has two stages. Prefhold members will be offered (but not obliged to accept) four McCarthy shares for five Prefhold ordinary for 75% of their holdings. Both classes of Prefhold debentures will be exchanged for corresponding McCarthy scrip.

McCarthy will then sell all its businesses into Prefhold for the issue of 100.5-million Prefhold shares. It will become a pyramid of Prefhold.

Control of McCarthy will rest jointly with the Prefhold consortium and Anglo American-Amcor, with between 24% and 27% each depending on minority acceptance rates. The McCarthy family's 5% to 8% furnishing absolute control.

Prefhold's name will be changed to McCarthy Prefcor (McPref).

McCarthy's 36% of Midas will be sold to Prefhold, but because effective control will not change, there is no need for an offer to the minority.
US anti-trust expert calls for war on monopolies barriers

PRETORIA — SA ought to "declare war" on the many barriers which still restrict businessmen from entering various markets, US anti-trust legislation expert Thomas Krattenmaker said at the weekend.

In a discussion with representatives from a broad variety of SA organisations conducted by satellite link-up, Krattenmaker said the necessity for anti-trust legislation could be minimised by scrapping legislation restricting entry into the market.

Krattenmaker, a professor of law at Georgetown University, said during the discussion sponsored by the US Information Service that anti-trust legislation should be aimed at achieving specific ends, and not used in a "scatter-shot" way to achieve political or social policy ends.

However, anti-trust legislation could well have positive spin-offs.

For example, if it was decided that a preponderance of large companies increased the risk of discrimination in the workplace because fewer discriminatory practices would involve more people, then legislation specifically addressing this problem should be introduced.

Anti-trust legislation might well reduce the size of companies, but its primary aim should be to allow the consumer, rather than the producer, dominance in the market.

He said the necessity for anti-trust legislation would also be reduced by allowing foreign competitors to enter the market.

The SA government should also adopt a firm commitment to not allow mergers to take place which would give companies undue market dominance.

Regarding the definition of monopolies, he said a company's market share was an inappropriate method of determining whether it was a monopoly. A company with 90% of the market could conceivably not be a monopoly, while a company with 30% of the market could be one.

On the question of tacit collusion between companies — a feature of SA's small economy often dominated by only a few companies in a particular sector — Krattenmaker said there were ways of detecting and combatting this problem.
MONEY MARKETS by Hilary Gush

Rates ease off as shortage continues steady decline

MONEY market rates eased last week as the shortage steadily fell from its recent highs. Yields in the capital market continued to decline after hitting 77-month lows at midweek. By Thursday the shortage was down to July’s lowest level at R2,289bn from R2,391bn at the beginning of the week. Liquidity is not expected to pick up until early August when the month’s government spending reaches the market.

Expectations of a further two cuts in the Bank rate this year coupled with keen investor demand for short-term paper saw the 90-day liquid BA rate move down from an earlier 13.8%-14.05% trading range to 13.5%-13.75% on Friday.

Negotiable certificate of deposit rates were also lower towards the weekend with nine-month bills trading in a 13.35%-13.45% band from 13.45%-13.55% at the beginning of the week.

Consumer inflation, which fell to a 13-month low in May, is expected to slow further over the next few months. Nedbank’s latest economic profile forecasts a decline in consumer inflation to 12.4% and a corresponding fall in the BA rate to 12% by the end of the year.

Applications for the weekly six-month Treasury bill tender saw the Bank receive R740m in bids for the R150m on offer, at an average rate of 13.68% — 10 points down from the previous week’s 13.78%. The average rate on the three-month Treasury bills was little changed at 13.3% from 13.4% the week before.

On the back of steady institutional demand capital market rates fell on Wednesday to lows last seen almost five years ago. A hike in the gold price to a seven-month peak fuelled bullish sentiment.

The yield on Eskom 168 bonds — the bellwether semi-gilt — fell to 14.74% on Friday from 15.14% on Monday. The yield on the benchmark government R150 stock slumped 40 points to 14.89% from 15.30% at the beginning of the week.

Rates on long-dated stock are expected to fall further as institutions readjust their portfolios and increase their bond exposure at the expense of equities.

Russia plans to treble tax on imports

MOSCOW — Russia would treble a new import tax for most goods in September and levy higher rates on certain luxury items to help pay off its foreign debt of more than $70bn, Foreign Trade Minister Pyotr Aven said last week.

“We have to spend more on debt servicing and less on imports,” Aven said. “We cannot afford to import the things we sometimes import, for example luxury cars and video recorders.”

Russia introduced a 5% import tax on virtually all goods on July 1 to curb imports and try to close a yawning gap in the balance of payments. Aven said that from September the tax would be increased to an average of 15%.

“There are some special excuse goods, like vodka and Mercedes cars, which will be (taxed) much higher,” he said, but did not detail the higher rates.

Aven put the foreign debt at $70bn, excluding debts to ex-Comecon members.

The tax would also help protect Russian industries against foreign competition and could cut an expected surge in unemployment as market reforms begin to bite and unprofitable enterprises are shut down.

Aven said Russia was owed $140bn, mainly by other former socialist countries and Third World states, but not everyone was keen to pay up. He singled out Cuba as one of the worst offenders. — Sapa-Reuters
Unit trust assets shoot up by 33.5%  

ANDREW KRÜMM

THE prospect of good long-term returns pushed total assets in the increasingly popular unit trust industry up by a record 33.5% in the year to end-June.

Pretoria University Graduate School of Management’s Prof Hugo Lambrechts said yesterday that more than R12,80bn had been invested during the year.

“Th e industry’s popularity with investors has risen vastly over the past seven years as people became aware of the mostly good performances on offer,” said Lambrechts “In the past year alone, the number of unit-holders accounts rose by more than 280 000 to more than a million.”

On a short term view, however, the Pretoria University quarterly survey showed that the industry’s total assets rose by 5.55% or R733m to R12,80bn in the second quarter 1992. Of that, R600m was the net new investment attracted by the industry, leaving R123m or 1.9% as the organic growth achieved by fund managers. This was less than the 3.6% rise of the JSE’s All-Share index during the quarter. And, while ten general trusts beat the index in the quarter to end-June, 12 did not, according to the survey’s figures.

Responding, Lambrechts cautioned investors not to look to short term quarterly figures for a reflection of investment performance “Investors in unit trusts would have beaten the index by investing in most general funds over the last one, three or five years to end-June. On a relative basis, investment in unit trusts offers the man in the street the best available return in the longer term.”

However, according to survey figures — on a ten-year view — lump sum investors would only have beaten the index by investing in Old Mutual Investors’ Fund On a 15-year view only two funds — Guardian Growth and Old Mutual Investors’ Fund — beat the index.

Lambrechts elaborated by saying “the All-share index calculated for lump sum investments in the survey was loaded against the industry, since its calculation allowed for monthly compounding as opposed to the twice annual compounding used to determine fund performances. The survey of fund performances also included management fees, which detracts from a direct comparison with the all-share index.”

In contrast, regular monthly investment in unit trusts would have allowed investors to beat the indices in virtually all trusts.

Unit trusts and over every period greater than a year.

He advised investors not to be fickle “The good performances started building in 1977, and, although returns on offer fluctuate cyclically, the long term growth trend in the industry remains good.”

“Cyclical fluctuations should not send the serious investor running for cover.”

Southern Equity Fund was the top performer for the year, achieving an annual rate of return of 23.62%, followed by the

Syfrets Growth Fund (23.18%), ABSA (20.76%) and BOE Growth Trust (20.28%) “However, over three and five years Syfrets is the undisputed leader with rates of return of 25.34% and 21.43% respectively. In the past 15 quarters Syfrets has headed the list as best annual performer four times. They came second four times, third once, fourth twice and fifth three times. In the same period their assets grew from R102.9m to R626.9m,” Lambrechts said.
Waning confidence sends granite shares into dive

MATTHEW CURTIN

SHATTERED investor confidence in the JSE's granite sector in the past six months has seen shares plummet in a way usually associated with the fickle and high-risk mining exploration sector.

Shares in market leader Kelgran, and holding company Keesley Holdings, have sunk sharply Kelgran closed on Friday at 150c, 12% or 20c down in the past month, compared with 375c earlier this year, and highs of 820c in 1991.

However, the entire sector has suffered, with Martin Corporation languishing at 25c a share on Friday, but at 22c The stock reached levels of 220c last year, and 300c in 1989 Shares in Kudu Granite have fallen 8% in the past month to 75c, against 130c last year, and 400c in 1989.

The lack of investor confidence in the sector comes at a time when analysts believe the industry as a whole is better placed to consolidate in spite of world recession.

Earlier this year, producers set up a marketing body, the Southern African Granite Association (Saga), while Kudu merged with unlisted producer Impala Granite.

These developments left a streamlined granite sector with closer links to mining houses Gemnun and Anglo American, via their interests in Keesley and Impala respectively.

Anderson Wilson analyst Rene Hochreiter said the developments had not buoyed market sentiment because of the depth of the world recession and its impact on the international granite trade.

Saga's influence in cutting out price battles between local producers and setting minimum prices for the low-margin high-volume trade in Rustenburg Grey stone, was beneficial in the long run. But he said the dearth of demand and weak prices counteracted Saga's early efforts to promote southern African stone.

Another analyst said a question mark over the quality of management at some granite producers was also depressing market sentiment. In the past numerous small producers, like Aurora and Quagga, had come to the market but had been unable to provide top quality products.

Saga executive director Rhynie Greeff said the formation of the association was part of a long-term process to consolidate granite exports. In the meantime, the faltering economic growth in the US, Europe and Japan major granite markets had hit the trade badly, especially in the wake of the Gulf war and its disruption to Middle Eastern trade.

Greeff said SA producers had maintained their market share of about 15% of world trade in raw granite, even though the volume of trade had fallen.

As much as 85% of granite is used in the construction and related industries, where the stone has become increasingly popular as a pollution resistant and attractive material for cladding and decorating buildings.

Greeff and Hochreiter agreed that the scale of the worldwide slump in the construction industry had offset any competitive edge granite had over other materials.

The remaining 15% of granite production is used in the manufacture of tombstones, principally in Japan, a high-margin business with slow but steady growth.

However, Greeff said there were signs that demand from Europe was picking up. About 45% of SA granite is exported to Italy, the world's leading stone-cutters. He said granite orders for the post-August holiday season were encouraging.
COMPANIES

Sylfret's Growth Fund is booming

CAPE TOWN — A net R72.4m flowed into the Sylfret's Growth Fund in the three months to end-June — being 21% of the total cash inflow into all general equity funds during this period, Sylfret's unit trusts marketing manager Kevin Hinton said yesterday.

The total market value of the fund at end-June was R627m.

"Quite clearly, the Sylfret's Growth Fund is pulling in proportionately more money than ever before. Its solid performance is now paying dividends," Hinton said.

Another reason for the inflow was the launch by Sylfret's and UAL last November of unit trust-linked investment products.

Association of Unit Trust figures for the June quarter show the Southern Equity Fund as being the best performer among the general equity trusts over a one-year term, with the Sylfret's Growth Fund taking the top slot over three years and five years.

General equity funds, which invest in the broad spectrum of JSE-listed shares, account for more than R10bn of the R13bn market capitalisation of all SA unit trusts, Hinton said.

The only other general equity fund to have registered a higher inflow — the Old Mutual Investors' Fund — has a market value of R33bn, more than five times that of the Sylfret's Growth Fund.
Pulling two groups together at holding level McCarthy

By David Canning

DURBAN — The only person who will change offices as a result of the McCarthy-Prefhold merger cemented last week will be Prefcor chairman Terry Rosenberg, who has signed a minimum five-year contract and will move into the McCarthy headquarters.

This, McCarthy chairman Brian McCarthy says, emphasizes that there will be no staff cuts and minimum disruption of day-to-day operations flowing from Natal's largest business merger.

The widely differing histories and activities of the retail groups have led to surprise and some scepticism in business and professional circles about chances of a successful merger into McPef.

Mass market

Mr McCarthy says he can understand some of the doubts being voiced but the key was to understand the rationale, which was largely to pull the groups together at the holding level.

For McCarthy (a mature business) and its major shareholder Anglo American Industrial Corp (AMIC) — the merger represents attractive access to mass markets for the first time.

For Prefhold, a major advantage is injection of the stronger McCarthy balance sheet which will help it to expand more effectively.

Mr McCarthy says putting together the groups, with total sales of R4.5 billion a year, is the biggest deal he has ever been involved in. Yet he has found the negotiating process stimulating rather than draining.

"I was not thinking of a merger when I invited Terry to join our board as a non-executive director."

"Although I did suggest to him that maybe as a result of him joining our board our companies may get closer together in the future, the idea of the merger came from him."

Mr McCarthy concedes the proposal initially elicited a lukewarm reaction from his directors.

However, Amc chairman, Leslie Boyd, who recently joined the McCarthy board, earlier saw the merits of a link into the markets in which Prefhold operates.

Mr McCarthy says the plan now has the support of the major shareholders on both sides, although a small minority — one or two in each group — have some reservations.

Both companies have to call shareholders' meetings to approve the merger (probably in September) and the deal is subject to "due diligence" audits on both sides — but he thinks the requisite majorities will be received.

The most difficult part of the procedure was putting a price on the deal — eventually settled at four McCarthy shares for five Prefhold ordinaries.

Prefhold's senior and junior convertible debentures will be taken in on the same terms and conditions. This means they can be converted, in the normal way, between 1993 and 2003, but into McCarthy instead of Prefhold, ordinary shares on the same four-for-five basis.
Capital market rates dip is a puzzler

HILARY GUSH

CAPITAL market rates continued their decline yesterday after reaching five-year lows last week, leaving dealers puzzled.

The yield on the bellwether Eskom 168 fell to an intra-day low of 14.51% in morning trade, while the yield on the government R150 stock troughed at 14.6%.

Rates on both long-dated bonds recovered in the session to close at 14.78% and 14.91% respectively.

Dealers attributed the decline in yields to bullish sentiment, large institutional buying and a further move out of equities and into gilts. (2.32)

"Facing the recent slide in equities and..."

Graphic: RUBY GAY MARTIN Source | MET

To Page 2

Capital market

Increased liquidity in the money market, the capital market is the last outlet for investors who require a fixed return on their investment.

One dealer put it succinctly "Gulfs are the only game in town — where else can you get a return of 14.5%?"

Traders claimed that political developments had a quicker, more marked effect on equities, while gilts reacted more slowly to mounting uncertainty. An investment in the capital market thus offered a better, less risky return, they said.

One dealer attributed lower rates to limited institutional selling, as opposed to rising demand.

Some believed trading was fuelled by option writers who bought stock to hedge their positions after critical strike levels had been reached.
A SECOND quarter bull market in gilts boosted the UAL Gilt unit trust to the top of the performer’s log — on a selling to repurchase basis — for the year ended June 1995, says UAL investment chief Alister Calquhoun.

In an interview yesterday, Calquhoun said UAL Gilt — which gave investors a 20.19% return — was recently ranked as the top performer for the year (on a selling to repurchase basis) by Frederma University’s June unit trust survey. However, the survey ranked UAL Gilt seventh on a repurchase to repurchase basis over the same period, with top performer Senbank Industrial Trust giving investors a return of 24.53%.

Calquhoun attributed UAL Gilt’s performance to anticipating the bull market which was prompted by market forces which caused medium and long term interest rates to fall. This put upward pressure on gilts prices.

“Based on expectations of an interest rate drop, we increased our exposure to bonds from 67.17% in January to 82.95% in June. This placed the fund in a strategic position, allowing UAL to take advantage of falling interest rates.”

“With the demand for gilts growing on the back of a perceived under-performance by equities — as well as an expected decline in inflation — interest rates fell, resulting in an equivalent rise in gilt prices.”

UAL investment planning services MD Peter Anschutz said the Gilt fund had the highest net sales of any unit trust, equity or fixed interest over the year.
LENCO Investment Holdings (Lenvest), the pyramid holding company of Lenco Holdings (Lenco), issued its preliminary statement yesterday.

The conglomerate has interests in the shoe, packaging and clothing sectors and became a public company on May 27. Lenvest has a 51.23% shareholding in Lenco.

Lenco shares may be exchanged for Lenvest shares in the ratio of 150 Lenvest shares for every 100 Lenco shares.
BURGLARS drilled open eight private safety deposit boxes at the JSE and made off with what sources believe could be several million rand in cash, as well as gold coins and documents.

JSE executive president Roy Andersen confirmed the burglary, but said yesterday reports of large amounts of cash and securities being stolen were unfounded.

"The items stolen were brokers' personal possessions and not securities or assets belonging to investors," Andersen said.

The theft occurred over the weekend and was discovered on Monday morning when security guards found the main safe door—only accessible from the trading floor—open and eight private safety deposit boxes empty, police said yesterday.

The amount of money involved had not yet been established, but police could not deny claims that it ran into millions.

Police said they had not received a full list of the emptied boxes' contents and could not force owners to disclose items.

Although eight boxes were forced open, two were empty at the time. The burglars forced open the safe door and drilled open the safety deposit boxes. Several fingerprints were left.

Police are investigating the possibility that people working at the JSE may be responsible for the theft.
Shares surge in late flurry

SHARE prices surged in a late burst of activity on Diagonal Street yesterday, to sweep all major JSE indices to a new high.

The rise came on the back of two-pronged buying: cash flowing into the market from profit-taking in gilts after the strong run up over the past few days, and short covering in futures which brought renewed activity to the share market.

Dealers said the uptick correlated with the upward movement in bond rates and yotted the market out of the doldrums after a slow, lethargic morning session.

A slight rebound in Tokyo stocks and a rally in London helped the JSE edge higher in hesitant morning trade, prompting short covering in futures where the September all share and industrial contracts were trading at a large discount to spot.

FNBamank futures trader Colin Greff said "While the short covering brought renewed confidence into the market, the recovery was only tentative as players awaited the outcome of the general strike."

The JSE overall index closed 20 points up at 3,395 as the industrial index gained 26 points to 4,129 and a steady gold price at just under $359 lifted the all gold index 11 points to 1,110 despite a farmer fundand keeping a check on share prices.

In New York gold rose $1.15 to close at $359.15 after earlier it pierced the $360.00 level. In London gold closed 70c higher at $358.50. The rise came on the back of a plunging dollar following a sharp fall in US consumer confidence in July but the dollar rallied after holding key support at DM1.4700 and gold fell back.

The metals' failure to breach $360 and a steady commercial rand at R8.7580 to the dollar left the rand gold price marginally firmer at R989.72.
**Could relief**

**GOING BUST** The South African economy is in crisis;

**Penelope Morgan** of

*Finance Week* talks over the issues of personal insolvency:

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**CAN IT BECOME AN HONOURABLE WAY FOR SOMEONE WHO CAN NO LONGER PAY HIS DEBTS?**

For those who aren’t too squeamish about the stigma attached to personal insolvency, technically known as sequestration, it can provide a welcome relief to the burden of debt.

At best, the process and consequences are inconvenient and uncomfortable. Trustees report that, once the sequestration process is underway, most individuals feel relief rather than despair.

As long as there have been no criminal offences involved, the process is bearable. The payoff is that the insolvent’s financial liabilities are wiped out.

**C**

Like corporate liquidations, there certainly has been an increase over the past few months in the number of personal sequestrations. The worst is probably still to come, and an avalanche of liquidations can be expected in the new year. The level of interest rates, particularly the mortgage rate, is given by trustees as a major factor in pushing an individual into insolvency.

Another reason currently prevalent is where a businessman has agreed surety for a loan to his company. When the company folds, the businessman’s personal assets are then attached by creditors.

**INSOLVENCY**

Insolvency can be either voluntary or forced by creditors. But there must be at least R4 000 worth of assets in the estate before the Master of the Supreme Court will allow a sequestration.

Crucial questions facing a would-be insolvent are whether it is possible to hide assets from creditors before sequestration and how soon after the event can the insolvent start establishing another estate?

The insolvent is automatically allowed to retain all assets held in a pension fund as well as up to R10 000 worth of life assurance policies. But on the matter of hiding assets, trustees are unanimous: it is easy to do, jewellery and 80p bonds being favourites, but it is illegal.

At present the penalty for hiding assets from a trustee is a maximum of R1 000 fine or one year in prison, and of course a criminal record.

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An irritated attorney complains the level of the fine hasn’t kept pace with inflation, but he warns that the insolvency legislation is currently under review. Penalties might soon be higher.

**PROTECTING ASSETS**

Putting assets into the potential insolvent’s spouse’s name is not a sure-fire method of protecting those assets from creditors.

It is a matter of timing. Robert Walters, MD of the Board of Executors trust arm, explains: “It’s a question of omens. If goods were in the wife’s name for two years or longer before the sequestration, the omens are on the trustee to prove they were transferred to her for the purpose of avoiding attachment.”

“If the assets went to her less than two years before the sequestration, the omens shift and the insolvent must prove the goods were not transferred to her to avoid creditors.”

Metrust director Garth Foot points out it is much easier to prove assets belong to the wife in her own right if her earnings constitute a reasonable proportion of the household’s finances. Even so, most trustees will accept her sworn statement to the effect that the assets belong to her.

In theory the liquidators are required to leave only a cupboard, bed and clothing for the insolvent, in fact, on insolvency the household furnishings are valued and the insolvent is given the option to buy back the assets. In most cases this happens.

Trustees point out there is plenty of scope for fiddling...
against credit card fraud. In the longer term, unit trusts are a great investment.

**The worst is probably still to come, and an avalanche of liquidations can be expected. The level of interest rates, particularly the mortgage rate, is given as a major factor in pushing an individual into insolvency.**

### The red tape

**INSOLVENCY**
Insolvency (unable to pay one's debts) can be either voluntary or forced by creditors.

**PROTECTING ASSETS**
Putting assets into the potential insolvent's spouse's name is not a sure-fire method of protecting those assets from creditors.

**CREDIT**
It is possible for the insolvent to get credit by, for example, not divulging his insolvent status to the credit institution. Westbank GM Robyn Shales says that although the bank does not ask specifically whether the applicant is an insolvent, the fact he is will be picked up by the bank's routine computer credit check.

The directorship restriction is often circumvented by an insolvent operating through a front, for example by the insolvent husband working through the name of his wife. Automatic rehabilitation comes five years after sequestration, i.e., at the confirmation of the first accounts at the end of the 18-month period.

For a first-time insolvent where no criminal involvement has been found, rehabilitation may be granted on application only six months after the first accounts are confirmed. Even if criminal acts were detected the insolvent may apply for rehabilitation after two years.

So you reckon that it might pay to go insolvent? Just remember that, whatever the legal technicalities, the stigma is not easily overcome.

Your belongings, some of them of sentimental value, could be up for grabs if you go insolvent.

with the insolvent's household effects where for the purposes of the valuation, junk furniture is substituted for quality items.

During the sequestration process, which normally lasts 18 months or so, the insolvent must provide the trustee with details of monthly income and expenditure.

If his income is significantly in excess of expenditure, he is required to contribute to the insolvent estate. At this stage he may start accumulating a new estate but it would be at a low level because the Master may still require a contribution to the estate. Foot notes that it usually goes better for an insolvent when he applies for rehabilitation if he has contributed to the insolvent estate during this period.

Also, during the winding down of the estate and until rehabilitation, the insolvent may not be a director of a company or obtain credit. Again, there are ways around these restrictions but there are penalties for doing so.
Saving for a better future

An investment which has received a lot of attention over the past few years is the unit trust.

Over a million people invest in unit trusts and are enjoying high returns. A unit trust puts together the money of many investors and then invests it by buying shares in South Africa's top companies. The better the companies are doing, the more profits they make, the higher the price of the unit trusts.

The profits of the companies are passed on to shareholders in the form of dividends and as interest on each unit held. This is passed through to investors half-yearly and may be taxed and credited to the unit trust to help your savings grow even faster.

The second way in which you benefit from your unit trust is in the increase in the capital value of your units, the higher the price you pay for your units at a price higher than that at which you bought them.

It is important to remember that in the same way as prices move up, so they can, and do, move down from time to time.

Ma Sherryl Oosthuizen, senior manager of Fedgro Unit Trust, said: "This is typical of the movement of shares and the stock exchange and is not necessarily a bad thing. Historically, after prices have moved down, they have moved onto reach highs above those in the past."

"The longer the trend has been up, the longer you have to wait. As long as you take a longer term view, you should recommend this investment as a minimum. The risk of losing money is minimised. Downward movements do present buying opportunities as you can accumulate more units while prices are low. And really soon, when they move up again."

Unit trusts are suitable if you are saving for:

- A child's education
- A secure retirement
- Your own home.

If you need more information on unit trusts you can write to Fedgro Management Company Limited, Client Services, PO Box 1014, Johannesburg, 2001, or phone their toll-free line 0800 111 114.
Downward spiral of coal stock gains pace

MATTHEW CURTIN

The downward spiral of stock on the JSE’s coal board gathered pace yesterday, with market leader Amcoal losing 300c to close at R33. Amcoal shares fell nearly 20% in the past month, losing R20 as bearish sentiment on export opportunities for SA producers gripped the market.

A leading analyst said yesterday it was important to note that the sector was thinly traded and often suffered from a lack of liquidity. Shares had overreacted to good news — such as the promise of an end to sanctions from early 1990 to late last year — and the current gloom. The JSE coal index fell nearly 5% or 144 points yesterday, closing at 2876, its lowest level since March last year.

The analyst said one or two institutions had offloaded much of their holding in coal shares. Bearish sentiment was fuelled by a number of factors. An important concern was that European utilities were cutting back for fear of carbon taxes in favour of cleaner gas fuelled power stations.

At the same time, the prospect that SA exporters would win a much larger share of the international steam coal market with the lifting of trade embargoes was now fading as competition from low-cost, good-quality Indonesian and Latin American products increased. SA companies were also hit by static rand coal prices, as dollar prices weakened and the SA currency remained relatively strong.

He said producers most likely to weather poor conditions were those with low-cost Eskom contracts, such as Randcoal.

Smaller exporters, such as Kangra Coal, Duiker Exploration and Gold Fields coal, would depend on consolidating their hold on niche markets for high-quality low-ash (environmentally friendly) export coal.

The weak export market could temper plans by some coal companies to build a second coal terminal capable of handling 10-million tons a year at Richards Bay. Portnet, had commissioned a feasibility study for the project, and it was understood that Sasol was a key backer.

Portnet officials were not available for comment yesterday on the progress of plans for the “Red Terminal”, but a Sasol spokesman said the state of the export market was not a matter for concern for the group at this stage. He said that the new Syfertgensenh colliery, set up to supply Sasol 2 and Sasol 3, would have extra capacity at full production which could be exported. The mine was near full capacity, but the small amount of export quality coal already available was being fed to the petrochemical plants.
Retail share prices bear brunt of JSE meltdown

RETAIL share prices have borne the full brunt of the recent meltdown on the JSE, with many registering declines double the average 10% fall in industrial share prices over the past two months.

Erstwhile institutional favourite Woolru, once regarded as the "bluechip" of blue chips", has plunged 27% to a new low of R36,90 from its 1992 high. CNA Gallo has shed 39% to a new low of R21,25, Pepkor 26% to R11,30 and Pick 'n Pay 16% to R23,50. Showing relative strength are Edgars and Foschini, which have shown declines of 9% and 12% respectively.

Analysts and a reason for the sharp falls was that some retail shares had been on premium ratings to the rest of the market — trading at prices of around 20 times earnings — which made them more vulnerable.

van den Berg said the sector also had a tendency to outperform the industrial sector from mid-upswing to mid-downswing. This cyclical trend explained why the retail sector showed relative strength until the middle of last year. Now that the recession had deepened and economic recovery was delayed, the retail sector would take even longer to recover. The sector was unlikely to show any signs of recovery before the second quarter of 1993.

Other analysts agreed that the short-term outlook for the sector was not good. Sanlam's Dries de Toit said "the bad news is not yet over".

Woolru's problem, Van den Berg said, was the company's decision to go upmarket when trading conditions were deteriorating, and failing to take its market along. It also strained cash resources by pursuing an aggressive store expansion programme.

While targeting higher income groups had not been successful for Woolru, groups at the lower end of the market were also feeling the pinch. There has probably been more people falling off the bottom end of the market — due to rising unemployment, which had stretched informal social security networks — than downtrading by consumers, she said.

Van den Berg said the retail companies that would do well were those such as Pick 'n Pay and Clicks, which had strong balance sheets.

Another analyst said companies to look for were those which would go through 1992 without showing a significant decline in earnings. These companies would benefit from a more favourable medium term outlook. Institutions were likely to increase their exposure to the sector again in the next six to 12 months.

from a reduction in the number of large building contracts since the middle of 1991.

Keetley said granite production last year had outstripped demand.

As a result, the group had increased its stockholding by 58% which, Keetley said, would place the company in a favourable position regarding future supply.
Rallies on world markets boost JSE

MERVYN HARRIS and HILARY GUSH.

Buoyed by strong rallies on Wall Street and in London, leading shares galloped ahead on Diagonal Street yesterday to lift the market out of its losing streak of the past month.

Equities shrugged off a continued recovery in the financial rand, which closed firmer for the third successive day at R3.88 against the dollar yesterday on brightening perceptions of the short-term political outlook.

The share price uptrend came on follow-through buying from Tuesday's late rally, and swept the JSE overall index up 1.8% to 2 417, only six ticks short of the 2 417 trading days so far this month.

Dealers said the market was due for a correction after the sharp downturn, and prices could continue to firm in the short term, but the recovery looked vulnerable as the market was plagued by uncertainty on the political and economic fronts.

The industrial index surged 1.6% to 2 199 as participants ignored a fall in Tokyo stocks to their lowest level this year and took their cue from the rebound on Wall Street and London on the back of better-than-expected corporate earnings.

Institutional buying was reported to be selective and confined to blue chips across most sectors, with precious metal shares and the laggards as the gold and platinum markets continued to cool off.

Gold came under pressure during a volatile and extended London afternoon fixing session where it was set at a 13-day low of $336.50. Reuters reported speculation of big Middle East buying and selling orders as well as moves by US funds to extract themselves from an overheated market.

JSE (23/11) 36/11

Gold eased nearly 2% to a London close of $358.85, while platinum slipped $2.50 to a London afternoon setting of $373.50 as worries resurfaced that the tumbling Japanese stock market would sharply curtail demand by the world's biggest platinum importer.

The financial rand's extended recovery was attributed to word from ANC president Nelson Mandela that next week's planned general strike would be peaceful.

The foreign investment unit - an indicator of investor confidence - strengthened to finish at R3.85 yesterday after closing at R3.90 on Monday and R3.90 on Tuesday.

Large foreign selling orders associated with profit-taking in the capital market last week had driven the rand up to R3.95 by Friday's close.

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A last-ditch attempt by church leaders to realize a settlement had also boosted sentiment, they said.

As trading volumes had been thin, every order had a marked impact on the sell's price. Buying out of London had been keen at the R3.97 level, although there was very little demand out of continental Europe.

Dealers said a fall in trade, as was seen yesterday, was common before a take-off in foreign exchange market activity. There was, however, more downside than upside potential on the unit.

Investors were sitting on the sidelines as they waited for direction on the planned strike early next week.

Dealers expected the rand to trade in a wide band of R3.82-R3.92 until the end of the week.
Banking shares set to outperform industrials

SHARON WOOD

Banking sector shares will probably outperform industrial sector shares during the next few months, banking analysts say.

This may happen despite an 8.7% fall in the banking index since the beginning of July, in sympathy with the overall index's 7.8% slide during the same period.

Banking analysts expect poor June year-end results from industrial companies.

Ed Hern, Rudolph analyst Alan McConnachue says banking sector earnings will significantly outperform industrials but banking shares will still fall if industrial company shares drop.

The relative value of banking sector shares is good but investors should be selective, another analyst says.

Absa shares have taken a hammering recently, falling more sharply than the other major banks during the last month, down 18% to R8.15.

The analyst attributes this to expectations that earnings will underperform compared to the rest of the sector during the next few years because of the rationalisation process.

Analysts differ on when they expect SA's biggest bank to settle down to routine business, giving earnings one to three years to match the sector.

Absa offers fundamental value, while FNB offers very good value. Standard Bank remains overpriced despite a R5.50 drop to R32 during the past month.

Nedcor Bank, through the Perm, has interest margin problems as a result of the two drops in the prime overdraft rate recently and its large exposure to the mortgage market, he says.

The group has been caught in the crossfire between Absa and the other two major banks, he says.

He says the group's fundamentals offer value but its short-term earnings will probably underperform.

Martin & Co analyst Richard Jesse says the traditional building societies will do worse than the traditional banks because of the nature of their deposit books and the downtrend in interest rates.

This is already reflected in Nedbank's and Absa's lower price to earnings ratios of about eight, compared to Standard Bank's price to earnings ratio of 12.23 and FNB's of 9.55.
Trebled tax bill, higher interest costs hit Stocks

PETER GALLI

A TREBLED tax bill and higher interest charges saw construction company Stocks & Stocks post a 22% drop in attributable profit to R18,085m in the year to end-April from R23,168m previously.

The tax bill more than trebled to R10,059m from R3,286m, as a result of the increased tax rate of 32% from 12% previously, and phasing in of new legislation on stock in trade and the reversal of timing differences at the year-end.

Chairman Reg Edwards said in an interview yesterday the 7% rise in turnover to R1,44bn was "quite admirable", given present market conditions, particularly as this translated into a 19% improvement in operating income to R54,11m and a 20% rise in pre-tax profit to R33,12m — benefits of which were offset by the tax bill.

"Given inflation, our order book has shrunk by 8% to R1,1bn for the next year and will continue to do so until the economy is sorted out, but we are confident our results for the next six months will remain around these levels," he said.

The company was quite "cash flush", having net cash of R27m at the year-end.

Thus, with a dividend cover of 3.5, allowed the dividend to be maintained at 11c a share in spite of a 19% drop in earnings to 35c a share (47c a share), he said.

However, the conversion of 3,5-million convertible notes last year diluted earnings a share for the year under review.

The company still had land holdings in township areas, but housing and township sales and development in these areas had virtually ceased and was "a negligible loss factor" in the results.

On the house construction side, Stocks Housing continued to perform well, contributing between 15% and 20% to total operating income. This division still built about 6,000 homes a year as a contractor for munis and the House of Delegates among others.

"We are also doing a fair amount of work in Botswana in this regard, but are not involved in a land-holding situation. We are continuing to follow our policy of reduced dependence on building construction and are looking at the opportunities offered in southern Africa," Edwards said.

The roads construction division also continued "to perform soundly" and was still involved with the rehabilitation of the main Natal motorway and a portion of the Trans-Kalahari in Capricorn, amounting to about R100m, he said.

It had also won a R30m contract in Botswana, while a few others were in the pipeline awaiting tender acceptance.

The information technology division, Stocks Systems Technology, had reversed its previous loss-making position to break even and was expected to move into the black in the present year as it gained market share, Edwards said.

"We are looking for new opportunities, particularly as some of our Sun International contracts wound down. We believe that real future needs in the housing, education and medical fields as well as in the leisure arena," he said.

The group had recently bought the Kruger Lodge, near the Kruger Park, and was also looking at two leisure developments in the Cape area for which it already held the land, but the actual development of these would depend on market demand.
Taking a plunge

The JSE's bellwether index — the Financial and Industrial index — continues to fall. It has lost 12.6% since its high on June 4. And the All Gold index, which surged with the improvement in the dollar gold price, is being viewed with understandable scepticism. Volumes traded on the market, minor flurries aside, reflect the same disinterest.

Analysts attribute the fall over the past month to the failure to resolve the political impasse. The breakdown of Codesa, they say, means postponing the economic recovery until next year or perhaps even to 1994.

Stockbroker Martin and Co's Richard Stuart says the endless sparring between political parties will result in a deepening of the recession and a consequence will be JSE-listed companies reporting financial figures worse than those expected previously. That must affect the shares.

"The economy is being turned into a ghost of its former self," says Stuart. The easy part of the cost-cutting exercises has already been completed. The new problem is that, as the recession lengthens, companies will be faced with the possibility that cutting off limbs will be the only way to maintain acceptable profitability.

This concides with severe international economic conditions. Stuart notes that the German Bundesbank is determined to hold inflation down by restraining interest rates. The US has lowered interest rates to the lowest possible levels without achieving a concomitant resurgence in the economy. Japan continues to struggle since its long-lived economic bubble burst. "We can't expect any succour from international sources," says Stuart.

In these circumstances, the market had to retreat. Stuart emphasises, however, his view that the market will not fall much further. "There is limited downside," he says.

Technical analysis supports this view. "The market is not responding to short-term oversold positions," says Frankel. Max Pollak, chartist of Campouroulou. "The historical return, dividends excluded, for an investor who bought a representative sample of the Financial and Industrial index a year ago, would be an appreciation today of 1%.

Campouroulou says the Industrial index, now at 4100, could fall to 3800, a total decline of about 20%. But there is a roaring bull market in gils.

Though the outlook now is gloomy, Campouroulou says some indices show promise on a 12-month view. Among these are mining financials, which, he believes, will become the next engine of the exchange, property, property trusts, and investment trusts. These are all approaching the end of a long bear market.
BOND MARKET

Locking in

Funds with no place else to go continue to pour into gilts. Since the breakdown of political negotiations in SA at the end of June and the uncertainty on world equity markets, the local bond market has been experiencing a bull run.

Thursday saw a flurry of trading with 3,260 transactions, on the JSE, totalling R6.8bn. This surpassed the previous record of R6.1bn on June 25, says JSE president Roy Andersen. The rate on the benchmark Eskom 11% fell to 14.765% — the lowest level in five years.

Volumes traded subsided to R2.4bn on Friday and R3.6bn on Monday. And rates corrected marginally with the Eskom 11% trading at 14.77% late on Tuesday. However, sentiment remained bullish despite publication of inflation figures for June, a little higher than those for May (see P31).

A gilts analyst says there are expectations that inflation is going to fall to 12% by year-end. And institutions are, therefore, locking themselves into longer-term investments before rates fall further.

A note of caution was struck by the bears, who pointed out that pressure may come from additional government borrowing. With revenue way below target and expenditure running ahead of the pro rata budget for the year, the deficit will be well above the original estimate. Another hazard is political developments in the weeks ahead. Don't be surprised, said an analyst, to see the bull-run followed by a pull-back in a week or two.
□ Allied Bank — which is owed approximately R3m — last week obtained judgment against Dana Corporation.

□ After Minesa Energy's provisional liquidation, a Belgian company, Jackson Shipping & Co, became one of its main creditors, and

□ A R22m dispute between Boland Bank and another subsidiary, Dana Mining, is presently in arbitration.

Two other subsidiaries, Bordex and Minesa Mining, are already in liquidation.

Transnet MD Anton Moolman instructed an outside accountant, Steve Ochse, to investigate how Minesa Energy was allowed to exceed its credit limit.

The disappearance of coal stockpiles pledged to Spoornet from the Lenjane rail siding in Natal is also under investigation.

The FM discovered that it is possible that the stockpiles were moved after the account number of another company dealing with Spoornet had been used to obtain the necessary authorisation. The coal — mined at the Rustplaas and Buffalo Valley mines — disappeared two days after trucks loaded for Minesa Energy were stopped.

Police are investigating a theft charge relating to the removal of 4 000 t coal from the Rustplaas mine itself. The charge was laid at the Vryheid police station by a representative of a German company, Thyssen Carbo-metal. Thyssen reportedly invested millions of dollars in Holgado’s companies to secure mineral rights at Rustplaas.

An initial application to liquidate Minesa Energy was postponed last week after GM Glyn Spronq saw a letter that the company was involved in claims of litigation which if successful could safeguard its creditors' interests. But it was later felt that Minesa Energy would not be in a position to pay its debts — hence the provisional liquidation.

It is now expected that creditors will insist on a meeting with Holgado. Questions likely to be asked will focus on whether Minesa Energy traded in insolvent circumstances; the secrecy surrounding the removal of the coal stockpiles, and the alleged duplication of cessions of debt to Transnet and Allied.

Kiddie Boba

DANIA CORPORATION

FM 31/1/92

Answers wanted

The provisional liquidation of a marketing and export coal company in the Pretoria Supreme Court could lead to a run on companies within the holding group, Dana Corporation. Creditors stand to lose up to R200m, the FM understands.

This was the outcome of an urgent application on Tuesday by Transnet for the liquidation of Minesa Energy — a subsidiary of Dana — after its Spoornet division had allowed Minesa's R2m credit line to stretch to a massive R56m debt.

At least two banks and two overseas companies are involved in financial disputes with either Dana (headed by Spanish businessman Jose Holgado) or one of its subsidiaries, of which there are about 16.
Although property group Stocks & Stocks produced good operating results in the year to June, its bottom line was spoiled by a surge in tax payments.

A good performance by most of its divisions improved turnover by seventeen percent from R1.83 billion to R1.44 billion and boosted operating profits by nineteen percent to R33.1 million (R44.5 million).

Despite a seventeen percent rise in finance charges to R20 million, pre-tax profits increased 20 percent to R33.1 million (R27.6 million).

The effective tax rate paid rose from 12.9 percent to 22.5 percent from R3.3 million to R10.6 million.

The increase was due to the phasing in of new legislation on stock in trade and the reversal of timing differences at the year-end.

Higher tax charges left attributable income 14 percent lower at R26 million (R23.4 million).

A higher number of shares in issue saw earnings per share fall even further by nineteen percent to 33c (47c).
FINANCE STAFF

A NUMBER of companies sell many investment options for the provision of medium to long-term financial needs. At the Star Investors' Club all-day seminar, to be held on Friday, August 28 and repeated the next day, a number of experts will be discussing the merits of a variety of these products.

The more common options include retirement annuities, endowments and unit trusts. Within these three broad categories, there are also a number of choices -- and there are a number of different companies selling these types of business.

LIQUIDITY

A key to the success of such an investment is the ability to perform better than the inflation rate. When considering which investment is appropriate, there is a number of factors. These include:

I Past performance: As it is impossible to predict how investment markets will perform in the future, past performance of a similar investment should be taken into account.

- It may be a useful guide to decide with which company to invest, but there are other factors which need to be considered when deciding on an appropriate type of investment. It is also foolhardy to assume that past performance will continue into the future, as investment conditions could be very different.

II Risk profile: The risk associated with an investment can be thought of as the probability that one's outlay will be recovered. Certain investments offer no guarantees, which means that one may lose one's capital. Others do offer guarantees, which usually means that one will receive as a minimum one's initial capital plus a small return.

III Liquidity: Some investors may need quick access to their investments in times of financial need. If this is the case, a more accessible or "liquid" investment may be appropriate.

IV Tax position: An investor in a high tax bracket may find some investments very attractive because of the favourable tax treatment. This is a key factor in deciding which investment is suitable.

V Term: Some investments will cater for long-term needs, such as retirement, whereas others will be for shorter-term objectives, such as a new car or a trip overseas.

Bearing this in mind, consider the three broad categories:

1. Retirement annuities (RAs)

TABLE 1

<table>
<thead>
<tr>
<th>Term</th>
<th>Maturity proceeds</th>
<th>Annual after-tax rate of return</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 years</td>
<td>R24 965 (43% tax)</td>
<td>22.5% (30% tax 21.4%)</td>
</tr>
<tr>
<td>10 years</td>
<td>R34 271 (43% tax)</td>
<td>26.3% (30% tax 23.9%)</td>
</tr>
</tbody>
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TABLE 2

<table>
<thead>
<tr>
<th>Term</th>
<th>Maturity after tax proceeds</th>
<th>Annual rate of return</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 years</td>
<td>R70 217</td>
<td>17.4%</td>
</tr>
<tr>
<td>10 years</td>
<td>R51 679</td>
<td>18.6%</td>
</tr>
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</table>

TABLE 3

<table>
<thead>
<tr>
<th>Term</th>
<th>Disinvestment</th>
<th>Annual Rate of Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 years</td>
<td>R183 243.94</td>
<td>27.3%</td>
</tr>
<tr>
<td>10 years</td>
<td>R 44 965.18</td>
<td>24.9%</td>
</tr>
</tbody>
</table>

THE Star Investors' Club is to hold a seminar on medium to long-term investment needs at the end of this month.

Aim is to ensure you beat inflation.

An RA provides for a specific and very important future need, that of supplementing income during retirement. It is an investment with definite tax advantages for those in higher tax brackets, as the contributions may be deducted from taxable income, up to certain maximums.

This means that RA investors paying marginal tax at 43 percent will have RAs out of every R100 invested in an RA paid by the Receiver. In addition, no tax is levied on the funds in which you invest. On retirement, one-third of the RA proceeds can be taken as a lump sum. At least the first R120 000 of lump sums from approved sources (other RAs, pension funds, etc.) is tax-free, while lump sum proceeds in excess of R120 000 are taxed at the average rate (as opposed to the marginal rate) of the investor.

There are different types of investment vehicles for RAs to cater for differing risk profiles. The main types offered by life companies include:

- Smoothed bonus -- through which investment returns are averaged over the good and lean years, and guarantees are offered.

- Performance profits -- investment returns fluctuate with the returns on the underlying investment. The value of one's investment is less stable than under the smoothed bonus guarantees offered.

- Equity portfolios -- whereby investment performance is directly linked to a portfolio of shares on the JSE. The investment has potential for very high returns, but may also be more risky, especially as no guarantees are offered.

Returns on R100 invested monthly in a smoothed-bonus type RA at Old Mutual maturing on January 1 1991 are shown in Table 1.

These returns assume that, because RA contributions are tax-deductible, a person paying 43 percent tax is only effectively paying a premium of R67, and similarly a person paying 30 percent tax is paying a premium of R70.

In addition, one-third of the maturity proceeds is taken as a non-taxable lump sum and the remainder is taken as an annuity which may be taxed at a lower rate (say 30 percent for the 43 percent taxpayer and 20 percent for the 30 percent taxpayer). These returns show that RA returns are worthwhile investment and are significantly better for people paying tax at a high marginal rate.

2. Endowments

Endowments provide a vehicle for contractual savings for financial needs occurring 10 or more years into the future. Endowments for less than 10 years are a poor investment, as they do not conform to the sixth schedule of the Income Tax Act and attract a lot of tax.

Returns on R100 invested monthly in a smoothed-bonus pure endowment (no life cover) at Old Mutual maturing on January 1 1991 are in Table 2.

These returns are not as high as for RAs, but remember the additional flexibility one has with the maturity proceeds.

Attractive

3. Unit trusts

As with an investment, a unit trust can be used to fund a wide variety of financial needs. It can be particularly attractive for a need occurring five to 10 years in the future, as an endowment is inappropriate for this period. However, there are guarantees offered on unit trusts.

A unit trust is a relatively liquid investment, as part of all of the proceeds can be withdrawn at relatively short notice, with no penalty. It also has tax advantages in that only the interest portion of the declared income distributions is taxable -- and then only when total interest income is more than R2 000.

Returns on unit trusts for R100 invested monthly in the Investors' Fund and disinvested on January 1 1991 are shown in Table 3.

These returns assume that no tax is paid on the interest income received from the units.

These are better returns than for endowments, but it must be remembered that no unit trust will offer a guarantee of investment return.
Higher Fees,\n
The cost to switch from

Old Mutual with Trusts — number of months (1)\n
1991 to 1992

- Not switch, now fees are now an
- No one ever said it was going to be easy.

\[\text{Your Money}\]

\text{Unit Trust Switch Parachute}

\text{15}

\text{Sunday Star Advocate August 1 1992}
Domicile Act improves the legal status of women

BILLY PADDOCK

JUSTICE Minister Kohe Coetsee said yesterday the new Domicile Act had come into effect, marking a further step in government's commitment to "acknowledge the equal status of women in society".

The Act, which was passed during the last session of Parliament, came into effect on August 1. It provides that every person older than 18, regardless of sex or marital status, can establish a domicile of their own choice.

Formerly, all women who married took on the domicile of their husbands and had no choice in the matter. This had severe implications, especially for women separated from their husbands.

The domicile of any person unable to establish one of their own, such as dependent children, will be determined by the place with which that person is most clearly associated.

The Act also provides that a court will acquire jurisdiction in divorce proceedings if any of the parties ordinarily resides in the area of jurisdiction of that court and the person has been resident in the country for more than a year.

Coetsee said the measure emphasised government's view that individuals' happiness and salvation in life should be determined by their own merit and distinction.

"I trust that equality brought about by this initiative in respect of the legal status of women will also be emulated in the social and economic spheres of life," he said.
**THE WEEK AHEAD** by Simon Willson

**Better gold valuations should bolster reserves**

NOW THAT the end of the second quarter is past, gold and foreign exchange reserves should look a little healthier when the July level is released at the end of the week.

Reserves took a knock in June, when they dropped R30bn, but the total stayed above the psychological R10bn mark at R10.2bn against May's R10.4bn. End-quarter interest and dividend remittances were probably responsible for the dip, extending a pattern that also saw matching falls in total reserves at the end of the December and March quarters.

July reserves could also be supported by a rise in the rand gold price valuation, which has fallen consistently for the past four months.

Concerted central bank dollar-buying in the third week of July dragged the commercial rand back from fresh 1992 dollar highs around R5.72 to its current R5.75-R5.77 range.

But, at the same time, bullish continued to test R560, and this combination of a weaker rand and steady bullish should haul the Reserve Bank's gold price valuation for July back from the R550 low in June.

Internationally, Western central banks' n'chi trigger fingers could be tested again this week with the next slate of US economic indicators.

There are several that could still depict weak US growth, increasing downward pressure on the dollar and pushing the central banks' resolve to defend the DM1.45 level again.

As the chart shows, the fear now is that US economic activity — represented here by the National Association of Purchasing Management (NAPM) survey — is about to make a third dip.

The July NAPM is out later today, and should be able to trace a third dip to follow in sequence after the 1990-91 and 1991-92 slides on the chart.

The NAPM survey, which measures activities such as orders, employment, production and deliveries in the manufacturing sector, has been an indicator of several US indicators that has been used to detect a triple dip recession.

The NAPM line's "W" on the chart has become a "W" and threatens to become an "UM" as each rally stalls. The index is thought to lead the real economy by about nine months.

On Friday the July US employment report is published. US discount rate was cut after the poor June report.

The jump in employment, shown on the chart, to 7.6% While the overall rate may be steady for July, there may be a turnaround in the 177 093 job in non-farm recr for the month.

The Bundesbank council meets again on Thursday after its summer break, but bank spokesmen have already ruled out any easing in credit conditions despite the fall in German inflation announced last week.

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**MONEY MARKETS** by Hilary Gush

**Equities slump helps ease rates**

ALTHOUGH the capital market has been the main beneficiary of the recent slump in equities, it has not been the sole heir to institutional funds looking for rosier returns: Money market instruments have also found favour with organisations — resulting in a gradual decline in rates.

The 90-day liquid BA rate continued to ease last week falling slightly to trade at 13.5% from 13.6% and 13.8% respectively at the end of the previous two weeks.

A softening of rates usually indicates an expected improvement in market liquidity (2.3%)

The money market's shortage saw-saw to reach R31bn on Wednesday, prompting the Reserve Bank's Corporation for Public Deposits to offer twice to buy back R50bn worth of gilts and semi-gilts.

Liquidity should pick up this week as the month's government spending reaches the market.

The Treasury's decision not to roll over R10bn in RSA loans maturing at mid-month should also ease tight liquidity.

Profits-taking by institutions and foreign gilt-selling saw rates on the capital market edge up over the week.

On Friday the yield on the bellwether Eskom 168 bond was up slightly at 14.70% from 14.59% at the end of the week.

The yield on government R100 stock followed a similar pattern, hardening to 14.83% towards the weekend after trading at 10 points lower at 14.74% on Monday.

Medium-dated gilt remained strong and rates stable, however, as few sellers came into the market.

The move out of equities and into gilts which started in the first quarter has maintained its momentum despite a small recovery in the stock market last week.

Planned mass action this week is likely to boost the capital market further.

An expected easing of consumer inflation also bodes well for gilts, but yields on capital market instruments should stay around their current levels this week before resuming a downward trend.

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**Ban on gold exports lifted**

TAIPEI — Taiwan has lifted a 44-year-old ban on the export of gold in line with the end of the period of communist rebellion or state of emergency.

Deputy Finance Minister Lee Chung-yang said the legal force of the period of communist rebellion ended on Friday. During the period, Taiwan allowed the import of gold but forbade its export under the long-awaited liberalisation move.

Taiwan's banks could be allowed to operate private gold accounts for individuals seeking gold investment. The move is expected to help the island become one of financial hubs in the Asian Pacific region, boost the gold market and pave the way for the futures market — Sapa- AFP
Call for Zimbabwe to review SA visa

HARARE — The Zimbabwean hotel industry has urged the government to urgently review visa requirements for South African visitors, Ziana news agency reports.

Calls to the same effect have also been made in parliament recently.

Hotel and Restaurant Association of Zimbabwe president Graham Dickens estimates complete removal of current restrictions could result in 25,000 more tourists annually in Zimbabwe from SA, already Zimbabwe’s largest single source of visitors, and each spent at least Z$200 annually. “We recommend, at very least, an urgent move by government to make acquisition of visas easier and cheaper for South Africans,” said Dickens.

He said South Africans were complaining of experiencing delays and other problems in acquiring visas from the Zimbabwean mission in SA. “This is surely preferable to the lower figure earned from visa sales,” he said.

“Harare will therefore ask the relevant authorities to take urgent action, so as to enable the hospitality industry to maximise its earning capacity in the national interest.” — Sapa.
Share prices drift as JSE marks time

A STAYAWAY by cautious JSE investors at the start of the general strike yesterday led to one of the quietest trading sessions dealers could recall for many years.

Lack of interest led share prices to take the line of least resistance and drift lower, but the downturn on the gold board was accelerated in late afternoon trading by a fall in the gold price below support at $355.

Gold eased nearly $4 to close at $354.95 in London as reports that violence was not widespread on the first day of the strike filtered through to bullion markets. Precious metals rose on Friday on concern that the work stoppage could affect mines.

Dealers on the JSE said the market got off to an exceptionally slow start.

Bellwether De Beers was not traded before lunch, while associate Anglo was involved only in a foreign purchase of the shares before there was an uptick in turnover in the afternoon.

The JSE overall index declined 22 points to 3,499 with losses outnumbering gains by 65 to 16 in the absence of buyers, who opted to remain on the sidelines.

Only one blue chip industrial — Remb

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Beheer — defied the weaker trend as the industrial index declined 28 points to 4,215.

No gold shares were firmer as the all gold index slipped back 28 points to 1,041.

The firand closed little changed at R3.86 to the dollar with analysts reporting that the stayaway had been largely discounted amid steady foreign demand for the investment unit.
Record month for Safex as volumes soar

SAPEX reports its best monthly volume figures in July on the back of extreme volatility in the JSE share market.

Figures released by Safex show that daily volumes in July averaged more than 6 400 contracts with an underlying value of almost R250m, to lift by about 35% the previous record month set in August 1990 on the invasion of Kuwait by Iraqi forces.

Open interest in the market swelled to more than 37 000 contracts worth R1.6bn. This compared with a year ago when the level was under 11 000 contracts.

The percentage of open interest contracts controlled by non-residents increased substantially after the Reserve Bank permitted foreigners to trade on Safex. Non-residents now account for more than 13% of all open interest contracts.

Futures on the three main JSE indices were by far the best performers. Average daily volumes totalled about R214m, while Safex index futures trade volumes as a percentage of the share market rose from 70% a year ago to 200% last month.

Safex CEO Stuart Rees said the growth was satisfying but that the market would truly come of age when it was five to 10 times the size of the underlying equity market in rand terms.

He said volumes would continue to grow to this level but cautioned against overoptimism in the short term as there would be months when volumes declined.

"The exchange is working flat out to introduce options on futures and deliverable gilt contracts. Both developments should result in substantially higher volumes," he said.
Firms fail under high debt burden

GERALD REILLY

COMPARISON failures and acquisitions, as well as insolvencies of individuals and partnerships, were continuing at an alarming rate in an economy paralysed by a massive decline in consumer confidence and shrinking disposable incomes, economists said yesterday.

They were reacting to Central Statistical Service figures released yesterday which showed that in the first six months of the year 213 companies and close corporations were finally liquidated — 37.7% up on the same six months last year.

Compulsory liquidations from January to June increased by 42.3% and voluntary liquidations by 2.6%. Insolvencies of individuals and partnerships in the six months to May were 15.7% higher than for the corresponding period the previous year.

In the April to June quarter, liquidations increased by 15.6% to 567 from 462 in the same three months the year before. However, compared with the January to March quarter, there was a decrease of 15.1%. In March to May insolventcies increased by 14.5% to 1,162 compared with March to May last year. Against the previous three months — December to February — there was a 25.5% increase.

The economists said the main reason for the statistics were inflated commodity prices, high interest rates, salary increases which failed to match inflation and rising unemployment.

They said political and economic uncertainty had dashed consumer confidence. A further relaxation of interest rates could help to arrest the increasing numbers of businesses going under.

Debt B/DAW 4/8/92

Meanwhile, other CSS statistics released yesterday showed that 442 judgments for debt were recorded during May with an average amount of B410,146 a judgment. Of the judgments, 409 involved individuals.

The amount involved in judgments for money loaned was B18,046m and in March there were 90 judgments which increased to 273 in May.

The amount for debt increased by 5.3% to 273,396 compared with the same three months a year ago. Civil judgments in the period increased by 7.3% to 141,774.

PETER GALLU reports that Credit Guarantee senior economist Luke Deng said yesterday more than 200 liquidations could occur this year if figures for current and imminent closures were extrapolated.

"As a result of this, we feel interest rates must be reduced further as this is central to helping embattled companies and people. In short, the golden goose that used to lay golden eggs has been plucked and is all but featherless," he said.
Threat of mass action boosts futures market

By Derek Tommey

The threat of mass action by the ANC gave the fledgling South African Futures Exchange (Safex) its busiest month ever.

Chief executive Stuart Rees says that daily volumes in July averaged more than 6,400 contracts with an underlying value of almost R250 million.

This is a 35 percent increase on the previous record month of August 1990 when Iraq invaded Kuwait.

The burst of activity in the futures market appears to be mainly the result of local investment managers covering themselves in case the planned mass action led to a fall in share prices on the JSE.

Investment managers feared the campaign might lead nervous investors to sell their shares and unit trusts on a large scale. This could lead to a drop in share prices — and also in the value of their portfolios and possibly in some instances put their jobs on the line.

But by moving into the futures market these managers aimed to make a profit should share prices fall. It would also help offset any losses on their portfolios.

At the same time, speculators were active in the futures market last month, taking advantage of its volatility to try to make profits by trading contracts.

The growth in speculative interest appears to be reflected in the increased foreign investor interest in the futures market.

In July, open interest in the market (the number of transactions outstanding) rose to more than 37,000 contracts worth R1.6 billion. This compares with under 11,000 contracts open a year ago.

Since the Reserve Bank gave permission for foreigners to trade on the futures market, the open interest controlled by them has grown substantially, says Mr Rees, and it now accounts for about 13 percent.

This renewed foreign interest in speculating in SA shares has also shown up recently on the equity market.

With a few rare exceptions, the weekly JSE share trading returns for several years have shown foreigners as net sellers.

But in the week ended July 17, they bought a total of R115.5-million worth of equities, while selling equities worth R61.5-million to be net buyers of R53.0-million worth of SA shares.

In the week ended July 24, they bought even more shares — R126.1-million worth — but sold R118.6-million to end up as net buyers of only R7.6-million worth of shares.

Trading in futures is mainly in the three main JSE indices. But trading in futures has grown much faster than trading in equities listed on the JSE.

The value of futures traded grew from 70 percent of equity market turnover last year to 200 percent last month.

Mr Rees says the growth is satisfying, but that the market will come of age when it is five to 10 times the size of the underlying market in rand terms.

Volumes will continue to grow and eventually reach these levels, but he cautions against over-optimism in the short term.

"Safex is working flat out to introduce options-on-futures and deliverable gilt contracts. Both developments should result in substantially higher volumes.

Investment managers say one reason for the rapid growth of the futures market is that the big financial institutions have become major participants.

This has greatly increased the market's capacity and its usefulness to investment managers.

However, in their bid to offset a drop in share prices on the value of their portfolios, they are not continuing their efforts to the futures market only.

They have switched fairly heavily into the gils market, and those who moved first are showing a five percent capital appreciation in their investment there."
Govt privatisation 'not stalled'

PRETORIA — Government's privatisation policy had not stalled and a number of state-owned enterprises were being commercially restructured to determine which were "privatisable", a spokesman for the Policy Unit for Public Enterprises and Privatisation said yesterday.

Responding to criticism that the process had slowed to a snail's pace, he said the policy of commercialisation, privatisation and deregulation was intact.

The process entailed a close evaluation of the readiness of likely candidates before Cabinet gave the go-ahead for privatisation. Thus took time and only three state-owned enterprises had so far been privatised if the contracting out of services by central and local governments were excluded. These were Sasol, Iscor and the National Gorgum Breweries.

Iscor was sold for R1,8bn, most of which was used for socio-economic infrastructural development, and the breweries for R4bn, which went into a revolving fund for the establishment of bursaries for black students. No other state enterprise, with the exception of Abakor, was ready for privatisation, he said.

State-owned enterprises currently being restructured on a commercial basis, but not yet privatised, were the SA Post Office, Telkom and Transnet, including SAA which was already competing in a deregulated market, the spokesman said.

Others being prepared for commercialisation included Foskor, Alexkor, Eskom, the state's forestry interests, state airports, air traffic control and Denel.

The spokesman said Eskom was not regarded as a suitable candidate for privatisation at this stage.
PRETORIA — A total of 86,060 deaths was reported among blacks in South Africa during 1990 — the lowest number since 1978, according to a report issued by the Central Statistical Service this week.

Of this total, almost 50,000 were men and about 36,000 women, with about 14 percent (12,000) of the total infants under the age of one year.

It was also reported that a total of 68,754 white babies were born in 1990 against 71,202 coloured and 19,521 Asian babies. There were no figures for black births.

Diseases of the circulatory system caused 12,000 (12.8 percent) deaths, infectious and parasitic diseases 9,500 (11), respiratory 7,000 (8), and cancer 26,000 (30) deaths. AIDS claimed 68 victims and cot deaths 81.

Transvaal reported the highest black death rate for 1990 at 37 percent, followed by the self-governing territories (53.6), the Cape (16), Natal (12.6) and the Orange Free State (10.7).

The report of white, coloured and Asian deaths registered in South Africa in 1990 totalled 62,598, of which 33,500 (53.5 percent) were whites, 24,800 coloureds (39.7) and 4,298 (6.7) Asians.

Deaths of babies under the age of one year were whites, 597, coloureds, 3049 and Asians, 215.

Accidents, poisoning and violence claimed 3,741 white, 4,007 coloured and 84 Asian lives.

A significant number of the deaths had occurred due to cancer. Whites, 6,990 (18.2), coloureds 3,000 (12.4) and Asians, 256 (8.4).

The report said the 1990 rate of natural increase (the number of live births minus all deaths per 1,000 of the population) for whites showed slight increases for whites from the previous year of 0.1 percent and for Asians of 0.6 percent, while coloured births were down 1.2 per cent.

There were 305 white, 1,378 coloured and 137 Asian babies still-born. Two white, 23 coloured and three Asian maternal deaths occurred.

The average age of white women who gave birth was 27.2 years, while for coloureds it was 26.5 and for Asians 25.1 — Sapa.
Strike, recession knock confidence

The political logjam continued to erode business confidence in July, the SA Chamber of Business (Sacob) said yesterday.

The business confidence index (BCI) — a short-term barometer of business confidence — dropped 0.7 of a percentage point in July to 89.1 on the back of deterioration in eight of its 13 sub-indices.

Sacob chief economist Ben van Rensburg said the already fragile business mood was “hammered again” by events leading up to the mass stayaway and by further evidence of a deepening recession.

He cautions that if the economy continues to use up its limited resources, the recovery will be “slow and painful.”

**Confidence**

used to be used as a political battleground, irreparable damage would be done to its growth potential.

Fixed investment spending — already at its lowest level in 21 years — would continue to decline unless there was clear political progress coupled with sound economic policies.

Van Rensburg said mass action could further erode SA’s job creation capacity and spur moves to capital-intensive production, exacerbating already chronic unemployment.

Insufficient consumer spending power prevented an economic upswing based on enhanced domestic demand. He said the upturn would have to be led by exports, but the prospects of this were “hampered by the ambivalence of the signals” emanating from the world’s major economies.

“A lack of political progress remains the most important obstacle to renewed economic growth. Against the backdrop of political and economic uncertainty, the single biggest boost to business confidence will come as soon as the major political parties return to the path of reconciliation and negotiation.”

**From Page 1**

© Picture, Page 3
Breaking with the past

Structural change is inevitable — but sound management should avert chaos

Ever since the JSE opened for business 105 years ago on a dusty street in what was then the world's newest and toughest mining camp, stockbrokers have been careful to regulate their membership and to exercise diligent control over a most unusual cartel. Over the years, they persuaded politicians to provide them with a legally enforceable monopoly and the fixed fees they charge are protected by parliamentary fiat. They created a comfortable and exclusive club.

Not for much longer. The tides which bind the JSE to its past are about to be broken. A series of radical changes to its structure are in the pipeline. It is unlikely they can be deferred for long. The best members of the JSE can hope for is that they will be evolutionary.

One thing is certain: the changes which are now inescapable will be difficult to manage. They will destroy tradition, remove privilege and enforce competition. In short, they will cause some pain. Those brokers who survive will have to display uncommon cunning and deftness.

"We are resolved," says executive president Roy Andersen, who has been in the job only three months, "that the JSE will be successful and that its success will be measured by a dynamic exchange, one which meets in every respect the requirements of the financial community of a changing country."

Given the inherent inertia of an institution which has displayed, over the years, an uncanny ability to sidestep change, does Andersen have the will, the muscle and the constancy of purpose to transform it?

He has started well enough. A workshop to examine the gross illiquidity of the JSE was thrown open to a wide range of participants, many of them from outside the JSE. They didn't miss the opportunity to express strongly held views in a public forum. The occasion rapidly became a theatre for vigorous and frank exchanges. This appalled some of the JSE's more conservative members.

Andersen acknowledges the criticism but is unperturbed. "The JSE," he says, "has to take careful account of the opinions of its users and its members and we have to be completely open in our approaches to them."

At the same time, the JSE's governing body, its main committee, has been sufficiently emboldened to appoint what has become known as the Katz Committee to examine the JSE within its environment and to recommend the necessary changes to ensure the exchange meets the needs of its users.

The revolutions which have swept financial sectors elsewhere, the demand for increasing deregulation and the free-enterprise tenet that exclusive protections have no place in society — these too cannot be ignored.

To address them, the ubiquitous Professor Michael Katz, noted for his expertise in finance and tax law, was appointed committee chairman. Other members include Deputy Registrar of Financial Institutions, Gad Aronov; as well as being made of two external consultants, Ernst & Young's Clare Herbst and an Australian expert in securities market law, Professor Robert Austin.

Four members of the JSE main committee, including chairman Humphrey Borkum and both vice-chairmen, make up the numbers. Andersen is in the key role of convenor.

The JSE has long been under attack for its rigid adherence to the principle of fixed commissions. "There simply is no place for a fixed fee structure," says Liberty Life executive director Roy McAlpine. "It was inappropriate yesterday and it is beyond the bounds of possibility for tomorrow. The JSE is one of the few remaining institutions in SA which continues to enjoy the privileges of a cartel and is statutorily protected."

The enforced introduction of negotiated commissions in the UK was the spark that led to the Big Bang. Brokers demanded and were allowed to trade as principals, not merely as agents — the so-called dual capacity trading system.

That meant, they argued, that most firms would be inadequately capitalised. It followed that corporate membership would be an essential corollary and it led to the stampede in which many London brokerages were taken over by the banks or acquired banks as significant partners.

Will the same happen here? Not if JSE vice-chairman Paul Ferguson can help it. "I accept there has to be change," he says, "but it must be orderly and it must be achieved in a way which avoids the worst excesses of London's Big Bang." McAlpine says it is a fallacy that the introduction of negotiated commissions automatically means it has to drag dual capacity trading with it. "There is no connection, but I would welcome a dual capacity market with some provisos," he says.

Those provisos, in the context of SA, include McAlpine's anxiety that the JSE should remain independent. "I would not like to see a situation develop where the banks take effective control of the exchange," he says. McAlpine's view is that the structure of SA's financial sector is already heavily skewed in favour of the large institutions; if the JSE loses its independence, it will increase this polarisation dangerously.

Southern Life executive director Shams Pathar echoes the sentiment. "We wouldn't want to buy into a brokerage," he says. "What worries us is that we may have no alternative in the long run."

Andersen, reluctant to anticipate the recommendations of the Katz Committee, says the impact of negotiated commissions, in some form, is easily quantifiable.

He is not sure, though, about dual-cap-
city and he tends to support McAlpine’s view that it is not axiomatic that the introduction of negotiated commissions automatically presages the arrival of principal trading.

However, he is adamant that even if dual capacity trading, and its corollary of opening the doors to corporate membership are brought to the JSE, there will be adequate room for independent broking firms “They have a lot to offer,” he says.

Firstly, they can provide confidentiality. An institution which holds a position in a corporate JSE member will run the risk in its trading of being identified as seller or buyer when large lines of a particular stock associated with it are moved. No such extrapolation is possible if an independent broker is used.

Secondly, an unattached broking firm can offer institutions access to its own lines of stock which might not be available to a corporate member.

Lastly, Andersen believes some independent brokers would continue to provide powerful research services for which institutions will be prepared to pay, whether they are linked with corporate members or not. Later he anxious that the JSE should introduce screen-based trading to replace the present open-outcry floor. “I can’t understand the resistance to it,” he says. The gilts market converted with few problems and the net effect was to improve liquidity. “The equity market will be a lot more price-transparent with screen trading and there’ll be less opportunity for manipulation.”

The single most intractable problem facing the JSE, however, has nothing to do with the institution’s governance. It is the matter of illiquidity (see Leaders June 5). This, measured by turnover expressed as a percentage of the market’s overall capitalisation, lies at the heart of the JSE’s miserable performance by world standards.

Last year, according to the JSE’s annual report, shares worth a paltry 4.3% of the market capitalisation were traded on the floor. That compares with Taiwan’s 350% and Zurich’s 240%. Tokyo, Osaka, London and New York all performed significantly better.

Why? The answer lies in SA’s draconian exchange control regulations. As long as they exist, SA institutions will be prevented from investing abroad and SA’s savings and pensions will continue to swell around in an artificial greenhouse.

The mass action campaign necessitated changes to our production schedule, so some sections of the FM do not appear in their usual places this week. We apologise for any inconvenience this may cause. 1
REGULASIES BETREFFENDE DIE BETALING VAN HEFFING EN DIE UITREIKING VAN VERKOOPS- PERMITTE TEN OPSIGTE VAN VERPLICTE SPECIFIKASIES WYSIGING

Daar word kragtens artikel 36 van die Wet op Standarde, 1982 (Wet No 30 van 1982), bekendgemaak dat die Adjunkminister van Handel en Nywerheid, handelende namens en in opdrag van die Minister van Finansies en van Handel en Nywerheid, die regulasies gepubliseer by戈overnmentskenniskgewing No. R. 999 van 3 Mei 1985 hierby wyeg soos in die Bylae uiteen- gestel.

BYLAE

1. Skrap regulase 2.2 (a) en vervang dit deur die volgende
   (a) aan die Raad ’n juiste opgawe, in die vorm in Bylae 1 voorgeskry, verstreks van die totale hoeveelheid van enige kommoditeit wat hy vervaardig of ingevoer het
   Met dien verstande dat die Raad ook van enige van wie daar op redelike gronde vermoed word dat hy ’n heffingspligtige is, kan verdee om sodanige opgawe in te dien.
   Met dien verstande voorts dat die Raad van enigee van wie daar op redelike gronde vermoed word dat hy namens ’n heffingspligtige optree of dat hy op enige wyse hoegaanemt, de hy vervaardig of invoe van ’n kommoditeit betrokke is, kan verlang om die inligting betreffende die herkoms, hoeveelheid en bestemming van sodanige kommoditeit waaroor hy beskik, aan die Raad te openbaar.
   2. Skrap regulase 5 (1) (a) en vervang dit deur die volgende
   (a) ingevoegde regulasie 2.2 (a) versuim om ’n opgawe te verstrekk, of doelbewus ’n valse vervaardiging- of invoerhoeveelheid verstrek, of in gebreke bly om verlangde inligging met betrekking tot ’n kommoditeit aan die Raad te openbaar;

ALGEMENE KENNISGEWINGS

KENNISGEWING 685 VAN 1992
RAAD OP FINANSIËLE DIENSTE
DIE JOHANNESBURGSE EFJEKTEBEURS
KENNISGEWING BETREFFENDE WYSIGING VAN REELS

1. Ingevolge artikel 12 (6) van die Wet op Beheer van Efektebeurse, 1985 (Wet 1 van 1985), word hierby bekendgemaak dat die Johannesburgse EFJEKTEBEURS by die Registrateur van Efektebeurse aansoek gedaan het om goedkeuring om wysings in sy reeels aan te bring, soos uitgeeg in die Bylae hiervan.

2. Ingevolge artikel 12 (7) van genoemde Wet word alle belanghebbendes (uitsonderend lede van die Efektebeurse) wat beswaar het die voorgestelde wysings, hierby versoek om hul besware bronne ’n tydperk van 30 dae vanaf die datum van hierdie kennisgewing by die Registrateur van Efektebeurse, Privaat Sak X238, Pretoria, 0001, in te dien.
General explanatory notes

1. Words in square brackets [ ] indicate omissions from existing rules
2. Words underlined with solid line (———) indicate insertions in existing rules

PROPOSED AMENDMENTS TO THE RULES OF THE JOHANNESBURG STOCK EXCHANGE

1. PROPOSED AMENDMENT OF RULE 4.80

   Subscriptions, fees and charges:

   "4.80

   [4.80.1] An entrance fee of R5 000 shall be paid to the JSE by a member other than a corporate member; provided that where the applicant is a junior member or an authorised clerk with at least three years’ continuous service immediately or to his election as a member or is a person who for a period of five years immediately prior to his election as a member has been continuously employed by a broking firm, the entrance fee shall be two-thirds of the above amount.

   4.80.2 A broking firm making application for the admission of any clerk shall, if the Committee decides to examine such clerk, pay a fee of R25. In the event of the clerk failing to satisfy the Committee in regard to his knowledge of the rules a further fee of R25 shall be paid prior to each appearance before the Committee for re-examination.

   4.80.3 With effect from the commencement of the 1987 JSE year every member shall pay to the JSE the following membership subscription——

   4.80.3.1 A broking member (other than a corporate member and a member of a corporate member)—

   R2 000 per annum,
   A corporate member—
   R2 000 per annum multiplied by the number of its broking members,
   A branch member—
   R2 000 per annum,
   An associate member—
   R2 000 per annum,
   An honorary life member—
   Nil.

   4.80.3.2 Every other non-broking member including a member authorised clerk or a member unauthorised clerk—R500 per annum. Provided that the Committee may determine from time to time that due to special circumstances any specified non-broking member may pay a smaller annual subscription. A non-broking member who falls within this category and is over the age of 60 years shall not be required to pay a membership subscription.

   4.80.4 A broking firm shall pay an annual licence fee of R5 000 for admission to the equity trading floor and shall, in addition, if it is a gilt broking firm pay an annual trading licence of R5 000 for admission to the gilt trading floor. The Committee may from time to time change the amount of the licence fee payable.

   4.80.5.1 A broking firm shall pay to the JSE a turnover subscription as determined by the Committee from time to time in respect of all dealings in gilds.

   4.80.5.2 A broking firm shall not pay the turnover subscription in respect of a purchase executed on its behalf by another broking firm.

   4.80.5.3 Where a Johannesburg broking firm executes a transaction on behalf of a country broking firm, the latter shall refund to the former a portion of the turnover subscription paid in respect of the transaction proportional to the percentage of brokerage shared.

   4.80.5.4 No turnover subscription shall be payable by the counterparty broker on a put-through transaction.

   4.80.6 A broking firm which uses the services of the Data Processing Department shall pay to the JSE such fees and charges for cleaning and other services as may be prescribed by the Committee from time to time.
480 [7] 3 1 The Committee may determine from time to time the procedure to be adopted with regard to the calculation and payment of subscriptions, fees and charges referred to in 4 80 [5] 1 and 4 80 [6] 2.

480 [7] 3 2 A new member shall pay a subscription from and including the month in which he is elected. A portion of the subscription referred to in 4 80 3 shall be paid upon his election.

480 [7] 3 3 A member who ceases to be a member shall not be refunded any portion of the subscription paid. In terms of 4 80 3.

480 [8] 2 4 1 A subscription in respect of a new junior member or clerk shall be payable for the period calculated from the month in which he is appointed to the end of the JSE year.

480 [8] 3 4 2 Should a member cease to be a member or should a broking firm cease to employ a junior member or a clerk the subscription paid shall be refunded in respect of the junior member or clerk for the period from the first of the month following the date on which he ceased to be a member or it ceased to employ the junior member or clerk to the date up to which the subscription has been paid. In the case of a defaulter such refund shall be paid to and form part of his Stock Exchange Estate.

480 [9] 5 If through any change in status or otherwise, any increased subscription is payable in respect of any member, junior member or clerk, such increased subscription shall apply with effect from the date on which the change took place.

480 [10] 6 The Committee may, in addition to the subscriptions, fees and charges prescribed by these rules, from time to time impose upon every broking firm a levy which shall be paid to the JSE or any of its funds on such conditions as the Committee may decide.

480 [11] 7 Any subscription, licence or other fee, charge, contribution or levy to be paid or which may be imposed in terms of these rules, except for the subscription payable in terms of 4 80 7, shall be paid as determined by the Committee from time to time and any member failing to make such payment when due shall, unless the same be paid within one month after a written demand has been by the Committee, cease to be a member. The membership subscriptions payable in terms of 4 80 3 and 4 80 8] and the licence fee payable in terms of 4 80 4 shall be paid annually in advance during March and shall be in respect of each JSE year.

Note: Rules 4 80 1, 4 80 2, 4 80 3, 4 80 4 and 4 80 8 1 are replaced by new directive AK.

2. PROPOSED AMENDMENT OF RULE 5.300

Managed Accounts:

"5 300 5 Where a broking firm has received the approval of the Committee to operate managed accounts in terms of 5 290 but does not retain any of the securities arising from such operation, the provisions of 5 300 4 relating to the verification of securities by the auditor shall not apply. The statements referred to in 5 300 4 shall contain a note to the effect that on the date to which the statements relate no securities were held by the broking firm on behalf of the client in respect of the existing managed account arrangement."

Note: Subrule 5 300 4 is replaced by new Directives DA 3.1 and 3.2.

3. PROPOSED AMENDMENT OF RULE 14.110.3

Monies and securities lodged with TOCH:

"14 110 3 All rights in respect of these monies shall vest in TOCH absolutely and the client’s/TOCH participant’s rights in respect of such monies shall be limited to the right to receive payment of an amount equal to the balance after discharge of all obligations owed by the client/TOCH participant to TOCH or the broking firm. All rights in respect of the monies are in addition ceded to TOCH as security for any indebtedness to TOCH by the client/TOCH participant arising out of either traded option transactions or transactions effected by or on behalf of the client/TOCH participant on the JSE."

20 July 1992
(7 Augustus 1992) (7 August 1992)
centive to take paper in the top company

Potential shareholders in Servgro, set for listing on August 7, need to examine its underlying operation — in taking a view on the group, given it is essentially a holding company Servgro, comprising the leisure and service activities of Federale Volksbeleggings, holds what remains of the conglomerate after operations such as SA Druggists and Fedfood were stripped out.

Leisure and entertainment group Interleisure, held 40% by Servgro, though consolidated in the accounts, has increased EPS consistently since listing in 1987, in line with resurging demand for the big screen, despite the emergence of private television operator M-Net. However, recession has depressed attendances. Cinema contributed 53% of Interleisure’s pre-tax profit in June 1991 and the number of screens is to rise to 392 in the next few years from 212 now.

Interleisure, which operates the Ster-Kinekor outlets, would gain from growth in disposable incomes in the middle to lower black market. Servgro’s share (after deducting minorities) of Interleisure’s attributable earnings to June 1991 was about R16m — roughly 38% of Servgro’s earnings to March 1992. Little change is expected in Interleisure’s 1992 results.

Risk management and insurance broking business Price Forbes is Servgro’s second biggest profit contributor, though the contribution from the 47%-held unlisted group is difficult to ascertain.

Third largest contributor is Teljoy, owned 48% and equity accounted by Servgro. The television rental company’s equity contribution to Servgro’s 1992 earnings was roughly R8.5m, based on Teljoy’s earnings of R17.7m, indicating Price Forbes’s contribution exceeded R8.5m.

Servgro’s three largest contributors accounted for at least 78% of 1992 earnings, indicating Servgro’s reliance on these three operations and reflecting the weaker performance elsewhere. Other interests include stakes in food group Fedics, car rental group Avis, parking garage operation Interpark and a 22% holding in publishing company Naspers.

There seems little reason for Price Forbes to underperform while servicing the needs of Sankorp. Teljoy chairman Theo Ruitstein is budgeting for growth in installations.

Servgro CE Peet van der Walt says management is investigating two possible expansion areas. One involves the probable privatization of State airports, providing an opportunity to manage airports. He declines to name the second.

Analysts expect the share to rise to R6 soon after listing, to reflect more accurately the value of the assets, giving a forward p/e of 13.2. Servgro offers shareholders the opportunity to hold a diverse range of service operations with a strong leisure component in a single portfolio — while Van der Walt notes Servgro gives investors an entry into unlisted Fedics, Avis, Price Forbes and Naspers.

William Gilfillan
New ombudsman

Nobody can say JSE president Roy Andersen isn't having a baptism of fire. Four months into his new seat on Diagonal Street, he has had to contend with the continuing sensitivities surrounding last year's Old Mutual debacle, the suspension of J J Beaman, the failure of the Andrew Forbes brokerage and theft from eight of the exchange's safety deposit boxes.

All of these — relating to surveillance, inspection or security — reinforce public scepticism about the security of brokers.

Now Andersen is trying to allay investors' fears by appointing a new director of surveillance. Candidates are being drawn from the accountancy profession and are being screened and selected with the co-operation of the Institute of Chartered Accountants.

The JSE's 15-strong inspectorate department will fall under the director's control. So will the responsibility for implementing bi-tech techniques within the BDA, the centralised accounting system that all member firms will soon use. The new technology involves the automatic interrogation of the mainframe computer system by microprocessors — an instant policing system into dealing anomalies.

Andersen says the new director will also be the JSE's ombudsman, with powers to investigate any complaints that relate to dealing and accounting. He will have sweeping powers enabling him to delve deeply.

"We are a self-regulating institution," says Andersen. "We have to police ourselves to the satisfaction of our users and be seen to be doing that. There is really no alternative to an open policy."

Andersen says the JSE has nothing to hide. Determined to protect investors, he is putting in place mechanisms that should give people more confidence in the market.

But the appointment of a director of surveillance will have much more substance if the incumbent is granted direct access to the registrar of financial institutions. If he considers it necessary, in extreme cases, he should have the inalienable right to bypass the JSE committee and Andersen.

That would strengthen the JSE's desire to be seen as an institution whose bond is its word.

David Gleason
CUTTING THE SWEAT IN UNL-TURF SWITCHING

Richard

FOOTSTEPS

M.

[Image]
Land earmarked in Western Cape for Chinese immigrants

PATRICK FARRELL
Weekend Argus Reporter

LINKS are being forged between South Africa and Hong Kong to welcome immigrants who plan to leave the colony before it reverts to mainland rule in 1999.

Land near Somerset West and elsewhere in the Western Cape is being considered for housing, and a R120 million development is planned on a 20 ha site near Pretoria, with 200 to 300 houses, a clubhouse, restaurants and shops.

A second phase of the development will cost another R120 million.

The site will be developed by the Seeff Organisation in conjunction with the Standard Authorised Group of Hong Kong.

The development will be aimed at Chinese immigrants, but to avoid a "feeling of isolation" the local market will also be targeted.

Commercial director of Seeff Mr Errol Diamond said the group was looking at land in the Western Cape for the immigrants, but these plans were still in their infancy.

A facilitator, Mr Rico Li, a director of Standard Authorised, had been appointed to handle their business in Hong Kong, said Mr Diamond.

Mr Li was introducing would-be Chinese immigrants and investors to South African properties and products.

Mr Li had already helped 10 Chinese families to immigrate, they had bought houses in South Africa, mainly in the Transvaal.

Mr Li is in Cape Town until the end of the month negotiating with South African banks in order to open a branch in Hong Kong, said Mr Diamond.

"Obviously such a move would improve Mr Li's efficiency and make it easier for immigrants to arrange their financial affairs in this country and in particular to receive investment advice on our foreign exchange regulations," said Mr Diamond.

Mr Li said that while some people in Hong Kong were scared of the impending Chinese takeover later this decade, others were investing money in the colony.

"Before this year Chinese people had a negative impression of South Africa, but with the swing in attitude we are seeing more people applying for immigration."

Last year 210 families applied to immigrate and this year the number is expected to be 800.

The South African consulate requires that successful immigrants transfer an average of R300 000 to this country.

"Immigrants are mostly professional people who would like to start their own businesses here," said Mr Li.

"They are hard-working and creative and can give this country something."
More in debt

ONE in every two summonses issued against businesses and individuals goes to judgment, says business and credit information supplier ITC. 

"Previously debtors were reluctant to obey a summons used to rejoin very quickly to meet their commitments. Now individuals are receiving summonses, but are unable to meet the demands," says ITC's David Rasmussen.

The value of judgments against individuals for the first five months of this year was R1,354-billion compared with R581-million for 1991 — an increase of 33%. The value of judgments against businesses rose to R174,271-million (R127,859-m) — an average increase of 20%.
Deportation of IFP man leaves many questions

April 18, 1992

By MONWABISI NOMADLO

MYSTERY surrounds the sudden deportation of high-ranking Inkatha official Bruce Anderson.

This week the government refused point blank to explain the action.

ANC spokesman Carl Niehaus said Anderson was suspected of being involved in violence.

He said it was the public's right to know why the government had acted "in such a drastic fashion against a leading member of the IFP".

Reports meanwhile claimed Anderson was involved in arms smuggling for Inkatha.

Police could not confirm that he was arrested for arms possession shortly before he was deported.

Police spokeswoman Capt Ida van Zweel said Anderson entered SA with a passport on July 9 around 5:30 am and left on July 23.

"He was in possession of a temporary permit to stay in the country until July 30," Van Zweel said.

"Newspaper reports claimed Anderson -- former chairman of Inkatha's Hillbrow branch -- was arrested on his return from the US where he met right-wing organisations bent on arming Inkatha.

Home Affairs spokesman Thomas Dreyer confirmed that Anderson was deported to the UK on July 17, but refused to state the reasons.

He said the department was unable to respond to speculation that Anderson was involved in arms smuggling for Inkatha.

A spokesman from the State President's office, Casper Venter, said the office had no knowledge of the deportation.
Gilt options burn investors' fingers

By Julie Walker

FSS spokesman Stan Hyman says that when the BMA is licensed, the board will be able to send inspectors to investigate dealers who are non-members of the BMA. The FSB is granting a licence to the BMA.

When the licence is granted, dealers in instruments, such as gilt options, listed by BMA will have to be members. The BMA's Graham Lund says the operation of non-members is a matter for the FSB. The FSB says it cannot operate in an informal market in unlisted financial instruments.

h said this potential $10 billion profit in just four months represented the biggest gilt option opportunity in 5 years. If one did not own a gilt option one had better do so immediately.

A photocopy of the newsletter offered clients that rates had already risen again.

When the FSB breaks 16.25%, expect the really exciting moves, but the direction of the shift in rates is clear instead of rising to 17.5%, rates have fallen to below 14.5%.

The newsletter said: "I am prepared to recommend one-month, six-month and four-month options as long as rates range between 15% and 16%.

Mr Rigden was right about the really exciting moves, but the direction of the shift in rates is clear instead of rising to 17.5%, rates have fallen to below 14.5%.

The newsletter said: "I am prepared to recommend one-month, six-month and four-month options as long as rates range between 15% and 16%.

He is the first to give credit to the staff and management at Haggie for making a fine performance in the six months to June. The turnover and earnings were up 5%, enabling a maintained dividend of 40c. The sales volume fell, but exports grew by a quarter to 300% of sales.

Mr Murray says: "We are particularly pleased with our export performance. We now have an export division in the UK and the US.

Another independent options trader, David Hulland of the Johannesburg Options Market, says he was asked by the BMA to undertake work with the board or to advise it. His clients are institutions who understand the gilt market.

Mr Rigden was unavailable to comment, but his partner John Macein says the firm has nothing to say in the matter.

The problem regarding non-member brokers stems from the taxation of the FSB and the BMA.

The board will be able to send inspectors to investigate dealers who are non-members of the BMA.

The FSB is granting a licence to the BMA.

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From glass to wire rope

By Chris Murray

HAGGIE chief executive Chris Murray is pleased with the move from safety glass to steel safety cables.

"After 25 years with Pilkington it was time for a change," says Mr Murray, who has been with Haggie for 15 months.

He is the first to give credit to the staff and management at Haggie for making a fine performance in the six months to June.

The turnover and earnings were up 5%, enabling a maintained dividend of 40c. The sales volume fell, but exports grew by a quarter to 200% of sales.

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Economic set

The KB250D has a farming community, in South African mines, as well as in uranium mining, and is a popular choice for farmers.
MONEY MARKETS  by Hilary Gush

Rates dip boosts capital market

THERE was more activity on the streets and rugby fields last week than in the dealing rooms as major players stayed on the sidelines and took a "wait-and-see attitude" to the two-day general strike.

On Wednesday distracted de tigers changed the focus of their attention from mass rallies to rugby while rates on the money market took a back seat.

The capital market was, however, more captivating. By mid-week bullish sentiment had driven rates down to eight-year lows. Expectations of falling inflation and an upturn in economic activity further fuelled gilt buying.

The yield on Eskom's bellwether E150 bond plummeted to 14.34% towards the weekend from 14.72% on Monday. The yield on government R150 followed a similar trend, falling 45 points over the week from 14.87% to 14.44%.

Booed by positive political perceptions, the bull run is expected to continue. Feeling in the market is that the yield differential on R150 and E158 stock will narrow substantially over the year, with yields possibly converging.

While the Eskom bond used to be the benchmark stock — the most traded semi-gilt — the government R150 has, since the beginning of the year, taken the lead in terms of tradeability. The E158, however, remains the bellwether bond.

The reason for the initially lower tradability of R150s was that the Reserve Bank was not involved in the secondary market. This has since changed and an option market in government stock has developed.

August government spending saw liquidity in the money market pick up towards the end of the week with the shortage at R2.77bn from more than R5bn last month.

Speculation of a further Bank rate cut in September eased money market rates. By Friday the 90-day bound BA rate was down at 13.5% from 13.8% the week before.

Bolstered by expectations of a Bank rate cut, money market rates are expected to fall by at least one percentage point in the next few months.

The average rate on the Bank's weekly tender for three-month Treasury bills was down 13 points to 13.21% from the previous week's 13.34%. Demand for the short-term paper was good due to improved liquidity in the market. The Bank attracted bids of R960m for the R150m offered in six-month TBs, with the rate on these also down from 12.55% to 12.43%.
Afcom lifts earnings and raises dividend

By Stephen Cranston 232

MD Alan Salomon says expense controls, improved manufacturing efficiency and tight asset management led to the improved margin.

Afcom had the benefit of a full year's earnings from Signode Steel and Plastic Strapping. Its products were integrated into the Afcom operations during the year.

Afcom was a positive cash generator during the year and gearing fell from 19.2 percent to 5.5 percent.

Interest paid rose five percent because of the additional debentures issue for the full accounting period, compared with nine months in the previous period.

The tax rate rose from 34 percent to 38 percent because of the reduction in exempt income — particularly decentralisation grants — but is expected to stay well below the corporate tax rate thanks to export incentives and allowances.

Afcom is looking at an acquisition in the current year to enable it to continue growing.
JUSTICE Minister Kobe Coetzee said yesterday the new Domicile Act had come into effect, marking a further step in government's commitment to "acknowledge the equal status of women in society".

The Act, which was passed during the last session of Parliament, came into effect on August 1. It provides that every person older than 18, regardless of sex or marital status, can establish a domicile of their own choice.

Formerly, all women who married took on the domicile of their husbands and had no choice in the matter. This had severe implications, especially for women separated from their husbands.

The domicile of any person unable to establish one of their own, such as dependent children, will be determined by the place with which that person is most clearly associated.

The Act also provides that a court will acquire jurisdiction in divorce proceedings if any of the parties ordinarily resides in the area of jurisdiction of that court and the person has been resident in the country for more than a year.

Coetzee said the measure emphasised government's view that individuals' happiness and salvation in life should be determined by their own merit and distinction.

"I trust that equality brought about by this initiative in respect of the legal status of women will also be emulated in the social and economic spheres of life," he said.
JSE delists Barbrook, suspends Haib's shares

TWO shares on the mining board yesterday came under the scrutiny of the JSE committee, with trading in Haib copper mine shares suspended and Barbrook gold mine being delisted.

JSE GM Richard Connellan said the financial position of Haib did not look "very good". Haib shares last traded on the JSE on August 8 at 3c.

Connellan said they could not contact the new owners and found this "totally unsatisfactory".

"The financial affairs of Haib are almost unknown and it is our responsibility to find out what is going on," he said.

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- Glenn Lang sold Revere Resources' 80% stake in Haib last month to Pretoria-based Mega Holdings for R550 000 cash, after he failed to raise the money to get the venture off the ground. Revere made a loss of R1.95m on the sale of Haib.

- Mega, which the business practices committee was investigating in terms of the Harmful Business Practice Act, is owned by Corne Kooman and Louis Mienie.

Koomen could not be contacted for comment yesterday.

Connellan said that under the Stock Exchange Control Act a meeting would have to be convened within 30 days, when the directors of Haib would be given the chance to present their case.

It would then be decided if the company should be relisted, terminated or the suspension continued, he said.

Meanwhile, Barbrook was delisted at the close of business yesterday. The shares last traded at 4c in January when it was put into liquidation.

The mine was put up for sale by tender in May and an outcome is expected soon. Among the mine's assets are a number of townhouses and mine supplies worth R1.9m.

An analyst said the mine could fetch several million rand as it could be asset-stripped. Market sources said an offer of over R20m had been put in.

Barbrook was commissioned by Rand Mines in June 1989 at a cost of R126m with proven ore reserves of 250 000 tons at an average in situ grade of 6.8g/t.

The mine started production in the first quarter of 1990 and operated until the end of the year, when it was placed on a care-and-maintenance basis.
BLOODPATH, on the

Share values plummet by R1.6bn in one day
OAU welcomes SA as exhibitor at fair

THE Organisation of African Unity (OAU) leadership has approved for the first time SA participation in an African trade fair next month alongside 31 of its member states.

Saspo marketing executive Ann Matthews said yesterday the OAU secretariat had agreed to let SA exhibitors take part in the Regional Export Fair in Bulawayo next month. About 31 of the OAU's 50 member states would exhibit next door at the four-yearly All Africa Fair. Only SA and Zimbabwean exhibitors will take part in the export fair.

Matthews described the SA participation as a major breakthrough, saying it had important implications for future trade with Africa.

She said she raised the question of SA taking part with an OAU representative at the Zimbabwe International Trade Fair, which was also being held in Bulawayo.

Her inquiry was then referred to the OAU secretariat, which replied that SA would be welcome.

Fifteen SA companies had signed up for next month's fair, while other applications had to be declined because of lack of space.

Matthews said that unlike other trade shows in Africa, the Bulawayo fair included SA companies which had the capacity to do business with virtually the whole of the continent.

Participants included Transnet's international trading division Transtrade and the Council for Scientific and Industrial Research.

Other SA industries which would be represented included manufacturing, food, engineering and the construction sector.

Matthews said it was particularly fortunate that approval for SA's participation had been secured because this year's fair was being held in neighbouring Zimbabwe, a fact which made it logistically easier for SA companies to take part.

Other attractions were Zimbabwe's relatively good infrastructure and the fact that English was an official language.

"If we had not got the green light in time, we would have had to wait another four years to take part. By being there, exhibitors will be able to hit 31 birds with one stone," Matthews said.
Talk about mothers for child survival

In the time it takes to read this article, one woman — somewhere in the world — will have died because she is pregnant and has not been given the care to which she is entitled.

Lesotho government advisor on Health and WHO representative Dr Sichulindi Swale says the WHO’s aim of “health for all by the year 2000” does not imply an absence of illness.

“What it means is that we have in place a system where no-one dies without being in contact with a health system,” says Dr Swale. This means accessibility and equity in the health system.

And, as medical organisations scurry to improve the health of children, an important element has been virtually ignored: the mother.

World Health Organisation programme manager for Maternal and Child Health and Family Planning Dr Mark Belsey spoke at a Community Health Association of South Africa (Chasa) conference in Johannesburg recently.

He says it is impossible to talk about child survival without talking about women. The health status of women and children is transmitted from one generation to the next.

During the last decade, says Dr Belsey, the health of children has in many respects improved remarkably. Immunisation had increased to 80 percent up to October 1991.

But, in the same period the number of anaemic women has not changed, nor has the number of children born underweight.

Of the 13 million children who died in 1990, one-third died within the new-born period.

This, says Dr Belsey, can be attributed to the health and nutritional status of their mothers in pregnancy and before.

Despite inroads made by medical organisations, about 60 percent of women in the Asian sub-continent are anaemic — between 40 and 49 percent of women in Africa are anaemic.

Weight

The low birth weight rate is often looked at as a child’s problem but “it is really a problem with the mother”, he says.

Recent research suggests that the impact of low birth weights on adult health could include hypertension, cardiovascular diseases and non-insulin diabetes.

The implications for children with low birth weights include a much higher rate of deaths from diarrhoea and a relative risk of deaths — up to three times higher — from respiratory diseases, according to studies done in Brazil.

Long-term studies in India indicate that for every 10 kg of weight under the ideal during childhood, the individual will have 10 percent less output as an adult.

If all children were breastfed, there would be 1.3 million more living and healthy children a year.

Despite active programmes to encourage breastfeeding, Dr Belsey says it is a myth that mothers in the developing world breastfeed.

In Nigeria, less than one percent of mothers breastfeed their offspring up to the age of a year; about 59 percent of the mothers breastfeed and give their children water while the rest breastfeed along with a supplement.

Although they are all breast-feeding, very few are doing so correctly.

There is also a dire need for women to have a choice in contraception. The high rate of unplanned pregnancies — about 100 million worldwide a year — highlights this need, says Geneva-based Dr Belsey.

Abortion causes at least one quarter of all maternal deaths in world hospitals.

For every 100 births in the Soviet Union, there are 100 abortions. In Africa there are between 15 and 29 abortions for every 100 births. Of the abortions in 1989, there were 52.3 million unsafe abortions and 28 million safe abortions. There were also a further 40 million unplanned births during that year.

For every 140 abortions performed in Africa, one woman died — compared to the one death in 1 500 in North America.

The WHO representative says there are systems available which would meet the needs of mother and child. Indications are that it would cost about $2 (about R0) per capita a year.

“It is a question of political will and the sharing of power with communities and families,” says Dr Belsey.
Stop the roller coaster
— we want to get off

IPPLES from the worldwide recession flowed through an already nervous Johannesburg Stock Exchange this week — turning into a flood of selling.

Investors were asking themselves whether the market had come to the end of the roller-coaster ride which started with the breakdown of negotiations at Codesa and the mass action campaign, or whether there was still worse to come.

On Thursday morning the market, as measured by the JSE's overall index, had fallen around two percent, after falling about three percent on Wednesday. Buyers were to be found at the new lower levels to which share prices had dropped, and there was some hope the market would return to some sort of health.

Before the fall, the market had started to recover in line with hopes for a return to negotiations.

Triggered by a pessimistic forecast about second-half results from diamond giant De Beers, the sell-off looked likely to be exacerbated further by a fall in platinum and gold prices.

What must be remembered is that such falls are driven by sentiment. So what would drive the market up again? Perhaps better news on a political settlement — though in times of market nervousness, bad news is received more enthusiastically than good and the long view is forsaken as investors bolt for cover.

The background to the fall is that while Wall Street remains resilient, the London Stock Exchange isn't doing well and Tokyo, whose sudden fall triggered the 1987 crash, is still in free fall. The major economies in the West are still in recession or emerging rather shakily from it. Hence the demand for diamonds — a luxury purchase — has fallen, along with the outlook for De Beers.

De Beers, whose market capitalisation accounts for between eight and nine percent of the value of the shares on the JSE, is a bellwether stock in South Africa. Its fall must mean a knock to the JSE.

It wasn't just that De Beers' profits were far below some expectations, but that De Beers itself appeared to have misread the market.

De Beers' bottom line profits fell 26 percent in the six months to end June. Combined attributable earnings fell to $0.87 per De Beers/Centenary linked unit from $1.17 in the six months to end June 1991. On top of this, directors warned the poor results meant the final dividend could be cut. This was too much for overseas analysts, who felt a De Beers roadshow in Europe in June had pulled the wool over their eyes about De Beers' prospects for the second half of the year.

The share price drop of three percent on Wednesday was the largest one-day fall since October 1987. It wiped R1-billion off share values and raised fears of a repeat of the October 1987 crash.

The fall was not as large as the first big one-day drop of the 1987 crash, which was around 12 percent drop, but it came at the end of a steady decline in share prices.

According to Frankel Kruger Vinderne economist Mike Brown, by mid-week the market had declined around 15 percent since the end of May.

Gold and platinum also fell this week. The price of an ounce of platinum on the New York Metals Exchange (Nymex) for October delivery fell to $354.30 from $367.70.

Following platinum, the price of an ounce of gold fell to $348.15 at the afternoon fix in London on Wednesday, compared to $350.35 at the previous afternoon fix. And on Thursday morning, gold fell further to be fixed at $339.25 an ounce.
IFP man linked to gun running

By EDDIE KOCH

A SELF-CONFESSIONED arms smuggler has implicated Bruce Anderson, the white Inkhata official deported from South Africa last month, in a racket that involved smuggling AK47 rifles out of Mozambique into South Africa.

The gun-runner says Anderson acquired about 40 AK47 rifles and "a few anti-personnel mines" from contacts in Mozambique and then arranged, through a middleman in Swaziland, for the consignment to be dropped off at a shop in kwaMashu township near Durban.

The Weekly Mail's source claims to have personally supervised arrangements for Anderson's cargo of weapons to be transported from Mozambique to Natal.

The Department of Home Affairs has refused to comment on the reasons for Anderson's sudden deportation to England last month. Inkhata declines to say why its official was booted out of the country. And British officials remain tight-lipped about Anderson's expulsion.

Asked if the Inkhata official's expulsion was linked to gun-running, Home Affairs' Chris Pretorius said: "We do not give reasons, as you know, for people being deported.

But sources close to Mozambican intelligence this week confirmed that Anderson had close ties with Renamo rebels in Mozambique and has long been suspected of involvement in the movement of weapons from that country into South Africa.

Anderson also visited Washington last year where he made contact with a number of rightwing movements and inquired about the possibility of purchasing weapons.

Mozambican intelligence sources added that President Joaquim Chissano discussed the issue of arms smuggling between the two countries with President FW de Klerk when the two leaders met at the opening of the new Polana Hotel in Maputo last month.

"De Klerk said he would take action against anyone who was supporting Renamo from South African soil if concrete details were supplied to him," a leading Frehmo member told The Weekly Mail.

British diplomats who ask not to be named, say they are also certain that the expulsion was related to the Inkhata official's involvement in gun-running.

Anderson was the chairman of Inkhata's Sandton branch and a delegate for the Zulu movement in CODESA. He also served on an interim dispute resolution committee in Alexandra township.

He came to South Africa in 1981 after being convicted of fraud in Zimbabwe where he lived for a number of years. Anderson became a confidante of Renamo leader Alfonso Dhlakama as well as Ndabaningi Sithole, Zimbabwe's rebel nationalist leader.

He was also a member of Britain's neo-fascist National Front before he emigrated to Rhodesia in the late 1970s.

Anderson was declared a persona non grata on July 17 this year and was given a one-way ticket to England on that day. It is believed he will be attending a reunion meeting for members of the Rhodesian special forces in London this weekend.
Falling gold price adds to market gloom

By Magnus Heystek

The slide in prices on the JSE continued yesterday as further bad news in the form of a sharply lower gold price depressed sentiment and sent investors hurrying for cover.

Gold was fixed at $337.30 yesterday afternoon, compared with $346.80 on Wednesday.

In the space of four trading days platinum has fallen by over six percent to $361.75, silver by 3.5 percent to $3.81 and gold by over three percent to $337.

Gold’s decline was precipitated by the sharp drop in the platinum price on Wednesday when Japanese investors sold the metal on fears that demand would dwindle as the Japanese economy was showing no sign of improvement.

On the JSE, the overall index shed 54 points to bring its decline to 191 points since the beginning of the week.

Industrials also come under severe pressure and closed down 52 points after Wednesday’s 110-point drop.

It closed at 3897 yesterday in what could be a major downward break of the 4000 level.

The gold board was especially weak, shedding almost five percent of its value to 897.

News of the sharp drop in economic activity in the second quarter of the year, which shows that gross domestic product (GDP) declined by 2.6 percent on an annualised basis, added to the gloom.

Despite a brave face being put on by brokers, analysts fear a prolonged bear market.

De Beers again occupied centre stage yesterday. The share at one stage dropped to below R80, but some support later propped the share up somewhat. It closed at R81.50.

According to one broker, Cape-based financial institutions had been buyers of De Beers prior to its interim results.

“They were buying De Beers at R80 last week and now they don’t want to touch it at R80,” he said.

The sharp drop in De Beers, in particular, is causing havoc with the investment performance of financial institutions, especially unit trusts.

With De Beers having the largest market capitalisation on the JSE, it forms the largest single shareholding of most portfolios.

While the portfolios of pension, provident and other funds are able to hide the extent of their declines from the public eye, unit trust are not so lucky.

The decline in the value of general equity funds has been greater than the decline in the overall market, mainly because of the heavy shareholding in De Beers.
Tracing the funds flow

Activities: Holding company for W & A Investment, an investment holding company with subsidiaries in manufacture and distribution of industrial and consumer products
Control: FSI Group 64.5%
Chairman: J. Liebesman
Capital structures: 40.4m ords Market capitalisation R877m
Share market: Price 215c Yields 16.3% on dividend, 26% on earnings, p/e ratio, 4.6, cover, 1.57 12-month high, 500c, low, 215c Trading volume last quarter, 328 000 shares
Year to Dec 31 '98 '99 '90 '91
ST debt (Rm) 82 131 96 198
LT debt (Rm) 439 616 1 288 1 061
Debt equity ratio 0.34 0.85 1.70 1.20
Shareholders' interest 0.81 0.54 0.36 0.34
Int & leasing cover 3.42 2.9 2.04 1.56
Return on cap (%) 17 16 11 10
Turnover (Rbn) 2.4 2.5 3.2 3.2
Pre-net profit (Rbn) 318 346 368 320
Pre-int margin (%) 11.8 12.4 9.7 8.8
Earnings (a) 161 153 128 55
Dividends (c) 30 35 35 35
Net worth (c) 553 646 312 143

FSI Group — with a market capitalisation of about R96m after the slide in the share price — controls underlying assets with consolidated turnover of R3.3bn. The pyramid structure has four levels. W&A Investment Corp is 71%-owned by Waicor, which is 76.6%-owned by FSI Corp, itself 64.5%-

FSI’s Liebesman

activity is down

owned by FS Group. Apart from debt servicing commitments, the top companies’ accounts reflect a consolidation of the operating assets held in W&A (Companies June 19).

Servicing needs of the top companies are not well-understood, with analysts speculating pressure in this area is the reason for W&A’s dividend cover having narrowed significantly. Jeff Liebesman, chairman of all four entities, denies this, adding that all servicing commitments in the three companies derive from “A” series convertible debentures and preferred ordinary shares. The holding companies are mostly conduits, through which the pref ord dividends and “A” conv debentures’ interest flows.

Liebesman says dividends from the ords in all four entities serve no function in servicing debt in the top companies. Instead, they end up with the shareholders after flowing through the various companies.

W&A has 18.5m pref ords, 26.5m “A” conv debentures and 6.2m “B” conv debentures. In issue, Waicor holds the pref ords and “A” conv debentures. minorities hold the “B” conv debentures.

The 72c/share annual W&A pref ord dividend is declared to Waicor, where, in turn, it is paid through to FSI Corp, which holds all 46.7m Waicor pref ords in issue. The R13.5m pref ord dividend received from Waicor is insufficient to service the pref ord div of R15m paid by FSI Corp, though Liebesman says “debt fees and income from fixed assets” earned and owned by FSI Corp make up the R1.5m shortfall.

W&A has 26.5m “A” conv debentures in issue, all held by Waicor. Interest on these, at 2% below prime, came to R32.4m in 1992. Waicor paid all of it to FSI Corp which holds all of the 65.7m issued Waicor “A” convertible debentures. The R32.4m covers FSI Corp’s debt interest commitments, which come to R32.5m. Cash flow may be adequate to meet holding company commitments, but it’s tight, though Liebesman contends this was the intention at the time of the restructuring.

W&A’s share price has almost halved in the past month, reflecting concerns that the
Turn behemoths into boutiques

A new report pinpoints three big groups which are ready for ‘ unbundling ’; an idea whose time has come.

By REG RUMNEY

There has been much talk of "unbundling" conglomerates since Finance Minister Derek Keys floated the idea while he was heading Gencor. Now a report by McGregor's Online pinpoints three big conglomerates with obvious potential for this: Anglo American, Barlow and SA Breweries.

"Unbundling" essentially means the dismantling of a conglomerate. The McGregor's Online report says the three big groups are ripe for dismantling and provides detailed statistical information about their subsidiaries and associates.

Excluded are groups which, in the opinion of McGregor's Online:

- Have recently undergone restructuring which is likely to delay a decision to unbundling. "Gencor is perhaps the exception as the planning which went into its recent reconstruction included a great deal of unbundling."
- Are relatively young groupings.
- Fall outside the scope of a report on a subject as vast as unbundling.

Why should South Africa's big groups unbundl? It is a world trend to break down a conglomerate into relatively small, autonomous units, notes McGregor's Online's Simon McGregor.

International futurist and author Alvin Toffler "refers to "an economy built of boutiques rather than behemoths," says McGregor. "From a management point of view, it's a far more efficient way of running a company than the top-down system. That's where the trend started."

Unbundling means different things to different people, notes the McGregor's Online report. For management, unbundling will in essence mean replacing a "top-down" system of management with a small "head-office" operation functioning with many independent units. These units would be either companies or divisions.

For investors, unbundling will add value by eliminating the cost of multi-tiered control and will unlock value by reappraising undervalued assets. It will also focus attention on core business.

For the state, unbundling may mean increasing competition by making conglomerates divest themselves of operations in particular sectors deemed to be non-competitive, either by incentives or by coercion.

Unbundling will reverse the trend of conglomerates over the past 40 years in particular sectors, which lead to corporate bureaucracies and declining domestic competition.

"The Mouton Commission in 1977 found that there were three or less producers responsible for more than 75 percent of the production in over 70 percent of South African industries," says the report. "Since then there has been considerably more concentration, resulting in serious lack of competition."

"South Africans are world leaders in mining techniques, mining management, oil-from-coal technology, etc — but they lag when it comes to the dynamics of corporate structure. "Big is beautiful for many reasons, but big can become counter-productive when its control becomes masytered."

How can the conglomerates be unbundled? Anti-trust laws are being considered by the African National Congress. In particular, if these laws are introduced retroactively — which may be necessary because of over-concentration in the economy — they will have a profound effect on South African companies.

Since conglomerates was excerc...
Puzzle over expulsion

Rumours that immigrant is involved in arms smuggling:

By Victor Tsuai

The deportation of the former Inkatha Freedom Party member, Mr Bruce Anderson, deepened further yesterday when the Department of Internal Affairs insisted it would not reveal reasons behind its action.

Further inquiries by the Sowetan and the African National Congress as to why the authorities would not disclose reasons in the interests of the public met with a firm "No" from the department's spokesman, Mr Thomas Dreyer.

According to ANC spokesman Mr Carl Niehaus at first Anderson was perceived to be welcome by the Department of Internal Affairs.

Niehaus said: "Now that he is seen not to be welcome, they see fit to cover up for him. We believe that Anderson was involved in activities that are highly embarrassing."

Anderson was deported from the country on July 17 after being declared persona non grata. He was a senior member of the IFP and one of its representatives at Codesa.

Sowetan has been reliably informed that Anderson's deportation could have been as a result of "criminal activities" possibly linked to arms smuggling.

No further details were given.
Gold price dip adds to JSE gloom

By Magnus Heystek

The slide in stock market prices on the Johannesburg Stock Exchange continued yesterday as further bad news in the form of a sharply lower gold price depressed sentiment and sent investors hurrying for cover. Gold was fixed at $337.50 an ounce yesterday afternoon compared with $346.80 on Wednesday afternoon.

News of the sharp drop in economic activity in the second quarter of the year, which shows that the gross domestic product declined by 2.6 percent on an annualised basis, further added to the gloom.

Overall the JSE dropped by another 54 points yesterday to bring its decline to 154 points since the beginning of the week. Industrials also came under severe pressure and closed down another 52 points after Wednesday's 110-point drop.

Report — Page 15
Looking for the new SA? Don’t bother with the maps

Apartheid lives on in South Africa’s maps and atlases. If you want to locate some of the country’s largest residential areas, you’ll have to consult other sources.

By ARTHUR GOLDSMUCK

SOUTH AFRICA’S political landscape may be changing, but travellers still carry with them the road maps of apartheid.

The Free State’s biggest black township, Botshabelo, has a population of 180 152, but you won’t find it on tourist maps.

The nearest major city, Bloemfontein, is a standard feature, with a population of 272 000. But although the largest percentage of this figure comprises people who live in Bloemfontein’s neighbouring townships, these are rarely featured on most maps.

In contrast, tiny towns like Bethulie (7 429 people), Edenville (5 950) and Trompsburg (4 380) have always been featured.

Middelburg, a Transvaal town with approximately 40 000 people, is justifiably included on every map. But its neighbouring black township, Mhluli, with about 75 000 people, can be found only on street guides or specialist maps. The tourist won’t know that it exists.

The maps of the “old” South Africa are rife with such examples. With the possible exception of Soweto, black areas were not deemed worthy of being acknowledged on tourist maps, let alone in school atlases.

Says Brian Ford, production director of Map Studios, one of the country’s largest suppliers of street and touring maps: “We’re actively working towards more inclusive maps. In the past, maps did not show areas where one didn’t want tourists to go, because they were not regarded as safe.”

“Obviously, that is changing with the ‘new’ South Africa. There is also a great demand from

Charted fiction ... According to this tourist map the Free State’s biggest township, Botshabelo, doesn’t exist.

the point of view of delivery services.”

On tourist-oriented maps, says Ford, only major centres like Soweto or Mdantsane (in the eastern Cape) are shown. “In the future, a high percentage of the black population is going to comprise tourists and we’re going to have to cater for them,” he adds.

The Automobile Association, which most white South Africans identify with helping them get from point A to point B, does not believe such steps are necessary.

“Our maps are specifically designed to take people to touring areas — there is not a lot of interest in going to the townships,” says Ben Matthee, general manager of publications at the AA. “Although our membership has been open to all South Africans since 1966, people of colour are a very small minority.”

The AA gets copyright authority from the Government Printer to base their maps on information from official maps. It then produces maps to its own specifications. The determining factor in the depiction of cities and towns, says Matthee, is population.

“Where there is a mass of population, that is reflected by means of a built-up area outline. There’s no question of discrimination, in fact, we’ve even removed names of an offensive nature.”

On large-scale maps, such as the AA’s south-transvaal map (1:100 000), Matthee’s statements hold true. The map even shows townships like Boipatong and Bokkersdal.

Maps of lesser scale avoid townships altogether. The eastern Transvaal map (1 500 000) shows even the tiniest railway siding in white areas, but there is barely a township to be found. Middelburg’s Mhluli township is among the most glaring omissions.

Matthee explains that such townships fall within the municipal boundaries of the nearby town. He does not believe such omissions are a problem, “since blacks prefer someone to give them directions in the form of landmarks and streets, rather than to use maps”.

He adds that showing all black townships would be discriminatory. “We don’t want to be seen specifically to be drawing attention to black townships, and saying don’t go here or there.”

But a consequence of this approach is that road maps remain a highly graphic reflection of the classical apartheid era.

Black “feeder locations” which dwarf their neighbouring white towns in population remain unrecognised and as far as most travellers are concerned, these locations simply do not exist. It takes a specialist map like that of the Development Bank of South Africa to reveal that such places even have names.
In the trough

The prediction of a modest increase in earnings over 1992, by Anglo American Industrial Corp's previous chairman Graham Boustred in March, has come off the rails. Interim results announced by Anglo's industrial arm reveal a 15% decline in EPS over the same period last year, down to 28.1c from 33.3c for first-half 1991.

New chairman Leslie Boyd says he expects a similar percentage fall for the second half, which means Amic is on course to produce full-year EPS of around 62c compared with 1991's 73.1c. However, the dividend hasn been held at 110c, achieved at the expense of cover which has fallen from three times last year to 2.6.

Amic is positioned in iron, steel and engineering (Sassw, Highveld and now Columbus), explosives and chemicals (AECI), mining and construction equipment (Borsht), pulp and paper (Mondi), sugar and food (Tongaat-Hulett), electronics and electrical engineering (Ventron and Control Logic), freight and travel (Rennies), motor assembly and distribution (Samar/McCarthy and, soon, Prentfield), and building and construction (LTA).

This makes it widely diversified. As such, it is susceptible to all the vagaries of the SA and international economies and 1992 has been an especially difficult year on both fronts. Boyd says he is not disappointed with the results in the light of arduous trading conditions. "We experienced problems in all sectors," he says, adding that most of the companies in the Amic stable had reduced demand for their products in the local mar-
JSE falls further as gold slides

PETER GALLI and HILARY GUSH

PLUNGING precious metal prices took their toll on JSE gold and platinum counters as the all gold index tripled its Wednesday losses, falling 22 points to close at 397 points.

While other counters continued to reflect heavy losses yesterday, these were not as severe as Wednesday’s.

A dealer said that after pushing the market lower by “panic selling”, institutional and private buyers were now placing buy orders at these levels.

The overall index continued its downward spiral, closing 54 points lower at 3.155 with the industrial index following closely, losing 52 points to 3.999.

A market commentator said attention had moved away from De Beers to other blue chip industrials as some investors continued to panic and lightened their portfolios.

“However, in late trade yesterday we saw a number of buying orders that had been cancelled on Wednesday renewed as some buyers were nibbling at blue chip stocks at these levels,” he said.

Bearsish market sentiment and falling precious metal prices assisted the mining financially’s 75-point drop to 3.455.

“The market has been really tough lately and while it appears to have steadied at these lower levels, major political or economic news is needed to stimulate it,” he added.

In London, gold closed at $338.40, $7.40.

JSE 6104

JSE 6104 92

From Page 1

The platinum index lost 59 points to $2.260 on the book of a 536 fall in the platinum price to $307.75 at the afternoon fix.

On the SA Futures Exchange, volume yesterday was more than doubled from Wednesday’s 419 to 94,000 contracts due to the phenomenal activity in the market.

A market commentator said he planned to buy the capital yesterday bought gold down to four last seen in March 1984.

The yield on the benchmark Elseby 100 bond slipped to 11.35% yesterday from Wednesday’s 10.91% close. The yield on government R150 stock — the bond market gilt — eased 11 points to end the year at 11.21% from a previous 14.49%.

Dealers said the performance of equities was poor, metals were picking up, and that market was bearing the losses of the equity market’s demise.

Active trade in Transnet 650 stock saw the Thibis bond gain 15% in five trading days. From R187 a week ago, it closed yesterday at R200.90. Over the same period the all-share index fell 10%.

See Page 2
**New appointments at JSE:**

NEIL CARTER, financial director of Time Holdings, has been appointed director: operations of the Johannesburg Stock Exchange. A Scottish CA who holds an LLB and MBA, Carter will be responsible for the day-to-day running of the JSE.

Coopers Theron du Toit senior partner Rob Barrow has been appointed director: inspectorate and surveillance.

Barrow is a former chairman of the Accounting Practices Committee of the SA Institute of Chartered Accountants (SAICA).
Frenetic activity 'out of step with global trends'

THE frenetic level of merger and acquisition (M & A) activity last year has put SA out of step with global developments and once again reflects the country's international isolation, says Ernst & Young Corporate Advisory Services MD Claire Herbst.

She was speculating on the reasons for the high level of M & A activity, which saw R12bn change hands despite the worst recession since Second World War; political turmoil, and a marked decrease in M & A activity during the past two years in the major world economies of the US and Europe.

"The concentration of buying power in our major conglomerates and financial institutions is also, no doubt, a factor. They have the financial muscle to undertake strategic investments, even in these very poor economic times.

"Much activity, for example, is coming from the refocusing of our major groups, which are rationalising their underperforming or non-strategic subsidiaries in a far more ruthless manner than in earlier years."

She pointed to Sankorp's reshuffling of Federale Volksbeleggings and effective disposal of Tradegro, including Metcash and Checkers, plus Barlow Rand's disposal of Midlandburg Steel & Alloys.

Claire Herbst

Further rationalisation in the financial services industry were also a feature of recent takeover activity. These involved the ABSA/Bankorp merger, the reshuffling of Standard Bank's shareholding and the Liberty group's significant offshore activities.

Many SA companies had once again started to internationalise.

"After our long period of international isolation, it is perhaps inevitable that 16% of all publicly recorded transactions last year involved SA companies establishing a foothold abroad."

"This trend is likely to accelerate in the year ahead as local companies seek to catch up with global developments and expand their foreign markets."

The buying out of minority shareholders in companies where share prices were underperforming was another trend likely to continue in the year ahead.

"This is regrettable, but an inevitable consequence of an illiquid stockmarket where a listing remains relatively unattractive for second-tier companies which are effectively unable to use such listings to raise new capital at a cost below that of an unlisted company," Herbst said.

Unlike in previous years when management buyouts were largely driven by foreign disinvestment, an interesting feature last year was that such transactions were dominated by local management buying from local shareholders.

Corporate foreign disinvestment although most major transactions went unreported Royal Corporation managed to bag two of these, the SA Preserving Company and, more recently, Donald Cook.

Inward investment was hampered by lack of progress on the political front and the unacceptably high level of violence. Very little such investment was publicly announced and several deals close to conclusion were postponed.

"It is difficult to predict when this situation will likely to reverse, as SA is undoubtedly perceived to be an extremely high-risk investment. Meaningful inward investment is unlikely to materialise until we not only have our own house in order, but also experience some period of stability."

Herbst said acquisition prices remained bullish in 1992 with the JSE stockmarket. On average, a 14% premium was paid over and above the JSE price, indicating that the "greenhouse" effect was as prevalent in the market for corporate takeovers as it was on the JSE.

This is no doubt attributable to the shortage of good acquisition opportunities in our concentrated economy, and to exchange control restrictions.

Precipitate

The economic and political uncertainties facing SA made it difficult to predict trends for the year ahead. However, these uncertainties could precipitate certain transactions.

For example, large conglomerates might voluntarily start "unbundling" on their own terms, rather than being forced to do so by anti-trust legislation.

Offshore transactions would probably continue to escalate ahead of uncertainties regarding the future of the financial and exchange control, and control of family-held companies might change as their shareholders sought to realise a portion of their assets and diversify their risks.

Herbst said "No doubt we can also expect to see some increase in foreign inward investment as soon as meaningful political progress is made."
Recession takes toll on buyouts

THE global merger and acquisition (M & A) market is currently suffering its worst decline in living memory, according to Richard Mead, head of Ernst & Young International M & A network.

"The 1980s saw year after year of new records being set in the number of transactions being recorded, in the monetary volume of M & A transactions and in the size of individual deals. "But these were also years of excesses. Prices rose to unsustainable levels, encouraged by the willingness of bankers and junk bond investors to accept highly leveraged structures which later proved to be imprudent and, in some cases, catastrophic.

By the end of 1989, it was clear that the bull market in acquisitions, at least in the English speaking markets of the US, Canada, the UK and Australia, was at an end.

Economic recession forced companies to focus on managing themselves rather than on making adventurous acquisitions. The junk bond markets collapsed and banks proved reluctant to provide the necessary funding.

Continental European markets proved more resilient, largely because they were less mature and had not experienced the excesses prevailing elsewhere, Mead says.

Advantage

"Many of their companies took advantage of the lack of Anglo-Saxon buyers to make cross border acquisitions. Swedish companies were the dominant buyers in early 1990, although they disappeared from the markets when the extent of their country's own economic problems became apparent.

"French buyers have shown considerably more staying power and remain among the most aggressive, active both domestically and internationally."

The current overall position lacks the frenetic activity of the 1980s but is more stable. M & A activity as far from dead in English speaking countries.

"In the short term at least, a number of opportunities have been created by businesses going into bankruptcy, with their viable parts being sold. Other reconstruction and reorganisation work to combat the effects of recession has also resulted in sell-offs.

"On the whole, however, buyers have remained cautious and have been able to dictate terms, a situation wholly absent during the 1980s. Acquisitions now tend to be strategic rather than opportunistic."

Mead says the cycle will turn, although perhaps not for a year or two.

"Once health is restored to ailing Western economies, many companies will feel that the only way to achieve better-than-average growth will be through acquisitions."
Haib shares were suspended this week amid confusion over the company's future and legal action by former MD Glenn Lang over money owed by new controlling shareholder, Mega Holdings. JSE Listings GM Richard Connellan says Haib shares were suspended "in an attempt to flush whoever controls the company out of the woodwork."

"Since the change of control, we have been unable to contact the directors," he says "We would like to know what is going on because we have been led to believe there are no directors of Haib now." Connellan says the JSE will hold a meeting within 30 days to determine the future of Haib and assess whether the suspension should be lifted or continued, or the listing terminated.

Revere Resources, which formerly controlled Haib, sold its 80% stake for R550 000 at the end of June to Mega Holdings. Revere Resources MD Glenn Lang says he has instituted legal action for the winding-up of Mega, because of non-payment of R30 000 due on July 13 and R170 000 on August 6. "Sale of the shares was approved at a Revere Resources shareholders' meeting on July 31. On the same day at the Haib AGM, the Revere-appointed directors stood down and the Mega Holdings nominees were appointed to the board. We delivered the Haib shares to Mega's attorneys on August 6 to be held in trust," Lang says.

Mega MD Corne Koosman could not be reached for comment and neither could Geoff Parker, who is, or should be, the new Haib MD. When Haib's takeover was announced, it was also revealed Mega's operations were being investigated by the Business Practices Committee in terms of the Harmful Business Practices Act.

Mega bought the mineral rights to Haib for R550 000 from Springsbok-based mining entrepreneur George Swanson who, on Tuesday, declined to comment on whether he had been paid, saying he was trying to contact Parker to find out what was going on. "I'm in the dark," says Swanson. So are the rest of us.
Africa's fight for repress: Melody of the unchained!
SABC urges fund raiser to join JSE

By CHERILYN IRETON

GAMES Africa, the new company that will raise funds for the Ithuba Trust, is being encouraged by the SABC to go for a JSE listing.

A source close to Games Africa said a listing would give the company an image of public accountability.

This follows criticism of Ithuba's past fund-raising activities.

However, it will be at least three years before the company satisfies the profit history needed for a JSE flotation.

The JSE's three-year rule can be waived in exceptional circumstances. But this is unlikely to happen before the

R12-million in loan capital used to set up Games Africa has been repaid.

Central to Games Africa's initial success is an agreement with the SABC, which gives it free air time for the promotion of its games and scratch card competition.

The SABC has in the past been criticised by welfare bodies for its arrangements with Ithuba.

The SABC did not respond to questions put to it by Business Times this week.

The first of Games Africa's activities will be a weekly 30-minute game show, which will be launched on TV1 this month.

Games Africa has put up R3-million from its initial capital to fund the production costs of the 52 programmes the SABC will pay for.

The R12-million used to finance Games Africa came from six groups of investors — including local businessmen, an Israeli company, management, Ethorne Holdings, and Citizens Merchant Bank, and stockbroker Simpson McKee.

Rewards

The company is unashamedly profit-oriented and believes these investors should, in time, receive fair reward for risking their money.

Games Africa believes it can generate turnover of R100-million in its first year.

Half of the money will be used for prizes and 15% (or R15-million if the forecasts are correct) will go to Games Africa.

Some 30% (or R36-million) will end up in the Ithuba Trust and ultimately go to charity and welfare organisations.

From its income of R15-million Games Africa will fund marketing and administration costs.

The shareholders of Games Africa include a consortium of local businessmen, headed by Gibson Thela.

A quarter of the capital came from Kardan, an investment company quoted on the Israeli Stock Exchange.

The company's SA representative, Eytan Rechter, says the R3-million which Kardan has invested, was brought in through the commercial rand.

He expects it will be at least three years before Kardan receives a "fair" return on its investment.

Mr Rechter came under the spotlight this year when former Finance Minister Barend De Plessis allegedly intervened to help him and associate Shalom Shpolman smooth out foreign-exchange difficulties.

Games Africa management will ultimately become the third-largest shareholder with an effective stake of 20.1%.

A company called Games Management Holdings borrowed R2.4-million, at the prime overdraft rate to take up its stake.

These shares will eventually be passed to management through an incentive scheme.
SOUTH Africa's battered economy reeled under a series of blow this week as precious-metals prices and the stock market tumbled.

Gold plummeted to a low of $334 an ounce on Friday, pushing about 80 000 workers deeper into the red.

The catalyst for the fall was a warning by De Beers that it might have to cut its final dividend because of the depressed state of world economies.

JSE analysts say Anglo American and De Beers chairman Julian Ogilvie Thompson's warning of a possible dividend cut was a factor contributing to gold's fall.

"Prices had gone too high and the De Beers issue was the catalyst to bring us back to more realistic prices," says Adrian Finch of stockbroker Game Max Pollak, Vinderen Inc.

The share price of De Beers, the largest company on the JSE in terms of market capitalisation, fell 20% from 8 800 to 2 900, leading blue chips following suit.

The JSE overall index shed 7% to 1 140, wiping R26 billion off market capitalisation. The index has dropped 16% since the Boipatong shootings in June.

The rand depreciated 3.7% during the week, spurred largely by the De Beers warning.

Jobs

Drought and lower consumer spending caused a 2.6% decline in gross domestcic product for the three months to June, in what is acknowledged as the longest recession since the Second World War.

The World Bank has cut its estimate of the US recession to 1% from 1.5%.

The number of workers to lose their jobs in the current recession is officially estimated at 400 000. Other estimates are a million. About 200 companies are being liquidated, the highest since 1996.

Car sales for the year have been revised sharply downwards to 152 500, the worst since 1977. Sales are expected to fall further as a result of labour shortages caused by the Numu strike of 10 000 members.

Another 70 000 Numu workers may be called on to strike after a ballot that month.

Putting a brave face on the upsurge caused by the possible De Beers dividend cut, Mr Ogilvie Thompson opened the R21 billion Venetia diamond mine in the Far Northern Transvaal on Friday. He expressed confidence in the future of the diamond industry.

Mr Ogilvie Thompson demised he had analysed results on a world tour this year when he indicated the dividend would not be reduced.

Although De Beers indicated in late June that it believed the diamond industry

Body blows

From Page 1

in SA which preceded the ANC's mass action, ending worries about gold and platinum supply.

The drop in the Australian dollar which generated producers selling to lock into a gold price of A$489.

Rhona O'Connell, of Williams de Broe Chaplin, estimated that Japanese offshore platinum for jewellery could be 15% down this year, adding nearly 199 000 oz to a possible surplus of 10 000 oz forecast previously.

But Neil Carson, marketing director at Johnson Matthey, the leading fabricator and sales agent for Rustenberg Platinum, says the group still believes that rising demand for auto catalysts, up 69% to 800 000 oz this year, will lift platinum to $400 by the end of the year.

A major reason for the dramatic price change is a drop in US commodity funds which chased metals up in buying futures contracts and dumped them.

A 500 000 oz drop in demand in SA with industrial buying

Cocktail

London brokers say a cocktail of factors led to gold's weak performance.

- Nervousness about gold's failure to break through $350 and platinum's inability to hold above $300.
- The fall in the US stock market since six-year lows, prompting fears about platinum and diamond jewellery sales.
- A decline in the influential indicator of inflationary trends, the US Commodity Research Bureau index, which sank to its lowest since 1986.
- Rising of political tensions.

To Page 3
3m refugees to flood PWV?

OWN CORRESPONDENT
JOHANNESBURG

Drought in the Northern Transvaal could force between one and three million people to move to the PWV area this year, according to the Development Bank of SA (DBSA).

The homelands of Gazankulu, Lebowa and Venda are already under pressure from jobless labourers and from thousands of refugees pouring in from drought-ravaged Mozambique.

Farmers with no crops to harvest are dismissing workers. Most farmers are seeking alternative incomes and many have already put their farms up for sale.

DBSA senior project leader Mr. Hannes Sauermand said 1.2m people from the far Northern Transvaal were expected to move to the PWV this winter.

Up to 3m people could arrive in the PWV if no rain fell in the homelands by November.

More than a third of the workforce on farms in the far Northern Transvaal — about 70,000 people — have been dismissed and sent to nearby homelands.

About 200,000 refugees have fled Mozambique and poured into Gazankulu, Lebowa and Venda in search of food and water, said Mr. Sauermand.

The area, the Development Bank's region G, could be categorised as a major disaster area, rural development experts said.

At the weekend, a confidential report by a development agency in the area said 90% of farmers surveyed had reported harvests of 5% or less.

Rural Foundation Northern Transvaal regional manager Ms. Santa Bossert said farmers had been left with no choice but to fire all seasonal and part-time workers following a disastrous fruit farming season.

The development agency report said all development initiatives in the area had been halted.

An expected maize harvest of 2m tons had only yielded 222,000 tons, while only 10,000 tons of an expected 65,000-ton wheat harvest had materialised, she said.

Frut orchards were dying and could take seven years to revive.

"There's no natural water whatsoever and farmers have only had a three percent success rate in drilling for fresh water," she said.

Seven thousand villagers in north-eastern Venda are surviving on less than two litres of water a day. Some 600,000 people have been classified as having severe water problems in Lebowa, the report said.

The internationally accepted amount of water needed for health and hygiene is 15 litres a person a day.

At least 300 villages in the affected homelands are now totally dependent on tankers for water.

The homeland reports also said:

- Almost 100% of the dryland crops planted in Venda and Gazankulu this season had failed.
- A quarter of the total population in Venda was destitute and depended on food begged from friends and neighbours.
- 50,000 cattle — three quarters of the total for the area — were expected to die in Venda due to the drought, while those that did survive would not be in a good enough condition to be sold, and
- Nutritional diseases have increased by 33% in Gazankulu since June 1991.

The DBSA is working to minimise the damage in the area, including implementing drought relief projects and feeding schemes, Mr. Sauermand said.
How do you thrive in Australia's eyes?
Shares regain some of their losses

SHARE prices on the JSE yesterday regained some of last week's losses, in line with trends on most major world markets.

The overall index closed 34 points firmer at 3,174, the industrial index 30 points up at 4,005, and the all gold index 28 points higher at 904.

"Stronger closes on international markets, firmer precious metal prices and a weaker rand combined to offset some of the negative sentiment on the local market," a dealer said.

In Tokyo, the Nikkei Index gained 105.50 points to close at 14,929.55 on continued short-covering by sellers, while in London the FTSE 100 index closed 19.3 points firmer at 2,376.1.

Dealers said the weaker rand, which closed at R3,3350 to the dollar from Friday's R3,78, and improved sentiment after the rise in gold and platinum, had boosted activity of mining and mining-related counters.

Gold rose $1.55 to close at $337.25 in London from Friday's $335.70, with platinum up $1.50 at $347.75 at the afternoon fix.

"An increased number of buying orders started to flow into the market after lunch, but there is little quality stock on offer at the lower prices and buyers are having to pay up if they want scrap," a dealer said.

The market was expected to drift sideways over the week unless "something unexpected" happened, but it needed positive, sustainable news for an upturn.
Increased earnings for restructured Genbel

MATTHEW CURTIN

GENBEL, Gencor's investment arm, has reported a 8.9% increase in earnings a share in the year-ended June 1992. Genbel has restructured its portfolio in recent years and its growing reliance on its non-mining investments and stake in fuel group Engen helped offset the impact of the depressed mining industry on profits.

Earnings rose to 34.2c from 32c a share. Genbel declared a 6.2% higher dividend, up at 3c from 3c a share.

MD Anton Botha said that "given a moderate recovery in the world economy, Genbel should achieve further growth in earnings and dividends in the 1993 financial year." The company would continue to restructure its portfolio, reducing its exposure to the metals and minerals markets, to ensure it was maximising shareholders' wealth in the long-term, he said.

Genbel turned in distributable income of R148m (R138m), and earned a R143m non-distributable surplus on the sale of all or part of its stakes in Anglovolda Holdings, Gencor, mining investment company Middle Wits, and Rustenburg Platinum.

Botha said Genbel increased its holdings in Samancor, Sapp, Transalliance and Impala Platinum, and increased interest-free bridging finance to Gengold, developing Oryx gold mine.

In the year, the market value of Genbel's net assets in precious metals and mining finanncials fell to R1.3bn from R1.8bn. The value of its investments in the finance, insurance and property sectors rose to R655m from R611m, in the energy sector to R470m from R429m, and in the paper sector to R321m from R196m.

The total market value of the company's assets fell to R3.2bn in 1991.

Unseen, Genbel's wholly owned short-term trading company, paid R22.5m in dividends against R20m last year, after producing a R33m (R41m) profit in 1990. Genbel transferred its short and medium-term investments to Unseen, after selling a significant portion of them at a profit.
Jitters abroad wipe out gains on JSE

PETER GALLI and HILARY GUSH

MONDAY’s gains on the JSE were wiped out yesterday as investors reacted to jitters conditions on world bourses.

On the Japanese stock exchange, the Nikkei plunged 620.14 points to close at a six-and-a-half-year low of 14,309.41. It was hit by renewed short sales and arbitrage unwinding following a steep fall in futures prices, dealers said.

Share prices on the London Stock Exchange also lost their Monday gains on a lethargic market, with the FTSE index ending the day 21.4 points down at 3,354.7.

Platinum prices dropped $4.50 to $343.35 at the afternoon fix, while Nymex October platinum futures were trading $3.10 or 1.18% down at $343 in late trade. Japan is the biggest importer of platinum, accounting for about 2,056 million oz in 1991.

In London, gold closed $1.15 down at $356.175.

On the JSE, the overall index closed 33 points down at 3,119, the all gold index closed 23 points to 942 and the industrial index lost 20 points to 8,983. These losses almost wiped out Monday’s 34-point gain in the overall index to 3,174, the 30-point rise in the industrial index to 4,061 and the all gold index’s 29-point gain to 964.

The downward spiral on the local market was led by De Beers, which closed below the R10 resistance level at R9.50.

The slightly stronger rand at R3.82 a dollar from Monday’s R3.8550 close did little to deter foreign interest at these levels and some buying was reported.

An analyst said prospects for early economic improvements on both local and international fronts appeared to be waning, which was reflected in investor caution and the bearish sentiment on stock markets.

On the capital market, hectic trade and continued bullish sentiment saw rates fall to near nine-year lows yesterday.

The yield on Eskom 165 stock finished at around 14.03% from an opening of 14.15%.

Similar lows on long-dated Eskom bonds were last seen in November 1983.

The yield on the benchmark government

JSE

R150 stock ended 14 points down on the day at 14.10% from 14.24% at the start of the session. Dealers, however, quoted trades significantly lower with the yield on the R150 stock down to 13.98% and 14.94% respectively.

They said a surge of institution-led buying of medium-dated bonds in morning trade had led the downward movement in other rates. Buying of longer-dated stock had, however, been mainly speculative.

Although long-term rates were expected to come down further today, traders predicted an upward correction soon. One dealer said the market was heading for a “healthy correction of about 70 points.”

Within the next week. He said rates would, however, come down to even lower levels during the year.
ANC, Govt at odds on abortion

DURBAN — Abortion on demand in a new South Africa would not be "easily allowed" if the present Government had anything to do with it, the Director-General of the Department of National Health and Population Development said yesterday.

However, although official ANC policy had not been formulated, ANC Women's League chairman Dr Nkosazana Dlamini-Zuma indicated she was "for choice".

"Dr Coenraad Slaabber and Dr Zuma were tackling the topic of "A future health system for SA" at a forum organised by the Institute for a Democratic Alternative for South Africa at Durban's Blaqem Hotel.

Dr Zuma said the number of fatalities from "backstreet" abortions — 14 out of 1,800 admissions at King Edward VIII Hospital last year alone — was sufficient to persuade her that abortion should be legalised.

But both agreed that a future health system for South Africa must promote the goal of free health for all, could not be based on ethnicity and must be decentralised to the greatest possible extent.

However, Dr Slaabber said a detailed blueprint for a future health system would depend on the constitutional model adopted in the country, although it would be "fool to wait until insanity is reached before we address a future health system".

Therefore, the Government had accepted five policy principles on which health services in South Africa should be built equity, accessibility, affordability, efficiency and acceptability.

Dr Zuma added that symptoms of apartheid such as poverty, violence, and lack of housing and recreational facilities were major contributors to ill-health and would have to be attended to for a future health system to be successful.
Govt, ANC tackle abortion in new SA
and free economy
loss out featherbeds
Send in raiders to

WATERS AND GEORGE GUINESE call for drastic changes to S.A.'s
Two former economic advisers to Margaret Thatcher, Sir Alan

SOUTH FACES A TIGHT FIGHT ON THE ECONOMIC FRONT, THE
AN ENSHIRE ECONOMY IS IN FLUENCY OF ITS PROGRESS, THE
BENEFIT OF THE CURTAIN, COMMUNITY AND THE ECONOMY
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Privatised companies will face ANC nationalisation

By Sean Feetham

A future African National Congress government would immediately nationalise any public enterprise that was privatised in the interim, according to economist Tito Mboweni.

Addressing a conference on commercialisation and corporatisation in Pretoria yesterday, Mr Mboweni sternly warned of the consequences of the Government's policy of privatising public corporations.

"Our policy is that any public corporation which is privatised now will be subject to immediate re-nationalisation without compensation."

Mr Mboweni reiterated ANC opposition to the privatisation of public enterprises, arguing that Western countries that were pursuing privatisation could afford to do so as their economies already had developed infrastructure.

A democratic government in South Africa would have to ensure basic services were extended to the majority of the population through public corporations — Sapa
Moz refugees pouring in

Own Correspondent

PRETORIA — illegal immigration from Mozambique is reaching critical proportions, quadrupling over the past decade and intensifying over the past year because of the drought.

During a SADF briefing in the Kruger National Park border area this week, Deputy Defence Minister Mr Wynand Breytenbach was told that the number of deportations of Mozambicans had risen from 11 534 in 1985 to 46 938 last year. The figure for the first eight months of this year was already higher than for the whole of last year.

The SADF, which patrols the length of the park, had arrested 2 890 people last year and 2 730 so far this year.

There are an estimated 400 000 Mozambicans in SA illegally. Military authorities believe the terrain impedes the apprehension of illegal immigrants and only 20% are caught.

Mozambican refugees, pushed by the civil war and pulled by the need for food and work, are increasingly attempting to cross into SA via a hazardous 35km walk across the park.

Military analysts are concerned at the poor health of refugees and the health risk they bring with them.

Political implications are also beginning to be felt, with refugees absorbing many of the homeland resources, especially at schools and clinics.
World Banks sends top speakers

The Africa Project Development Facility (APDF), an arm of the World Bank, will be sending top speakers to our forthcoming Business Conference on Sunday 13 to Tuesday 15 September.

In addition to sending Mr Alexander Keyserlingk, its general manager, it is also sending Southern Africa regional manager Mr Omar Issa. Mr Issa will talk on "The Role of the Government in the development of small businesses into medium sized entities" and will focus on areas for Government concern.

“From experience in similar developing countries there are standard areas for Government to concentrate on.

- There are many facets that comprise a healthy business environment which must be more conducive to growth. These include the need for less time consuming bureaucratic procedures. Big business cannot be kept waiting too long to receive approval on their proposed investment ventures. There is a need for an investment code to attract long term business investments. Even something as innocuous as immigration and customs officials being more friendly and helpful fits into creating a healthy business environment, and so of course does a good infrastructure in order to facilitate efficient communication, dissemination of information and distribution.

- Financial instruments - the Government should develop policies which assist small businesses to develop as opposed to just providing financial assistance and subsidies.”

During his presentation Mr Issa will describe the steps that need to be taken to produce the right environment and will draw on examples from a selection of African countries. A Tanzanian himself, he will be able to share his hands-on experiences gained while seconded to developing areas such as Abuja, Nairobi and Zimbabwe. Mr Issa also spent five years in South Korea and will describe the enormous growth of South Korea’s economy which some 20 years ago was in a worse state than our present business infrastructures.

The Africa Project Development Facility provides advisory services to private African Entrepreneurs in the preparation of viable medium sized businesses. The Facility does not provide project financing, it works with the entrepreneurs to secure financing and helps them with obtaining technical and managerial assistance.
'Unbundling' ups Gencor's shares

By ARI JACOBSON

GENCOR group's rumoured unbundling may set an precedent for the large finance houses as a thumbs up from the market saw the share rise 4.5% or 90c over the last two days to R11.25c a share.

The concept of unbundling or the breakdown of large conglomerates into smaller groupings has been at the forefront of economic debate about the future South Africa.

The benefits of unbundling, explained Gencor chairman Brian Gilbertson, would "give us a clearer focus - the paper and pulp activities of Sappi, for instance, are materially different from digging holes in the ground".

Gilbertson said that the unbundling "would release for Gencor shareholders the 10% to 20% discount inherent in a pyramid structure". He added that "smaller groupings would appear to be politically more welcome in the new South Africa".

Frankel, Max Pollak's mining financial analyst, Peter Davey, added that the dearth of management talent would happen, the potential of the individual pieces such as Sappi and Malbank coming out of the Gencor fold.
Privatisation will be reversed

AN ANC government would immediately nationalise any public corporations recently privatised by the current government, ANC senior economist Tito Mboweni said yesterday.

He told a commercialisation and corporatisation conference in Pretoria that the ANC always had been opposed to government's privatisation process.

"Those public enterprises which have been privatised will be subject to immediate renationalisation without compensation," Mboweni said.

He said state corporations would play a vital role in SA's socio-economic development.

"One is not suggesting that SA public enterprises should continue to behave as they have for many years. Instead they must gear themselves to changing domestic and international circumstances and operate in the context of strict efficiency and accountability rules," Mboweni added.

"Management power without accountability becomes tyrannical."

Government's commercialisation policy meant that market considerations took precedence over social issues.

Public Enterprises Minister Davie de Villiers told the conference commercialisation - which occurred when state enterprises adopted commercial principles - had placed a burden on the country's limited capital and manpower resources, resulting in higher government borrowing requirements.

"The correction of this problem lies in reducing the role of the state, curbing excessive public expenditure, applying the disciplines of the market and creating more room for private initiative and ownership.

The growth of SA's public sector over the past decade had placed a burden on the country's limited capital and manpower resources, resulting in higher government borrowing requirements.

"The correction of this problem lies in reducing the role of the state, curbing excessive public expenditure, applying the disciplines of the market and creating more room for private initiative and ownership."

Privatisation

and privatisation formed an integral part of government's economic restructuring programme.

The programme was aimed at promoting growth, creating jobs and a better income distribution.

"It is our conviction that a better utilisation of scarce resources is possible only if more goods and services can be allocated by the determination of market forces."

The growth of SA's public sector over
NEWS IN BRIEF
6/DAV/2/18/92
Polish walkout ends

WARSAW — A month-long walkout by 40,000 workers at Poland's only copper producer ended yesterday but several strikes, organised by radical unions, continued.

In a victory for government, which had refused to bow to pay demands, workers at the state-owned copper combine KGHM Polska Miedz SA agreed to suspend the strike without getting the increases
BY 2010, Johannesburg will be one of the world’s 24 megacities. With an estimated population of 15 million it will be more populous than London is now and larger than Los Angeles.

The question is: will this mighty economic dynamo be a stable and peaceful city of respectable, middle-class, employed citizens or will it have degenerated into a decaying, crime-ridden core where services have ceased to function and which is taken over by vagrants and the unemployed?

According to statistics released by the United Nations Centre for Population Studies, by 2000 more than 80 percent of people in the developing world will be living in cities.

"Many city dwellers are already engaged in desperate struggles for shelter, jobs, health care and food. Such problems are often most severe among those least able to cope with them: mothers, children, the homeless, the unemployed."

Municipalities’ resources are being stretched by the demands of urban populations that are continually being swollen by migration from rural areas. This phenomenon can be observed all over the world, Johannesburg is no exception.

Urban Foundation research shows that in the PWV townships, average occupancy per stand in 1991 was 10 to 11 people.

A TINY task force is working on tackling South Africa’s biggest city for a massive population explosion, reports JOE LOUW.

According to South African Institute of Race Relations statistics, 2.4 million people were known to be living in shacks in the PWV region alone.

In an attempt to cope, local governments are seeking innovative ways to manage urbanisation. In Johannesburg, an urbanisation department has been formed.

Gerd Supple, who heads it, told the Saturday Star what his team hoped to achieve. "We want to ensure that Johannesburg is firmly established as a leading city in the management of the urbanisation process."

Projects

"Ours is an integrated approach to urban development. We set into motion a series of constructive interactions and partnerships among communities and the controllers of resources to prevent urban decay and encourage renewal."

Supple, whose tiny task force recently set up shop at the Gvac Centre, outlined how his department worked and the kinds of projects it would get involved with.

"The issue of homeless people in central Johannesburg has long been recognised as a serious problem. Yet while there are over 15 organisations concerned with it, not much has been done."

"We got all the concerned community organisations to sit down together to explore ways of working together, and at the same time approached Johannesburg City Council to make available one of its unused buildings. This will be handed over to these organisations to run as a shelter for the homeless."

"Our intention is to facilitate a solution to the problem and then let the organisations tackle it in the way they determine is best."

One example of simple action to meet immediate needs was obtaining 86 single-decker buses for communities to use as clinics, libraries or even informal meeting places.

Current projects include a review of the problems hawkers face — and the problems they create — with a view to conducting a workshop at which policy would be reviewed with all parties concerned.

"What we are setting in motion is the kind of process that would be of benefit to any kind of local government, regardless of its particular political orientation. The political orientation of the council should not determine the kinds of processes used by the council division."

"What we are doing is finding a more appropriate process."

The 130-year-old council system, derived from a British model of local government designed largely to preserve social structure, was no longer useful, he said.
It's the rich that want to leave

By BARRY STREEK  
Political Staff

WHILE one-in-three English-speaking households had given thought to leaving South Africa, 90% of Afrikaans families had not considered emigrating at all, a new public opinion survey has found.

A high proportion of those who had considered emigrating were in the upper-income bracket, and most live in Durban (33%) and Cape Town (25%).

However, 79% of the 800 white women who were interviewed door-to-door in the last week of July said they had not considered emigrating. Research Surveys' Omnicon division said yesterday.

"Of the English-speakers who had considered emigrating, 43% said they would like to emigrate but were unable to do so. A similar number claimed that while they had thought about it, they did not intend emigrating.

"The rest (14%) had plans to leave the country in the foreseeable future."

Significantly more respondents who indicated that they and their families had thought about emigrating, but had changed their minds were from the top income group.

"In the final analysis, only a small proportion of the total sample (3%) had firm plans for emigration.

"However, the mood of English-speakers would appear to be less than optimistic, with a predisposition to setting up home elsewhere, should circumstances allow it."

The poll indicated that 82% of women between 18 and 24 had not considered emigration.
Technical ways to beat market

My COLUMN of August 3 stressed the dramatic capital growth possible if one brought intelligent management to bear on one's unit trusts. However, it was pointed out that the problem related to switching in and out of units was determining when the market was reaching a bottom or peaking.

I suggested that what one needed was a sensitive indicator of market-direction change that avoided the whipsaw movements which befoul moving averages, sometimes taking the user in and out of the market within a few days at an effective trading loss.

Indicators

I concluded that the best instrument I have been able to find for this purpose is the Kurtosis indicator.

I am not going to try to describe how the Kurtosis is constructed. The mathematicians among my readers will understand it as the fourth derivative of differential calculus.

Ordinary mortals should simply accept that it is one of the many indicators available within my own ShareFinder suite of share market analysis programs and in one or two competing programs.

What have we actually achieved by using the Kurtosis indicator? This strategy involved seven transactions in the past 10½ years and achieved an actual increase of 403.18 percent. That is 149.7 percent more efficient than rand-cost averaging and 68.32 percent of the maximum theoretically possible gain.

A lump sum invested in January 1962 to present would have gained 486.18 percent.

Working with an initial lump sum and using Kurtosis to guide movements in and out of the market would have involved one in seven transactions over the 10 years and would have resulted in a 1231.36 percent capital gain. That represents a 169.92 percent more efficient method of lump-sum investment.

In our research to develop a computer-automated unit trust strategy program, FundFinder 2, we have managed to improve somewhat upon those results, having attained 78.99 percent of the theoretical maximum gain over the 10-year period.

The process we are currently using is not, however, capable of emulation without the use of a computer because it involves a somewhat rudimentary use of the computer's own artificial intelligence to determine whether or not to issue buy-and-sell signals based upon its evaluation of the data it receives. Back-tested over the past 10 years, this technique has achieved a 467.5 percent actual capital gain, which was 186.5 percent better than rand-cost averaging and would, have to date involved 11 distinct transactions.

Essential

The inferences of this study are clear that you can beat the accepted returns by a handsome margin if you are prepared to go to a little trouble, but that contrary to the view I have always held, the exercise is really only worthwhile if you use techniques that are so mathematically intensive that a computer is virtually essential. Sadly, there seems no longer to be any room for the man who uses a pocket calculator and a well-sharpened pencil.
In a Crash

Cushion Your Assets

Finance staff say economists are done

process are documented says economist

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In a Crash

Cushion Your Assets

Finance staff say economists are done

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Liberty life led the way with ultra-constant results and handsome special dividends in the half-year to June. The share price rose from R40 to R45, to R45,50 and Lushold R12 to R122.

Part of its success is attributable to Liberty's having added to its stable holdings, paying R40 about a year ago. Stanbic hit R71 this week after a 596c climb. It has been a star performer in both earnings and share-price appreciation, a year ago it was R47,50.

Anglo American must rue the day not long ago when it sold a large parcel of First National Bank shares off the market. First National gained 106c to R58,50 this week, almost double the price at which Anglo probably sold.

Perhaps the memories linger because Anglo American and stabledmate De Beers came under increasing downward pressure when everyone thought the bad news was history.

For no reason other than newspaper speculation that De Beers might be dealing with the Namibian Government on Consolidated Diamond Mines, the market whacked the shares another R5 down to a 12-month low of R54,75. The price later rallied to R58,75. Anglo American dropped to below R100 for the first time since early 1991.

Industrials were quiet, other than Richemont and Kersaf. A large deal in Kersaf before lunch on Friday fueled speculation that Sol Kersner might return to run the show — talk denied by Kersaf.
ANC president Nelson Mandela has appealed to whites not to emigrate because of violence.

He said in Klerksdorp on Friday whites South Africans should remain in the country to help solve the political crisis and rebuild the economy. All South Africans, irrespective of their political affiliations, should govern a new SA.
Still fishing for NCI

OUT of the NCI frying pan into the Terra fire is the way I see the latest ploy to affect investors in unlisted securities.

The listing of NCI, put forward as a potential blue-chip venture capital company, was terminated on the JSE in June. The company was technically insolvent, R14 million of shareholders' funds having been wiped out and not a cent having been made.

NCI issued shares for several years before listing.

Terra describes itself as a mining holding company with interests in mineral rich deposits. It has applied for a listing on the JSE.

Terra offers NCI shareholders the opportunity to convert NCI shares into Terra at no cost — provided they subscribe for one Terra at 25c for every NCI held.

The offer is signed by Dutch Vernon, senior consultant (sink) of REIP Marketing, housed at the same Lonhill offices as Terra and its major shareholder Falcon.

Dr Van Niekerk values the reserves of Terra's four projects at a staggering R627 million.

This comes at a time when mining and exploration companies value their mineral rights at zero on the grounds that they are worthless until turned to account.

An alternative seems to be available to beleaguered NCI members. Chief executive Mike Clarke proposes in a letter to them that they "equitably participate in the financing or the salvaging of the company."

A holding company, the Opportunity Company, will be formed to recapitalize NCI and thereafter furnish financial services to its projects.

These look like the original clothes Mr Clarke donned when he launched the idea of venture capital management through NCI six years ago.

Yet another option is available to NCI shareholders. A hundred shares plus a rand can be swapped for shares in General Holdings Investments (GHI), a company yet to be formed.

It will receive a stake in the New Ultraxy colliery near Middelburg. Needless to say, New Ultraxy's production and profitability will double or even triple if it gets the development capital through GHI.

Membership of NCI is basically a lure to raise money for GHI.

An investor should consider whether any fresh capital he puts into any of these propositions is really the best opportunity of the moment.

I say it would be like subscribing to a post-graduate course in how to lose money after failing the undergraduate course.
Immigration to South Africa suffered a setback in the first four months of 1992, with the overall gain of 3,027 in the first quarter of 1991 slashed to only 1,430 from January to April this year, according to the Department of Home Affairs.

And a steady flow of people are emigrating from the country. In April alone, 409 people left the country, 75 more than the 334 in April 1991.

About half of the people who left this country in April were economically active, headed by 95 professionals, semi-professionals and technical experts, of whom 38 were engineers and related technologists, 44 clerks and salesmen, 32 artisans, 28 people in the managerial field, 19 in the mining profession and 15 involved in education.

The 201 emigrants who were not economically active included housewives, students and pensioners.

During the same month, immigration was slashed from 1,144 in 1991 to only 519 in April this year.

On the plus side, 228 of the 519 who settled in South Africa in April this year were economically active. They included 86 professionals, of whom 25 were engineers and 23 doctors.

The largest contingent of settlers (247) came from Europe, of whom 104 were from the United Kingdom. The 122 who came from Asia included 40 from the Republic of China.

A total of 97 immigrated to South Africa from Africa, including 43 from Zimbabwe, and of the 47 who flew in from the Americas, 21 were from the United States and 13 from Argentina.
JOHANNESBURG. — The basis on which the private and public sectors competed in the market should be clarified as soon as possible, Competition Board chairman Pierre Brooks said at the weekend.

Speaking at a commercialisation and corporatisation conference in Pretoria on Friday, Brooks said as competition by parastatals posed a significant threat to the continued existence of some private firms, it was essential that clear ground rules be laid down as soon as possible.

He said government's policy of commercialisation was intended to reduce or eliminate its financial commitment to parastatals. However, pressure on parastatal managers to extend their activities in order to secure alternative sources of income often threatened private sector business.

In practice, commercialisation and privatisation were proving to be at variance with each other in that, while privatisation was intended to transfer certain state-owned business to the private sector, commercialisation was in effect compelling parastatals to take business away from it.

The net result was an increase rather than a diminution of state-involvement in the economy, he said.

Provided the playing-fields were levelled, the Competition Board favoured those moves by parastatals into private sector monopolistic and oligopolistic markets that would result in lower prices or improved consumer services.
HEALTH

The right to terminate pregnancy

Abortion Reform Action Group (ARAG) was set up to get the law on abortion changed. Speak magazine asked Chris Diamond who runs ARAG’s Johannesburg office why he feels abortion should be legal.

Encouraged and thought the law might change. But the Minister of Health, Dr Rina Venter, said only 50,000 women wanted the law on abortion to change.

Mr Diamond believes the survey did not show women’s true views. He says far more than 50,000 South African women have illegal abortions each year.

Overseas medical records show that each year more than a thousand South African women fly to countries like Britain to have safe and legal abortions because they cannot have them locally. Those who do not have the money to go overseas have to settle for unsafe backstreet abortions. It is estimated that in South Africa more than 200,000 women have illegal abortions each year.

At Baragwanath Hospital, 4000 women a year are admitted after having abortions.

“Should we look at the numbers of women who have illegal abortions and then decide what women want. How can all these women be against changing the law?”

“The laws in this country make it terrible for any woman who needs an abortion. Why should any women die from a botched abortion? If the laws were different, having an abortion would be as safe and legal as any other medical procedure, and it will be the woman’s personal choice.”

Mr Diamond feels government health departments should give free treatment to women who have had illegal, unsafe abortions.

About pro-life groups (groups which are against abortion) Mr Diamond says, “I cannot see people who say No to legalising abortion help bring up thousands of unwanted children.”

The people who don’t have to have an abortion and never will are the one’s making laws and decisions about it.

“In the end it’s a woman’s problem. As part of a group campaigning to have the law changed, I think it’s important for women to realise they are not alone”

Abortion is illegal in South Africa. The law says a woman can only have an abortion if:

- Her pregnancy threatens her life or her physical and mental health;
- There is a serious risk that the baby, once it is born, will suffer from a serious physical or mental disability;
- The pregnancy was a result of rape or incest;
- The pregnant woman is unable to understand fully the responsibility of being a parent. This could also apply to girls under 16.

A woman has to go through a long and difficult process to prove she has the legal right to have an abortion.

Because of this, only four out of every 10 women who apply for a legal abortion in South Africa get one. Most of these are white.

To contact ARAG in Johannesburg, phone (011) 442-9540.
New Kleinfontein revamp

NEW Kleinfontein Properties said yesterday it had proposed a reconstruction under which it would be reconstituted as a variable rate loan stock company.

It would apply to amend its listing on the Johannesburg and London stock exchanges. The listing in the JSE's property loan stock sector would be under NK Properties. (232)

Shareholders would have to use the entire proceeds of a special dividend they would get to subscribe for new variable rate, unsubordinated, unsecured debentures irrevocably linked to the ordinary shares.

The company would also dispose of its land holdings and mining title to APC Investments. It said shareholders should exercise caution in their dealings. — Reuter
JSE follows sharp drops in global markets

WORLD stock markets tumbled yesterday. The declines came as concerted intervention by 15 European central banks failed to halt the slide of the US dollar to new lows against the German mark.

The turmoil on foreign exchange markets fuelled fears that the weak pound might force a rise in British interest rates, prompting a sell-off of shares in London.

The FTSE index of 100 shares crumbled 2.3% or 54.6 points to close at 2,311.1, but off an earlier low of 2,284.7. It was the largest one-day fall this year and swept the index to an 18-month low of 2,518.7.

Most other European markets registered losses of 1%-3%.

The downward spiral of global share prices came on the heels of sharp losses on Wall Street on Friday which were extended at the opening of trading yesterday, although the Dow Jones industrial average recouped part of its losses in later trading.

Only the Tokyo market went against the softer trend as the Nikkei index of 225 shares rose 2.5% to go back above the 17,000 level. But Diagonal Street followed the trend of other markets, with De Beers in the forefront of the falls, shedding 4.4% or 250c to a new year low of R54.25.

However, the erosion of the dollar buoyed gold, which surged $4.65 to close at London at $342.05. The rise came on speculative buying said to be aimed at prompting a short-covering rally on Comex where major funds went short during the metal’s recent sharp falls from a high of $380.

The JSE all gold index rose 15 points to 945 but players remained hesitant in the face of the metal losing its attraction as a safe haven, amid reports of producer selling.

The overall index shed 51 points to 8,145, with the industrial index down 30 points to 4,045 as Friday’s positive sentiment was peremptorily brushed aside.

A dealer said: “The abrupt change of mood reflects the fragility of a market which players are finding difficult in reading. There is not much selling pressure but buyers are holding back with the intention of buying shares later at lower levels.”
Investor’s tax move may not pay off in the long run

ANDREW KRUMN

LONG-TERM investors in listed shares may benefit from a recent change to the Income Tax Act in the 1993 tax year, but may suffer in future tax years, says KPMG Aiken and Feat partner Alister MacKenzie.

An amendment to the Act would allow JSE investors who had held their shares for more than five years to choose whether future profits were taxed or losses became tax deductible.

But there was one proviso, MacKenzie said. Shareholders could make the choice only once. Their decision to treat the profit (or loss) on any future share deals as being of either a capital or a revenue nature would apply to every succeeding tax year.

He said “Previously a share had to be held for at least 10 years before the receipts or accrual from sale could be regarded as non-taxable — that is, of a capital nature.”

From March 18, 1992, the holding period had been reduced to five years, leaving the shareholder who sold his shares with two possible avenues.

☐ to continue as before under the old Act or;
☐ to use the new provision as a safety net for the 1993 tax year.

However, moving into this safety net for the 1993 year alone could be risky from a future point of view.

“For example, if he sold an affected share after March 18 and chose to treat the proceeds as a capital profit in 1993, the receipt or accrual on all future transactions will also be treated as being of a capital nature.”

Thus meant that where the investor made capital losses in future, the Receiver would not allow these losses as a deduction from income.”
Gilt millionaires

By JULIE WALKER

GLOOM on the equity floor could hardly contrast more starkly with the carnival atmosphere on the gilt market.

Several millionaires have been made over the past few weeks as rates gave up almost 100 points to well under 15%. Holders of call options only weeks ago have made plenty of money and expect more.

Their unpromised partners on the equity floor saw their worth decline even more this week. The market overall has shed 10% since the early June peak and the industrial index is down by 12%.

The cash-rich institutions have switched their attentions from private equity to public-sector debt.

At the start of June everyone on the JSE expected a correction of up to 25%, but halfway through, the mood is one of despair. World economies, domestic politics, strikes and joblessness are getting to the JSE at last.

Not even gold's encouraging advance to $590 could stimulate buying of all but the best golds — Freegold, Vusa Reefs, Driefontein.

Rembrandt companies have been hard hit. From above R25 in early June, Remgro has lost almost 20% to R20.85 and SA Breweries has given up 15% to R51.75.

Tongaat shed 35c to R16 in a single deal of barely 1000 shares on Friday, but was bid higher at the close.
Move to revise law on firms buying own stock

THE principle of SA company law which bars companies from holding or buying their own shares will be revised, says the Association of Corporate Treasurers of SA (Actsa).

Actsa national technical committee member Dave Mitchell said the right of companies to buy their own shares, within specified limits, through open market transactions on a recognised stock exchange, was already entrenched in the US and Canada.

He called for legal allowance to be given to listed companies to buy and sell their own shares through the formal marketplace. Repurchased shares could be held as "treasury stocks", he said, until the company's cash position changed.

"If listed companies are allowed to buy their shares when prices are low, and to sell them when prices have appreciated, they would be able to influence the supply and demand of their own shares. In a volatile market, this could become a significant factor in stabilising price movements, while at the same time promoting liquidity. Shareholders would benefit from the better market conditions, as well as from any profits made by the company."

Mitchell discounted the danger of management's decisions being influenced by insider knowledge.

"If anything, changing the rules creates an opportunity for us to improve disclosure standards and to give companies an extra incentive for releasing price sensitive information. We all want an honest and efficient market."

Among certain parameters he suggested was that:

- Special disclosure rules be negotiated with the JSE and the Securities Regulation Panel to guard against insider trading, and
- Company-held shares would not qualify for dividends, and voting rights should be suspended

JSE president Roy Andersen has said the JSE committee has an extensive research programme.

"Company share repurchase is certainly under consideration," he said.
How to beat Inflation and Taxation

Money Matters Unit Trusts offer Capital Growth, Income, or combination of both

Hedge Against Inflation

Magus Heyssel looks at unit trusts as a
Double Digit Financial Expert 2x2 Double Digit Financial Expert 2x2

Source: 2/7/842

Source: 2/7/842

Source: 2/7/842
Cendel sees some encouraging signs of a worldwide economic recovery.
Mining house shares flow like gold, say experts

Matthew Curtain

SHAKY DYNAMICS

Share price

Hand Mines & Mining House

Hand Mines & Mining House

Business CA, Thursday, August 27, 1992

6
For Economic Ills blame pyramids only the naive
Sharp dip expected in W&A's performance

W & A Investment Corporation's earnings would dip by between 20% and 30% in the six months to end-June on the back of poor operating conditions in nearly all its markets, analysts said yesterday.

Market expectations of lower results are reflected in W & A's share, which closed yesterday at a low of 218c after trading at 575c in October last year.

Analysts said the interim performance would be more or less in line with their expectations for the full year.

They said income from its diversified operations, which include Gentyre, Form-Staff, JD Group, AAP Investment Corporation, Vektra and various consumer-related companies, would be down.

This was because many of its divisions operated in markets which were cyclical and had been hard hit in the recession.

Results would depend largely on its scaffolding business and on those of Gentyre, which has yet to report.

Analysts were divided on how Form-Staff would perform.

They said its results would be down by between 10% and 40% as it was affected by local and international recessionary conditions.

One analyst said scaffolding was likely to do better than most of W & A's listed companies, but it would still be down on the previous year.

Gentyre's results, which were likely to be down by as much as 30%, would reflect the state of the tyre industry and competition from exports.

Analysts were unsure whether it would be faced with a tax bill in the current period.

Furniture retailer JD Group had already reported lower earnings.

Analysts said all the group's consumer-oriented companies would turn in poor performances for the period.

W & A would have reduced its debt from the sale of its hosery interests and of most of its holding in Eicentre.

The interest bill would also benefit from lower interest rates.

But analysts said it was not known to what extent the group had reduced head office debt.

The group would also be reporting with no contribution from its hosery division.

Hosery contributed R22.3m to attributable profit in financial 1991.
Back on the path to privatisation?

Two-and-a-half years ago, bowing to political pressure from the ANC, mounting union protests and an about-turn by the Democratic Party, government shelved most of its privatisation plans and focused on commercialisation — the halfway house devised to run State entities along business lines.

Now, Public Enterprises Minister Dawie de Villiers, the man who put on the brakes, is talking about privatisation as if the past few years hadn’t happened.

“Commercialisation and privatisation form an integral part of the government’s economic restructuring programme,” he told a forum last week examining commercialisation and corporatisation, arranged by AIC Conferences. “This programme is aimed at promoting economic growth and job creation, a better distribution of incomes, improvement in the quality of life, eliminating socio-economic backlogs and the upliftment of communities that have been deprived of basic needs.”

Government also seems determined to push ahead this year with the full privatisation of the Abattoir Corp (Abacor), despite complaints that the industry must be deregulated first.

The change in strategy is surprising. Certainly ANC opposition to privatisation is as rabid as ever. ANC economics adviser Tito Mboweni’s message to the gathering of business leaders leaves no room for doubt.

“Our policy is that any public corporation that is privatised now will be renationalised without compensation.”

He does stress, however, that the ANC has no hard and fast policy on commercialisation, though it has resisted all such efforts so far.

Clearly, the ANC believes State corporations have an important role to play in SA’s development, particularly in the redistribution of wealth. The ANC correctly points out that these bureaucracies were, after all, used to implement apartheid policies to the disadvantage of blacks. But the ANC’s greatest fear, it seems, is that commercialisation and privatisation will transform enterprises supposedly designed to provide universal service into mere profit-making centres.

Says Mboweni, “Service will naturally only be extended to those who have the money to pay such a market-determined price.”

SA Post Office chairman Donald Masson, however, points out that if services are priced too highly, enterprises will simply go under. He suggests that privatisation and commercialisation will deliver services more effectively than the State ever could or would. “A bureaucrat will see providing telephones to 30m people as a nightmare. A businessman will see those same 30m as a business opportunity.”

Government’s renewed commitment to privatisation, it seems, has been spurred by the collapse of State-run economies worldwide. Says De Villiers: “In the economic history of the world, the past few years will emerge as the period in which the total failure of centrally controlled economic systems have been proved beyond a doubt. The inability of a State-controlled economy to provide growth and to improve the quality of life of its citizens speaks for itself.”

Recent World Bank findings have also been an encouragement. De Villiers quotes from a World Bank publication. “Private initiative and competitive markets play a critical role in fostering dynamic and flexible economies. Support for private-sector development therefore is an essential component in helping to raise standards of living and reduce poverty.”

In June, the World Bank released the results of a study on privatisation that concludes that privatisation really does create wealth. The study, which looks at three privatisations in each of four countries — Britain, Chile, Malaysia and Mexico — concludes that 11 of the 12 privatisation sales produced a dramatic net increase in wealth. Reasons for these successes vary but the bank suggests that privatisation resulted in higher investment, managerial innovation, better pricing of services and a shedding of surplus workers.

Certainly, SA’s own experience is reason enough for optimism. The privatisation of National Sorghum Breweries last year proved a model for raising capital and redistributing wealth — the shareholders are mostly workers and small black entrepreneurs and the company is more profitable than ever. The privatisation of Sasol and Iscor also went off smoothly, though share prices for Iscor have been hit by world market conditions.

Likewise, the commercialisation of, among others, Telkom, the Post Office, Transnet (including SAA, which now has to compete in a deregulated market) and Armscor, has at least made these former bureaucracies financially accountable and more efficient, competitive and profitable (or at least less unprofitable).

Of course, in some instances, greater success could have been achieved had government skipped the commercialisation route and privatised directly. An example is many of the former Armscor subsidiaries. Industry experts believe they should have been sold off to the private sector immediately. Instead, as subsidiaries of the commercialised Denel, many of them are battling to survive under tightly defined government ownership and need further investment to diversify and adapt to a commercial market.

Commercialisation has also ushered in a host of other problems. Competition Board chairman Pierre Brooks says numerous complaints have been lodged against many of the recently commercialised or corporatised entities. “This does not come as a surprise. The government’s policy of commercialisation is intended to reduce or eliminate government’s financial commitment to para-stats. This has put pressure on the managers not only to trim their particular operations but to seek alternative sources of income by extending the scope of their activities.”

Dong says during a prolonged downturn has been challenged by private-sector firms whose viability is threatened by such actions.

It appears that, in practice, the policies of commercialisation and privatisation are proving to be at variance with each other. Says Brooks: “With justification, businessmen aver that while privatisation is intended to transfer certain selected State-owned businesses to the private sector, commercialisation is, in effect, enabling and perhaps compelling para-stats to take business away from them.”

Of course, many argue this clearly increases rather than diminishes State involvement in the economy — which might be why government has decided to bravely re-assert its commitment to full-on privatisation.

* Maryvonne Dube
Africa 'needs skills of SA accountants'

SA ACCOUNTING firms could provide expertise to the rest of Africa, usurping the role usually played by the UK, Canada and the US, Deloitte Ptm Goldby's African board chairman Daniel Ndonye said yesterday.

Ndonye, who also heads Deloitte's Kenya firm, said: "We see business to business services throughout the sub-Saharan region becoming much more closely associated, and SA can replace the usual sources of expertise now that she is once again part of Africa."

Services had to extend beyond traditional accounting to assisting trade relations and developing a common accounting strategy for the continent.

Deloittes found itself providing information as diversified as how to obtain work permits and what one's businesses could be competitive in each market.

He said cross-training programmes would give accountants the opportunity to participate in the daily life of host countries, while getting to grips with the financial environment.

London expert discounts Big Bang as JSE solution

A UK-STYLE Big Bang is not what the JSE wants or needs, says London Stock Exchange CE Peter Rawlins, who is on a brief visit to SA to advise on changes to the domestic market.

"We engineered a process of huge and wide-ranging reforms for reasons of our international competitiveness, which was under threat. The success of Big Bang is that we regained and enhanced our international capacity so that now two-thirds of all cross-border equity trading and 95% of all such trading in the European time zone goes through the London market," Rawlins said.

"The commercial threat which London had to respond to in 1985 was and still is very different to the scenario the JSE is facing. We did everything all at once in a great hurry," he said.

"My advice to the community here is to make sure that the implications of the reforms you want to introduce are fully understood,

before you actually implement them.

"If you decide on dual capacity (brokers dealing as both principal and agent), for instance, do not lose sight of the fact that it will bring pressures and conflicts that do not exist in a single capacity (agent only) environment," he said.

"Management capacity was not adjusted and upgraded in line with the changes being introduced at the time on the London market. Looking back on Big Bang, an excess amount of money was poured into the great white hope of information and communication technology," said Rawlins.

"Many of the people taking the decisions at the time did not understand the implications of what they were doing.

"Had we had more technologically literate senior management, they would have seen some of the problems that have since had to be sorted out."

Since Rawlins took the helm of the London Stock Exchange three years ago, he has whittled down the number of employees from 3 500 to 1 500. And, he added, there had been no material reduction in the nature of the services provided.

"My message to the JSE and the community here is to make sure you have the management to deliver the goods when introducing reforms. Tomorrow's world may be very different to today," Rawlins said.
60% were floated in the listings boom of 1986-1987. There is a view that more exacting listing requirements would lower the casualty rate.

But changes will have to go beyond raising the capital requirements. Some analysts feel even the new criteria fall far short of what is needed, believing companies applying to the main board should have share capital closer to R5m rather than the R2m required from next year.

The JSE’s listing department has been reviewing the requirements and co-ordinating input from other quarters, including work by Deloitte Pm Goldby partner Frank D’Amico. It’s hoped recommendations will be implemented early next year, once the amendments have been through the committee.

The committee is waiting to study the first draft of the recommendations, which the FM understands will try to address some basic problems which now limit the ability of the JSE to make decisions on new listings.

For example, the JSE has its hands tied by the Stock Exchanges Control Act, and its own Red Book listing requirements. It has to list any company that meets the relevant criteria, even if additional information places doubt on the financial integrity or ability of the company concerned.

This is not the case on other stock exchanges, London for example, where the stock exchange council has the discretion to accept or reject applications even after listing requirements are met.

Areas being investigated include acquisitions and takeovers, the watering of minority shareholders’ pre-emptive rights, and suspensions.

Changes to the Companies Act being considered by the Standing Advisory Committee on Company Law — including more stringent requirements for company disclosure — could also result in amendments to the JSE’s requirements.

JSE Listing Criteria

Time for change

Proposed changes to listing criteria, which become effective at the beginning of 1993, have received a lukewarm reception. Brokers and other market watchers don’t feel the amendments to the standing criteria for companies seeking a JSE listing are going to do much to improve the quality of companies coming on to the market, or to stem the high failure rate which has seen an increasing number of delistings since 1989.

But next year’s changes could presage a more fundamental overhaul of the listing criteria, along with possible changes to the Companies Act, which should tighten up a wide range of listing requirements. These could include a move towards fuller disclosure as well as general principles allowing the JSE Committee more discretion to make subjective decisions on companies applying for a listing.

The present amendments only raise the financial threshold for companies seeking a listing. These are:

- Raising the subscribed capital of companies applying for a listing on the main board from R1m to at least R2m, in the form of not less than 1m issued shares, excluding revaluations of assets,
- Raising the subscribed capital of those applying for the Development Capital Market (DCM) from R500 000 to R1m, in the form of not less than 1m shares, excluding revaluation of assets,
- Increasing the required audited profit level from R250 000 to R500 000, before tax, for a DCM listing, and
- Raising the subscribed capital of companies applying for a listing on the Venture Capital Market (VCM) from R1,6m to R2m, in the form of not less than 1m shares, excluding revaluations of assets.

Richard Connellan, GM of the JSE’s listings and equity markets division, says the amendments are being introduced to keep up with inflationary times, the present criteria not having changed for about six years. But, he adds, questions have been raised about these criteria, which some feel make a listing too easy.

Last year’s high fallout seems to bear this out. Of the 59 companies delisted last year (21 of which were liquidated), more than...
Unbundle yes, for starters, say ANC

The ANC feels it may well be necessary for conglomerates to be broken up or made subject to a regulatory framework which makes them accountable for the power they wield.

Weekend Argus Foreign Service

LONDON — Unbundling the big South African conglomerates is a good idea, says the ANC, but the way to do it is not by removing obstacles to takeovers.

In a letter to the Financial Times in London last week, Mr Mandla Langa, the ANC's deputy chief representative in the UK, dismisses suggestions by two British economists published the week before in the same newspaper.

The ANC in London says much of the analysis of South Africa's economic problems made by Sir Alan Walters and Mr George Guse is "unworthy of serious discussion".

But it agrees that domination of the economy by the "interlocked interests" of five conglomerates leads to inefficiency and a lack of effective competition.

Sir Alan Walters, vice-chairman of AIG Trading Corporation and a former economic adviser to the British Prime Minister, and Mr George Guse, former director of Consolidated Gold Fields, argued for a free market, in which takeover bids would be possible to correct the monopoly power of the large conglomerates.

Criticising "feather beds in the boardrooms", they said it was impossible for any outsider to mount a takeover bid against the interlocked interests "of the five conglomerates which account for more than three-quarters of the market capitalisation of the Johannesburg Stock Exchange".

Unbundling the conglomerates would benefit everyone, they said. It would create - not destroy - jobs, improve efficiency and allow South African manufacturers to open new markets. Even the owners of the conglomerates would benefit, said Sir Alan Walters and Mr Guse, because shareholdings "would be worth much more under an open takeover regime".

Maybe, says the ANC, but the best way to fight monopoly power is by regulation. According to Mr Langa, the ANC feels "it may well be necessary for conglomerates to be broken up or subject to a regulatory framework which makes them accountable for the power they wield in the economy".

He dismisses the suggestion by Sir Alan and Mr Guse that merely removing regulatory obstacles to takeovers would solve the problem.

"This simplistic notion ignores the fact that takeover bids have produced the present conglomerates," Mr Langa says in his letter.

Instead, he says, the ANC would "establish an effective competition authority with power to order, where necessary, the break-up of monopolies and to vet takeover bids, blocking those which would operate against the public interest".
Investing on the JSE

The Johannesburg Stock Exchange has developed into one of the most dynamic stock markets in the world. The JSE is open to the investor from any market, providing opportunities for significant returns. It is possible to make significant investments in companies listed on the JSE, and to participate in the growth of emerging markets.

Two main elections: The Johannesburg Stock Exchange has

The Johannesburg Stock Exchange has

We recommend investors to consider the Johannesburg Stock Exchange as a viable option for their investment portfolio. The JSE offers a wide range of investment opportunities, from individual stocks to diversified investment funds. The JSE is regulated by the South African Financial Services Board, ensuring investor protection and fair market practices.

In summary, the Johannesburg Stock Exchange is a valuable investment option for those seeking to diversify their portfolios. It offers a range of investment opportunities, from individual stocks to diversified funds. The JSE is a dynamic and growing market, providing investors with the potential for significant returns.
Investors cannot afford to be caught napping

READERS who have regularly followed this column should by now clearly understand why it is dangerous to abandon their financial health on the share market or in unit trusts investments.

To maximize capital growth rates you need to go with the flow of the economy, sticking from a general fund to a gilt or high-income fund whenever the market seems to be reaching a peak.

It might be use later on in the cycle to move to a mining or gold fund to take advantage of improving export markets. Whatever you do, never simply dig in your heels.

It is worth noting that investors who failed to get out in time at the end of the great JSE bull market of 1985 saw the overall value of the market fall 60 percent of the weeks that followed that crash.

It took nine years for the JSE Overall Index to recover to the level of the 1985 peak, and during that time the index had stripped away 60 percent of its value of money. This means that even today investors are no better off in inflation-corrected terms.

The next great bull market was in 1989.

The market rose 665.56 percent ahead of the 1989 peak.

But once the corrections were in, the October 1989 peak index stood at only 83 percent of its implied monetary value.

By June this year, as the market peaked again, the inflation-corrected value of a rand invested at the peak of the 1989 market was only 70c. In 23 years, inactive investors would still have been losers.

To prove my argument that it pays to move in and out of unit trusts as the market makes major fluctuations, let us look more closely at the long-term history of South Africa's oldest unit trust, the Sage Fund.

Brokerage

When the opened its doors on June 14, 1965, you could have bought units at 104c each.

This figure included a 5 percent up-front fee for Sage, marketable security tax and brokerage.

In the years that followed, taking on the year-end price of the fund:

- Peaked in 1987 at 1526.51c
- Bottomed in 1988 at 1175.20c
- Peaked in 1992 at 2373.03c

Had you sat tight throughout this 27-year period on an initial investment of R1 000, it would be worth R22 818.

Had you been able to anticipate each peak and bottom and sold each time the fund peaked and bought in each time the fund reached bottom (apart from the fact that you could have placed your capital on call at the bank in between sales and repurchases in order to earn even more money) your R1 000 initial outlay would have brought you R56 531.

Just eight transactions in 27 years — requiring very little effort and not putting you at risk of being labelled a trader by the Receiver of Revenue — would have given you a 143 percent improvement in capital growth.

So I say again do not dig in your heels when the market starts to fall.

Sell out and live not just to face another day but to ensure greater profits in every way.
Overvalued rand hits commodities

GENBEL managing director Anton Botha calculates that on inflation-rate differences between America and SA since commodity prices started to fall in 1996, the rand should have fallen to 32 1/2c to the dollar instead of the current 27c.

He says the Reserve Bank manages the rand against a basket of currencies, in a world of dollar-denominated commodity trade.

"It is a commodity producer's market, wages are inflation driven and Eskom pegs its tariff rises at a few points under," says Mr Botha.

In other words, costs go up and revenue falls because the currency is too strong.

"Gold would have been R180 or higher if the rand were where it should be," Mr Botha said.

Mr Botha gave a presentation at the JSE this week. It was suggested to him that if the Reserve Bank allowed the rand to slide, the good work done by Chris Stals and crew would be undone.

Mr Botha agreed, saying that other changes, such as reduced government spending, revised tariff structures, greater competitiveness and removal of protection, were also a necessary part of economic restructuring.

Mr Botha says Genbel's staff of 35 and its relation with Gencon, have added value to the company.

He says Genbel could be administered by a part-time accountant if the portfolio did not require management.

A recent change in expectations for Genbel's biggest investments. The single largest is Engen, worth 33% of the R8-billion portfolio. Increased wholesale margins and refinery expansions should see Engen right in both the short and long term.

Preference shares and few others on the Trans-Atlantic - Donay Gordon's UK-based property development and insurer - are the second largest holding. Mr Gordon's record is enough to sustain in Genbel's hopes.

Gencon is the new giant and stands to gain in times of economic upswing. Impala should benefit from higher platinum demand for autocatalysts, expansion and cost reduction. All paper and pulp prices are recovering to Sophia's delight.

Mr Botha is confident that the long run and Samancor can be reality-based when Ferrochrome picks up.

At 51c, Genbel is at a discount of about 20% to net asset value and yields 6.5%, all earnings paid as dividends.

Mr Botha has charged director Peter Cronshaw with the task of promoting Genbel and parent Gencon Internationals.

Mr Botha says: "Capital has been relatively accessible in SA so far, but it could be hampered in the medium term. Also, we cannot export capital for investment abroad, and may have to fund any overseas deals with foreign capital."

AGENTS WANTED
Updating control

The basis of defining control of one company by another has been changed. Ownership of more than a half of a subsidiary's equity capital has been abolished as a criterion. Now, in theory, shares that do not provide for equity participation but carry a majority of voting rights could confer control on their holder.

Werksmans partner Cari Stein says the latest Companies Amendment Act has introduced the new definition of "subsidiary" to bring it into line with international practice. Unchanged is the requirement that the control

trolling company must be a registered shareholder of the subsidiary. The new criteria for control require that the controlling company
- Holds a majority of the voting rights of the subsidiary,
- Has the right to appoint or remove directors, holding a majority of the voting rights, at meetings of the board of the subsidiary, or
- Has sole control of the majority of the share voting rights in the subsidiary, whether by agreement with other members or otherwise.

Previously, a subsidiary-holding company relationship existed if a company either
- Controlled the composition of the subsidiary's board, or
- Held more than half of its equity share capital.

The new definition — among other changes — replaces the criterion of control over the composition of the board of the subsidiary with that of the right to appoint or remove directors having a majority of voting rights. In effect, the test is now that of voting control either at shareholder or at board level. The changed definition provides for a situation in which votes at either shareholder or board level are weighted.

In testing control, the total of voting rights in a given company, held through various subsidiary companies of the same ultimate parent company, remains recognised.