OWNERSHIP & CONTROL

1993
Saficon expects things to get better next year

SAFICON Investments expected to improve earnings in its 1994 financial year, chairman Sidney Borsook said in the group’s annual report released today.

He expected earnings to benefit from an increased shareholding in Boumat and rationalisation and reorganisation of the motor and building material interests.

Saficon increased its 25% stake in building materials group Boumat to 64% during the 1993 financial year. The additional shares were acquired at a R15m discount to net asset value, or 25c a Saficon share.

The common problem faced by the building and motor operations was the erosion of gross profit margins. Steps taken to reduce costs were successful, but there was, nevertheless, room for improvement in the ratio of costs to turnover.

Boumat contributed R4.2m to the group’s R5.1m attributable earnings in fiscal 1993, Borsook said.

Boumat embarked on a programme of strategic, structural and operational change during the year to improve efficiency and position it more competitively.

The impact of these changes was already being felt and Boumat reported an encouraging improvement in performance in the second half of the year.

The group’s three motor businesses, Cargo Motors, Lindsay Saker Motors and LSM Distributors, were consolidated into one organisation which would result in reduced costs, a flatter organisational structure and improved operating efficiency.

CE Kurt Hipper said the motor divisions maintained their identities, but administrative and other support functions were consolidated. Saficon’s results were affected by a severe deterioration in trading conditions, with the vehicle market decreasing in size for the fourth consecutive year. This was compounded by a shift towards the smaller models within the group’s franchises and an increase in the supply of the new Golf and Jetta cars from Volkswagen from the second half of the year.

However, supply problems had been addressed. A new Mercedes-Benz range would be introduced by mid-1994 which would strengthen the company’s market share.

Although Hipper expected the size of the dealer market to remain static in 1994, he expected Saficon to increase its vehicle volume and market share.

Boumat CE Adam Klein said although significant growth in the construction sector could not be expected until well into the 1995 fiscal year, Boumat’s reorganisation would ensure a meaningful improvement in performance for 1994.

Klein said a primary focus would be to address the discrepancy between the book and market value of Boumat shares.

The group’s merchanting division was more focused, while performance in the manufacturing division would be enhanced by the introduction of new products and improved production processes.

Although the industry would remain in the doldrums until a state-led initiative was under way, Boumat’s construction programmes, the additions and alterations market showed “remarkable” strength relative to the economy and should grow further in 1994.

The accelerated township electrification programmes offered an opportunity for significant growth in sales of Boumat’s electric water heaters, said Klein.
Yabeng reports 'deterioration'

YABENG Investments suffered "unprecedented economic deterioration" as one of its companies was placed in provisional liquidation, the group says in its annual report.

The company, with interests in Sun International Bophuthatswana, United Breweries and various retail and wholesale companies, showed significant declines in sections of its portfolio.

Chairman Johan Maree said in the report to end-March 1993 that little, if any, signs were expected of a real recovery in sectors served by the companies in which Yabeng invested.

Trading activities in southern Africa were unlikely to show any real strength.

CE David Gould said disappointing results could be attributed to pressure on retail shopping due to tighter credit restrictions.

He said industrial relations were increasingly difficult to manage and disputes adversely affected productivity, with demands showing a disregard for economic reality.

Several groups, including furniture retailers, responded to economic problems of the day by adopting more conservative accounting policies, he said.

Gould said these resulted in significant impairment of net asset values of the companies.
Tongaat expects ‘profit growth’

Marcia Klein

THE benefits of the Tongaat-Hulett group's initiatives to enhance performance would allow it to show profit growth in the coming year, chairman Chris Saunders said in the annual review.

Although the current financial year would be difficult for business, Saunders said significant actions taken to improve the competitiveness of its diverse businesses and to anticipate and adapt to challenges had made the group more competitive than ever.

The group, which has interests in sugar, building materials, foods, aluminium, textiles and starch and glucose, reported a 5% drop in earnings to R142.9m in the year to end-March despite a significant drop in the contribution of the sugar division on the back of severe drought conditions.

Turnover declined by 2.4% to R3,977m, the first drop in more than 25 years.

Saunders said this reflected the deteriorating economy, its effect on customers and the effect of the drought on the sugar and food operations.

The group's priority was to focus on improving its competitive edge by concentrating on core businesses, which offered significant opportunities for profit growth.

The R280m expansion programme in the sugar, aluminium and starch and glucose divisions was being implemented. Tongaat-Hulett had held discussions with a number of international companies in its search for opportunities that would enhance core activities.

Fixed operating and administration costs were down 16% and various non-strategic assets had been sold to release funds for investment in core activities.

To counter the effects of the drought, which cost the sugar division R179m after tax, milling capacity was rationalised and major cost reduction programmes implemented.

The division continued to be the major contributor to profits, account-

Sugar production was expected to be similar to the last season and earnings "should be maintained at a similar level to the previous year".

The building materials division was affected by the slump in the building industry and was currently operating at about 50% of available production capacity.

But Saunders said it remained marginally profitable with a positive cash flow. The division was expecting some market growth and was budgeting for improved earnings.

The food division, which reflected mixed results, improved its contribution to overall profits. Attention was being given to under-performing operations and further profit growth was expected in the coming year.

The aluminium division had not met expectations and its metals operations reported a substantial loss. But the division was trading profitably and its earnings would show some improvement.

The textiles division would benefit from improved local market conditions and export opportunities.

The starch and glucose division performed well, increasing its profit contribution during the year. The 1993/94 maize crop would be sufficient to meet local demand and this would enable the division to re-enter traditional export markets.

Next year would be difficult for business and would demand a high level of management competence.

Tongaat-Hulett was in a position to meet these challenges, Saunders said.
US publisher takes control of Penrose

US publisher and financier Albert Altehauzer yesterday took management control of printing and publishing group Penrose Holdings after a heated four-and-a-half-hour annual meeting.

Altehauzer, who became chairman and CEO at a board meeting held after the AGM, told shareholders he had recently acquired — but not yet paid for — Nasioane Press's (Naspers) 29% stake at 85c a share, equaling an investment of about R2.4m. Yesterday the share rose 29.6% or 8c to 86c in two deals following the meeting.

Former SA ambassador to the UK Denis Worrall, a business associate of Altehauzer, also joined the board. Despite the disposal of Naspers's interest, its directors would stay on the board. Altehauzer's wife was among the new board members.

It was also disclosed that non-executive director George Jonker had acquired Sunlam's stake of about 14% in addition to his personal stake. Penrose financial director Paul Delhout announced his resignation, saying he would look after Penrose publication Who's Who in southern Africa, which he had acquired. The position of executive chairman Jackie Meckler was not clear. Altehauzer and Meckler said this was being negotiated.

Criticism and accusations flew between the new board members and the old executive team, and minorities expressed concern that the conflict would be detrimental to the company. Minorities said they were also concerned that a 29% shareholder was seeking "to load the board and gain control at a minimal price".

The new shareholders asked for details of executive directors' remuneration and service contracts. Penrose directors refused to discuss individual salaries, saying there had been insufficient notice.

The issue of the sale of Who's Who, which

Penrose directors said was decided upon some time ago but concluded only on Tuesday, was discussed at length.

Shareholders were worried about morale, as this was the second major change in a short period of time. In 1991 a consortium of Naspers, Teligate Holdings and Haksens Consolidated acquired 43.5% of Penrose after Teligate's liquidation, Naspers held 29%.

Altehauzer said there would soon be further announcements which would position Penrose as a major player. He wanted to procure new contracts from government for educational publishing, and he was looking into the liquidity of Penrose shares. Penrose had no debt, a sound balance sheet and a healthy order book, and Altehauzer—a director of Bloomsbury Publishing—said the firm was significantly undervalued.
Higher group earnings forecast for Tiger Oats

By Stephen Cranston

Improvements in the broiler industry and a reduced corporate tax rate, together with continued good earnings growth from the pharmaceutical companies, should ensure that group earnings growth for Tiger Oats will be better than forecast, says Manny Pohl, head of research at stockbrokers Davie Berkum & Faire.

Pohl predicts that despite a three percent decline in earnings per share to 106c in the six months to March, Tiger will increase its EPS by 7.5 percent to 247c for the full year.

Deregulation of the agricultural industry should make for a further 22 percent increase in earnings per share to 302c in 1994.

Deregulation should also reduce input costs and improve consumer demand for Tiger's basic foodstuffs and value-added products.

The disastrous 1991-92 maize crop forced Tiger to buy imported maize, the extra railage costing R100 a ton for a total of R60 million.

Hanson buy-out

LONDON — The Anglo-American conglomerate Hanson Plc said yesterday it had agreed to buy the United States' largest manufacturer of polyethylene, Quantum Chemical Corp., for $3.2 billion.

The deal involves Hanson taking on Quantum Chemical's approximately $2.5 billion of debt and distributing 42 million American Depository shares in Hanson to Quantum shareholders — Sapa-AFP.
More trouble for Thebe as staff protest

By FERIAL HAFFAJEE

A SUBSIDIARY of the controversial Thebe Investment Corporation has retrenched staff — and the workers are now occupying their old offices at the African National Congress’s Johannesburg headquarters in protest.

Movement Marketing Enterprises, which sells ANC products such as T-shirts, retrenched about 10 staffers in mid-May. They say they will not leave MME’s former office until ANC leaders step in and get them their jobs back.

“We will be occupying the offices until the dispute is handled and we will be toiing-toy ing outside Shell House,” they said this week.

This is the latest in a series of controversies involving the investment company, which has strong ANC links. ANC representative Ronnie Mamoepa said the organisation did not know anything about the occupation but would investigate.

The retrenched MME staff members have taken their grievances to ANC president Nelson Mandela, vice-president Walter Sisulu, PWW chief Tokyo Sexwale and secretary-general Cyril Ramaphosa, and are meeting Sisulu today.

Thebe recently took over a controlling interest in MME from the ANC and implemented a retrenchment programme because the company was losing money. They also moved the administration of the company from the ANC headquarters at Shell House to Thebe’s headquarters in central Johannesburg. All that remains at Shell House is the store where T-shirts and other ANC memorabilia is kept.

Most of the office furniture and phones have been removed, but the retrenched staff still come in every day.

They allege that fair retrenchment procedures have not been used. Instead, they charge that favourites have been kept on instead of the company applying the “last in, first out” principle, under which the last person employed is the first to be retrenched. They have, however, received standard retrenchment packages.

An MME representative this week confirmed that Thebe had closed down an early learning project called “Learning Channel” which had already set up a number of learning centres in townships. It has also closed its arts and crafts wing, though this project is still prominently touted in the organisation’s glossy publicity document. The schemes still up and running are those which sell ANC memorabilia and a national hawker scheme.

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Staff, who would not be identified because they still hold out hopes of being retired, allege that they are the fall-guys of bad business decisions made by inept and overpaid directors.

Thebe’s managing director Vusi Khanyile recently sought legal advice on how to retrench MME’s managing director Willie Ramashoba. Ramashoba was earning R17,500 a month but failed to put the company on a profitable footing.

A retrenched staff member said “Ramashoba employed new people at exorbitant salaries but they were not qualified”.

Sources call the links between the ANC and Thebe “umbilical” although Thebe is trying hard to distance itself from the ANC.

Khanyile this week said MME was “refocusing and repositioning”. He said he had met retrenched employees involved in the Learning Channel project and approved their plan to relaunch the project as a non-governmental organisation.

He had agreed that they could use the Shell House offices which MME leased from the ANC to start the new project.
SAFEX has cut trading fees due to record turnover in futures and options contracts. The exchange’s decision follows consistently good volume which was given a further boost by the gold bull run.

Futures players will now pay 35% less on the cost of transactions and the clearing fee will drop from R7,00 to R4,50. The cost per contract will drop from R2,00 to R1,30.

One share futures contract costs about R40 000 at present (this is calculated by the current index level of 4 000 multiplied by R10). One deal is normally for 10 contracts.

Put in perspective, buying 10 all share contracts will give an investor exposure to the equity market of R400 000. According to a major merchant bank, the dealing cost (including commission) totals R250. If the investor was to buy, for example, De Beers shares worth R400 000, the dealing costs would be a hefty R6 800.

The total cost of buying and selling the futures contracts would be about R660, while to buy and sell the De Beers shares would cost R9 500.

Despite the recent surge in volumes, Safex CEO Stuart Rees is confident volumes will rise 25% in the exchange’s new financial year.

A key reason for this is the expected growth in volumes following the lower dealing costs. Rees said higher turnover would enable money to be channelled into a reserve fund, which would be used to supplement income should volumes drop in future.

In December, the exchange cut options clearing fees by 75%.
New Republic Bank buys Merchant Trade

EDWARD WEST

NATAL-based New Republic Bank (NRB) has acquired Merchant Trade and Finance (NTF) from SA Bias Group's financial arm Merhold for R45m.

NRB MD Mac Mia said a further acquisition was in the pipeline. A JSE listing for NRB would be considered during the next 12 months, he said.

The purchase would be settled by issuing 14.3-million new ordinary shares in NRB to Merhold. The acquisition became effective yesterday.

Merhold provides trade, working capital and receivables financing and specialist trade services to SA clients through its offices and agencies in Johannesburg, Cape Town, Durban, London, Isle of Man and Vaduz, Liechtenstein.

Mia said the acquisition would enable NRB to increase its asset base to more than R1bn fairly quickly and would substantially enhance profitability. NRB's main shareholders included Merhold, Sanlam and IGI Life Assurance.

Merhold chairman Christopher Seabrooks said synergistic benefits should be achieved once Merchant was absorbed in NRB. Merhold expected good long-term returns on its increased NRB investment.

As Merhold would have held 63.1% of NRB after the transaction, it has given the Registrar of Banks an undertaking to reduce its shareholding to 49% immediately. NRB, a registered bank, was governed by the Banks Act, which rules no person may hold more than 49% of the equity of a bank.

The Securities Regulation Panel gave Merhold dispensation from the mandatory offer to NRB shareholders if the shareholders, who together held 35.9% of NRB, approved the transaction. Merhold currently holds 22.8% of NRB.

NRB recently raised R17.6m through a rights issue but this was its first acquisition for shares.

The takeover of Merchant by NRB left only GDM Finance and Sasfin as separately listed trade finance houses. Merhold would change its name to Merhold Investment Corporation, which would more accurately reflect the nature of its major activities, a statement said.
The newest corporate game in town might be called unbundling and justified as unlocking value from underlying assets for shareholders in holding companies. There's undoubtedly some merit in doing but there is, unfortunately, more to unbundling than that. More often than not it is a corporate euphemism for restructuring (control remaining intact) to provide a more focused managerial endeavour. And that too may be to shareholders' ultimate advantage.

But unbundling is also the "liberation" catchword for clandestine black empowerment, which at its worst might amount to the virtual seizure of assets for the benefit of the politically correct. Indeed, unbundling now means almost anything anyone wants it to mean, it is applied artlessly and indiscriminately by journalists and politicians who have an incoherent understanding of its original meaning. And by businessmen trying to project from its embrace an element of political correctness.

Nevertheless, unbundling has become the corporate community's latest flavour, be it politically correct or not. First, Gencor announced it would unbundle. Within a day, Metropolitan Life took on an overtly "black community" character. Both actions were guided by Sanlam. Now, Barlow Rand has joined the rush.

It justifies dismemberment by saying the decision is based solely on business principles — presumably, the time for conglomerates has passed, there's an urgent need for concentrated, focused companies. It has taken its management a rather long time to come to that conclusion. If, last year, the FM had suggested that Barlows was unfocused, we wonder what sort of response we would have had from management.

All this ignores, even denies, the underlying political dimension. The largest financial institutions, uncomfortable after three years of debate about the future structure of business, are unnerved. They are as aware as anyone of the attractions of the huge annual cash flows they control. It comes as no surprise that the insurance giants are lowering their profiles.

Yet there is a fantasy about this. The life offices have long commanded the economic heights. They have taken (or it has been forced on them?) effective control of many great companies. Barlow and Gencor are but two examples. It would be folly for them to believe they can escape the attention of an ANC desperately seeking a cohesive, plausible, effective economic policy simply because they themselves are mutual societies owned by policyholders. Some weeks ago an audience of about 200 black and white professionals and managers were entertained to an argument, arranged by the magazine Enterprise, which is directed at black entrepreneurs, about competition policy.

Star performer was the ANC's Tito Mboweni — also a member of the FM's board of economists who banged the populist drum and promised black empowerment. There is probably some substance in our suspicion that Mboweni genuinely believes he can persuade conglomerates to dispose of shareholders' assets to provide black entrepreneurs with rich pickings for next to nothing.

However, what is more interesting is that Mboweni was subjected to some searching audience interrogation, mostly about anti-trust legislation (isn't it a waste of time and effort, contributing little to growth?) and, since competition implies a free market, then what about privatisation? He was less than comfortable about that.

This illustrates the ANC's continuing problem — its lack, after so long, of coherent economic policy unblenished by contradiction and unsullied by devious motive. It has moved substantially from its early passion for nationalisation and white despoilment, having substituted notions of anti-trust laws and a competition policy that have less to do with equity than with redistribution.

These are still the politics of envy and retribution that do no credit to those who espouse them. They have no logical place in a nation seeking reconciliation and a universal improvement in the quality of life.

In the end, whatever unbundling might mean, it focuses attention on Anglo American, the largest and most consistently successful conglomerate. Anglo's success has been forced upon it by a savage exchange control policy. It has had little option but to grow internally. It also stood by to acquire and make prosperous businesses abandoned by Americans in flight from the disinvestment campaign or threatened — as were English-language newspapers — by devious apartheid entrepreneurs.

Now, in one of those cruel ironies, just as democracy arrives, its success is alleged to be contrived and criminal. Of course, Anglo is no stranger to the ritual of the crocodile. Once fed, the brute returns for more. Sometimes, as in Zambia, the meal's too much and it regurgitates — always messy and certainly not economically productive. In the end, a future Nat/ANC government may have to choose between unbundling Anglo or risking De Beers falling into foreign hands.

SA is an important player in the world market. If we are to prosper from the natural resources with which nature has endowed us, we will have to continue to keep our marbles in that ring. For that reason alone, corporations of substance — able to fund grass-roots projects costing billions — will be a continuing necessity of our economic life.
LEADING ARTICLES

WHEN SANCTIONS GO

Straining at the leash

When isolation is formally ended, we can at last face the real challenges

Since the early Sixties, SA has been subjected to sanctions in one form or other that have been progressively debilitating and have become a way of life. Now that they are on the verge of removal, there is a reasonable prospect not so much of economic windfall but at least greater opportunity to secure a rising level of general prosperity.

For the past eight years in particular – when investors and capital fled in substantial quantity after the foreign loans crisis – the struggle for survival eclipsed whatever hopes and endeavours there were to stimulate economic growth. A serious and pervasive malaise has been the consequence.

Rekindling the animal spirits of investors, traders and manufacturers will be a daunting task requiring persistence, perspicacity and courage – a task that will be well worth the reward.

Sanctions began when New Zealand refused to establish diplomatic relations with the newly created Republic of South Africa and US President Jack Kennedy imposed an arms embargo in the aftermath of Sharpeville.

Trade barriers have progressively eroded export income over nearly 30 years and in 1985 the severing of credit lines left us out on a financial limb, struggling with a huge debt burden as capital flight reached record proportions and the international value of the rand began a series of sharp descents.

Once sanctions have been lifted, the first step will be to gain access once more to international capital. The second step, which will not be easy, will be to attract it back to this country, in the form of loans and fixed capital investment.

The third task – and the most difficult – will be to put new capital to productive use so that the benefits of investment and growth are sustainable.

The last two challenges in particular are daunting. So much so that some could underestimate the significance of a formal end to sanctions. Indeed, it will be no more formality. It will mean the unrestricted (though conditional) access once more to International Monetary Fund (IMF) balance-of-payments support. While the current trade surplus might suggest that such IMF support is at present more of a contingency for the future than a pressing necessity, the reality is very different.

"An IMF facility – to fall back on when the balance of payments runs into the red – has more than psychological value," says Rand Merchant Bank economist Rudolf Gouws. In 1982, following a 1981 current account deficit of R4,2bn, SA was granted SDR 795m (about R945m at the exchange rate then), which proved invaluable in the face of further current account deficits – R3,6bn in 1982, R428m in 1983 and R2,5bn in 1984.

If SA were once again in a position to apply for facilities, it could, if necessary, draw on its SDR1,4bn (about R6,3bn) quota.

Simply put, a return to normal relations with the IMF means monetary policy decisions will be influenced less by concerns about the balance of payments than they have been for eight years – and growth priorities will assume greater significance, especially as inflationary expectations subside.

Ever since international banks withdrew credit facilities in 1985, leaving SA with US$23,7bn in outstanding short-term foreign debt, economic activity has been financed from hand to mouth. Interim repayment arrangements, renegotiated at three-yearly intervals, have allowed us to continue in business. But meeting the rescheduled payments, without the benefit of offsetting new inflows, has turned SA into a capital exporter, draining its resources at a critical stage of development and social need.

Over seven years, SA paid back $6,4bn, reducing debt to R17,3bn by the end of 1992. In rand terms, the outflow has been magnified because the currency has depreciated against that of creditor countries in the period. Valued at the exchange rate against the US dollar, as at August 31 1985, R7,9bn has been repaid.

This was not the only capital outflow, of course. According to research by economists Jacob van der Walt and Gert Cilliers of SA, SA has had an average capital outflow of R3,5bn a year since 1985. This was met from the proceeds of export earnings which, despite trade sanctions and deteriorating terms of trade, rose sharply over most of the period. But what remained when interest and capital payments had been made was too little to finance adequate and sustainable growth.

In 1988 and 1989, when net gold and foreign reserves shrunk by R3,5bn and R1,2bn (see graph), the authorities were forced to absorb the upswing which generated GDP growth of 4,2% and 2,3% respectively. Van der Walt and De Wet estimated that if outflows continued at the same pace, the cost of financing them would constrain GDP growth to 0,9-2,7% a year.

The situation has been aggravated by shrinking exports (see page 37). The surplus on the current account (made up of trade and services) has fallen sharply. Seasonally adjusted and annualised, it dropped from R5,4bn in the first half of 1992 to R2,5bn in the second half and only R700m in the first quarter of 1993. (Improvements are expected towards the end of the year to an estimated surplus of R4,8bn.)

And the capital account has been deteriorating. A net capital outflow of R3,3bn took place in the first quarter of 1993, after a net outflow of R3,1bn in the previous quarter.

The problem can only be solved, ultimately, by increasing exports and attracting investor interest. The key to that is political settlement and economic reform.

Meanwhile, a final debt arrangement and access to IMF facilities will enable domestic businesses to pay for the plant, equipment and intermediate inputs needed to increase productive capacity. An estimated 70%-80% of imports is made up of capital and intermediate goods, so any upsizing in demand for goods will reduce the trade surplus.

The level of excess capacity in the economy is uncertain. Official figures for the manufacturing sector show usage at only 78,8% in 1992. But this doesn't mean there is 21,2% surplus.

Jan Dreyer, who heads the government's Economic Advisory Service, says optimal capacity usage – when the economy is booming – is about 85%. So, in practice, less than 7% is available. And that means new investment in manufacturing capacity is needed urgently.

But it will not be enough. It will not be possible to make adequate use of this capacity, says Dreyer, without increasing imports of intermediate goods, which is why SA needs access to foreign capital before it can generate meaningful growth. IMF standby facilities, a modest stream of development aid from sources such as the World Bank, and limited loans to the private sector from...
The first few months of 1993 saw an increase in the value of trading in most financial markets operating through the JSE. The strong performance in the first quarter of the year, with a peak in the fourth quarter, resulted in a net profit of R3.4bn for the JSE. This was followed by a slight decline in the second quarter, before a slow recovery in the third quarter.

In the fourth quarter, the JSE's market capitalization increased by 15.5%, following a decline of 6% in the preceding three months. The JSE's market capitalization remained higher than in the previous three months, indicating a steady recovery in the market.

The recovery in share prices was mainly driven by increases in the prices of industrial, commercial, and financial shares. "The return on shares is higher than in the previous year, with a net profit of public-sector stock of R3.4bn in the fourth quarter, up 15.5% from R3.1bn in the third quarter.

The surge in activity brought the average monthly average price level of gold mining shares to a peak of R18.3bn in April, before falling to R17.9bn in May. The net purchase of shares by non-residents in April was 74.3% higher than in the previous year. The Bank of England bought shares in these months, with a net purchase of public-sector stock of R3.4bn in the fourth quarter, up 15.5% from R3.1bn in the third quarter.

On the primary capital market, public-sector shares "increased slightly in the first quarter of 1993, in contrast to the significant increase during the course of a fiscal year." The primary market is active, with an average of 20 contracts worth R70.000 in February, No contracts worth R70.000 in March. The average number of contracts in March was 20, down from 25 in February. The primary market has been quiet in the last two months of the year.
What price can reasonably be placed on freedom? Apparently £236m, if you're Charter Consolidated CE Jeffrey Herbert and determined to cast off the shackles of the greater Anglo American. That's what he's agreed to pay Minoro to buy back its 36% holding. In the process, other shareholders will be given shares - one-for-one - in a new company, Charter Plc, which will replace Charter Consolidated on the Johannesburg and London exchanges.

Herbert is funding the buy-back from the £236m sale of Charter's 38% stake in Johnson Matthey. Annual results, announced almost simultaneously with the Minoro deal, show an 11% increase in operating profit to £31.3m; the group expects to hold net cash after paying Minoro of about £145m.

The restructuring has raised eyebrows in SA, is committing R166bn (at the finand rate) to buying back your own shares really the best way to invest a company's wealth?

Herbert has no doubt: "This is a great day for Charter," he says. "It is an investment in ourselves which will give us opportunities which may not otherwise have been there. There's always been a perception that Charter was controlled by an SA group and cutting that connection gives us the freedom to pursue new avenues and use our paper in ways which are free of constraints."

It's an open secret that Herbert has long resented the controls exercised by Anglo's invisible hand. Diplomatise, he will say only that Minoro's board has always been "totally supportive" - which begs the question, of course, of why the buy-back has been deemed necessary.

Clearly, there's more to this than meets the unsuspecting eye. Most CEOs will confirm the presence of a strong, large and supportive shareholder lends comfort and encouragement, especially when it comes to rights issues and other important money matters.

So why the almost indecent haste to use the Johnson Matthey cash to shed the parent? An observer suggests Herbert was largely ignored by his Anglo peers - "If they'd paid him some attention, it would have gone far to cementing relations."

Now, Herbert has removed Charter as the only shareholder of substance. He will report, effectively, only to non-executive chairman Sir Michael Edwards (who has also cut his ties with Minoro and Anglo). It's a good situation for an ambitious CE.

But every successful deal needs a willing seller. The next question has to be why Minoro found it convenient to sell. Smooth PR explanations aside, the truth is Charter has moved progressively away from natural resource-based business and increasingly into specialist UK engineering. That alone must have set uncomfortably with Minoro, focused as it is on natural resources.

And Minoro got a good price. Word is that negotiations were tough and unsentimental, in the end. Minoro secured a mere 2% less than the previous day's close. Given its large holding and that it might have had to accept a huge discount if it peddled the stock around UK institutions, it was clearly a deal which pleased Minoro's managers.

It must have caused a passing (wince of sadness) by (older) Anglo executives. Charter was formed in 1965 from the merger of Central Minam, Consolidated Mines Selection and the British SA Co, flag carrier for Cecil John Rhodes's imperial ambitions. Charter is redundant of history, an important link with a bygone era.

Not that long ago, when Charter occupied swanky London offices in Holborn Viaduct, its board lunches were legendary repasts fit for gourmets, set of with the silverware, crockery and paintings of a more elegant age. It's rumoured Minoro has requested the return of memorabilia and the three companies, now merely shells, which provided Charter's substance. No-one will confirm this.

Meanwhile, Charter becomes unique, the only pure UK engineering company listed on the JSE. As such, it offers local investors a good rand hedge - if, that is, you believe Herbert can provide consistent returns in an obviously difficult British and EC economic environment.
Is there logic in dismemberment?

Why is Barlow Rand planning to dismantle itself? This plan signals an almost revolutionary change of thinking for an industrial and mining group whose management has spent more than a quarter of a century chasing — and singing the praises of — size and diversity.

How far the process will be taken has yet to be spelled out. It's plain though that Barlows will be split into at least three smaller and entirely separate groups, each focusing on distinct sectors of the economy.

Two groups — one in its present form and the other a new, enlarged entity — will cut ties with Barlows. These will be C G Smith, which holds the food, packaging and pharmaceutical activities and depends essentially on consumer spending, and Reunert, which will hold electronic and electrical businesses probably including African Cables, Perse-tech, ISG and Barlows Consumer Electric Products.

A third group — run by chairman Warren Clewlow — will hold the rump of Barlows’ industrial interests. These will include Barlows Equipment, Barlow Motors, steel company Rober and building materials suppliers Federated-Blankie and Plascon. All these are wholly owned and linked primarily to fixed investment or infrastructural expenditure.

The international arm, 79%-held UK-based J Bibby, will remain in this group. Another logical component could be Pretoria Portland Cement, which also relies on infrastructure spending and is part of the mineral resources division.

An intriguing question is whether the mining activities will fit in at all. Last week’s announcement conspicuously made no mention of these. With mining interests cleaned up after last year’s asset sales and unbundling of Rand Mines, the same approach could be taken as was adopted with Middelburg Steel & Alloys (MS&A).

When Barlows decided some years ago it wanted to reduce the impact of cyclical commodities on its earnings, the initial plan was to list MS&A. The wholly owned MS&A was being tentatively valued at R530m-R750m, when the Columbus consortium offered R1,1bn. Barlows sold the lot.

Given the structure and focus now proposed for Barlows, the preferred option may be to sell the remaining mining operations if an acceptable offer is made. Most interesting of these is 70%-held Randcoal, with a market capitalisation of about R900m. However it is done, Barlows could realise considerable funds from these holdings.

The logic of being “disembowed” has been widely fully accepted for Barlows, then it should apply equally to Bibby, another conglomerate. That could imply sales of Bibby divisions that do not fit clearly with companies in the new Barlows. This, again, would bring in cash.

But what does Barlows — and major shareholder Old Mutual (34.5%) — hope to gain, and why now? Politics has driven the debate about unbundling and, in some cases, a rush to translate ideas into action. In this instance, as with Gencor, the extent of the political motivation is unclear.

From inside Barlows, the message is that the political motivation was not the primary objective, if it had been the approach would be different, but it’s hoped this plan will help defuse political pressures. The objectives are being presented as primarily commercial — and as having been intuited not by Mutual but by senior management who held sway at last week’s board meeting in the face of lively resistance from some directors.

Except that Barlows, now with total assets of about R21,6bn and market capitalisation of about R8,8bn, will be shrunk, there is not much here to satisfy political demands. There is no indication the control structure will change. Investors who now hold shares in one group (Barlows) will instead hold shares in several smaller groups.

While domestic politics has obscured the issues, the principle of shrinking and focusing businesses has become fashionable internationally. The split of ICI in the UK and the dismantling of IBM are two prominent cases. Internationally diversified Anglo American, with top quality assets such as De Beers, and involved in huge projects, argues the virtues of being big. But Barlows’ market rating has certainly suffered because of its unfashionable conglomerate image.

Analysts and institutions have persistently levelled criticisms of questionable acquisitions, deployment of cash generated by good performers for investments with weak returns, the large, centralised head office; and poor performers perennially dragging down earnings. Portfolio managers say they prefer to select stocks specialised in particular sectors rather than buy a holding company whose mix of assets they may not like, the ratings of C G Smith and Tiger have long been better than that of Barlows.

More to the point, investors and Barlows’ management may reflect that the group’s results have become bogged down in the early Eighties there were four years of pegged dividends, 1993 will be the fourth year of static or falling earnings.

Perhaps management has recognised that old formulas simply aren’t working, and has given up waiting around for economic recovery on which this widely diversified group depends. There is little point now looking for the big acquisitions that drove growth in the Seventies and early Eighties. An alternative apparently is to go back to Barlows’ roots. But what, then, will happen to Barlow Park?

For now, the market has reacted positively as the FM went to press the share had gained 280c or 6.3% since last week’s rather cryptic announcement. But, while value and efficiencies may be added, there must be questions about the timing and the extent of a recovery in what will remain of Barlows.

It remains to be seen whether Mutual will join the unbundling bandwagon with the same acrimony as Sanlam. If so, then perhaps Safren — with its holdings in Kersaft, Safmarine and Rennes — is another candidate.
EMMANUEL LEDIGA — the first black to be appointed a share dealer — is looking forward to taking the floor next month on the Johannesburg Stock Exchange.

Mr Lediga, 26, a former Star reporter, said his work as a dealer would involve the buying and selling of company shares.

Recruited by stockbrokers Senekal, Moston and Kitshoff, Mr Lediga demonstrated a sound understanding of financial markets while a financial reporter.

He said, "I have met and dealt with different brokers, and those in financial markets in London, New York and Tokyo."

Born in Tembisa on the East Rand, Mr Lediga said he had been a bright pupil from his early years.

"I have held position one from sub A to matric. When I was in Standard 8 I went to the Central Secondary School in Soshanguve and I did well," he said.

When he completed matric in 1987, he was voted top pupil in the country, beating more than 200 000 students.

Mr Lediga scored four As in mathematics, physics, biology and English, and top marks in biology.

"I went to Wits from 1988 to 1991 and a BComm, majoring in finance, insurance and marketing."

"In 1991 I joined an insurance company as a trainee manager. But I was there for only six months and was bored."

"I joined the Star as a business reporter a year ago," he said.
Golden peaks and red herrings

THE JSE All-Gold index topped 2,043 points on Friday, its highest since early 1980 as gold hit a post-Fer- sian Gulf war high of $322 an ounce. It closed at 1,982 points.

The index was a low of 1,743 last November.

The rand's fall against the dollar meant that the gold price approached a record R 300/oz. It has languished well below that for years.

Dealers — they attributed gold's earlier climb to global inflation fears — said its $10-plus rise on Thursday was caused by Germany's cut in Lombard rate. A rate cut is usually interpreted as a sign that inflation is under control.

There was something of a red herring on South African, Reuters screens on Thursday morning. The report — not seen outside the country and never confirmed — said that a company owned by gold broker James Goldsmith was lowering its stake in Newmont Mining in favour of physical gold.

Shipping such items to the media tends to underline the view that rampant physical gold is taking place.

Much of Thursday's climb was on the purchase of call options for gold. The issuing banks have to cover their risk by buying gold, hence the rise in demand and jump in price.

This has happened several times in the past few months, always in New York where trade is visible. A group of traders spots an opportunity to move gold which quickly gathers momentum.

Americans are usually reluctant to go into a long weekend (Independence Day this time) with open positions when other markets are trading. If gold falls while US markets are closed, losses could be made. Gold fell to $300 when US markets opened on Friday.

Dealers usually punt strong physical demand in the Far East as fundamental in gold's future. Reports indicate that demand is not as high as is made out and that some investor gold is returning to suppliers.

The authoritative Mining Journal Gold Service says that in the quarter to March 1993, production costs of every South African gold mine other than South Roodepoort were below $200/oz.

International investor favourites on the JSE were Amgold, Vaal Reefs, Driefontein and Anglo American among the good-quality counters and Western Areas, Doornfontein and Cona March.

The rand firmed 12c on Friday to 60c and the commercial rand to 55c.
Khutala to produce 20m tons of coal a year

KHUTALA, the largest single shaft coal mine in Africa, was officially opened near Kendal in the Eastern Transvaal on Friday.

Opening the R70-million, 100m-deep mine, Barlow Rand managing director Derek Cooper said Khutala would, because of a recently signed contract to supply Eskom’s Majuba power station, deliver a total of 20-million tons of coal a year by 2001.

Barlow Rand is the controlling shareholder of Rand Mines, owner of Khutala.

Situated on the Bombarrie Cologne field about 100km east of Johannesburg, Khutala supplies Eskom’s Kendal power station — the world’s largest indirect dry-cooled power station — by 3.5km of conveyors. Majuba will be supplied by rail. Coal will also be mined for export.

The first sod was turned at Khutala in 1984 and the first coal delivered to Kendal in November 1986. The mine employs 1,500 people for a current production of 650,000 tons a month. The production rate is a per capita production figure well above the national average.

At full production, when Majuba is also being supplied, the number of employees will rise to 2,400.

—Sapa
JSE yes needed

for Milstan to go

By JULIE WALKER

MILSTAN's failure to produce annual financial statements timely could result in the delisting it intended to seek through an offer to minority shareholders. But the JSE might not help it.

The JSE suspended trading in Milstan shares on Thursday because it failed to report financial results for the year to February 1993.

Other companies late in reporting results have been suspended and later delisted.

Milstan is the holding company of photographic, electronic and consumer durables store Stan, Miltons and Hi-Fi Specialist.

Its major shareholders and directors are the Ekand brothers Stan, Milton and Laurence.

On June 14, Milstan corporate consultant Curle Securities warned shareholders that an agreement had been reached which was likely to result in an offer to minorities and to the company's debentures. The share price was then 25c.

Ten days later Curle said "preliminary information concerning the results of Milstan for the year ended 28 February 1993 (which are due to be published imminently) may adversely affect the intended offer to minority shareholders." The share had dropped to 20c by that time and remained untraded until suspension.

The Ekand, Milstan lawyer Lionel Levin and consultant Peter Curle all decline to comment on the reasons behind the delay in releasing results and on developments.

Listings head Richard Cen nellan says the JSE committee is aware that its insistence on timely delivery of information could be used by a company wishing to delist. The JSE would not help it.
Falling rand makes Msauli an attractive buy

THE faster the rand drops against the dollar, the more the market seems to love Msauli — the country's biggest producer of white chrysotile asbestos.

Chairman Pat Hart says the company, which formed part of the management buyout from Gencor in 1988, is a popular shareholding among South Africans who believe it could make a killing.

Mr Hart says the asbestos industry is tightening, however, and prices have been one or two percent higher than achieved last year in dollar terms.

"We sell on an annual basis without long-term contracts, but usually dealing with the same customers. If they usually ask for say, 20 000 tons, then require only 9 000, we are understanding," says Mr Hart.

Gefco when the major shareholdings were held by Gencor. Five years ago Mr Hart led a management buyout in which Gencor sold its 45% interest in Msauli, at 126c a share to Gefco, of which Mr Hart's management consortium bought 46.6%.

Since then, Msauli's share price has risen above 700c, reached 179c, and is now advancing once again — to 385c in only three months.

Not only is Msauli's income climbing, it is reaping the benefits of the new dedicated container depot built to control off-mine costs. Although an underground operation, its unit costs compare favourably to those of the large open-cut Canadian mines because of Msauli's high percentage fibre content.

Asbestos demand comes from builders of low-cost constructions, and the Far East has emerged as a most important market. America has almost dried up on asbestos health-risk propaganda. Properly handled, it is not the wicked material some would have us believe.

Mr Hart is mildly surprised that local demand is not greater. However, Msauli would be hard pressed to lift production levels. Capital expenditure of about R3-million to R4-million a year will be necessary to maintain an underground ore reserve. About 1 600 work at the mine, which cannot be classified as long-life although it maintains a proven ore reserve of at least five years. A tailings retreatment project to boost production has been operating below design capacity — Mr Hart says it is almost on target now.

The other attraction about Msauli is its 30% stake in the Von Brandis gold prospect. At every opportunity, Msauli says a final decision is near, but none has yet been taken.

With such a healthy balance sheet, as Msauli's there is no pressure to sell it, on the other hand, development of a mine would almost certainly detract from cash flow until it was properly established, and the gold price is a fickle factor. Mr Hart seemed to understand the discussions with interested parties, gold would be very small against asbestos in any event.

Mr Hart says last year was a very good one for Msauli. It earned 185c a share, putting the shares on par on a dividend yield of 8.4%. He says there is no reason why 1989 should not bear similar fruit.

Gefco shares have more than trebled to 65c since September last year, but do not look to be a cheap way into Msauli, which theoretically accounts for only 25% of the share price. Msauli is the right choice for rand-hedgers.
Stokvels leap into the big-time finance world

TOWNSHIP economic power leaped into the big stakes of SA's finance this week when the National Stokvel Association of SA (Nassasa) gained a foothold into the country's formal financial services mass market.

First National Bank (FNB), the Development Bank of South Africa (DBSA) and the Board of Executors finance house (BOE) announced in Johannesburg that they had joined forces with NASSASA in an innovative scheme.

The package – "The People's Benefit Scheme" – offers NASSASA members four services which cover savings accounts, fixed deposits, unit-trusts and loan facilities. It will be initially marketed to stokvels who, after a minimum saving period of six months, will be able to invest in either a unit-trust or a fixed deposit which is then "pledged" as security for a loan.

Said NASSASA president Andrew Lukhele: "For too long the majority of people in this country have been denied access to formal financing and credit. As a result, the entrepreneurial spirit has not been nurtured and encouraged.

"The introduction of this scheme will contribute greatly to economic empowerment, the impact of which can only have positive implications for the country's economic situation".

Lukhele – who heads the association which boasts more than 132,000 members countrywide – argued that his organisation found stokvel members well-disciplined when it came to saving and understanding the necessity of mobilising funds. But, pointed out Lukhele, as well structured as they are, certain growth areas have been stunted due to the lack of capital.

"While many stokvel groups and individual members have in the past aspired to business creation and development," pointed out Lukhele, "the traditionally available funds could only achieve results to a certain point."

According to Lukhele the scheme "will enable individuals and groups (in the stokvel movement) to extend their plans beyond that point."

FNB executive Pat Lamont said: "The People's Benefit Scheme came about after four organisations were able to pool their resources and expertise to develop something we firmly believe will make a meaningful contribution to the upliftment of individuals and communities of SA."

BOE Merchant Bank managing director Mike Thompson concurred: "This is particularly important to the disadvantaged members of our society. I am confident that this scheme will make a difference to the SA of tomorrow by creating a bridge between the formal and informal sectors."

GO-GETTERS ... NASSASA's director Stephen Jeppe, left, and president Andrew Lukhele.
Penrose to Nomura victor in rare hostile bid

By Ciaran Ryan

Mr Allezhausser says Penrose faces 'tremendous potential' no debt and low-cost printing operation.

A study by Mr Allezhausser showed that Penrose was undervalued on the basis that the average price paid for printing and publishing houses internationally was 1.75 times turnover and 14 times gross operating profit. He will look at acquisitions and sales growth and a return to profit by the December year-end.

Publicity

A tie-up with McGregor's Who Owns Whom has been suggested. Penrose's flagship publication is Who's Who.

Mr Allezhausser has declared an end to hostilities. "It is time to heal and grow the company," he says, adding that the company's financial history of Japan, The House of Nomura.

The work landed him in court for alleging that Japanese securities house Nomura was involved in insider trading. Nomura spent $25 million fighting the case and lost.

By the time the case was over, its market value had declined from $6.8 billion to $3 billion. The publicity was good for book sales, however, and 300,000 copies have been sold. "I am still in excellent terms with the Nomura family," says Mr Allezhausser, who lives in Somerset West.

A certain executive at Nomura Securities decided to take issue with my statement that Nomura had engaged in insider trading. Insider trading is the backbone of the Japanese stock market."

Mr Allezhausser is researching a "lively but friendly" book about De Beers, Anglo American and the Oppenheimeers, with the full support of the family.

Mr Allezhausser is a shareholder and director of Bloomberg, one of the big three independent European publishing houses. Among its writers are Nadine Gordimer, Scott Turow, Jay McInerney, Margaret Atwood and Robert McNamara.

Mr Allezhausser was appointed head of sales at Hong Kong securities house Chunting in 1984. He lifted its share of 5% of the Hong Kong stock market before leaving in 1986 to join James Capel, which was opening in Japan.

"It was easy to be a success in 1986 when we had a strong bull market. We were trading in Japanese warrants, which are highly leveraged, so every time stocks went up 10% the warrants rose 100%.”
Delcorp forecasts likely to be met

Marcia Klein

Del Monte Royal Corporation's (Delcorp's) maiden results for the six months to end-May indicate the enlarged group is on track to meet earnings forecasts made when the Royal group - added by Anglo - acquired Del Monte Foods International on December 1 of last year.

Directors said comparisons with the previous year were meaningless due to fundamental changes in the group in the past year and a change in the year-end from August to November.

Prior year results have not been presented, but earnings for the 15 months to end-November, immediately prior to the Del Monte acquisition, have been

The group, whose investments consist of a 44.4% shareholding in Del Monte Royal Foods (Delfood) and a 32.5% shareholding in Roychem, reported earnings of 21.8c a share and a dividend of 6.5c a share. It had earlier forecast earnings of 22.5c for the full financial year.

Delcorp's results largely reflect those of major contributor Delfood, whose earnings include those of Del Monte Foods International for the first time.

Delfood reported earnings of 21.8c a share, representing 40% of the 60.1c forecast for the full year.

It declared an interim dividend of 8c a share, also 40% of the forecast 20c for the year to end-November.

Directors said due to the seasonal nature of Delfood's European operations, between 30% and 40% of earnings were achieved in the first half, and therefore forecasts were within reach. They said markets for the group's products had softened, both in Europe and SA.

Delfood's turnover of R51.6m, below budget, was affected by recessionary con-

Delcorp

ditions in Europe, where increased unemployment depressed consumer demand. Del Monte Foods International's overall share of the market held steady "and improved in those market sectors where it holds leadership positions".

Although turnover was below budget, attributable earnings of R33.9m were in line with budget. (2.22)

This was achieved through maintaining margins and tight control of working capital and expenses, coupled with lower finance charges.

Conditions in SA remained difficult due to softening consumer demand in several product categories and disruptions to distribution. Yet some of the group's traditional brands had a strong showing, and some products were launched successfully.

The company's balance sheet had changed significantly due to the share placing undertaken to finance the purchase of Del Monte Foods International.

Interest-bearing debt rose to R40.0m at end-May from R35.6m at end-November, largely due to Del Monte Foods International's working capital requirements. Gearing was 17.8% (46.9% in November) and directors said this reflected the peak seasonal working capital requirements at this time of year. Net asset value rose to 699c from 269c at end-November.

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BoE fund retains its top spot

THE Board of Executors (BoE) growth fund has posted a 21.46% return for the year to end-June, maintaining its March 1999 position as the top annual performer among general equity unit trusts.

BoE fund manager Ryk de Klerk said: “Although we had a low effective exposure to gold shares over the past few months, our total selection came through.”

De Klerk said the fund’s 18.88% return for the three years to end-June was “satisfactory”. According to the University of Pretoria Graduate School of Business, the three-year performance figure placed the fund second only to Syfrets growth fund for the period.

The BoE fund grew 14.4% in value during the quarter, ending June worth R588,6m (March, R77,6m).

De Klerk said the rise stemmed largely from capital appreciation, although the fund also experienced a net inflow of investment. “We added Kloof, Anglovaal, loan stock and Momentum counters to the portfolio during the quarter, and upped our holdings in Genbeheer and Richemont. All Lebowa Platinum shares were disposed of, while Sasol, Siltek and Anglos holdings were reduced.”

The result of the changes was to increase gold exposure to 4.7% (March 1993, 1.7%), up exposure to mining financials to 15.9% (10.4%), and cut exposure in financial and industrial counters to about 90% (73%). Effective liquidity also dropped to 72% (19.4%).

On market prospects for the year ahead, De Klerk said: “We feel the break in the long-term downturn in the gold price is supported by fundamental and technical factors, and a long-term uptrend is sustainable.”

The prospects for gold and mining financials continued to improve, and BoE had adjusted the portfolio accordingly. “Sharp pullbacks in the gold price are, however, likely and will be used to increase our exposure.”

The fund’s performance compared with an annual inflation rate of 10.6% in May and a 15% rise in the all share index in the year to June.
Three Randgold mines show loss

Business Staff  ST 17 93

Only one of Randgold's four gold mines showed a profit for shareholders in the June quarter, with the higher gold price received being insufficient to offset falling yields, the disruption of production and capital expenditure.

Blyvoor's earnings a share were 0c (8c in the previous quarter). Harmony showed a loss of 2c a share (profit of 29c a share). Durban Deep a loss of 80c (8c profit) and ERPM a loss of 11c (23c loss).

The group, which is paying no dividends for the quarter, says hedging remains an important strategy in securing revenue.
Agreement nears on Rusfurn deal

W& A, J D Group and Wooltru subsidiary Massmart were set to conclude a complex multimillion-rand deal to acquire the troubled Rusfurn furniture group, informed sources said yesterday.

They said the initial deal, between Rusfurn and W&A, would be struck this month. It would see W&A — aided by its new joint shareholder Tencent — acquire the entire Rusfurn group. The R4.8bn turnover group's major interests include Dion, Russells and Rodicks (232).

W&A would then sell the numerous furniture interests to its own furniture subsidiary JD Group, and would sell retailer Dion to Wooltrub subsidiary Massmart.

It is believed that W&A would sell Dion to Massmart for cash, but the JD Group part of the deal could involve the issue of shares. According to one source, the terms of the deal were complex, but it appeared that W&A would walk away from the deal with a profit of about R45m.

Sources said it was still unclear what the purchase price would be, and what would be done about Rusfurn's significant debt.

The speculation follows more than two years of significant losses and much concern about the group's gearing and debtors' provisions.

In financial 1994, Rusfurn reported it had gone R76.2m into the red after showing a profit of R96.8m in the previous year. At that time it announced a three-year recovery period. By the June 1995 year-end, its losses reached R135.8m. Since November last year, when the group issued a cautionary announcement, shareholders have been anxiously awaiting news of a change in control. But an announcement late that month said negotiations concerning a possible change of ownership were terminated, and that management had been restructured. Alex's Daniel Creight took over as chairman of the group.

In the six months to end-December, Rusfurn returned to profit, with attributable income of R45m from a loss of R85m in the previous year. Directors said although operating profit before interest was expected to improve, the high gearing would see it show an attributable loss after interest.

In May, Rusfurn issued a cautionary announcement, but no subsequent announcement has been forthcoming.
Daewoo-Amic takes R20m Gentech stake

DAEWOO-AMIC JV, a joint venture between South Korea's Daewoo Corporation and Anglo American Industrial Corporation, is to make its first investment of R20m in Powertech domestic appliances subsidiary General Technologies.

The parties said at the weekend Daewoo-Amic would acquire 6.5-million ordinary Gentech shares for R6.40 each or 99.3c a share.

Gentech simultaneously announced details of its R20m rights issue. Shareholders were offered 100 new ordinary Gentech shares of 93c each for every 100 ordinary shares held, based on a price of 156c a share. Daewoo-Amic would follow its rights, including those ceded by Gentech director Samon Nash to Powertech, and Daewoo-Amic for no consideration.

After the rights issue (assuming subscribers took up rights in full), Gentech's major shareholders would be Powertech 49%, Daewoo-Amic JV 29.9% and Nash 15%. The 29.9% stake would cost Daewoo-Amic R20.1m. Gentech's ordinary share capital would more than double to R71m.

Daewoo-Amic JV's purchase consideration (of 99.3c) was equivalent to the average cost a share of Powertech's indirect investment in Gentech.

Gentech shares closed at 156c on the JSE on Friday — more than double the 50c level they were trading at in August.

Daewoo-Amic JV said it had identified other joint investment opportunities, including the possible establishment of a local color picture tube manufacturing facility for televisions.

Amc chairman Leslie Boyd said his group was being repositioned to reduce the effect of the commodity price cycle on its earnings, and had been looking to Korean and Japanese consumer goods companies to establish joint ventures in SA.

Gentech chairman Peter Watt said the deal fitted his company's objective of strengthening relationships with significant international partners.

Daewoo is one of South Korea's four major conglomerates, and has a turnover of more than R100bn.
Remgro chairman says new taxation bodes well

WHILE the Rembrandt Group (Remgro) made no forecasts for the coming year in its 1993 annual review, new chairman Johann Rupert said changes in taxation would have a positive effect on earnings, and certain interests would improve performance.

The tobacco, mining, industrial and financial services group recently reported a 1% rise in earnings to R2,12c a share in the year to end-March on a 6% rise in net income before tax to R1,24bn.

Rupert, who took over as chairman last November, said results reflected the negative effect of the drought and unrest, as well as refinancings and the resulting decrease in consumer purchasing power.

They also reflected downsizing of some business sectors like engineering, in which the group had an interest.

There were low precious metal and commodity prices during the year. Lower interest rates affected the group’s earnings from cash resources.

Nevertheless, the trademark group increased its contribution by 9.9% to R427,7m or 47.6% of total earnings.

The divison, which includes the tobacco and liquor interests, increased earnings in line with inflation despite the recession.

Rupert said there was a general pressure on volumes, and production units were under increased pressure to maintain and improve quality and productivity.

The mining interests, held through wholly owned Tegnese Mynbeleggings, increased their contribution by 5.5% to R233,2m or 25.2% of earnings.

Mining interests continued to experience difficult trading conditions, largely due to low international commodity prices. Results for the coming year should benefit from the recent surge in the prices of gold and other precious metals.

Industrial interests reported disappointing results, dropping their share by 25.4% to R91,2m or 9.6% (13%) of earnings.

Hestcor was affected by the drought, the depressed economy and substantial losses in associate Rainbow. The effects of these losses on Remgro was R15,6m.

Robertsons showed a satisfactory increase in earnings.

Engineering interests held in Metkor and Dohyl experienced difficult trading conditions.

Financial interests reported an 11.4% rise to R78,2m or 8.2%. Remgro sold its interest in Momentum Life and the balance of its share in Standard Bank Investment Corporation for a combined capital surplus of R47,3m.

Results from corporate and other interests declined by 18.5% because of a prior year taxed surplus of R11m, lower interest income due to lower interest rates and a decrease in the average level of surplus funds following payment of a R156,5m special dividend.

The decline also reflected the acquisition of minorities in Tegnese Mynbeleggings for R460,7m.

Since year-end, Remgro had bought a 15% partnership interest in Vodacom Group, which has applied for a cellular telephone network licence. Remgro expected its investment to be about R106m.

Rupert said Remgro paid income tax of R478,8m at a rate of 47.5% (45.8%) before dividends and other exempt investment income.

With the recent change in the company tax rate to 40% and the introduction of secondary tax on companies (STC), the dividend income of the group — on which STC credits could be received — would be larger than the dividends paid by the company.
Crookes Brothers predicts growth in spite of drought

FARMING and investment holding company Crookes Brothers predicted strong growth after diversifying its agricultural crop mix to withstand seasonal setbacks and price variations, chairman Ivan Gillatt said in the 1993 annual report.

The group’s geographical spread had, to some extent, cushioned the group against the full effects of the continuing drought. It had also introduced irrigation wherever possible.

Gillatt said he believed the role of “agribusiness” in the economy was assured of growth because of rapid urbanisation and greater consumer spending.

Strong competition and poor demand had depressed apple prices, causing citrus prices to remain at 1992 levels.

Operating profits were also adversely affected by difficult export marketing conditions in Europe.

But Gillatt said borrowing, except in the very short term, was avoided.

Cane production estimates for 1993/94 were marginally higher than those achieved in the previous year, after the industry was downsized as a result of the drought.

Expectations that sugar production would recover after last year’s disastrous season were dashed as the drought continued through the summer.

There was a danger that the crop would not be sufficient to supply local market requirements.

Crookes Brothers would invest R8m over two years in developing 500ha of sugar cane.

Construction of the new Komatipoort mill was underway on the farm adjoining the estate.

Gillatt said citrus production increased despite the drought, due to additional orchards falling into the production cycle and young orchards reaching productive maturity.

Citrus production was expected to be 10% higher than the previous year because of a replant and expansion programme.

Gillatt said fruit export prices remained at last year’s level because of competition from South America.

The first stage of 80ha of banana expansion was completed on schedule and contribution in this sector would increase significantly. The second stage of 75ha was to be completed next February.

Normal climatic conditions prevailed for other crops and a record barley harvest had increased group earnings.

Another grain and sheep farm had been leased in the Naper district to expand this operation from January 1995, Gillatt said.
Edgars customers now 50% black

By Stephen Cranston

The Edgars customer profile has changed progressively, with more than 50 percent of customers now black, says MD John Bells.

Writing in the annual report for the year to March, Bells says that with increasing aspirational demands for branded merchandise, substantial investment is being directed to building and retaining national and house-brand supremacy.

Rampant escalation in food prices and growing responsibility for educational costs were having a marked impact on the discretionary income of the average Edgars customer and sales had increased by just 11 percent.

But the chain had managed cost reductions, overheads and assets well, so the pre-tax margin had improved and attributable earnings had risen in real terms.

Expanded merchandise ranges and the refurbishment of smaller stores had boosted sales meaningfully.

This had triggered the acceleration of the upgrading of country outlets over the next two years.

Its sister Sales House chain saw a 45 percent growth in shoe sales last year and was committed to operating independent shoe stores, an intention which had been boosted by the purchase of ABC and Cuthberts from Amrel after year-end.

Sales House turnover had increased by a third without a deterioration in the debtors' book and the bad-debt handover percentage had fallen below four percent for the first time.

Jet MD Don Etheridge says the previously loss-making chain has finally found its market niche by offering quality core fashion merchandise in the most wanted shapes, colours, fabrics and sizes.

Sales increased by 21 percent last year and there was a R4.6 million pre-tax profit in the second half.

A new generation store design, configured to display the revitalised merchandise ranges has been introduced, with rewarding paybacks.

The group manufacturing operation Colrose made a R39 million loss during the year as internal inefficiency and the relocation of the merchandise division to Tengani had pulled it down.

Exports grew by 21 percent and menswear sales by 22 percent, but ladieswear sales were disappointing.
Randgold has
lessons for
Star 61793
investors

By Derek Tommey

Brokers say investors have learnt valuable lessons from the disappointing Randgold mining quarters issued yesterday — three weeks earlier than is normally the case.

With the gold price rising strongly, there was optimism that the group's four mines would produce attractive figures.

But after capital expenditure, Blyvooruitzicht reported distributable earnings of 6c a share for the quarter, Durban Deep a loss of 80c, Harmony a loss of 2c, and ERPM a loss of 111c.

The market's dismay at the Randgold quarters is reflected in the Randgold share price.

It fell 85c, or 13 percent, to 590c to show one of the biggest losses of the day. (Chart)

Harmony's price dropped 105c to R24 and ERPM's 100c to R17.50. Durban Deep's was unchanged at R48 and Blyvooruitzicht's rose 25c to R25c. (Chart)

Brokers said yesterday that one lesson was that a higher gold price may by itself not be enough to keep some of the more marginal mines going.

Operations at all four mines, and especially at ERPM, were affected by lower recovery grades.

Another lesson is that the practice of selling gold forward may save a mine when the gold price is low, but it can be a major drag on profits when the price rises.

All four mines have sold large amounts of gold forward.

That gave them a small premium on the selling price at the time of the sale. But the market price is now well above the forward price.

It is estimated that the average market price for gold for the quarter is around R39.973 a kilogram.

But Blyvoors received only R35.424 a kilogram, Durban Deep R34.835, Harmony R34.198 and ERPM R35.519.

And this depressed gold price situation will persist for some time, as they have all sold substantial amounts of gold forward at below the ruling price until at least the end of the year.
Price rise sends many funds into gold shares
Mixed bag from UAL unit trusts

UAL unit trusts posted mixed results for the year to end June, with annual returns ranging from 18.5% to 4.0%.

The UAL selected opportunities unit trust gave investors an 18.5% return, followed by the UAL gilt with a 17.3% return, and more distantly by the UAL unit trust with 12.7%.

However, the UAL mining and resources fund delivered up a 4.8% return for the year, despite the more than 40% jump in the JSE gold index during the quarter.

Asked whether the mining fund had missed the gold boom, UAL spokesman John Kinsley declined to comment. Kinsley pointed out, though, that the R209m fund's objective was to obtain an investment spread, and not focus entirely on gold counters. No performance figure was available for the fifth unit trust in the UAL stable, the managed fund, as the unit trust had been in existence for less than a year.

Portfolio manager Dana Becker said the new fund grew substantially during the quarter, its asset value rising to R90m (March 1993: R41m).

Selected opportunities portfolio manager Richard Anderson attributed his charge's performance to focus on quality medium-sized industrial companies. He added that rand weakness and a rise in precious metal prices in 1993 had afforded an opportunity to take a cyclical position in mining counters. The selected opportunities fund grew to R148.3m (March: R138.5m) in market value.

Gilt unit trust portfolio manager Brian James said the market value of his fund rose to R558m (March: R497.7m) at quarter-end, with activity concentrated on lengthening the shorter-dated portion of the portfolio.

The UAL unit trust, however, remained the largest fund in the UAL stable, rising to R734.2m (R678m) in asset value at end June. Fund manager Michael Eustace said, with mining markets dominating the JSE, he had added to the holding in Amgold, and trimmed an exposure to Liberty.
Investment property value outpaces JSE overall index

ANDREW KRUMM

GROWTH in investment property capital values beat the JSE overall index in 1992, the latest benchmark Dunlop Heywood Investment Property Index shows.

Dunlop Heywood director Ian Mitchell said: "The Dunlop index stood at 1 478 for the year to end December 1992, representing a 6,6% growth in capital values, compared with a 5% decline in the JSE overall index during the period."

Noting that the 14,7% total return on the R7,75bn portfolio far outperformed the 5% return on the overall index, Mitchell said the Dunlop index portfolio's performance was a reliable indicator of market performance.

"As the portfolio includes nearly a third of all pension and provident fund property investments in SA, the index offers a reasonable sample of the performance of those portfolios, and thus the market."

Comparing the performance of the various investment sectors in the portfolio, he said the residential/tourism element performed "brilliantly", as capital values grew 26,97% during 1992. However, as this element reflected the performance of a few well-located, successful hotels which made up only 2,46% of the total portfolio, it had no significant impact on the index.

The shopping element of the portfolio, which took second spot in the performance stakes, delivered 17,55% growth in capital value. Shopping complexes made up 53,88% of the portfolio by value, and represented nearly one-third of all shopping centres bigger than 20 000m² in the country.

The value of decentralised offices in the portfolio grew 5,13% during 1992, to make up 18,94% of the total. Properties located in CBDs averaged 4,1% growth and made up 22% of the portfolio at end December 1992.

The value of industrial properties in the portfolio declined by 2,75% in 1992, Mitchell said. This resulted largely from the concentration of older properties in the portfolio, and the cost-conscious attitude adopted by industrial tenants in the recession.

"Many industrial properties are older, and not linked to turnover rentals, and so returns decline over time. Tenants' reluctance to accept higher rentals in a recession exacerbated the situation."

Mitchell added, though, that industrial properties made up only 2,71% of the total portfolio and had little influence on the index.

Pointing out that the index's 20,65% total annual return for the 14 years to end 1992 beat the 17,7% return on the overall index, Mitchell said he was optimistic that total returns on balanced property portfolios would continue to beat inflation.
Robertsons does HLH proud

By Stephen Cranston

Robertsons was the only operation in the Hunt Leuchars & Hepburn (HLH) group to produce satisfactory results in the year to March, says group MD Neil Morris.

HLH’s earnings per share slumped by two-thirds, principally because of losses from major associate Rainbow Chicken, but there were unsatisfactory performances from both Transvaal Sugar and HLH Timber.

Robertsons achieved all-time highs in most product categories, but overall volume growth was below that achieved in previous years.

The company attributes its continued market penetration to its strong food brands, such as Robertsons Spices, Rajah Curry Powder and Knorr, as well as products such as Doom, Airoma, Rattex and Flush Clean.

It launched three new products during the year, Napolina Pasta and Sauce, Soups of the World and Airoma pump action, which all had sales significantly higher than expected.

Exports grew by 41 percent, with significant growth being achieved in Zambia and Mozambique.

Robertsons has been an aggressive acquirer of brands recently, with Bovril and Marmite, Monate and Mango Manatchar and the Flush Clean range being recent examples.

The Carmel brand was recently acquired, providing an entry into pickles, spreads and relishes.

Robertsons looks well-focused. Sales increased 16 percent despite pressure on consumer spending, which must have hit its basket of relatively luxury items.

Transvaal Sugar’s (TSB) performance is dependent on the vagaries of the climate. There was a 35 percent reduction in cane production because of the drought, which cut earnings by 49 percent.

The end of the drought has come too late to ensure a full recovery in the present season.

It has taken the responsibility of marketing and selling its own sugar production under the Slati brand name, which should add to margins in the long term.

TSB also grows grapefruit for the export market, which should provide a good source of growth.

HLH Timber was hit by depressed conditions in the mining and construction industries. There was a loss in the group’s softwood operation, HLH Timber Processors.

Low demand by the building industry, resulting in fierce competition among millers, saw prices falling by up to 50 percent.

There was also weak demand for laminated timber products.

Further attention is being focused on the value-added export market and to this end Eagle Furniture Industries was acquired and the rest of Bailey’s Furniture Manufacturers.

The first shipment from the SivaCel chipping plant took place in January. Orders have been placed for the total output in the current financial year.
Sechold acquires stake in Theta Securities

CAPE TOWN — JSE-listed financial services institution Sechold has taken a substantial stake in the newly established financial securities company, Theta Securities, formed by the former UAL project team.

Subject to the conditions precedent to the deal, Theta management would over time acquire the majority shareholding in the company, Theta MD Leon Kirkims said yesterday.

Sechold group MD Arthur Kelly and director Pat Abrahams have joined Theta’s board.

Kelly said he believed that the acquisition added value to Sechold’s operation and that it added a new dimension to its involvement in the financial services sector.

Theta started trading on July 1 with an initial capital investment of R3m and intended to actively pursue projects aimed at the needs of the new SA, Kirkims said.
COMPANIES

Buoyant trade lifts JSE income

MERVYN HARRIS

The interim report said continuation of the surplus depended on the maintenance of 'favourable market conditions which saw total share volume traded soar 110% to more than a billion (493.6 million) in the period under review.

The total value of shares traded jumped 113% to R16.6bn (R4.5bn), boosting equity turnover as a percentage of total market capitalisation on an annualised basis to 6.94% from 5.7%.

Total nominal value of giltis traded rose 52% to R18.3bn (R9.7bn) while the total value of Krugerrands traded increased by 147% to R63.6bn (R26.1bn) in the quarter.

Equity market capitalisation at the end of the quarter totalled R614.8bn, representing an increase of 11% from the previous period.

BUOYANT equity market conditions boosted JSE income from members by 12% to R13.6m (R12.1m) in the first three months of the exchange's financial year to end May.

The rise offset a 9.7% decline in income from listed companies to R4.3m (R4.7m) on the back of dehustings and fewer new issues coming to the market, lifting total income for the period by 6% to R17.8m (R16.9m).

Equity capital raised from new issues declined 11% in the quarter to R601.8m (R687.6m) while capital raised from rights issues was marginally lower at R2.17bn (R2.2bn).

Expenditure was only marginally higher at R16.3m (R16m) because of a sharp reduction in interest charged to R159.000 (R159.000), resulting in a profit of R1.7m against R1.02m.
Some small gold
mines demonstrate
the Midas Touch

By John Spira

R1 000 invested in Lindum
Reefs Gold Mining Co a
short six months ago would
today be worth more than
R20 000 — a lot more than
you'd have made on Sat-
urday had you put R1 000 on
Dundas Duld.

Yet even if you hadn't been
blessed with the foresight to
buy Lindum at the beginning
of the year, you could have done
almost as well with more than a
dozens other shares that have
been riding the crest of the gold
boom.

The accompanying table lists
those that have soared by 256
percent or more in this period — a
list calculated to turn those
who missed the gold boat a deep
shade of green.

Lindum shot into orbit after
it demonstrated that its switch
from underground mining to
open-cast operations was the
right way to go.

Remarkable

Cashing in on the steeply in-
creasing gold price, its profit in
the March 1993 quarter climbed
67 percent. And the gold price
has risen a lot more since then.

What's remarkable about Wit
Nigel's headlong advance is that
until a few weeks back it
was lagging the gold boards. A
month ago it stood at 50c (now
150c).

Then news leaked out that
it was looking anew at the pros-
pect of mining what is a subst-
ancial virgin orebody and
everyone pushed the buy button
at the same time.

The bottom line is that you
could have trebled your money
in a month — a fair return for
having no more than a sharp
nose.

Wit Nigel is a member of the
Consolidated Mining group, as
is operating gold company West
Wits, which has surged 412 per-
cent in the past six months.

Add the two together and it
isn't surprising to find Consoli-
dated Mining among the gold
market's jackpot shares, along
with other group holding com-
panies Southo and Egoli.

ginal mines (with Loraine,
Doorns and Western Areas
prominent among them) whose
earings can be expected to
enjoy quantum rises, should the
gold price remain at current
levels.

These are the mines whose
earnings are described as
heavily leveraged to the gold
price — an enigmatic label
which, however, can be easily
explained.

Simply compare a high-cost
(marginal) mine with a low-cost
(non-marginal) mine.

At a gold price of (say) R900,
the low-cost mine, with costs of
(say) R500 an ounce, is making
R400 an ounce produced.

At a gold price of R1 300, its
profit rises to R850 for an 89
percent improvement in earn-
ings.

At a gold price of R800, the
high-cost mine, with costs of
(say) R600 an ounce, makes
R100 an ounce produced. At a
profit of R1 300, its profit
rises to R500.

Increase

That's less than the profit
carried by the low-cost mine,
but it represents an earnings in-
crease of 400 percent — consid-
erably more than the 89 percent
achieved by the low-cost mine.

Hence the leverage factor
contained in marginal mines.

Hence the reason why the
shares of marginal shares have
risen farther and faster than those
of the low-cost mines.

Not that the shares of the
low-cost producers haven't
gained ground. It's just that
Dundas Duld's 107 percent and
Vaal Reefs' 167 percent appear
dorsory in comparison with
those on the jackpot list.

Have the marginals run too
far ahead of themselves?

A lot depends on how gold
performs in the months ahead.

It is nevertheless worth not-
ing that in the mini-boom of
1987, when gold hit $500, Wit
Nigel peaked at 470c (now 150c),
Western Areas topped at 3850c
(now 1900c), Loraine made a
high of 3650c (now 1135c) and
Doorns touched 6500c (now
595c).

And it wasn't all that long
ago.
Omens looking good for Wooltru

By Stephen Cranston

The relative buoyancy of the share price indicates that the market expects Wooltru to show further improvement in its results for the year to June.

Analysts expect the group will make at least a 20 percent improvement in earnings for the year as a whole after a 17 percent hike in the first half.

If this does not happen, then the share price could fall back from R65 to the R55 level at which it was trading at the beginning of the year.

One optimistic analyst even predicts earnings growth as high as 40 percent.

The task will be made somewhat easier as the second half of last year was a particularly low base.

Makro's contribution was down sharply because of the expense of starting up new outlets, including the Verwoerdburg store, but in the financial year just ended there were no store openings.

The second half also sees a full contribution from Shield, the wholesale franchising group acquired last September, which has been reporting growth well above the average for the retail sector.

But group fortunes will centre on the repositioning of Woolworths back to the classical merchandise sector and away from the more fashion-oriented merchandise which was rejected by the public and led to an unprecedented level of markdowns.

There is a more positive reaction to the current winter range, and by the end of the year the decline in market share was being reversed.

Woolworths' profit growth will, however, be tempered somewhat by the greatly increased expenditure on advertising and its spending on the upgrading of its computer systems.

In the longer term, Woolworths needs to gain a wider customer base in the black market.

To help achieve this it has set up a satellite buying operation in Johannesburg specializing in black market needs, but it has a long way to go before it catches up with Edgars, in which half the customers are black.

The Specialty Retail group, principally Truworths, looks poised to continue its strong profit improvement as it operates in the buoyant credit sector where its main competitors Edgars and Feschuk continue to report substantial real improvements, even off their high bases.

But there is increasing concern about Wooltru's recent acquisition chase, which has blurred its focus.

Most analysts are unenthusiastic about the prospective acquisition of Dion.

It will help absorb head office costs at Massmart, which controls Makro, and enable it to buy durable goods better. But management resources should be concentrated on fine-tuning Makro's own trading.

But Dion is profitable and cash positive, despite the problems faced by the durable goods sector, and the price of its acquisition from a disintegrating Rusfurn could be too tempting to resist.
R100m in new equity investment

Investec and Fedsure move to save IGI

FEDSURE and Investec are coming to the rescue of Hosken Consolidated Investments (HCI) and its subsidiaries IGI Insurances and Safrianc Life with a new equity investment of R100m.

The investment will be made in HCI which, in turn, will follow a rights issue by IGI which has lost capital through major investment write-offs.

A result of the investment will be that Investec and Fedsure would take control of HCI and its insurance subsidiaries.

HCI chairman Michael Lewis said yesterday "The deal was concluded in principle a week ago, but we still have to tidy up the loose ends."

He believed the new capital would more than make good recent write-offs of investments in Tollgate, Tyme Holdings and Abacus, which had cost HCI R55m in the financial year to March 1993 and R23m in the preceding year.

In addition to IGI's investment losses, HCI has settled the R55m dispute with Asea over a put option on shares in the collapsed Tollgate group.

Final details of the transaction have yet to be made public. However, it appears that a share swap is envisaged in which HCI would issue a letter of allocation to Investec for HCI ordinary shares and receive a renounceable letter of allocation for ordinary shares and/or debentures in Investec in exchange.

"The final terms of the swap are dependent on certain conditions which will be announced as soon as these are determined," Lewis said.

He added that the value of the investec securities to be issued would not be less than R100m. Over and above this, Investec would acquire certain other HCI shares from share incentive schemes - worth about R4m.

"We have not established how control of the group will be diluted by the deal, but Investec will certainly have a controlling interest."

Write-offs totalling R63.9m added to IGI's misery in the year to March 1993. The composite insurer reported a net income of R49.8m (1992 R28.3m) on a rise in net premium income to R61.3m from R55.6m.

Net income was cut by a R15m (nil) abnormal item relating to the creation of additional reserves for self-insurance by furniture retailers, losses on discontinued operations of R7.3m (R5m) and tax of R14.6m (nil) that left a taxed profit of R44.6m (R25.3m) before extraordinary write-offs.

HCI, which owns 55% of IGI, slipped to a R42m (1992 R47.4m) profit before accounting for losses in discontinued operations and tax.

After tax, net income was R28.7m against the previous year's R32.7m. And after deducting income attributable to outside shareholders, net income attributable to ordinary shareholders was R20.9m (R18.3m). This was eliminated by an extraordinary write-off of R30.7m (R16.8m) which resulted in a bottom-line loss of R18.7m against a profit of R6.1m in 1992.

Safrianc suffered from new business strain as life premiums increased in the year. As a result, Safrianc suffered a bottom-line loss of R19.8m against a profit of R15.1m in the previous year.

Nevertheless, the taxed profit attributable to ordinary shareholders fell to R3.7m from R3.9m and this was more than eliminated by an extraordinary charge of R23.8m (nil) against a Tollgate property against a profit of R25.1m in 1992.
New loan scheme for members of stokvels

By Mzimkulu Malunga

The launching of a new scheme that will enable stokvel members to use their savings as security for loans has added some lustre to the investment industry.

"The initiative represents a true joint venture between formal and informal sectors. It involves flexibility and adaptability on both sides and demands mutual respect and understanding," said the president of the National Stokvels Association of South Africa, Mr Khehla Lukhoze.

Named "people's benefit scheme", the programme is a joint venture between Nasasa, the Development Bank of Southern Africa, First National Bank and unit trust company Board of Executors.

The scheme affords stokvel members an opportunity to choose between savings accounts, fixed deposits, unit trusts and loan accounts. All these sectors of investment can be used as security for loans.

For a stokvel to qualify for the scheme they have to save money for at least six months before making any withdrawals in their FNB group account.

Then after six months the group can apply for a loan from FNB. They can borrow up to one and a half times what they have saved in their account.

For instance, if a particular stokvel saves R2 000, it can apply for a loan of R3 000.

The bank will look at the investment track record of that particular group when it applies for a loan. Loan repayment period is two years and the interest rate will be determined by the prime rate — interest rate levied by banks on loans by their best customers — at the time of the repayment plus five percent as opposed to the usual 10 percent.

Unit trusts

If a stokvel chooses a unit trust, the money will be saved in a newly launched unit trust company called the People's Benefit Income Fund managed by BOE. The establishment of the People's Benefit Income Fund has been financed by the Development Bank of Southern Africa and the Independent Development Trust to the tune of R18 million.

Profits accruing to the PBIF will be invested in the Nasasa Indemnity Trust. The trust will manage the loan facility for stokvels Nasasa, FNB and BOE are the trustees. Individuals who want loans from the bank can only apply through their respective stokvels.

"We are satisfied with our contribution to the scheme as it provides sufficient comfort to the private financial institutions to enter the risk market and we hope this will inspire further initiatives in the same direction by other financial institutions," said DBSA general manager Div Botha.

For people like Lukhoze the scheme is like a dream come true as they have always argued that although black people invested billions of rand in financial institutions through various township investment groups such as stokvels, they were unable to get loans.

In real terms the townships are subsidising the white suburbs. People in affluent areas have an easier access to loans because they meet the collateral requirements needed by the banks.

Also, due to the violence which plagues South Africa's townships, they are regarded as high risk areas making it difficult for people living there to be granted loans by banks.
**How credible is it?**

Is property still the best investment? Valuer Dunlop Heywood believes it is, maintaining that its latest property index shows that over the longer term, an investment in property will outperform one in JSE shares.

That's a controversial view, given that much depends on the basis of calculation and the period over which the comparison is made. Certainly, there is no shortage of contrary voices within the property industry and the JSE claiming empirical evidence to prove the contrary.

The Dunlop Heywood Investment Property Index compares a mixed portfolio of R7.75bn worth of commercial, industrial, hotel and residential properties against the JSE’s Overall Index in terms of total returns and capital values.

The index, which rose in capital value by 6.6% (to 1478) in the year to December 1992, compares with a decrease of roughly 5% in the value of the JSE’s Overall Index over the same period. Measured in terms of total annual return (income yield and capital growth) over the same year, the index showed a total return of 14.7%, compared with a 2% decline in the JSE’s Overall Index, including dividends.

In the longer term, over the 13 years since 1979, the total annual returns of the property index and the JSE Overall Index are 20.95% and 17.7% respectively.

Of course, the measurement of performance is dependent on the period over which the comparison is made. For example, the stock market doubled its value between 1977 and 1979 — a fact which has been excluded from the above comparison. Similarly, if the period were extended to include the period to June 30, 1993, the value of the JSE Overall Index would have risen 19.08% with probably little change in the property index.

In addition, Dunlop Heywood’s portfolio consists of a selection of properties heavily weighted in favour of shopping centres, whereas the JSE Overall Index is not so discriminating. Furthermore, its portfolio is not fully representative of the whole property market.

Dunlop Heywood joint MD Ian Mitchell is quick to point out that its portfolio contains a share of “dogs”, but questions persist on the fairness of the analogy.

As Mitchell attests, “The composition of the portfolio has continued to evolve as property managers try to ensure that their portfolio is made up of well-located premises, fully let to good tenants, known as Grade A buildings. The demand for this quality of building continues to be high, and the composition by value reflects some changes (1991 figures bracketed).”

- City centre properties make up 22% of the portfolio (23.29% in 1991) — with an annual growth in value of 4.1%.
- Offices, which grew by 18.94% (17.56%) — growth of 5.19%.
- Industrial, 2.71% (2.97%) — 2.75% growth.
- Residential, 2.48% (2.15%) — 26.97% growth.
- Shopping complexes, 53.88% (53.97%) — 7.85% growth.

According to Mitchell, the portfolio’s shopping complexes represent approximately a third of all shopping centres in the country with a rental area exceeding 20 000 m² each. Though the performance of the shopping element is better than that of the overall property index, he says this is not common to all centres. Some have, in fact, declined in value, but Mitchell believes that once the economy improves their prospects for increased performance will improve.

The residential/tourism element largely reflects the performance of only a few well-located hotels, he says. As they form such a small part of the portfolio, they do not have a significant influence on the index.

Punishing the use of the index by institutions, Mitchell says the properties in the portfolio represent about one third of the total investment in pension and provident funds directly into property. As such it is a reasonable statistical sampling of the performance of those portfolios.

Says Mitchell, “The DHIPI portfolio contains many excellent properties, but like every real estate portfolio, it also contains some dogs. We, therefore, believe that any property portfolio that matches or outperforms it is a portfolio which property managers and investors can be proud of.”

Detractors of the index say most institutions use the mean property performance of pension funds (as contained in the Consulting Actuary Survey) and life offices to gauge property’s performance. They say it is generally accepted that property has underperformed equities over the long term and that there is much empirical evidence to prove it.

Further, they say the DHIPI does not account for all the outflows involved in running a portfolio, including loss of interest on refurbishment finance. While it is generally known that shopping centres have outperformed all other property types in the past decade, they suspect that some of the shopping centres included in the DHIPI portfolio may have been overvalued.

A spokesman for an institution which owns some of SA’s best shopping centres says his finding is that equities have outperformed property over most periods. He says while wheeler-dealers might well have enjoyed more profitable returns from property, the DHIPI contains unprepared institutional type properties kept on a buy-and-hold philosophy.

Mitchell’s response: “I don’t deny that the capital value of equities has tended to outperform the capital value of properties. But, property shows a greater income return and if the two elements of income and capital growth are considered, the overall performance is similar. The relative performance depends on a large extent on when the photograph is taken.”

He adds that “all outflows are accounted for in the DHIPI performance. As regards the suggestion that some properties within the index have been overvalued, there is no market evidence to support that contention.” In fact, the evidence is that such sales that have taken place were at or above the values incorporated in the index.”

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**SANDY BAY**

**On shifting sands**

Abasa’s most recent proposal to develop 270 residential plots (20% of site area) on its Hout Bay hillside property which extends down to Sandy Bay, seems modest — even generous — considering Abasa is willing to cede the rest of erf 3 366 Hout Bay to the authorities for it to be managed as a nature reserve. Its proposal also provides for better public access to Sandy Bay.

What Abasa fails to note is that should the proposed nature reserve ever be rezoned to allow development, then, as a condition of its offer, it will automatically repossess the land. Abasa claims this reversionary clause is
What began as a simple minority buyout has turned into a nightmare for joint MDs Stan and Milton Etkind.

A cautionary three weeks ago advised shareholders the brothers intended buying out minorities. Before a price could be set, year-end February figures had to be finalised. And quickly, the JSE warned Milstan that if it failed to issue a preliminary by end-June, the listing would be suspended.

Barely a week before the deadline, shareholders were presented with a second cautionary, that preliminary results could “adversely affect” the intended offer to minorities. Put simply, the results were not healthy. Nor were they on time. The inevitable became unavoidable. At the close of business on June 30, the JSE suspended Milstan.

A third cautionary this week reveals that management is negotiating with the principal creditors, representing about 80% by value of debits, to restructure the company. Consultant Peter Curle rejects the theory that the Etkinds intended to use the JSE committee as a ploy to delist, without buying out minorities. “When the preparation of results first indicated an adverse situation, the directors took the opportunity to advise shareholders...”

“...They see the priority now as rescuing the company to benefit shareholders and creditors. Without that, minorities would almost certainly have received no reward. If and when that is addressed, buying out minorities will again be a key issue.”

Curle says negotiations are proceeding well. “Steps have already been taken to rationalise certain operations.” It is understood this includes stock centralisation and branch closures. Milstan’s profits have declined steadily since 1987. In 1988 EPS were 14c. In 1992 losses were 5c a share.

Clearly these figures are academic. Things have worsened substantially. For winding up proceedings to be launched, and then withdrawn, the situation must be serious. Minorities shouldn’t nurture hopes of a sizeable payout.

Kate Rhixon
Mason stayed and is now MD. Nonexecutive director George Joubert, who holds 5% of the equity and picked up voting rights for Sanlam's 14%, backed the new chairman.

The position of ex-executive chairman Jackie Meeker remains unclear. Allettzhauser says negotiations are taking place with Meeker, who was ousted at the AGM.

Five times Comrades Marathon winner Meeker, who has been with the printing group for 28 years, says he does not intend to resign from the board now.

Meeker has a 7.5% interest and headed Penrose for several years, becoming chairman when the Nasionale Pers, Tollgate Holdings and Hosken consortium took control in 1991. But it seems unlikely he will stay on the board. Without control, Meeker will probably decede his position untenable.

Paul Delabuit, another director who quit of his own volition, is reported to have acquired Who's Who Allettzhauser denies this: “The deal was neither ratified by the board nor approved by shareholders, in accordance with JSE regulations Who’s Who as not for sale, it’s still owned by Penrose and will be for a long time.”

This apparently was one contentious issue between old and new management. Meeker says an earlier board decision was to sell peripheral divisions, like Who’s Who, because they detract from the core printing and bindery business and funds could be better employed in growing printing operations.

Meeker also says the issue of directors' remuneration was exaggerated, though the last annual report shows this rose 63% to R1.6m — apt to raise the ire of shareholders in a company with a R732 000 pre-tax loss.

Staff, chopped by retrenchment from 206 last August to about 120, must have been just as upset.

But Meeker points out that the report covers 18 months and includes the increase now-liquidated Tollgate awarded ex-MD Jerry Thompson (about R750 000 a year), Julian Askun's brother-in-law, who was "removed" soon after the Tollgate scandal became public.

The major argument, says Meeker, was that Allettzhauser's group, with only 29.1% of the equity, appointed four new directors and retained the two Nasionale Pers directors from whom they bought the shares.

The market seems to like the takeover. Since the AGM on June 30, the share price has nearly doubled to 50c.

"I've called all the staff together, told them that we will start building Penrose again and that the new jobs will be offered to retrenched former employees," says Allettzhauser. He plans to retain commercial and financial printing as the core of the business while expanding in specialist, high-margin printing.

Foreign opportunities will also be explored. Dennis Worrall has been appointed director of international developments and head of new business, which should keep the absentee MP busy and allow him to develop contacts made while he was ambassador to the Court of St James.

"I have two immediate goals," says Allettzhauser, "to win so many printing orders that the machines break and to get back into the black by December." That should offer a glimmer of hope to shareholders, who have not seen a dividend since 1988.

Recent price movements could make interesting pickings for speculators, though longer-term investors might want to wait for year-end to see if Penrose has turned.

Shaun Harris
Lots of talking

Plans to recapitalise Hosken Consolidated Investments (HCI) are expected to be made known within a few days, after rounds of anxious discussions. The announcement is expected to accompany preliminary results which should show the full extent of write-offs relating to the liquidation of Tollgate.

probably not less than R10m
Backers for a possible R120m rights issue, likely to lead to a shift of control, may not be revealed yet.

When they are, two names seem sure to appear: Fedsure and Investec, linked by an earlier share-swap alliance, have been aggressively expanding into broader financial services activities. HCI’s 55%-held subsidiary, IGI Insurance, must be the main attraction for the insurer and the bank.

The FM understands talks with a third potential backer have fallen through, though another suitor could be found.

For HCI, with debt of R32m in its interim report, excluding its exposure to Tollgate and a R33m legal dispute with Absa, fresh capital is vital, even if that means rehinging control (see People this week and Leaders June 4).

Shona Harris
A real nose for money

"I can smell money everywhere," South Korean conglomerate Daewoo chairman Kim Woo-Choong told US business magazine Fortune. It seems he's caught an intriguing whiff of it, courtesy Anglo American Industrial Corp (Amic), in SA.

Last week, Amic chairman Leslie Boyd announced the signing of protocols leading to the establishment of Daewoo-Amic Joint Venture, for the time being a private company owned equally Hard on its heels. Daewoo-Amic announced its first venture in SA — the purchase of a 29.5% interest in Gentech (previously Peapilt), which makes and distributes white goods — domestic and electrical appliances.

Daewoo is South Korea's fourth largest conglomerate, with 1992 sales of US$30bn. Products span heavy machinery, motor vehicles, electronics, shipbuilding and construction. Kim is reckoned Korea's most frequent traveller — it's said he spends half his time on the move, seeking new markets.

In the past two years Kim has structured a series of deals which will open previously taboo North Korea to Daewoo inventiveness — making garments, stuffed toys and luggage at Nampo, a container port — and been involved in a friendly divorce from General Motors, ending a $200m joint venture in Daewoo Motors while retaining technology co-operation.

Daewoo Electronics, the area in which Boyd is clearly keenest to invest, specialises in trying to get more out of existing technologies. Its president, Bae Soon-Hoon, a graduate of MIT, is quoted by Fortune as saying, "There's a lot of technology available. We're not running this business for glory but for making money." That's the kind of sentiment that will appeal to Amic's directors.

Seizing the opportunity Daewoo's entry provides, Powertech, effectively Gentech's controlling shareholder, has announced a R39m rights issue. After the issue, which will be underwritten by Powertech, Gentech Holdings (effectively Powertech) will hold 48% and Daewoo-Amic 30%. The issue will leave Gentech with a cash surplus and no long-term loans.

Boyd says the next probable Daewoo-Amic project will be a local TV colour picture tube manufacturing facility. Others are in the pipeline, though Boyd won't be specific. "I've no wish to give advance warning to future competitors."

The link will promote Boyd's aim of reducing Amic's reliance on highly cyclical commodity markets. Daewoo will bring to the party a substantial and advanced hi-tech base. If properly tapped, it will result in a significant transfer of technology knowledge and capability to SA.

Market analysts, however, are not especially enthusiastic. "It's all very well announcing a link with Daewoo, but will it really become meaningful in increasing Amic's consumer profile?" asks one skeptic. The prevailing view on the JSE is that SA simply doesn't have enough of a technological base to justify immediate optimism.

That attitude, coupled with the rights issue, goes some way to explain the lack of interest in Gentech over the past week. But that won't disappoint Boyd; his targets are grass-roots industrial development, increased job creation and greater diversification for Amic.

David Glaser
The move by stockbroker Martin & Co to acquire derivatives broker National Futures & Options illustrates the growing awareness among JSE members of the importance of derivative markets.

Martin MD Winston Floquet says derivatives are becoming an increasingly important part of investment strategies. "Futures and options in SA are trading at three times the volumes of the underlying instruments, compared with 10 times in most other countries. So there's a lot of room for growth."

The move is also significant in view of the "mini big bang" mooted earlier this year — which would allow clearing banks trading in derivatives also to trade in the underlying equities on the JSE floor.

National will trade as Martin's derivatives department. "Technically speaking, we have acquired the people and not the company — because JSE firms are not allowed to own outside companies."
Dismantling programme

Solid in its support of ministerial fiat, the IDC recently announced a major dismantling programme National Selections (Natsel) and Industrial Selections (Indsel) are to be stripped of their portfolios, the underlying shares are to be passed through to shareholders in the respective companies and they are to be delisted.

The IDC, which refers to the process as unbundling, says it will result in about $1.9bn in blue-chip listed investments being made available to about 2,500 shareholders who will benefit from the action. "But will it?"

The shareholder registers for both companies indicate that half the holders, in value terms, are institutional. On the face of it, it's

Smaller shareholders receiving odd lots will be able to sell their shares to the PIC at full market value.

Dismantling

The dismantling follows Finance Minister Derek Keys's decision to implement legislation which will encourage this type of restructuring. If there's one benefit to shareholders, it is that Natsel and Indsel have traditionally traded at discounts to their market values.

The deal should produce, in theory at least, an increase in value of 19% for Natsel shareholders and 17% for investors in Indsel.
Decisive vote

The election for the JSE committee a fortnight ago was nothing if not boringly predictable. Paul Ferguson, apparently the target of a whispering campaign, survived again, confounding pundits' predictions. He cleared the hurdle with some comfort, leading to a view that his rating in the JSE's popularity stakes is improving.

Bill Yeovart, chairman of one of the largest firms - Simpson McKee - failed again to secure election. That leaves Simpson unrepresented, a fact greeted by sucking in teeth, wandering eyes and shaking heads.

Martin & Co's Francois Tolken, a long-serving committee member, as expected succeeds Humphrey Borkum in the chair. Ferguson is vice-president.

Tolken takes the chair in what may be the JSE's most difficult and momentous year. The broking community has to resolve pressing issues such as corporate membership, dual capacity trading, negotiated commissions and screen-based trading.

The research committee hasn't completed its report and recommendations, and rumours are growing about a stand-off between different camps. "I'm well aware," says Tolken, "this is a vital year for the JSE. The important thing is we have to get the exchange's development to evolve - we don't want change thrust upon us."

Tolken confirms he will consult members before decisions are made on major changes. "We have to make up our minds finally," he says. "We can't let the process be delayed much longer. The research committee is to meet next month. That will be a crucial meeting. Any recommendations will have to be put first before the main committee."

Meanwhile, the JSE is tightening the disciplinary ratchet. The sentence handed down to Elaine Price - a six-month suspension of membership and disbarment from heading a firm for three years - was greeted with disbelief in some quarters. Price, a sole trader, was found guilty of taking positions for her own benefit.

Price concedes her shortfall was about R2m. However, the full amount was repaid, her firm's solvency was never in issue and no clients suffered. "I'm hurting," she admits, "but I'll get through it." Since she may not earn income from work associated with the JSE for the suspension period, it's not surprising she's sore.

Price - a broker for 10 years, sole trader for four and the first woman authorised dealer - has provided for employees and clients. She has negotiated the takeover of her firm by another small brokerage.

Will she return? "Certainly I was wrong but at least I told the truth (throughout the inquiry) The JSE's my life's work and I'll be back on the floor on December 29."

If there's a lesson - aside from admiring Price's determination - it is that the JSE is resolved not to be accused of continuing its previous perceived policy of leniency towards transgressors.
Happy days here again

There’s absolutely no chance the JSE will be suspended. Executive president Roy Andersen is making certain his organisation sets a good example by producing quarterly results on time and with adequate disclosure. Income rose to R18m, an improvement of about R1m on the same quarter last year. Income depends, of course, on trading activities and the 12% rise reflects a buoyant market.

Members will be delighted that expenditure was buttoned down to R16.3m — a mere R300 000 more than last year. Since any shortfall eventually comes out of members’ pockets, expenditure is of more than usual interest to them.

Not to be outdone by those members who specialise in portfolio management, the JSE has improved income from investments to R111 000. The happy outcome is that the JSE ran at a profit of R500 000 after transferring R1.3m to reserve.

Some fascinating statistics accompany the report. The total share volume traded is no less than 110% up on last year. The value of trade of R10.7bn compares with R4.9bn last year — an improvement of 115%.

More important, liquidity has improved. Long noted for the tightness with which shares are held, JSE turnover has reflected miserable trading figures. But the May quarter shows a glimpse of light: turnover expressed against total market capitalisation improved to nearly 7%, from last year’s dreadful 3.6%.

Brokers clearly have cause to smile.

David Glasgow
BIDVEST

Joffe’s favourite colour

Bidvest, making a smooth transition from an R8m cash shell to blue-chip status, has moved steadily ahead and now has a market cap of more than R1bn. This follows chairman Brian Joffe’s announcement two weeks ago that Bidvest has acquired the business of Safor for R261,3m, settled by an issue of 3,4m Bidvest shares, bringing total issued ordinaries and convertible debentures to 15,1m.

Investors might consider the price excessive, Joffe, however, is content he’s done a good deal. Though Bidvest is buying the business, not the shares, R261,3m equates to R11,60 per Safor Safor stood at R10,50 on a 13,5 p/e before the announcement and firmed R1 to R11,50 soon afterwards. In other words, Bidvest paid market price — the only true reflection, to most analysts, of the value of a business.

Bidvest paper too has risen since the announcement. It has climbed by R5,50 to R78, increasing Safor’s investment in Bidvest by R17m — not bad for a fortnight’s work. Remember, however, that Bidvest’s year-end is June; the increase in the share price might merely be investors taking an optimistic view on results.

Safor’s attraction to Bidvest is its client base and other intangible assets, all of which offer strong potential for earnings growth. NAV at year-end June 1992 was 255c a share. Though earnings rose only 14% in 1992, five-year compound annual growth is 28%. In addition, Safor had an ungeared balance sheet and R18,6m cash on hand. That is just the way Joffe likes his subsidiaries — cash generators with little or no debt.

Why Bidvest settled with paper when more than R700m in loan capacity was available is puzzling. The answer is probably that Joffe’s building a conglomerate whose size could make it a major competitor for large mergers or acquisitions. A cash deal would have increased gearing and left market cap below R1bn — and that wouldn’t help the large transactions Joffe may have in mind.

Clearly, the market trusts Joffe, thus has permitted Bidvest to attain the critical mass needed for blue-chip status. Preliminary results are expected next month and the counter remains one for the portfolio.

Kate Hudson
Business Brief

Bruce Cameron

Tariffs Barriers

harumig SA
Stokvels, finance houses join forces

A MARRIAGE between formal financial institutions and the National Stokvels Association of SA (Nasasa) bore fruit yesterday when the People’s Benefit Scheme was launched with an initial R20m.

Development Bank of Southern Africa chairman Waseman Nkulu told the launch in Johannesburg that the scheme, based on the traditional stokvel (savings club) concept, was a unique joint venture between the bank, Nasasa, FNB and the Board of Executors (BoE). It was launched with R10m from FNB, R8m from the Development Bank and R2m from BoE.

Nasasa director Stephen Japp said the package offered stokvel members, who otherwise had no access to finance, four elements: a savings account, fixed deposits and unit trust and loan facilities.

Nasasa president Andrew Lokhele said the package would initially be marketed through FNB’s branch network mainly to stokvels, which, after a minimum savings period of six months, would be able to invest in either a unit trust or a fixed deposit which would then be “pledged” as security for a loan.

The scheme, managed by BoE, meant that members, through the collective responsibility of their groups, could borrow up to 150% of their balances.

Loans would be made against security of two-thirds of the amount borrowed and that security would be made up of money the group had available.

Nkulu said the scheme would benefit about development and address poverty because it was indigenous in nature.
JOHNNY HALAMANDARIS: From steak houses to a front-runner in fast foods  Picture: ABDUL SHARIFF

Steers stalks Europe, plans listing on JSE

By CIARAN RYAN

STEERS, originator of the steakhouse franchise in SA, has opened its first European outlet in Athens and plans three more in Greece before December.

Following in the footsteps of Spar Steak Ranches and Nando's Chickedland, both of which have European branches, Steers plans expansion in Europe, South America, China and Turkey.

Managing director Johnny Halamandaris says the 135-store group expects to be listed on the JSE "within a year" to raise capital to pay for SA expansion.

"The store in Athens has been open for only a few weeks and has exceeded our expectations," says Mr Halamandaris.

"Our stores show excellent growth prospects for Steers in Europe and elsewhere."

The group has moved from steak houses into fast foods. But Mr Halamandaris does not rule out a re-entry, possibly buying a chain of steak houses. Steers owns only two of the 135 shops.

Shrugging off the recession, Steers opened 35 outlets last year and lifted turnover by 45% to more than R110-million. Another 15 outlets have opened this year.
Dirt flies in Sunpak war

SUN PACKAGING, accused of running a dirty tricks campaign against a rival polystyrene manufacturer, has hit back with claims of blackmail, theft of trade secrets and subterfuge.

It alleges in papers filed in the Supreme Court, Cape Town, that Atlantic Forming stole millions of rands worth of technological secrets about the manufacture of polystyrene.

Former Sunpak director Kobus du Plessis allegedly built his own polystyrene factory — secretly — before leaving to set up Atlantic Forming.

Raid

Sunpak is a subsidiary of JSE-listed Holdmans, the Mailbox-controlled packaging giant.

Sunpak officers say in affidavits that far from using dirty tricks to stifle competition, it acted to stop Mr du Plessis from using stolen manufacturing secrets. It alleges he did so while subject to a restraint-of-trade agreement.

Sunpak this week laid a complaint about theft. A police raid on Atlantic Forming’s premises was said to have recovered documents containing trade secrets.

Sunpak director John Kennedy says in an affidavit he was asked by Detective-Sergeant Vljoen to identify a box of documents taken from Atlantic Forming’s premises.

“All the documents contained in the box were indeed documents belonging to the first respondent (Sunpak).” Furthermore, the documents all appeared to be originals. They largely consisted of technical data and there were many documents which I would regard as being of a confidential or secret nature.”

Mr Kennedy says the documents contained information received by Sunpak under a licensing agreement for which it pays a Japanese corporation R609 000 annually.

Sunpak managing director Johan Pick says in an affidavit that on March this year he received calls from Mr du Plessis, who alleged he was being “tailed.”

Mr Pick took another call saying that because everything had “come out into the open”, he was welcome to visit Mr du Plessis’ factory.

“He gave me directions as to how to get to the premises and I immediately got into my car and proceeded to Montague Gardens.”

The building in question was in the course of erection. Du Plessis then showed me round the construction site and told me that he and Limpac (a UK company) had become partners in a cling-film processing venture, which he hoped to have on line by August 1993.”

By JEREMY WOODS

A few days later, Mr Pick discussed the matter with Mr Kennedy.

A year earlier, Mr Kennedy had been taken to a different site in Montague Gardens where Mr du Plessis thought suitable for a factory.

The affidavit says Mr Kennedy wanted it again and found a complete factory with polystyrene production facilities.

Mr Pick says that at that stage it was clear Mr du Plessis had been putting into operation “a plant to compete with Sunpak.”

“It was also perfectly apparent he had led to us about his intentions and that he had resorted to subterfuge to disguise the nature of his activities.”

Furious

Mr Kennedy alleges that Mr du Plessis phoned him at work.

“He was patently furious I had discovered what he was up to. He told me that my coming to his factory was just like my sleeping with his wife.”

Ian Willis, chairman of Holdmans, says in his affidavit he believes Mr du Plessis was out to blackmail Holdmans through some of his “sensationalistic allegations.”

He quotes a letter from Mr du Plessis to Malbak chairman Grant Thomas. “This will lead to a lot of dirty washing in public which will certainly tarnish the blue chip image of Holdmans and Malbak.”
Altech turns from the front line to the home front

By JULIE WALKER

A PHONE shop in a squatter camp? Altech's know-how and the funding of the Small Business Development Corporation or Anglo American's Small Business Unit could set up an entrepreneur in a business for which there is constant demand.

Chief executive Peter Wilson took members of the Investment Analysis Society on a "tree-top view" of developments at Altech Anglo as a large shareholder and executive director Leslie Boyd is Altech's chairman.

Mr Wilson returned to Altech after seven years at sister company Powertech running Aberdeen Cables. He showed low Altech's earnings and dividends have moved sideways since 1979.

The main reason is the reduction in Government spending on the military, which used to be 70% of Altech's business.

His challenge is to swing the percentage to civilian applications of high technology. "We have to turn guns into ploughshares," says Mr Wilson, describing Altech's employees -- 500 are graduate engineers -- as the biggest off-balance sheet asset because of their ability to apply technology in innovative fields.

Operations have been split under three headings: Altech Industrial Group, Altech Electronic Systems and Altech Mining.

Mr Wilson says Altech sold 50% of its largest profit centre to multinational Alcatel because it's supply agreements with the SA Post Office expire in a year or so. Competition for new contracts from foreigners and SA groups will be stiff.

Alcatel has invested more than R100-million in SA. The deal allows Altech access to Alcatel's research efforts and its customer base.

Altech received an initial export order bigger than Telkom's annual takeoff in one product.

Mr Wilson says cellular telephones will be good business for Altech People are surprised that Altech did not apply for the second licence, but as an equipment supplier it was barred from doing so.

He thinks M-Net will get the second licence.

SA has learned from Britain, where in a wholly deregulated environment 85 service providers led to a dogfight. Only 41 are still in business and some are even giving away the telephone handsets in an effort to write service contracts. Many fingers have been burned.

Mr Wilson expects handsets to sell at between R1 000 and R3 000. Users need only a SIM (subscriber identification module) swipe card to use a cellular phone. They do not need to own a handset and can go to phone shops. All calls are likely to carry and people can even go to the squatter-camp phone shack to make calls.

Camps without electricity will use Altech's solar-powered remote telephone unit KuruKuru, similar to the emergency motorway phones Altech exports. This product is widely used in Africa where the World Bank is paying.

Boost

This is one of many products Mr Wilson says will boost Altech in coming years. Other products are a mineblasting management system that sequentuates blasts and optimises the miner's ability to remove rock.

An on-line titration analyser keeps mining-chemical costs down and has a pay-back time of more weeks.

The science used for sequencing in military applications has been applied to labour-intensive and time-critical fruit sorting. This is another potential export.

Educational needs can be met through Max-Edu, a computerised teaching system aimed at the masses.

"Even a quarter or a half-percent of the R200-billion national education budget will be good for us," says Mr Wilson.

On the road, a total fleet-management system has evolved from the satellite-tracking concept. A manager can watch all his vehicles from a control point and know immediately one leaves the pre-determined route.

Altech has received orders for 7 000 hand-held two-way radio tuners which spare drivers from fiddling under the dashboard to return.

A driver-automator looks like a lot of fun for an enthusiast, but Mr Wilson says an under-trained driver in charge of a R250 000 truck carrying R500 000 of freight is no laughing matter. Altech's driver trainer is half the cost and of superior performance to an imported model.

Pre-paid electricity dispensers are big business and Altech has both a smart-card and a keypad type. Mr Wilson believes there will be 10 million smart-cards soon. Altech is ready to provide the infrastructure needed at vending and charging outlets.

The presentation gave me the impression that Altech is a high-class flush graduate playground where potential money-spinning ideas are taken seriously as long as orders can outstrip costs. Altech's share prospects look attractive.

Altech is at a year's low of R18 on only 12 times earnings. When the gold bull market is over, underpriced industrials like it will start to go up.
Plan to unbundle the best of Gencon's Ways to make the

Gencon relative to

mining financial index

Cover

The biggest loser this
quarter, Gencon's
mining division was
hit by a 50% drop in
profit. The company's
share price dropped
nearly 20% in the last
quarter, and analysts
are warning that the
crisis could be worse
if the company fails to
find a solution.

Feature article by
Julie Walker

Graph showing Gencon's
mining financial index over
the last quarter.

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Three stockbrokers

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Sunday Times Business Times, July 12, 1999
Demand buoy up De Beers

DE BEERS reached a 12-month high of R92.75 after the Central Selling Organization announced 23% higher diamond sales of $2.54 billion for the first six months of 1993.

The CSO warns that although demand for rough stones remains firm, it would be unwise to consider the first-half jump a reliable guide for the year's outcome.

Sales were aided by seasonal factors, fewer Angolan and Zairean roughs, the first-quarter shortage of Russian polished stones, buoyant demand from India and increased exports of polished stones to America.

India has 250 000 diamond cutters who bring in stones for polishing and export. Full convertibility of the rupee improved their fortunes and they were able to handle more stones. The second-largest cutting centre is Israel with 8 000.

The dry season and political instability in Angola and Zaire have led to renewed supply of stones from these areas, but not in the large quantities of last year.

Russian polished stone supplies dried up because of the introduction of a 20% export surcharge. Although this is thought to have been removed, bureaucracy is hampering the normal flow of diamonds.

Another new source of supply is the second half of the year as the American government, which sold $77 million of roughs from its strategic stockpile, is believed to plan more sales.

The polished-stones market is weaker than that of roughs. The CSO predicts no dramatic improvement in retail sales until the world economy recovers.

Better sales allowed the CSO to lift average prices 1.5% in February, mainly on stones of three carats and greater, where demand is strongest.

In May, producers' delivery entitlements were raised 5% to 80%. This figure has now been lifted to 85%.

Terra tops unlisted probe

THE Business Practices Committee, chaired by Louise Tager, is to investigate Terra Exploration & Development.

The inquiry will be undertaken in terms of the Harmful Business Practices Act. Terra has issued shares to the public either for cash or in exchange for shares in other unlisted public companies. It was refused a JSE listing last year.

Terra is a subsidiary of Falcon Development. In the past few years it has undertaken an elaborate paper chase, issuing shares to holders of various companies controlled by Mike de Pina.

The companies include Hemisphere, Redpark, New Era and Great African Resources. They companies all required qualified financial statements, generated little or no income and were largely dormant.

The committee will also investigate lifted liability companies FCF Developing Capital, Falcon Developing Capital, FCF Securities and La Roche, and proprietaries Falcon Corporate Finance, RBF Corporate Finance, Terra Holdings, Principal Securities, Principal Mining, Manress Investments CC, all subsidiaries, directors, employees, brokers or agents.

Any person wishing to make a representation may write to the committee's secretary, Private Bag X34 Pretoria 0001, before July 22.

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Thebe Corp clears air

By ZB MOLEFE

SOME of the companies in the ANC-linked Thebe Investment Corporation are already profitable while others are about to break even, the corporation said on Friday in response to reports that three of its companies face cash crises.

A prominent report carried by a weekly newspaper reported, among other things, that three Thebe companies were in fact insolvent. The newspaper also reported that the ANC is said to be so embarrassed by these revelations that Nelson Mandela has personally stepped in to get to the problems facing the corporation sorted out.

Said the statement:

"Thebe is a private company which is battling to empower black people in a hostile social and economic environment like any fledgling company, it has its share of successes and failures."

"Thebe believes that certain organisations have a vested interest in seeing it fail – witness the bugging incidents and the many unfounded accusations which have been levelled against it."

"Despite this, Thebe remains dedicated to pursuing its vision of black empowerment based on sound business principles."

The corporation – which includes on its board of directors prominent personalities like Tokyo Sexwale, Vusi Khanyile and businessman Moss Nxumalo – admits that it has strong links with the ANC "but not the type of links reported in the media."

It points out that its current sole shareholder is the Batho-Batho Trust, whose founding trustees are Nelson Mandela and Walter Sisulu. Any profits it makes now or in the future, until shareholding is broadened, are at the disposal of this Trust.

Thebe also disputes the newspaper's report on its subsidiary companies' finances as "misleading."
Anglo backs call for competition inquiry

Own Correspondent

JOHANNESBURG — Anglo American has thrown its weight behind the ANC's call for an independent inquiry into competition policy, saying the policy must be settled before real economic reform can go ahead.

In his 1993 annual statement, Anglo American chairman Julian Ogilvie Thompson said SA had to find a policy that would give it the "right mix" of strategies pursued by Pacific Rim nations and those in Europe.

An independent inquiry "would increase the likelihood of arriving at a consensus based on economic rather than political criteria, consistent with the sound macroeconomic framework the country is now developing."

The commission should be properly constituted, Ogilvie Thompson added, and chaired by an international expert, with representatives from government, trade unions, business and consumers.

The backing is the first olive branch publicly offered by big business to the ANC since the debate on anti-trust and competition policy heated up in December last year.

The ANC wants to implement anti-trust policies, which it argues would dilute ownership, boost competition and encourage foreign investment.

The policy is in line with unbundling large conglomerates and the banning of cross-directorships, both of which could put the ANC at odds with Anglo.

Ogilvie Thompson said SA had to "restart and sustain economic growth" and broaden the participation of black South Africans in the economy.

However, anti-trust legislation was not appropriate because SA was a developing country.

"An acceptable trade-off has to be found," Ogilvie Thompson said. "SA cannot afford a purist competition policy that enfeebles the private sector's capacity to compete internationally and create wealth."

Despite the overture to the ANC, Ogilvie Thompson argued that SA needed more large companies "if it is to hold its own in the 21st century."
THE expected unbundling of Barlow Rand would offer few immediate benefits for Reunert and its shareholders, analysts said yesterday.

They said Barlow's few listed or unlisted subsidiaries that seemed to easily fit Reunert's electronics, telecommunications, cables, mechanical and electrical engineering interests. There was little chance of Reunert becoming a mini-conglomerate as would be the case with CG Smith.

Barlow's subsidiaries related to those of Reunert were listed computer groups Information Services Group (ISG) and Persotech and unlisted consumer electronics companies Panasonic, Nashua and Kelvynator.

Reunert's former computer subsidiary, Reunert Computers, was merged with Information Systems Management to form Technology Systems International in 1988. TSI was later split into ISG and Persotech.

But analysts said it was unlikely ISG and Persotech would end up in the Reunert fold as there were few synergies between the three groups.

Barlow's would probably want to keep its

| COMPANIES |

| DUMA GQUBULE |

| computer interests which had been good performers recently and had reasonable prospects for the next few years.

Consumer electronics was a growth sector and Barlow's was unlikely to part with Panasonic, Nashua and Kelvynator. It did not seem appropriate to house these companies in the Reunert stable.

An analyst said one benefit was that Reunert's management would be freed from the constraints of their holding company, leaving them to pursue opportunities without first consulting Barlow's.

He said Reunert's thinly traded shares could become more tradable.

The shares closed unchanged at R40.50 on Friday, the same level as when Barlow's CG Smith and Reunert last week issued cautionary which suggested SA's largest industrial conglomerate would embark on its own unbundling exercise.

The shares doubled from a R10.55c low in August to a high of R41 — because of the company's good recent performance which increased earnings 24% and 28% in financial years 1992 and 1993 respectively.
Foodcorp could be courting Sarah Lee

By Stephen Cranston

There is mounting speculation that Malbak-controlled Foodcorp will soon announce a joint venture agreement with Sarah Lee Corporation, one of the world's largest manufacturers of frozen and chilled foods.

Foodcorp recently bought 50 percent of distribution company The Cold Chain from ICS. Foodcorp already accounts for 40 percent of The Cold Chain's turnover through its Table Top and Enterprise subsidiaries and the purchase took place at the same time as the merger between Enterprise and Renown.

But the logic of the deal does not stop there. Foodcorp CE Dirk Jacobs says that the fact that Foodcorp has a strong distribution infrastructure to offer will add to its attractions as a joint venture partner for international companies.

Although Sarah Lee is best known for the frozen cakes it sells under its own brand name, it is engaged in the full spectrum of frozen vegetables, fruit and prepared meals as well as processed meat products.
Sea Harvest's JSE debut

ICS subsidiary Sea Harvest made its debut on the JSE yesterday in fairly active trade.

The company, which trawls, processes and markets deep sea fish, listed on the food sector of the JSE at an issue price of 600c (B60) (2.32)

It traded at 623c shortly after listing, and the price reached 645c before retreating to close at 625c.

Analysts said the day's trade had gone much as expected. Volumes were quite high, with 375,000 shares changing hands in 47 deals worth more than R2.3m.

They said the share had been fairly priced, and the company was listing on prospects of declining earnings. It was nevertheless a sound company, they added, with good management.

The share was listed to enable Spanish company Pescanova to reduce its holding from 38% to a minimum of 10%. Pescanova made 23-million shares at 600c a share — amounting to R16.7m — available to selected financial institutions and other investors.

In its prospectus, Sea Harvest forecast that pretax income in the 15 months to its new September year-end would be R62.8m, from R101.4m at end-June 1992.
Motorvia sale negotiations

CAPE TOWN — The joint liquidators of Tollgate Holdings subsidiary Motorvia are in the final stages of negotiating a management buyout of the company, which ferries new and used motor vehicles to dealers throughout southern Africa.

Motorvia's main clients include Volkswagen, for which it ferried 100% of its products last year, Toyota (95%), Samcor (95%), and Mercedes Benz Trucks (40%).

Cape Trustees liquidator David Glauum said yesterday that Volkswagen, Toyota and Samcor had approved the sale to management and indicated that they were prepared to enter into negotiations to renew the ferrying contracts. The sale would be made conditional on these contracts being signed.

The manufacturers had indicated that they were happy with the way the business was being run. Other offers, Glauum said, had either not been satisfactory to the main creditor, Absa, in terms of the amount, or had conditions attached which could not be fulfilled.

Motorvia was a consistent profit generator in the Tollgate Holdings group before its liquidation and its sale value under liquidation was estimated at about R25m. However, Glauum refused to disclose details of the price, saying it was confidential.

Glauum anticipated that it would take several months for the management buyout to be finalised.
Gencor positioned to expand offshore

THE decision by Gencor to cut its industrial holdings and add to its portfolio of overseas interests leaves the mining house well placed to expand its international presence, market sources said yesterday.

The R852m deal with Genbel places the 4.8%-stake in TransAtlantic Holding, the UK-listed property and insurance group 54%-owned by Liberty Life, directly in the hands of Gencor's shareholders.

The stake, which together with Genbel's other offshore interests is valued at around R52m, was likely to be a useful 'bargain chip' in Gencor's attempts to buy offshore assets to sustain long-term growth, sources said.

“They (Gencor) have done well to get this (TransAtlantic),” one analyst said. “It will give them far more substance outside SA, which is exactly what they have been looking for.”

Gencor is also in talks to buy Royal Dutch Shell's mining and minerals division Billiton, in a deal rumoured to be worth about R1bn.

In the past, the company has been stymied in attempts to expand overseas by Reserve Bank restrictions on风味 funding.

Though the Billiton deal would clear that obstacle because it could service its own borrowings, other companies have preemptive rights over certain parts of Billiton, which could force Gencor to pay over the odds.

“One of the key problems in bringing it (the deal) to a successful conclusion is the raising of the funding,” Gencor chairman Brian Gilberthorn said.

The stake in TransAtlantic could help, but he refused to be drawn on whether deploying it was now a key option. “We view it as a strategic investment.”

Gibertson said the share swap, the first major step in its unbundling, had dealt with Gencor's thorniest problem.

While other subsidiaries Engen, Sappi and Malbank effectively stood alone, Genbel — as portfolio manager and financing partner — was well entrenched with Gencor. “We wanted to get these shares returned to Gencor. That was the principle purpose of the transaction,” he said.

The deal bolsters Gencor’s control over Kmeros, Winklhoek and Transnatal, in line with the company's aim to focus on its mining operations.

Under the terms of the deal, Gencor swaps 8.5-million Engen shares, 12.4-million Sappi shares and 51-million shares in Beatrix, cutting its holdings in each by roughly 5.6%, 8% and 6% respectively.

Genbel in turn has cut its resultant over-weighting in Sappi and Engen by swapping a portion of the shares for a 5% stake in Murray & Roberts, a 1.8% stake in Absa, 10% of Mercedes Information Technology, and a minority stake in Malbank. Sankor supplemented the R852m share deal with a R60m cash offer to Genbel.

Genbel chairman Tom de Beer said the transactions would “accelerate the transformation of Genbel from a passive investment trust to an actively managed and growth-oriented company.”

The investments in Sankor and companies such as Absa would widen the spread of Genbel’s business away from the commodity cycle. “We see Absa as a recovery situation,” executive director Peter Cronshaw said. “The spread of investments now represents a good cross section of SA business.”

Absa to recruit top corporate bankers

ABSA’s new CE Dane Cronje says the group is looking for new corporate banking expertise.

Attracting bankers from rival groups would also be a strong signal to the market that things had settled down at Absa after the rationalisation of the past two years, he said.

“We’ve had some very interesting inquiries from top bankers,” he said in an interview.

Dismissing criticism that Absa’s corporate culture was too Afrikaans for such a broadly-based group, Cronje said it was well balanced. Absa, SA’s biggest banking group with an asset base of R83bn, has completed the most difficult part of its rationalisation and digestion of two major mergers, he said.

As a result of losing customer focus, Absa two years ago saw no growth in advances in the past financial year to end-March while advances in the rest of the banking industry rose 9%-10%.

Analysts say the area of corporate banking was where Absa has lost its biggest market share.

Planned expansion in corporate banking was tied to providing a comprehensive international service, and Absa also wanted to increase its non-interest income, he said.

Absa’s priority after the disruption of the past two years was to regain the loss of market share and resume sustained growth — Reuters
280 Coastal jobs on the line

Business Staff

The fate of 280 workers will be sealed unless JSE-listed Coastal Clothing of Durban, which was provisionally liquidated on Friday, can be rescued.

Provisional liquidator Mark Lynn says more than 20 employees were laid off at the beginning of last week and the rest of the workforce will be released gradually as work-in-progress is completed.

The company, whose shares were suspended on the JSE at the request of its directors, passed its dividend and reported a loss of just under R1 million for the financial year to end-February 1993.

Lynn said Coastal had committed itself to completing all cut-out garments and between 10 percent and 15 percent of "a solid order book for the coming summer".

Salvage bid

However, if an invitation for investors to come forward and tender for the business failed to result in a salvage bid, both the order book and "an extremely skilled workforce" would be lost.

"Speed is of the essence because as time elapses, orders will be cancelled."

Despite loyalty of customers and creditors, attempts to rationalise through tighter cost control and the retrenchment of 32 workers in April, the men's shirt manufacturer — which uses the Van Heusen trademark — has been unable to patch a threadbare balance sheet.

"By last Friday it became apparent that Coastal was commercially insolvent and unable to meet the demands of its creditors," said chairman Brian Sandberg.
glip, get-rich-quick hawker

S Africans will fall for any

NEW
Genbel comes out tops

By Derek Tommey

Genbel, a passive investment company in the Gencor group, has been transformed into an active investment company following two share swaps which together total R1.25 billion.

The move will benefit mining house Gencor as it receives foreign assets from Genbel which will help it finance its overseas activities.

It will also benefit Sankor, Sanlam's industrial investment company, as Genbel is to become a joint source of finance for many of Sankor's investments.

Gencor announced early in May that it was planning to unbundle its operations and has issued two cautionary notices to shareholders regarding changes at Genbel. These changes have now taken place - and in a way which could make Gencor's proposed unbundling much easier.

In the first transaction Genbel is swapping with Gencor all its foreign investments as well as its portfolio of mineral shares, together worth R62 million, for shares of the same value in Enge, Sappi and Beatrix.

There had been speculation about how Gencor would finance its planned expansion overseas. Investors now have part of the answer.

Gencor's chairman, Tom de Beer, says: "With Gencor's international ambitions it made sense to sell them (its foreign investments) especially as we were holding the TransAtlantic shares as part of Gencor's strategic offshore assets."

Genbel, through its wholly-owned subsidiary, Genbel Offshore Investments, was holding 12.83 million A preference shares and 5.5 million ordinary shares in TransAtlantic, which is part of the Liberty Life group. It also held a 30 percent stake in Gencor's exploration operation in Turkey. Together these investments are valued at R512 million.

In addition, Genbel is swapping with Gencor R50 million worth of shares in Kinross, Impala, Samancor, Trans-Natal and Winkelspaar. It is receiving in return 8.9 million Engen shares, 12.4 million Sappi shares and 3.1 million Beatrix shares.

As part of Genbel's unbundling, it said it would distribute its Engen and Sappi shares to shareholders as dividends in specie. The transaction with Genbel has reduced the number of shares that it may have expected to distribute Gencor will now remain a much larger company and should maintain the "critical mass" needed to continue to play a major investment role.

In the second swap transactions Genbel is exchanging R385 million worth of shares in Engen and Sappi for shares of a similar value in ABSA, Murray and Roberts, Malbank and Mercedes Informational Technology as well as R50 million in cash.

"The deals guarantee the future operating independence of Genbel and will allow the company to play a meaningful role as a financing partner to Gencor and Samcor, says De Beer.

Genbel would now hold significant interests in companies operating across a wide spectrum of financial, industrial, consumer and information technologies - all with good growth prospects.

Yet the company still had more than two-thirds of its portfolio in rand hedge investments.

Although the individual holdings had changed, gold counters still make up a quarter of the portfolio, while interests in finance, insurance and property, energy mining financials, and forestry products remain largely unchanged.

De Beer said earnings for 1992-93 were unaffected by the swaps, which took place just before the end of Genbel's financial year on June 30, and were estimated at between R53.5 million and R53.7 million. This represented a four to five percent improvement over the previous financial year.

Genbel's figures will be issued on August 24. Genbel's net asset value was estimated at R5.4 billion or 797c a share.

The transactions will need the approval of Genbel's shareholders.

Genbel's shares rose 35c yesterday to 675c, representing a discount of 15 percent to net asset value - the same as the five year average for the company.
Privatisation ‘is only way’ to escape country’s debt burden

By Tom Hood

The only way the country can escape its crippling debt burden is to privatise some of the R550 billion of State-owned assets, says the South African Property Owners Association (Sapoa).

The government is borrowing money on the capital markets to fund spending — and a major part of that spending is interest, Derek Stuart-Findlay, past president of Sapoa, warns in the latest Sapoa newsletter.

He says interest on borrowings is now consuming more than 18 percent of total government spending, compared with 10 percent 10 years ago.

"If interest costs were stripped out of the 1993-94 budget, virtually the entire deficit would be wiped out. The government, therefore, is borrowing on the capital market merely to service its existing debt, equivalent to a ‘debt trap’ An ominous legacy is being created."

Threat to recovery

In an economic upturn, current levels of public sector borrowing could crowd out the private sector in capital markets. Interest rates are likely to rise and strangle any recovery almost before it starts.

Few industrial economies could boast that public spending today was lower as a percentage of GDP than it was in the mid-1970s, but Britain is one example.

Between 1969 and 1973, it raised R235 billion in privatisation receipts, of which R40 billion was raised in 1972 alone.

Globally, R260 billion was raised by governments in 1991 and worldwide cumulative privatisation receipts have totalled R1260 billion.

"Privatisation has proved popular with a range of governments in Western Europe, North America (Mexico is privatising more than 460 nationalised companies), South America (Argentina is privatising a third of its road network), the Pacific Rim, Asia (including countries like Pakistan and Bangladesh) and at least 30 countries in Africa, including devastated economies like Tanzania, Uganda and Mozambique."

A World Bank study concluded that merely shifting State-run firms to the private sector brought about a positive difference.

Public sector

In South Africa, about 33 percent of the official workforce is in the public sector. The government controls extensive assets either directly or through para-statals.

As an example, the SA Rail Commuter Corporation controls land holdings worth R1.7 billion.

The public sector is also a major consumer of goods and services, including lettable commercial space.

Derrick du Toit, chief director of accommodation in the Department of Public Works — responsible for 80 percent of all accommodation required by the State — recently said the department leased 782 000 sq m of office space in Pretoria, representing 33 percent of the accommodation in the city’s office blocks owned by the private sector.

It was department policy that ordinary office accommodation should be erected by the private sector while purpose-designed buildings like police stations and court buildings be built by the State.

With the probable devolution of State functions to regional authorities, there was no need for the State to be involved in further office development, said Du Toit.

In future, it would be involved rather in consolidation and better use of existing accommodation.

Stuart-Findlay said: "Sapoa endorses this approach, but believes the public sector also should look towards a substantial privatisation programme of public sector assets."

Total public sector assets had a book value of about R550 billion expressed in terms of 1992 money.

Assuming these assets were sold at book value, deficits of the size anticipated for the 1993-94 year (R25 billion) could be financed for the next 23 years.

"We estimate that if buildings only are taken out of the total and sold at book value, the deficit could be funded for three to four years."

"The principle, we believe, should be that the proceeds of these sales of public assets should not be used to fund public-sector current expenditure by financing deficits, but should rather be used to retire public debt."

Government debt

The book value of fixed capital stock controlled by general government alone appeared to be about R270 billion. Total government debt was about R150 billion.

Assuming a sale of these assets at book value, the whole of the total debt could be retired leaving a surplus of an impressive R120 billion which was about one-third larger than the size of the total assets of Old Mutual, South Africa’s largest life assurer in terms of assets.

By taking this course of action, the government, by excluding interest on public debt, would be able to balance the budget.
Sankorp, Genbel swap shares

Gencor starts shuffle with R1,3bn deal

B/DAY 15/1/93

MINING house Gencor seized the initiative on the JSE again yesterday, unveiling a R1,3bn reshuffle as the first step of its shake-up. (232)

The group, which in May announced it would unbundle its R20bn empire, has struck an R862m deal with investment arm Genbel in which Gencor will swap Genbel’s overseas and mining interests for part of its industrial holdings.

Genbel has also agreed with major Gencor shareholder Sankorp to swap a chunk of the newly acquired shares for stakes in Sankorp companies, including Absa and Murray & Roberts, in a share/cash deal worth R435m (232).

The deals represent the first major step in Gencor’s plan to transform itself into an international force in mining, while passing its holdings in non-mining interests to shareholders.

Market sources said the reshuffle, in boosting Gencor’s overseas presence, will also strengthen its position in pursuing international expansion.

The deal gives Gencor a 4,8% stake in Liberty Life’s UK-listed R4bn property and insurance group TransAtlantic Holdings. Sources said the stake could prove useful in funding Gencor’s foreign forays, which to date have been dogged by foreign restrictions.

Chairman Brian Gilbertson said the share swap allowed Gencor to clear the most difficult obstacle to unbundling. Of the five Genbel companies, Genbel was the most problematic to unravel from Gencor.

The investment arm, which had also been Gencor’s portfolio manager, had built up several positions in Genbel companies, he said.

Under the terms of the deals, Gencor will swap 8,9-million shares in oil and chemicals company Engen, 12,4-million shares in paper producer Sappi and 5,1-million shares in gold mine Beatrix.

In return, Gencor secures shares worth R350m in platinum operation Impala, coal company Trans-Natal, ferrochrome producer Samancor, gold operations Kimos and Wankelhaak. Gencor also gains the whole of Genbel’s offshore operations, including the TransAtlantic stake, cash and minor gold exploration ventures in Turkey.

Gencor has passed on a portion of the Engen and Sappi shares to Sankorp, in return for shares in Absa, Murray & Robert, Malibuk and Mercedes Information Technology, plus R40m in cash.

The announcement ushers in the first stage of Gencor’s break-up after Gilbertson’s confirmation in May that the group would unbundle.

Gencor aims to use unbundling to realise the full value of its spread of assets, which

□ To Page 2

Gencor

range from gold and ferro-alloys to pharmaceuticals. The mining house has consistently traded at a discount of at least 20% to the net asset value of its subsidiaries.

Gencor would emerge without its non-mining assets, but cash flush, with operations such as Enggold and Impala and major projects such as Adsaf and Columbus which would leave it well placed once commodity markets improved.

The plan has raised questions, however, that a smaller Gencor will find it tougher

□ From Page 1

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UNIT TRUST fund managers have once again been trotting out their glittering quarterly results and promising an even shimer future.

The scripts were the same as the last time we surpassed the All Share Index by so many percentage points and we again beat the inflation rate.

Only the figures were different — and they proved that the unit-trust industry is indeed becoming a dominant force on the investment front.

The Association of Unit Trusts’s (AUT) figures show that South Africans continue pumping their rands into this investment medium 49 000 new accounts, to reach a total of 1.27 million, in the quarter to end-June this year.

Fund managers predict a big take-off for unit trusts, which still represent only just under two percent of the Johannesburg Stock Exchange’s capitalisation.

In the June quarter, assets managed by the industry stood at £163-billion, up 11 percent from end-March. More important for investors is the average return the industry achieved in the past quarter.

The best-performing trust delivered returns of 21 percent for moneys invested for one year, 20.7 percent for three years and 28 percent for a five-year period. The worst-performing fund saw returns of five percent, 9.5 percent and 19.9 percent respectively.

A look at the five-year term — the shortest period one can invest in order to be reasonably certain of profit — shows that the best-performing fund fared better than the JSE’s All Share Index, which was 22.8 percent at end-June, and the 13.9 percent inflation rate during the same period.

Comments AUT chairman Bernard Nuck an: “Over the past few years the good funds have performed better in the long term than in the short term.”

Not surprisingly, it was mining-related funds that did best. This was mainly due to the surge in the gold price in the past few months, which also drove up share prices of mining companies.

But this performance also had the undesired effect of spurring repurchases, as people who had seen the gold price languishing for some time took the opportunity to cash in on the mini-boom.

Investment advisers are quick to point out that unseasoned unit-trust investors should shy away from specialist funds like the mining funds — because they are much more volatile than the general funds, which are spread out over different sectors of the stock market and are therefore better cushioned against downturns.

“The key for a new investor is to build core investment,” says Standard Bank Fund MD Derick Finlayson. “When his needs are met, he may want to diversify his portfolio and invest in specialist funds.”

As the investment community’s dictum goes, “there’s no bad time to invest.” And right now certainly isn’t a bad time.

The recession has just about bottomed and share prices may lift off when growth returns in the next year. South Africa will soon be re-integrated with the international community, which will benefit some companies as well as the economy as a whole.

“We are seeing the start of a bull market,” comments University of Pretoria finance professor Hugo Lamprecht. “If there is no chaos on the political front, my view is that we are in for a good three to five years.”

Unit-trust companies are positioning themselves to grab a larger slice of South Africans’ deposits.

Fund managers are eager to point out that in the United States mutual funds — as unit trusts are called there — come second only to banks in terms of deposits. And in their marketing, the fund managers boast about generating higher earnings than ordinary long-term bank deposits and insurance policies.

South African funds are also relatively transparent compared to other investment vehicles, such as insurance policies.

Performance tables are published in the daily press and it is relatively easy to work out which results have been puffied up. The industry was pushed to the limit by the need to regain public confidence after the industry’s near collapse of the 1970s.

The transparency has not stopped some funds from trying to decorate their results. A lot of funds create the impression that they are doing well by continually trotting out glossy yearly figures, which can often be meaningless if one considers it the long-term figure that counts.

Another tactic is to reach a feverish level of buying on the eve of reporting results, which tends to make them look good in the eye of the investor.

While generally efficient and well regulated, the unit-trust industry is still lacking in competitiveness and innovation.

Financial Services Board deputy executive officer Gad Azroch made it known this week that he would like to see “a lot more cut-throat competition” among the fund managers.

This would lead to diversification and the development of new products, and would lower costs and improve performance for investors.
and cajoling, the long-awaited plans for the formation of the much-vaunted Bond Market Exchange have still not been finalised (232).

The rejection this week by the Bond Market Association of the proposed rules governing the operation of the exchange, by a vote of 32-20, sets the seal on a long fermenting institutional hostility to government interference in the marketplace.

Objectors to the imposition of a compulsory, formal market for the trading of bonds, mooted at first, have been growing for some months. The rejection of the proposed rules — themselves the subject of much agonising and redrafting — is merely symbolic of opposition.

The *FM* reported (Economy May 28) that the exchange would not receive a full licence to operate in terms of the Financial Markets

And, as with any formalised institution, there are many vested interests. The JSE and its members, for long the sole providers of a national secondary gilt market — by value, the seventh-biggest bond market in the world — have never been enthusiastic about sharing an important, lucrative operation with other members. Their position, in effect, is that the JSE already provides an adequate, efficient, guaranteed market.

has successor, Norman Lamont, was unable to maintain sterling's ERM parity.

Cutting base rates would be more popular, especially among Tory backbenchers, worried about the rising tide of unpopularity which has dangerously eroded support levels and is threatening to sweep the party to a humiliating defeat at the July 29 Church-by-election. A lower short-term return for international investors would cause some to sell sterling and have the additional benefit of stimulating consumer spending and the housing market.

But the move could backfire and boost the pound further, because foreign exchange dealers sometimes put a higher premium on economic growth than short-term gain.

"If interest rates are cut in a country where growth already exists, the tendency is for the currency to rise further," an analyst observes.

The government could decide to do nothing. Though sterling is enjoying a rise at the moment, the size of the public sector borrowing requirement, at £50bn this financial year, has raised serious concerns about the state of the public finances, which could undermine investors' sentiment towards the end of the year.

But a strong view in City dealing rooms is that present Chancellor Kenneth Clarke will cut interest rates by the end of the year — perhaps by one percentage point — because of the likelihood that the domestic economic recovery will falter.

Then sterling could go where it may.

Control Act until it complies with all the requirements — and that includes getting its rules in place. Financial Services Board CE Piet Badenhorst, endowed with wide discretionary powers by Section 40.2 of the Act, can authorise the exchange to operate under an exemption.

What's more, he can oblige the association to operate the exchange under the rules it has just thrown out. The new exchange is scheduled to begin operations, taking over from the JSE's gilt market, today. So the question is: will he introduce the rules under fire?

Badenhorst replies: "I've had further discussions today with important players in the Bond Market Association and with senior officials of the Reserve Bank. We hope to have made a firm decision by later this week.

Meanwhile, I must emphasise we've taken note of the feelings of the association, we don't intend to ignore the perceived uncertainties giving rise to their resolution and we'll do our best to accommodate them."

Badenhorst says the development of the formal bond market has already been subject to unusually long delays. "Further development of the market needs to proceed in a structured manner to ensure government's decision (to formalise the market) is brought to a final conclusion."

Nor is Badenhorst happy with the prospect of further procrastination. "The market, he says, is important and carries inherent risks because of the huge volumes traded and the consequences of a default in the absence of supporting market."

"The relevant authorities," says Badenhorst, "are convinced the formalisation of the market on a phased approach should now commence without further delay."

The argument between institutions and the authorities centres on whether the trading of bonds should be handled compulsorily through a regulated, theoretically secure market, guaranteed by its members against all manner of speculation. The major institutions take the view that they should be allowed, if they deem it appropriate, to deal informally — off the market. They argue they've done it for years and can see no good reason why they should now be forced to put every trade through a market which will require that commissions must be paid.
Trade union fund shows slow growth

By MONDO MAHANAYA

Scotland Exchange's All Share Index

The CFC-reported mid-ground

The SC report suggests

The CFC reported mid-ground

The rate union fund achieved

The choice which emerges...
a defensive stance towards equities, though to varying degrees. The absence of political resolution and — of particular concern for high income funds — the disappointing balance of payments and fiscal positions (which have ensured real interest rates have remained high) have helped keep the average liquidity level at a high 20%.

Annual returns from the general equity funds showed marked improvement on those of the March quarter. Average return for the year to June was 11.2%, comparing favourably with the average inflation rate for the period of 10.6%. Though the All Share index increased 15.4%, half the funds outperformed the index. Best performers were BOE Growth fund, Guardian equity fund and Norwich Trust, all achieving a 21% return.

Almost inevitably, though, the two specialists gold funds took the honours this quarter. Old Mutual’s gold fund showed a stunning 12-month return of 86% against the 13% recorded in March Standard Bank’s gold fund has tended to maintain comparatively high levels of liquidity but still gave its investors a 59% return, substantially up on the previous quarter’s 9%

Assets managed by the industry’s 50 unit trusts — 41 equity trusts and nine income trusts — rose by 11% to a record R16.3bn at the end of the quarter from R14.6bn at end-March. Of the total, R13.8bn was invested in equity trusts with 75% of this in the general equity trusts.

Gross sales were up 8% on the year at R1.2bn. Though repurchases increased to R722m, a record high, AUT chairman Bernard Nocken says this is not surprising considering SA’s continuing recession. He adds that repurchases remain well within international industry norms. Net inflows were a “satisfactory” R497m.

Though investment in unit trusts has continued to grow, the combined market value of the equity trusts at June 30 represented only 1.75% of the market capitalisation of the JSE, marginally below the March 30 figure of 1.83%. Total market capitalisation of the JSE rose 18% during the quarter to R628.5bn. “These figures, which are substantially below international averages, illustrate the enormous scope for growth of the industry,” says Nocken.

Strong flows into the income funds saw total assets jump 124% on year-old levels, rising to R2.5bn, highlighting investors’ perceptions of the direction the market is taking, along with lower interest rates.

These funds, representing 15% of the industry’s total assets, continued to prove good investments, though their relative performance was dampened by the boost given to equity funds by the higher gold price. There was a tendency to reduce holdings of bonds of seven years and longer, portfolios being repositioned largely in investments of three to seven years.

Active management of these funds has been geared of 10.6%. This of up to 5.8% in addition to the high income earned. Annual returns by the income funds ranged between Metboard’s 19.8% and Standard Income’s 13.2%.

Performances during the rest of this year will obviously be heavily influenced by the gold price, which is now within range of $400/oz and many investors are preferring to take profits on gold shares. Results achieved recently by gold funds have served as a reminder that precious metal or commodity sectors that have long been out of favour can offer extremely good returns when the recovery comes, its duration and extent remain problematic.
in Brazil, its effective 25% holding in Consolidated Rutile (Australia) and its recent acquisition of 50% of Richards Bay Minerals might all be thrown into the pot.

Surprise! It is reported that Cons Rutile has just sealed an equity purchase in Sierra Rutile, based in Sierra Leone, the world's largest single producer of mineral sands. The company is controlled by Nord Resources; apparently Cons Rutile parlayed loan stock in Nord into shares in Sierra.

Reliable production figures are hard to come by but Roger Ellis of the authoritative London Mining Journal says Cons Rutile, Sierra Rutile and Richards Bay between them probably supplied about 340,000 t of rutile in 1991.

That, of course, puts Gencor in a strong international position when it comes to supplying mineral sands—illmenite, zirconium and rutiles used in pigments and titanium metal and alloys.

And presumably it will strengthen the hand of Gencor chairman Brian Gilbertson when he talks to Shell about Billiton, a company with a lot of assets and a poor recent profit performance.

Meanwhile, Gencor is proceeding with plans to sell Genbel Offshore Investments (GOI) to Gencor for Sappi and Engen shares. GOI holds prefs and ords in Donny Gordon's TransAtlantic along with 30% of Gencor's exploration operation in Turkey. The deal will add more muscle to Gencor's overseas negotiating ability.

Sankorp is now involved in the transaction, though details aren't forthcoming. Presumably Genbel will pass on those of its holdings in which it considers itself to be overweight—a good guess is that Genbel will be uncomfortable with too much exposure to Sappi and Engen and will seek to trade these for other counters in Sankorp's locker.

Genbel's eventual role is also something of a mystery. Divorced from Gencor, its major shareholders will be Sankorp and Rembrandt though it's intended, apparently, that Genbel will act as financial advisers to both Gencor and Sankorp. Executive director Peter Cronshaw won't be drawn on Genbel's future role though he concedes some consideration has been given to expanding its activities to include other financial services.

David Girvan
Scouring the Blank files

The aftershocks from the Greg Blank affair will be around for some time. No doubt the JSE would prefer to wash the whole sordid thing away, but it won't be that easy.

It is conventional wisdom within the stockbroking community that Blank, once he'd been persuaded to co-operate, was more than useful to the authorities. Subsequent to Blank's court appearance and sentencing, the Attorney-General is reported to have handed the case files to the JSE, the Exchange's inspectorate has been wading through them for months.

It is believed a few broking firms and individual brokers can shortly expect to be invited to discuss their activities with the JSE's general purposes committee - the committee of elected members which determines whether charges are to be framed. If so, the case is then heard by the main committee, presided over for disciplinary purposes by executive president Roy Andersen.

He declines to comment. The JSE's surveillance director, Rob Barrow, is charming over tea and as forthcoming as granite. However, usually reliable sources confirm that charges are in the course of preparation and that one case, relating to broker Frikkie Kruger, is in the course of argument.

Apparently some of the names in the A-G's files are those of institutional dealers and private investors. Presumably, they'll be unscathed.

David Gleeson
Problems still threaten Gencor's Billiton deal

Gencor was still a long way from gaining an international asset base sufficient to launch a bid for Billiton, despite its plan to take on Genbel's overseas operations, analysts said yesterday.

The mining house may instead be forced to bring in a partner for the purchase, or extract some form of installment deal from Billiton owner Royal Dutch Shell by which Shell gains a stake in Billiton's earnings.

The deal with Genbel, under which Gencor secures Genbel's overseas bauxite, valued at R2.12bn, as exchange for shares in Engen, Sappi and Beatrix, was welcomed by analysts as a move that would bring substance to Gencor.

The swap brings Genbel's stake in Liberty Life's R4.8bn property and insurance group TransAtlantic Holdings into the same stable as Gencor's other international assets, a 25% stake in Consolidated Rutile (Australia), and Brazilian gold mine Sao Bento.

But analysts said the enlarged portfolio — either in a sale or as collateral on debt — fell far short of the $1.8bn value the market had put on Billiton.

"They (Gencor) have a lot more work that's still to be done," Sampson McKie analyst Rodney Yaldwyn said.

"If they are going to make an acquisition overseas, it is an asset they can sell. But it's certainly not enough to swallow a big acquisition," Yaldwyn said.

Frankel Pollak Vinnerman analyst Kevin Kartun added that Gencor might find the only way to secure Billiton would be as part of a consortium.

Though chairman Brian Gilbertson said it was not definite that the deal would go through, he added that the odds had improved since his comments in May that the acquisition had a less than 50% chance of succeeding.

He said yesterday that the group would look to recruit overseas institutions as funding partners, but that Gencor itself "would buy the entire Billiton business" A listing of one of the major stock exchanges would follow the deal, he added.

Gencor has still to show its hand on precisely how the Billiton deal will be funded. According to sources close to Billiton, though, no other parties are currently in the frame. Talks had been bogged down in the funding mire.

Furand restrictions have prevented Gencor using its domestic assets to fund the deal, and it also faces the problem of outbidding companies that have pre-emptive rights over some of Billiton's main attractions.

Anglo American has already said it would take up Billiton's rights in Chilean copper project Collahuasi if Gencor's deal went through. Gilbertson added, however, that Gencor was confident it could overcome this obstacle, though he declined to say how this would be done.

The market has suggested that Gencor might offer its 55% stake in Richards Bay Minerals to an overseas group, possibly RTZ, in return for funding for the Billiton deal. It is thought, however, that few buyers would be prepared to match the value Gencor attaches to the stake.
CHOICE HOLDINGS

Chop and change

Last week the JSE Committee approved the reinstatement of the DCM listing of meat processor and distributor Choice, suspended at end-January for failing to submit satisfactory documentation on its restructuring.

Choice and Bophuthatswana investment trust Yabeng are to merge Caterchoice, Food Connection and Mogale Mmbatho Butcheries (MMB) in an equally owned holding company, Choice Investment Corp (Investcorp), to avoid potential conflicts of interest. Previously Yabeng held half of Choice's Bophuthatswana retailer, MMB.

Investcorp will acquire Caterchoice and The Food Connection from Choice for R3m, and Choice and Yabeng's respective 50% shareholdings in MMB for R4m. Choice has also agreed to acquire from Agricultural Development Corp of Bophuthatswana 50% of Agrichuck (Pty) for R4m, to be settled by R500,000 cash and 10 equal annual installments (interest-free) of R350,000.

Agrichuck's R18m 1993 operating loss mainly reflects the depressed food (particularly meat) industry. Since Choice took management control, losses have been stemmed. Chairman John Lumberopoulos expects a profit for June.

Had Agrichuck been incorporated, Choice's loss per share for the year to February would have been 92.4c, against the reported 5.5c. That was Choice's fourth consecutive year of losses. Lumberopoulos says "Surplus stocks of red meat, strong competition, declining volumes and depressed selling prices resulted in the significant loss."

Yabeng's latest results are more encouraging. Earnings rose 13% to 37.2c in the year to February and the dividend was up.

Had the Yabeng deal been in effect, Choice's 1993 loss per share would have fallen to 2.5c. Combined, the Yabeng and Agrichuck deals would have increased it to 89.4c, and NAV from 7c to 157c.

Choice's year-end borrowings were R8m, with gearing a high 92%. Post-restructuring gearing will be 41%.

Choice has put on the line what few would management fees. If Investcorp does not meet certain warranted minimum profits for financial 1994 and 1995, the shortfall will be chopped off the management fee.

While Choice's share hasn't moved since the reinstatement, Yabeng has firmed 19% to 310c.

Koos Barlare
Foschini buys a gem with Sterns

CAPE TOWN — The Foschini group was planning for further growth in the 1993/94 financial year and was intent on securing its share of the growing middle clothing market, chairman Stanley Lewis said in the retailer's latest annual report.

He said opportunities for continued growth were most viable in the broad middle market where each of Foschini's trading divisions — Foschini Stores, Markhams, Pages and American Swiss — were heavily focused.

In the year to end-March Foschini expanded its number of stores to 789 (695) — largely through the acquisition of the 78-store Sterns Jewellers chain — and more store openings were planned this year.

Earnings a share increased by 28.4% to 2.32c (1.88c) on a 19.7% growth in turnover to R1,2bn (R1.0bn). Improved margins and lower finance charges contributed to the achievement and enabled gearing to be reduced to 34.9%.

Lewis said the purchase of Sterns Jewelers would broaden the group's position in the fine jewellery market and exciting growth and an increased contribution to profit from the enlarged division could be expected in future.

The report noted that the 149-store American Swiss chain increased its market share significantly in the last financial year, achieving a growth in turnover of 21.5%, well beyond inflation.

Turnover growth of the 305-store Foschini Stores chain was 17% and it increased market share. The chain's MD Neville Goodwin said the satisfactory level of profit growth should be maintained in future.

Markhams, which notched a turnover growth of 23.6%, strengthened its position as the largest menswear chain in the country. Nine new stores brought the total to 108. The chain was the first trading division in the group to convert to a centralised credit granting system.

"Markhams is poised for further expansion and a number of well-selected store openings are planned for the next financial year," Markhams and Pages MD Dennis Polak said in the report.

The 153-store Pages chain increased its turnover by 22.8% and Polak noted that the consolidation undertaken in prior years had increased the chain's productivity and profitability and boosted its market share.

Last year it consolidated its position in the rural and country market but planned a number of new store openings in urban areas to take advantage of rapid urbanisation.

In his review Lewis urged that steps be taken to reduce the level of unemployment.

"The severe recession since 1983 has played havoc with our economy. With the prospect of constitutional reform it is time for steps to be taken to reduce the massive unemployment. Our immediate challenge is to regenerate growth by more outward-looking trade policies, deregulation and competitive privatiation through a stable climate that allows a workforce the opportunity to be responsible and productive," he said.

Foschini planned to move its headquarters into a new, rented building in Parow which would be more suited to its needs.
SA's unit trust funds are big in size but small on influence

SOUTH Africa's unit trusts are by no means in the Monkey Business in size when compared with those in other countries.

The United Kingdom's 1,500 funds have 4.5-million savers. SA's 50 funds have 1.5-million holders and America's 4,000 have 77-million investors - 27% of all households.

SA differs in in the range of funds available and in the movement's importance as a JSE player.

The Association of Unit Trusts chairman, Bernard Nacker, recently returned from abroad where he surveyed developments in the business, and says money-market funds have proliferated in countries with a less restrictive regulatory environment and lower barriers to entry than SA. Fund managers abroad invest either in domestic or foreign currency to secure higher returns than individual deposits would earn at a bank.

SA law prohibits fund investors' money from being committed to the equity market or long-term government stock until the end of the term.

The money market mostly deals in short-term money of up to a year's maturity. The main players in the market are banks, stock and insurance brokers, law firms, estate agents and others who hold money on trust on behalf of clients.

The market works along these lines: a company needs money for a short time to finance trade. A bank lends it the money at, say, 15% interest, in return for an acknowledgement of debt. In doing so, it underwrites the debt.

The bank itself has to fund the money lent out, so offers the debt paper to cash flush parties, such as money brokers, corporate treasurers, institutional fund managers and so on, who do not want to tie up cash for a long time.

The rate of interest will be up to 1% below that at which the bank has lent the money to allow it to take a turn for bearing a credit risk. The debt becomes a negotiable instrument that can be traded as interest rates move.

Broadly speaking, there is no capital risk on a very short-term investment - wait until maturity and the capital is returned. The larger risk lies in trusting a broker to manage somebody else's money properly.

South Africans can invest in unit trusts, gilt and income funds, which bear a fluctuating capital risk, although if held to maturity (up to 20 years), the capital is repaid.

Mr Nacker says that in America, boosted by the money-market funds, the unit-trust movement's worth of almost $2-trillion exceeds the assets of life assured firms. More pertinently, it is expected to exceed the total retail deposits held by banks this year.

Mr Nacker says "America's unit trusts are a pre-eminent part of the financial world. There is a capital inflow of $1-billion a day to unit trusts. They have grown at three times the rate of US GDP and have been instrumental in channeling the savings of private investors into the economy."

Gad Arvouch of the Financial Services Board says that although the board is keen on money funds, it could be up to a year before there was an opportunity to change regulatory policy to permit them. Part of the delay would be caused by the desire to reach consensus among all parties.
By CHERLYNY IRETON

The Crusader Life board meets tomorrow to formulate a strategy to crush speculation about its health.

More than R40-million has been lopped off the group's market worth on the JSE in a fortnight, the share price falling from R3.30 to R1.50, it rallied to R2.25 on Friday.

The market value of holding company Angloyal Assurance halved in the same time — from R89.7-million to R44.4-million — before recovering to R59-million.

This company also holds AA Life. Sunday Times consumer columnist Gwen Gill disclosed this week that AA Life had failed to pay investors guaranteed sums on life policies. (220) AA Life blames a computer error for the inflated guarantees issued to more than 500 people four years ago.

Crusader chairman Dave de Beer attributes the fall in the share price to rumours which started after director Bob Rowand resigned two weeks ago.
O LD school ties always annoy those who do not have them, but when they are coloured green, black and gold, and the alumnus is the future government, the tension is tinged with dismay. The Thebe Investment Corporation (TIC) wears such a tie.

A year-old firm based in central Johannesburg, it is aggressive and has a瘸er's heart. It runs its own black-owned companies and brokers deals involving black investors. It is training people to work in areas previously inaccessible to black entrepreneurs.

So far, so good — and about time in a country that is governed by a party that has been in power for 20 years, where elections are won by private-sector shares are black-owned and fewer than 10 percent of top managers are black.

But Thebe's corporate soul-founder members are the two National Congress of ANC officials, the party's secretary general and his ANC official serves on the board, the MD is the former head of the ANC finance department.

The TIC runs two divisions, property and trading, and seven wholly owned or subsidiary companies operating in a number of fields from companies that hire to selling ANC badges. It was originally financed with an undisclosed amount of share capital by the Batho-Patho ("people-people") Trust, which has ANC president Nelson Mandela and Walter Sisulu as founding trustees.

Any dividends which Thebe decides to declare will accrue to the trust, whose only project is to help fund the ANC's "benefit of the community." Because of its umbilical link to the future government, the TIC has gathered itself an astonishingly bad press in the year since it opened for business. "Shady dealings" and "looting," "smelly fish," it has attracted these epithets and more.

It has also had to pull back suddenly from other deals because those would offend the "community" — discovering rubber ducks that being seen as "the ANC's company" cuts both ways.

"We are not part of the government and will not be part of the ANC," insists TIC MD Vusi Khanyile, once known to millions as the National Assembly's Committee head, one of the King Commission's key witnesses, and the police in the US consulate in Johannesburg in 1996.

"We are focusing on the technologies for our relationship with the ANC" — but he won't even cloud our business vision.

"It is about time people learnt to live with independent black business people."

IT will be better letter for corporate South Africa. When banks are made for government contracts from next year, the same will probably be decided on race in the same way that used to be decided on language.

Whoops of alarm at the turning of the tables will fall on deaf ears. The government will be able to cite scores of examples of black-owned companies in other countries favouring the disadvantaged when handing out contracts.

But when one of the black-owned companies and trading line was founded by the ruling party and the government will have to weigh the cost of selling seats to the ANC on corruption.

And putting a slice of the corporate cake away from those now own it will be we'll be working on" — which will be completed within a month.

The TIC will be satisfied with nothing less than a 40 percent share of a firm entering this particularly lucrative market — one whose main customer is the black child, but which is almost totally dominated by white companies.

"Macmillan did make an offer that we would get 20 percent in a company. We indicated that for us it was an important enough sector, if we did get involved, for us to wish to be active in a more meaningful manner.

"We had an indication that they are not opposed to losing control of that company — a black company that could have shareholding by a white publishing firm which has the expertise and critical skills that are needed.

"We think it is quite within reach."

"We will have to make sure that the trust will be perfectly free to say: 'Well, our investment has done well. We will reduce and keep 10 percent of the shares in Thebe, or we'll totally bail out and put the money into Anglo American,' it will be entirely up to the Trust."

"But it is already too late for Thebe, according to Mr. Duncan Innes of the Inner Labour Brief.

"It would be better to make sure that they obviously want to..."
Chool tie binds business empire

Bolewa pre-empts the heart - what next? We have a car to Macdonald's, we have to deliver the department - the future, in other words... - it will go well with other... - in other words.

...of the three lining for columns - and September been successes, must seek a press section. A done We "Shh, reach" "must be done - than one..." its trading - you are projection is 6 months "be up and..." spent the "Stah! in this..."

"Es Graph shows a breakdown of Thebe Investment Corporation subsidiaries, right, Thebe MD Vusi Khanyile

"perhaps only in some minds A Kwa-Sulu businessman, who cannot expect to benefit if government contracts go to ANC-supporting, rather than simply black, businesses, and he "has no problem with any political party setting up a company - if they do so openly" - though tendering against Thebe would make him "unhappy."

Whether or not he shares the new-found ethical concerns of corporate SA, and he is sceptical about their sudden emergence when black companies are concerned - Mr Khanyile is making an effort to create distance between the TIC and ANC in the public mind. A wholly owned TIC company, Movement Marketing Enterprises, was recently yanked across town from TIC-owned Shell House, which it shared with ANC headquarters, to the Glen-earn office block, where TIC is based.

The company markets ANC memorabilia, and recently made the news when staff members who were re-trained threatened to take their case to Mr Mandela, having no doubt in their minds about who really ran the company.

"It was a problem having MME in Shell House - to be seen as a department of the ANC," Mr Khanyile said.

"MME is one clear example of how you cannot have a mix-up between political and business aspects. If a company makes a commercial decision to close certain divisions, that remains so."

Thebe is doing well - this week it celebrated the fact that one of its subsidiaries, Suwe Car Hire, had become profitable after only three months.

Mr Khanyile, more concerned about brokering access to capital for black businesses in almost any way he can, makes the point that Thebe will follow ethical guidelines if they ever emerge.

"Our mission is to maximise the value of the wealth of our equity holders under certain constraints public morality, public policy and the law."

"It is not for us as a company to start setting these parameters or defining them. It is society that defines them and the public authority."

The timing is tricky. If the Bolewa-Balto Trust keeps its stake in Thebe until the Corporation can make it to the JSE, it and Mr Mandela's involvement will overlap by at least a year with his presidency.

And that is an old school tie that may turn out to be a millstone."

**Text continues on the next page.**
Billionaire pathfinder backs SA investment

SHOUL EISENBERG, who is worth an estimated $1.5-billion, believes South Africa can attract foreign investment and reach high employment only if the Government provides sufficient incentives.

Mr Eisenberg is famous for having put money into countries where even angels feared to tread. - Japan, South Korea, the Philippines and China. He has a 15-year start on companies considering investment in China today. He believes there is room for co-operation between China and South Africa.

His visit to SA this week was to meet political and business leaders and to announce a major trade fair for 500 South African companies in Beijing. The fair is organised by Times Media, owner of the Sunday Times.

Mr Eisenberg says Chinese companies would be willing to invest in industrial ventures in SA. China is courted by the world because of its vast infrastructural needs. The Chinese Government encourages foreign investors, whereas there is little incentive for them to put their money in SA.

A proponent of the lifting of currency curbs, Mr Eisenberg believes that incentives, such as land availability, tax advantages, cheap loans and favourable raw-material import duties, should take priority over the removal of exchange control. When most companies were pulling out, Mr Eisenberg invested in SA through KNJ Subsidiaries, the listed manufacturer and trader of industrial and consumer goods.

Sukhulu's Loud Ichubowitz met Mr Eisenberg in his adopted Israel several years ago.


despite

and they forged a friendship based on like-mindedness.

Mr Eisenberg went the moving force behind Israel's repeal of restrictive investment legislation and the country now offers attractive advantages to foreign investors.

One of his companies is the major shareholder in Israel Corporation, which has 50 subsidiaries employing 8,000 people. Its turnover is $2.5-billion.

Mr Eisenberg is surprised that even the smallest consumer items are imported by SA, which has the raw materials, labour and infrastructure to make them. He is also startled by the fact that some companies charge domestic buyers more in order to subsidise low-priced export sales.

He says SA could benefit from the technical China's expertise in small industries and manufacturing ventures. There is a ready market numbering 1-billion to the north of SA.

But SA needs stability and co-operation among all its people. It can be done. In China, 90% of the people belong to a single group. But the 10% who do not number 120-million people - three times SA's population - are accommodated.

If Japan and Germany can succeed without any raw materials to speak of, think of what SA could do if everyone pulled together. He says:

With his record, Mr Eisenberg's interest in SA is an endorsement of its potential.

JSE rules catch Kruger short

THE investigation into the Greg Blank scam uncovered other unrelated irregular share dealings on the JSE those by top broker Friskie Kruger who the JSE expelled this week.

The Office for Serious Economic Offences investigation's findings were evaluated by Transvaal Attorney-General Klaus Von Lieres and William said they had been insufficient evidence to justify a prosecution.

The JSE followed up on Attorney-General's leads and expelled Mr Kruger, one of the JSE's best-known brokers, on Thursday after finding him guilty on 49 charges.

Mr Kruger is believed to have been involved in a share deal that was made and lost millions on the JSE's floor by being a large risk-taker and with "a contrarian investment approach".

Mr Kruger virtually ran his own business and was responsible for the bulk of the Blank's dealings with Samlan.

Sanlam senior general manager investments Ronnie Masson says his institution has received no information about the case.

He adds that Sanlam has done regular checks on all transactions with brokers. He has, up until now, found no evidence of any irregularities. "If new facts come to light, we will, of course, take action."

The charges on which Mr Kruger was convicted by the JSE include:

- Making a secret profit out of deals on behalf of clients at the expense and to the prejudice of clients.
- Requiring clients to pay to their prejudice an excessive price for shares purchased with the excess accruing to his benefit.
- Adopting a method of dealing with clients that caused a broker firm to act in breach of its duty of good faith towards clients.
- Entering into transactions that were factious and which were effected to the prejudice or potential prejudice of the JSE.

The conclusions are based on facts and were unattended by the JSE.

Mr Kruger was suspended as a broker member on six charges and a lesser sentence was imposed on four charges.
Charter on JSE boards
SA’s 20% holding keeps

diagonal stripe

Sunstar Times Business Times, 12 June 1999

Julie Walker

AFFRIT HERBERT: Raised $29.3 million last year

charges for large investments

British oil trust's thin initial

Source: The Times
Servgros shines despite poor trading conditions

MARICIA KLEIN

DIVERSIFIED leisure and services group Servgro International, had seen a deterioration in trading conditions since it listed in August last year.

Executive chairman Peet van der Walt said in his annual review that this had resulted in severe competition and pressure on margins. Nevertheless, the group had exceeded its prospectus forecast and increased attributable income by 20% to R50,8m on a 14% turnover rise to R921,4m in the 12 months to end-March.

Since year-end, there had been further deterioration in the business environment, he said, and poor trading conditions were expected to continue for most of financial 1994.

Management was taking steps to minimize the effect on trading results.

Servgro would nevertheless achieve earnings growth on the back of its strong brands, market shares and sound management, Van der Walt said. It was also well-positioned in the services sector with its strong leisure component, and should benefit from economic recovery.

Van der Walt said Avus, Fedex, Interpark and the Price Forbes group achieved particularly good results. Interleisure's revenue were lower, and Teljoy maintained profit levels.

Income at operating company level increased on the back of investment income from surplus funds.

Price Forbes acquired the Willis Faber Entehrop group, Fedex continued its international expansion programme, and Interleisure's Ster-Kinekor added 28 screens. Avus implemented its Wizard reservation system, and Teljoy was considering becoming a service provider for cellular telephones.

Some activities were rationalized or disposed of, resulting in extraordinary losses of R3,5m. About R43m of liquid funds was available for new investment opportunities, which would probably be absorbed into existing operating companies.

Avus increased turnover marginally to R963m, but showed a substantial increase in attributable income through effective asset management, increased productivity and focused marketing. Avus businesses were expected to maintain their market positions and their contributions.

Fedex had a strong year, with turnover rising 10% to R456m, and attributable income showing substantial growth. Group MD David Wigney said this reflected the higher number of foreign airlines landing in SA as well as improved and enlarged facilities at airports.

Interleisure's retail outlets and cinema, restaurant and amusement centre attendances were affected by the escalation of political unrest. But the core businesses of Ster-Kinekor and the services division had performed well. Attributable income was 9% down at the December interim stage.

The group had become more focused on its traditional entertainment market after selling several sport wholesaling brands and expanding the entertainment centre concept.

Interpark increased turnover 11% to R537m, and attributable income increased, albeit at a slower pace than the past three years. New parking contracts, the privatization of municipal parking facilities and the commercialization of state airports offered growth opportunities. Price Forbes' turnover rose to R268m, with real growth in attributable income.

Teljoy experienced difficult trading conditions and its earnings were in line with the previous year. It expected a modest increase in the coming year.

Charter hunts for likely prospects

CHARTER was looking for a number of businesses it believed would benefit from the group's strong balance sheet and disciplined industrial management, chairman Michael Edwards said in the 1993 annual report.

Edwards said Charter was actively considering several prospects where it could add significant value. But vigorous efforts were being made to invest resources prudently, always resisting pressure for short-term actions.

He said the group was now in the middle of another important period of restructuring. In March, Charter had sold its stake in Deonson Mathey. Since the year-end, it had agreed to put proposals to shareholders for restructuring so that Mincorco would cease to be a shareholder.

Edwards said Charter's challenge was to continue to develop its strong operating businesses so that they could grow worldwide while continuing the search for opportunities to reinvest the proceeds from the restructuring.

DUMA GOUBULE

Charter's objective was to assemble a group of industrial businesses each with strong management and leading market positions. The group would continue to be based in London with its activities spread around the world.

London and JSE-listed Charter's operating companies increased their profits by 11% to £113m.

Edwards said Charter was ahead in all its business sectors. Building products and services company Cape had reported a slightly higher profit of £115m.

Pandor, the group's rail track equipment company, had continued to advance, earning £12,5m, up from £11,6m.

The improved performance was once again due mainly to the group's ability to give close attention to costs, while at the same time making the necessary investments to allow the business to grow, Edwards said.
Sun International on expansion trail

SUN International is involved in preliminary negotiations for new non-casino hotels in Johannesburg and Cape Town and is considering certain projects offshore, says newly appointed MD Peter Venison.

He said in an interview that Sun International had made a significant effort overseas to bring business to southern Africa.

The company has offices in London, Germany and France, and recently established offices in New York and Hong Kong. It has also hired public relations consultants in the US, France, Italy, Britain and Hong Kong.

Venison said Sun International was one of the few tourism players — along with Satour and the airlines — which spent money overseas and attracted foreign visitors. When tourists visited as a result of their efforts, they spent only part of their time at Sun International Resorts, as the company was not represented in the major tourist cities.

Venison said some competitors had been rebranding their hotels, and there was room at the top end of the market. Sun International's hotels had the quality to justify high rates, and he believed people would pay for quality.

If SA expected to do half as well as Australia in terms of tourism, it would need 34 new hotels the size of the Palace at Lost City.

Venison said it was important now for the group to move overseas. For 18 months it had looked at a number of countries, had meetings with governments, examined casino regulations, invited government officials here, and sought partners. "We are working towards a couple of projects," he said.

Venison was reluctant to give details of the group's fortunes over the past year, as results to end-June will be published shortly, but he did say the Sun City complex had reaped the benefits of the group's marketing effort. Generally, however, it was adversely affected by political events and recessionary conditions.

In the two weeks after Chris Han's assassination the group had more cancellations than bookings. Other political events had had a similar effect.

At the Sun City complex, all occupancies were up on last year. The Cabanas had not run at less than 50% occupancy this year and the Palace had achieved about 80% occupancy. This was about 10% higher than budget, but the average rate was slightly below expectations. Overall, the Lost City's performance was better than expected.

Venison said there was significant growth in the number of visitors, over and above those expected when additional rooms became available. He attributed this to the investment in publicity, and a broadening of the market through new facilities.
Etam likely to guide Oceana in 1994

MARCIA KLEIN

THE 1994 trading performance of UK group Oceana Investment Corporation would be influenced by the fortunes of 30.4%-held fashion retailer Etam, chairman Stanley Lewis said in his annual review.

Oceana, which is 35.3%-held by Foschini and controlled by Foschini's Lewis family, reported a 15.2% decline in profit after tax to £3.3m in the year to end-March.

This largely reflected lower contributions from Etam and Australian bag and travel goods retailer Handbags International.

Lewis said a substantial portion of Oceana's earnings was derived from Etam, so much would depend on its ability to improve its trading performance in the coming year.

The earnings of Etam and Handbags International were heavily weighted towards the second half of Oceana's financial year. In this light, interim results would not reflect earnings prospects for the full 1994 financial year.

Lewis said Oceana's financial base was supported by substantial cash resources and was without debt.

He said the past year had been one of consolidation, with a focus on preserving the group's financial strength. This had enabled Oceana to maintain dividends at 11p for the full year.

Since 1991, Etam has been the subject of a takeover bid by Oceana, but Oceana has failed to persuade the required number of shareholders to take up its offer.

During financial 1993 Oceana increased its share in Etam by 2% to 36.4%. It remained the single largest shareholder.

Etam's 3.8% decline in pre-tax profits resulted from a 12.7% fall in profits in the second six months and was "partly responsible for Oceana's decline in earnings", Lewis said.

Oceana's board was "a little concerned" that Etam could be relying too heavily on hopes of an improvement in the economy.

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"The challenge in a buyers' market, with a more discerning consum-
Absa shares
leap upwards

SHARON WOOD

ABSAs share price gained 49c to R18,50 yesterday, lifting the
groups stock to its highest level in
over a year -- the share price last
saw this level in February 1992.
The share was the most active in
value terms on the JSE, with just
over 600,000 shares valued at
R6,45m changing hands in 66 deals
over the day.

Banking analysts said the share had
been re-rated but cautioned that
there were still concerns about the
banking group's future.

"It may be just a flash in the pan, but
it would appear the market is re-
rating the share," one analyst said.

Most analysts agreed that Absa
shares offered "the best" value be-cause of their low price-to-earnings
ratio of 8,69, but a primary concern
in the market was the lack of group
management depth.

However, the rapid rise in the share
price generally exceeded analysts'
expectations, with most expecting
the share to only move to R11,10 by
next year.

One analyst said catalysts to the
shares recent rally -- which had
gained 10% over the last month --
had been more favourable press
coverage of the group since the
departure of Absa CE Piet Baden-
horst and the attention given to the
stock when Genbel/Gencor an-
nounced their plans to unbundle.
The reaction of the share to Baden-
horsts departure had been ambigu-
ous, he added.

But another analyst said the share
was always volatile because of the
relatively large proportion of
small shareholders forming the
total shareholding.

One analyst said: "Absa's share has
underperformed over the last year.
It deserves to be much higher."
JCI to decide on South Deep

ANDY DUFFY

JCI would decide over the next six months on the funding plan to transform its South Deep exploration project into a listed mine, the group said yesterday.

- Reporting a strong performance for the three months to June, gold division chairman Ken Maxwell said JCI would decide by the end of the year on refinancing its troubled H J Joel operation.

South Deep, adjacent to JCI’s Western Areas mine, is believed to have the largest undeveloped gold deposit in SA, with estimated reserves of about 110.4 million tons and an average grade of 9g/t.

A further R300m would be needed to allow H J Joel to develop viable cash flows.

- Joel, JCI’s newest mine, ended nine months of losses with its June quarter results. Ore milled was stable at 186 000 tons, though the yield slipped from 6.23g/t to 5.12g/t. This brought gold production down to 1 138kg (1 153kg).

- A fall in working costs to R28 899/kg (R30 948/kg) combined with a higher gold price to lift operating profits to R7.4m (R2.4m).

- Joel was concentrating on building up ore reserves, which declined because of low-grade payability, while maintaining stoping at a reduced rate, the company said.

- Grades remained disappointing, though there had been some improvements in current development, it said.

Western Areas achieved its highest grade in 19 years as the mine gained from higher recoveries on its Venterdorp Contact Reef and its elimination of low-grade ore. The higher grade and tonnage pushed gold production up 12% to 3 823kg.

Working costs were brought down to R39 545/kg (R51 216/kg), while revenue edged forward nearly 5% to R65 403/kg.

The development on 85 and 90 level, which would extend the life of SV2 and SV3 shafts to 12 years, was proceeding well, JCI added.

Manstat Randfontein limited its rise in costs to a 2.1% hike to R26 189/kg. Though tonnage slipped as the mine concentrated on increasing yields, the lift in grades to 4.12g/t (3.8g/t) left production unchanged at 7 880kg.

The company said the sinking of the subvertical Prospect Shaft at Doornkop was progressing well, though water had again been a problem there.

Maxwell said JCI was reviewing its hedging policy, but that gold would have to remain at current levels for several months before JCI made significant changes. “It will be a flexible policy,” he added.

“I don’t take the view that the gold price is definitely going to continue straight upwards.

<table>
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<tr>
<th>JCI OF SA June Quarter</th>
<th>Tons milled 000s</th>
<th>Yield g/ton</th>
<th>Gold produced kg</th>
<th>Costs per ton milled R</th>
<th>Costs per kg gold produced R</th>
<th>Price received R/kg</th>
<th>Net profit R000s</th>
<th>Profit after capex R000s</th>
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* Underground operating results only

ANGELOVAAL

Hartbeesfontein*          | 777              | 8.9         | 6 939            | 238.87                | 26 748                      | 37 974            | 56 144          | 45 413                      | 40.5                 |
| March                   | 776              | 8.9         | 6 906            | 235.74                | 27 489                      | 32 900            | 36 413          | 30 780                      | 27.5                 |
| ET Costs                | 83.7             | 10.3        | 854              | 282.22                | 27 340                      | 36 552            | 5 439           | 2 950                       | 3.0                  |
| March                   | 84.4             | 10.7        | 905              | 271.37                | 25 306                      | 32 146            | 4 218           | 2 643                       | 3.1                  |
| Lorena                  | 468              | 3.8         | 1 799            | 123.12                | 32 697                      | 36 710            | 9 409           | 7 552                       | 46.1                 |
| March                   | 414              | 3.3         | 1 384            | 118.00                | 35 297                      | 32 974            | (1 991)         | (5 240)                     |                     |

* Underground operating results only
Gold price hike boosts JCI

JCI's strategy of pursuing strict cost control and high grades let it reap the benefit of gold's recent price gains, and it turned in a 61% hike in attributable earnings for the three months to June.

The group said yesterday it was contempating rights issues to push ahead with its multi-billion-rand South Deep project, and to refinance its weak link, HJ Joel mine. Analysts believed the South Deep project would require about R1.5bn. JCI said it was looking for R300m for HJ Joel.

Earnings across JCI's gold operations rose to 29.5c (18.3c) a share for the period, as yields were lifted nearly 5% to 4.81g/t, revenue a kg rose 4.2% to R5.181 and cost rises were curtailed to 2.7%.

The figures, the first June quarterly not to disappoint the market, leaned heavily on Western Areas and Randfontein.

Anglovaal's three main gold producers also turned in creditable results, with marginal producer Lorance making a strong comeback, thanks to its first full quarter of a seven-day working week.

However, the mines' results would have been better if a significant part of their output had not been locked into forward sales contracts, at prices lower than ruling rand gold prices. A group spokesman said the opportunity cost to the mines of its hedging transactions stood at more than R4m, as it delivered gold to settle maturing contracts, and replaced the balance with higher priced contracts.

JCI said the highest yield in nearly 20 years and a minimal rise in costs had pushed earnings at Western Areas to 56.1c a share — up 102% on March.

Mainstay Randfontein moved ahead 26.7% to 56.2c a share, while HJ Joel crept back to an attributable profit of 2.3c, after losses in the three previous quarters.

Gold division MD Bill Nairn dubbed the results "very acceptable." Chairman Ken Maxwell said if gold sustained its price for the rest of the year, the proportion of hedged production — currently 50% — would fall "dramatically."
Gengold leans heavily on improved gold price

GENCOR subsidiary Gengold relied on improved gold prices to revive an otherwise mired bag of results for the three months to June.

Eight of its 19 mines sustained a fall in tonnage, while gold production slipped, in some cases sharply, on six of the mines.

The company's previously tight grip on working costs loosened, particularly at Grootevlei and Unisel, and Gengold said costs would come under further pressure from wage demands and mine suppliers.

Gengold has also served notice on Grootevlei that it has six months to turn itself around, or face closure.

Total net income surged nearly 31% to R100.2mn for the period, on average gold prices 25% higher at R24.76/kg. Average working costs rose a marginal 1.4% to R27.68 — the first rise since June 1993.

Labour problems at Grootevlei cut into both tonnage and yield, which brought working costs up from R30.251/kg to R32.645/kg — perilously close to the gold price it was receiving, Maude added.

He said that even at a higher gold price, the mine would close unless a deal was struck. The heavily unionised mine had been warned that its fate rested in the hands of the employees.

Use of which has already been forced to cut production because of lack of face in the old east section and poor grades, cut production again, results in the mine being unable to maintain payable ore reserves.

The Basal Reef development produced disappointing grades and washed out areas were higher than expected. Working costs rose to R29.446/kg (R23.248/kg).

Maude added that Unisel was "at the bottom of the dip" and would begin improving its performance by the final quarter.

Violence

Beatrix bolstered production from 2300kg to 3200kg and would move even higher in the next quarter, Maude said. The slight drop in tonnage was offset by a rise in yield to 6.9g/t, while working costs were pulled back to R21.182/kg (R22.171/kg) — the fourth consecutive quarterly fall in costs.

Though production had been disrupted by the violence on the mine in which 24 employees died, 120 were injured and 170 resigned, Beatrix stayed off the worst impact by using its reef stockpile.

The company had approved expenditure of R70.5 in the decline shaft to gain access to the reef in the higher grade No 3 shaft area, which would pave the way for the full No 3 shaft investment.

Winkelhaak’s June quarter should be “the worst we’ll see”, Maude said. Production dived from 30.2kg to 20.6kg, while working costs moved forward to R30.185/kg (R23.381/kg).

But the costly production from No 5 shaft would be replaced by the stoping and development that had started at No 10 shaft, which would reach full production by the middle of 1994.

Buffelsfontein lifted gold produced to 3.082kg (3.468kg), on the back of a grade steady at 6.6g/t. The RH4 Multigold project, designed to treat the surface dump at the Pioneer shaft, was expected to come on line next October, six months later than planned due to a delay in the delivery of the mills.

St Helena produced excellent results, Maude said, maintaining gold production at 1 652.5kg (1 655.8kg), by pushing up tonnage to offset a sharp fall in yields. Costs per ton milled were cut to R20.86 (R22.86).

Production at Knioss slipped in line with a fall in tonnage milled, while Leslie edged forward to 660kg (669kg), as the yield picked up from 6.6g/t to 6.8g/t.

The rise in the gold price had lent a healthier sheen to the performance of both Buffelsfontein and Bracken, with the latter boosting the grade on its rehabilitation from 3.6t/g to 4.6t/g.

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<thead>
<tr>
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Liquidations and Surge in May

Although May liquidations were up 55% on the same month last year, the trend was still on a par with previous years. Figures released by the Information Trust Corporation, and sourced by the Central Statistical Service, confirmed that May liquidations had climbed to 236, compared with 197 last May. Despite this rise, the number of liquidations from January to May averaged 221 compared to 203 in the corresponding period last year.

This indicated that whereas figures for previous months were much lower than the 1992 figures, they were levelling out. Similarly, the number of sequestrations confirmed limited consumer spending. Preliminary figures released by the CSS indicated an 8.5% drop for April this year to 300 from 326 in the same month last year. The predicted trend to the end of this year could match last year's. -- Sapa.
The proposed shuffle of assets between Genelcor and its investment holding arm Genbel should benefit both groups, but it appears there was some hard bargaining by Genbel to ensure it maintained a healthy balance in its investment portfolio.

There are two key effects for Genbel. It has maintained its overall exposure to gold shares at 24% of its portfolio, and, through an accompanying deal with Sankorp, it has avoided becoming excessively exposed to Genelcor and Sappi when acquiring large chunks of stock in these two companies.

Genbel chairman Tom de Beer says he is "fundamentally happy" with the outcome, though he adds his team will be taking another hard look at Genelcor's portfolio over the next 12 months. "We may be a bit overweight here and there," he says.

De Beer says Genbel, when unbundled from Genelcor, will maintain close links with the mining house, acting as an investment banker, but its relationship will be at arm's length. He foresees Genbel performing the same function for Sankorp. This, he adds, would be the culmination of a process started by former Genelcor chairman Derek Keys, who envisaged Genbel taking a more market-oriented and independent stance.

In terms of the R360m-old deal, Genbel will pass to Genelcor 1,68m Impala Plat shares valued at R114,3m, 240,000 Krouss valued at R13m, 4,7m Samancor worth R107,6m, 3,2m Trans-Natal worth R39,4m, 1,6m Winkelhaak worth R84,7m and all its non-SA interests held through Genbel Offshore Investments, valued at R512m.

These include ordinary and "A" convertible preference shares in Transatlantic Holdings Inc, exploration interests in Turkey, cash and other assets which were valued by Genbel's directors at R388m at end-December 1992.

Genbel gets 8,9m Engen shares worth R381m, 12,4m Sappi worth R381m and 5,1m Beatrix valued at R100m. It has also arranged with Sankorp to exchange half the Sappi and Engen for 3,1m Murray & Roberts worth R143,6m, 800,000 shares in Mercedes Information Technology worth R40m, 3,5m Malibak worth R51,8m, 10,6m Absa worth R100m and R50m cash.

Main effects on Genbel's overall portfolio are that the finance/insurance/property component drops to 16% (21% before the asset swap), while forestry/paper products rises to 10% (7%) and precious metals/minerals dips to 51% (54%)—though the gold component remains unchanged.

Some analysts regard the last point as crucial. Genbel management showed considerable foresight last year in sharply increasing exposure to gold shares ahead of the first drop in a decade. Management of the speciality and raw chemical maker and supplier has done much to avoid a repetition of that setback by instigating structural changes. The restructuring, says MD Lex van Vught, involved integrating some production units into manufacturing operations and shrinking the group by a tenth. He adds that it was achieved without losing market share. This translates into big savings, as is evident in the improvement in operating margin.

And, while investors may see the various largely one-off, event, it's notable that trading profit was boosted partly by the turn-around in underperforming assets. The volume of manufactured and traded goods sold, excluding those of recent acquisitions, increased by 4% and 6% respectively.

But the recovery at trading level is not as striking as it may at first appear. Excluding the positive effects of lower finance costs, which halved to R1,6m because of lower interest rates and substantially reduced capital, and the lower company tax rate, the EPS increase was a more modest 10%.

With turnover up 20%, the creditable 31% increase in attributable earnings to R10,8m was partly aided by better contributions from associates.

The four-fold increase in borrowing to R55,8m follows a number of acquisitions made during the six months. Gearing increased sharply to 42% from 10% at December year-end.

But Van Vught is not concerned about the increase, the target range being between 40%-80%. "Though there are definite advan-
CORPORATE PROFITS

Many are still bleeding

Weak sales and buckling trading margins continue to push profits downwards

After the palpable drop in political and business confidence and the resultant slump in domestic demand during the third and fourth quarters of last year, it was probably inevitable that the latest round-up of corporate profits would show further deterioration.

Signs of renewed weakness in the profitability of industrial companies were already evident when the FM’s last survey of industrial profits was published at the beginning of this year (Leaders January 15).

That showed average negative (nominal) growth in earnings per share (EPS) of 2.7% for the 162 large industrial companies tabulated — a 10 percentage point turnaround from the situation at the end of 1991 and by far the worst performance recorded in these surveys since the start of the recession.

If this seemed a bleak overall performance, from a sample that consists mainly of SA’s largest industrial companies, the latest survey shows that things could — and did — get worse.

For the companies in the mid-year table, which to a much greater extent reflects the trading conditions encountered during the latter half of 1992, the average change in EPS was a seemingly modest 2.5%.

That’s gloomy enough, but not as bad as the average declines in EPS posted by companies in the JSE Industrial index of about 20% and 15% during the severe but shorter — recessions of 1983 and 1985 (see graph).

The approach with this survey remains the same as for previous ones. The table summarises results reported by listed industrial and commercial companies over the past six months. An effort is made to ensure consistency, the emphasis is on bigger companies, one of the selection criteria being an arbitrary cut-off mark at a minimum turnover of R100m.

Several factors may affect comparisons. One is that interim and preliminary year-end results (indicated by an I or P in the table) are included, so seasonality or timing of year-ends may have an influence.

Another is that the past two years were exceptionally active for mergers and acquisitions — as well as corporate restructuring, which often included closures of operations as managers strive to adapt companies to a stagnant economy.

Averages throughout these surveys are derived from the percentage change in total turnover, profits and other data for the full sample. Slightly different results would be obtained by, for example, averaging the individual company percentage changes; another variation would result (as in the composition of share price indices) if individual results were weighted according to company size.

Despite the cavets, there remains much consistency in the sample and the data should offer interesting insights into trends in the real economy.

On the whole, earnings are being kept down by diminishing trading profitability rather than by excessive indebtedness. Slack turnover and further erosion of trading margins seem to have been the most common and the most serious problems.

Average turnover growth was a feeble 10.7%, though many companies lagged this figure — the average being boosted by some steep increases resulting partly from acquisitions examples include Pepkor and Shoprite, after the TradeScope deal.

Average growth in pre-interest profit was slightly negative, though here too, many are much worse. Even after the extensive rationalisation and shrinkage in the industrial sector, companies generally need a return to more vigorous sales if they are to reverse the deterioration in operating profitability.

The sound state of most big companies’ balance sheets at the onset of the recession, as well as two record years for rights issues, have helped ensure that corporate debt has not been unmanageable this time. An easing interest rate pattern since early 1991 has also contributed to the average drop of almost 8% in finance charges.

Two other sources of pressure on EPS are higher tax charges and the greater number of shares to be serviced after equity issues.

For the first time, the latest table includes each company’s effective tax rate.

During a long and deep recession, equity may well be seen as a more prudent and attractive method of corporate funding than debt — but it remains a particularly costly form of finance. After rights or other equity issues, many companies are now paying the cost in that attributable profit is being spread over more issued shares.

So, of course, is the amount allocated to paying dividends. Notably, the dividend trend is inexorably following that of earnings whereas the last survey showed there had been average dividend growth of 3.1%, this time there was zero growth on average.

Analysis of the sectoral results shows trends in underlying profitability are probably largely as expected from this standpoint. A number of the large, diversified industrials are plainly taking strain, but their financial strength often limits the extent of the decline. Thus Anuc, for example, which is linked closely to commodity markets, posted operating profit down 32% for the year to December, but EPS fell by a less dramatic 15.6% and the dividend was held.

More specialised commodity companies — particularly those which are major exporters — show continuing decline. Outstanding examples are in the steel and allied sector. CMI lost R16.8m pre-interest for the six months to December, while Iscor’s pre-interest profit fell 18.4% in the period, in the year to December Highveld Steel’s pre-interest profit fell 31.9%.

Though probably the most startling, these figures are in line with the severe strain being brought to bear on many local manufacturing companies. Two other sectors show especially large declines in the clothing, footwear and textiles sector, pre-interest profit fell 17.7%, on turnover that was down by an average 1.6%, and in the motor sector (which includes distributors) pre-interest profit fell an average 42.6%, on sales that were up 2%.

If the emphasis is switched to EPS, then building and construction was another poorly performing sector — pre-interest profit was down by an average 6.2%, but EPS dropped 15.2%, owing to higher finance and tax charges. Engineering companies were similarly buffeted by finance charges and tax; their average EPS fell 27.9%.

Trading performances of companies which distribute consumer products (or services) have tended to be far more favourable.

Six such sectors stand out beverages, hotels and leisure, where pre-interest profit grew an average 15.6% and EPS 5.3%, furniture and household, profit up 14.8% and EPS 15.1%, pharmaceutical and medical, profit up 15% and EPS 34.6%, retailers and wholesalers, profit up 13.3% and EPS 4.1%, tobacco and matches, profit up 5.9% and EPS 9.8%, and transportation, profit up 26.3% and EPS 24.3%.

One lesson is that profits of industrial and commercial companies are still being driven primarily by consumer spending, or the lack of it. Many of those that do have enough exposure to these markets, or, like the clothing and textile makers, do not have sufficiently flexible cost structures and are vulnerable to imports, have not even achieved nominal profit growth.

(See table on pages 24 and 25)
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<th>Company</th>
<th>Reporting Period</th>
<th>Turnover</th>
<th>Operating Expenses</th>
<th>Finance Charges</th>
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| Food                           |                          | 164.4  | 23.1              | 88.0  | 22.2 |
| Furniture and Household       |                          | 118.5  | 12.9              | 59.4  | 12.3 |
| Motor                         |                          | 111.9  | 12.9              | 59.4  | 12.3 |
| Combined Motor                |                          | 22.2   | 11.0              | 66.4  | 9.3  |
| Gentry                        |                          | 27.9   | 11.0              | 66.4  | 9.3  |
| Miller-Jones                  |                          | 21.8   | 12.0              | 59.4  | 12.3 |
| Motar                         |                          | 14.4   | 12.0              | 59.4  | 12.3 |
| Transportation                |                          | 22.2   | 12.0              | 59.4  | 12.3 |
| Pharmaceutical and Medical    |                          | 35.7   | 12.0              | 59.4  | 12.3 |
| Printing and Publishing       |                          | 22.2   | 12.0              | 59.4  | 12.3 |
| Printing and Publishing       |                          | 22.2   | 12.0              | 59.4  | 12.3 |
| Printing and Publishing       |                          | 22.2   | 12.0              | 59.4  | 12.3 |
| Printing and Publishing       |                          | 22.2   | 12.0              | 59.4  | 12.3 |

FINANCIAL MAIL • JULY • 23 • 1993 • 25
Strategic move at Libsite

By Stephen Creton

Premier

The world's estimated $800 billion in public and private investments in technology, pharmaceuticals and automotive manufacturing are at risk of being cut off as a result of the government's new policies.

The government is moving to limit the expansion of high-technology businesses, particularly in the automotive sector, by imposing strict regulations on the use of technology and innovation. This move is expected to have a significant impact on the global economy, with some analysts predicting a slowdown in growth.

The government's decision to cut off access to technology and innovation is seen as a major setback for the industry, which relies heavily on the latest technologies to stay competitive. Many companies are reportedly considering relocating their operations to countries that are more open to innovation.

The move comes as the government is facing increasing pressure to address growing nationalism and protect jobs. Some critics argue that the government's actions are motivated by a desire to protect domestic industries from foreign competition.

The government's decision to restrict access to technology and innovation is expected to have far-reaching consequences for the global economy. It is likely to lead to a slowdown in growth, as well as a reduction in innovation and investment.

The government's move is likely to be closely watched by other countries, which may follow suit in order to protect their own industries. The global economy is expected to face further challenges as a result of this new trend.
out of deals, requiring clients to pay excessive prices for shares, failing to act in clients’ best interests, adopting methods which caused a broking firm to act in breach of duty of good faith, entering into fictitious transactions and “concluding transactions in such a manner that a benefit accrued to employees of the clients which should have accrued to the clients”.

The FM’s information is that Kruger’s misdemeanours involved staff employed by insurance giant Sanlam and at least one other Cape-based institution Kruger, whose membership of the JSE goes back 20 years, was first reported to be under investigation by the FM (Fox March 5), at the time, JSE officials responded to polite inquiry with pursed lips.

Sanlam senior GM Ronnie Masson said “Sanlam checks regularly on its procedures. In no case have we found evidence of any irregularities.” And he’s sticking to his guns.

“Personally,” he says, “I see all of our dealings and transactions daily. I know of no instance in which anything untoward occurred.”

This makes the matter all the more puzzling. Asked to explain the apparent contradiction, JSE executive president Roy Andersen replies that “the papers relating to the JSE’s investigation will be forwarded to the Attorney-General for his consideration. In the circumstances it would be inappropriate for me to comment any further.”

Will Sanlam seek restitution of any amounts which may have gone elsewhere? Masson says: “I have absolutely no information on the basis of the findings but we will certainly try to pursue the matter. If it should be established that there are amounts involved, then we will definitely seek restitution.”

In another surprise development recently, authorised clerks have been summoned to give evidence to the Exchange’s committee — previously, clerks have been immune to questioning on the ground that they were superiors, usually partners, carrying the ultimate responsibility.

No more, it seems. The nature of the game in Diagonal Street appears to have changed irrevocably. Recent actions of the JSE’s new directorate and the resolve of its committee clearly signal that ethical behaviour has become a matter which will receive minute scrutiny.

FRIKKIE KRUGER

Guilty as they come

How guilty is a transgressor if he’s expelled from the JSE 39 times? Very, it seems.

Broker Frikkie Kruger, presently a sole trader and formerly a partner of one of the JSE’s largest firms (he was important enough to be the Kruger in Frankel Kruger, as the firm was then called, until he left the firm mysteriously in November 1991) was given his marching orders last week at a special meeting of the Exchange’s General Purposes Committee.

Kruger was found guilty on all of 49 counts. They included making secret profits
company and its subsidiary, the tradability and thus the market rating of the former is often weaker than that of the operating company. In this instance Imperial Group, the holding company, was trading at a discount of only 4% to Imphold.

If the structure is no longer considered appropriate, why wasn’t it simplified two years ago, when the controlling family stake was taken out? One reason was the stamp duty that would have been incurred, amounting to 1% of the value of the shares transferred. In a move to encourage corporate unbundling, the March Budget announced the abolition of stamp duty on share transfers for this purpose. Lynch contends the de-listing of Imperial Group will bring other efficiencies, such as the elimination of unnecessary administration costs.

Trading in the pyramid company has been limited. Over the past quarter, only 33,300 Imperial Group shares traded, compared with 144,500 Imphold.

But it’s unlikely that the de-listing of Imperial Group will affect either the tradability or the share price of Imphold. The shares are quite widely held, but their strong performance suggests investors will be reluctant to release any of them on to the market.

**IMPHOLD**

**Another pyramid to go**

In the spirit of the season, Imperial group and Imphold have announced that they are considering unbundling the pyramid structure.

Imperial Group’s only asset is a 49% shareholding — about 42m shares — in Imphold. The pyramid is now considered to be a historical anomaly, it was intended to lock in control for the Abelkop family, but their holding was largely unwound about two years ago.

Imperial Group’s shareholding structure is no longer dominated by any single interest. The directors together have about 30%, various institutions hold 60% and individuals the remainder. Says CE Bill Lynch: “The transaction will be a cashless transfer based on about 2,9 Imphold shares for every Imperial share held.” This will result in the de-listing of Imperial Group.

Imphold shares are to be distributed pro rata to the shares held in Imperial Group. Often there is a discount between a holding
New opportunities for investors

Liberty Life plans R1bn Libsil listing

LIBERTY Life is to raise about R1.03bn by listing its wholly owned subsidiary Liblife Strategic Investments (Libsil) on the JSE.

The cash raised will be used to develop Libsil's business and repay its debt.

Liberty Life chairman Donald Gordon said Libsil would have an indirect interest in Liberty Life through its 28.6% holding in Standard Bank Investment Corporation (SBIC). It also owns significant stakes, directly and indirectly, in Premier Group and SA Breweries (SAB). Libsil's total investments in leading financial and industrial companies are worth R5.6bn.

"Liberty's offshore investments are now held through First International Trust and its local investments through Libsil," Gordon said.

"This is an important transaction for Liberty Life. It will strengthen our flexibility and improve our position with regard to our strategic investments, which now represent a substantial portion of Liberty Life's capital base. The idea is to degear the Liberty Life Group and balance its holding of major strategic investments."

Liberty Holdings (Libhold) MD Farrell Sher said Libsil investments were core investments to the Liberty group, and Liberty was giving shareholders the opportunity to participate in them. He said the move could not be described as an unbundling since the holdings were "fundamental and germane" to the group.

Main reasons cited for Libsil's listing were to offer the group's shareholders and other investors direct exposure to Liberty Life's strategic investments, to degear the Liberty Life Group and to give greater transparency to Liberty Life's investments in view of the potential new market in SA - especially for international investors.

The move will release funds for the further development of Liberty Life Libsil will be able to use its equity for further acquisitions of strategic shareholdings.

Libsil, formerly known as Liberty Life Investment Trust, will list 560-million ordinary shares Liberty Life will offer its shareholders 114.57-million ordinary shares in Libsil at R90c each, at 59 Libsil shares for every 100 Liberty Life shares.

Libhold, which owns 52% of Liberty Life, will renounce its shareholders' rights to 35.58-million ordinary shares in Libsil at R90c each in the ratio of 150 ordinary shares in Libsil for every 100 Libhold shares. After the listing, Liberty Life's holding in Libsil will drop to 86%.

The Liberty Life Group owns 50% of SBIC of which Libsil holds 28.6% with a market value of R2.5bn. SBIC and Liberty Investors each own 50% of Liblife Controlling Corporation, the holding company of the Liberty Life Group.

Libsil's 27.5% interest in Beverage and Consumer Industry Holdings, the largest shareholder of SAB is valued at R1.5bn, while its 0.9% stake in SAB is worth R143.5m. It also has a 28.4% interest in Premier Group, valued at R697m, and 4.6% of GFSA Holdings, worth R257.5m.

Libsil will declare its first dividend in March 1001 on income received between September 1 and December 31 1993.

The period would include the interim dividends of Premier and SAB and the final dividend of SBIC. Gordon said...
Insurer share deals probed

By CHERILYN BRETON

An insider trading probe is under way into dealings in shares of Anglovaal's three listed insurance companies. The Securities Regulation Panel asked the Johannesburg Stock Exchange this week to furnish it with details of recent trade in Crusader Life, Anglovaal Insurance Holdings and holding company AVF Group.

This follows the dramatic decline in prices of the counters in the past month. Their market worth has halved. Crusader is now trading at R170, Anglovaal Insurance Holdings (Avms) at R8c and AVF at 55c.

The decline occurred before shareholders were told this week by the Crusader board that there were serious problems in foreign associated Pegasus Insurance. Pegasus's promised prices applied by the Pegasus actuary in a field which the auditors didn't understand clearly enough. The actuary has since resigned.

"I was uneasy about the year-end profits as reflected and asked an outside actuary to go through the principles he had applied in calculating the present value of new business. He reported that he believed there was double counting," he said.

"I went over for a board meeting on 25 June to approve the final accounts. I expressed my concerns at the meeting. The result was that after re-checking by the auditors, the profit turned out to be a loss." Between June 25 and July 21 when shareholders were told of the problems, Crusader's share price fell from R3.20 to R1.70. Avms halved from 50c to 15c. A share in Anglovaal fell from R1.10 to 70c.
LIBERTY Life's decision to spin the cream of its blue-chip investments into a separate holding company will give the JSE its biggest new listing yet.

The investments to be housed in Libsil Strategic Investments (Libsil) are described by chairman Donny Gordon as the cream of South African companies. They have a market worth of R5.5-billion.

Libsil will be among the top 30 JSE companies when it is listed in September.

Liberty Life shareholders will be offered shares in the new company — at a 10% discount to the current market value — through a R1.08-billion rights issue.

Liberty Holdings, which owns slightly more than half of Liberty Life, will pass its rights to its shareholders.

Liberty Life Group will control about 60% of Libsil, private investors and institutions owning the rest.

Mr Gordon sees the company as a desirable investment for foreigners seeking a stake in some of SA's most strategic companies.

Libsil investments include 23.3% stake in the Standard Bank Investment Corporation, 27.3% of Bevcon, which owns 94.3% of SA Breweries, 23.6% of Premier Group and 4.6% of GFSA Holdings.

**By CHERLYN IRETON**

These investments have outperformed the JSE's financial and industrial index by 47% in the past three years.

Mr Gordon believes they will continue to do so.

"They have been getting better and better. Standard Bank outpaced the other banks and Premier, which for years lagged behind Tiger, has done the opposite."

There are many motives behind the deal, but it is not the foundation for any unwinding of the Liberty group.

**Decade**

Mr Gordon says "We have no intention of unbalancing. The deal is meant to consolidate and balance our portfolio, and to give us more cash and flexibility for investments."

"These investments constantly require fresh capital. We can't manage our portfolio prudently if shareholders have to keep chipping in new funds."

"We need to do something for our shareholders — to give them the chance to participate directly in something created out of their money over the past decade."

The deal was in the pipeline for six months and its completion does not mean the end of the road for Mr Gordon, now 63.

"I'm very much trying to have another five years in the company and I am enjoying myself enormously. This opens up tremendous new avenues for us," he says.

The funds raised by Liberty from the rights issue will be used to de-gear the group. About R400-million will be used to redeem preference shares and repay debt. The balance will go to development of Liberty Life.

Liberty Life shareholders will be offered renounceable rights to 20% of the 560-million ordinary shares that will eventually be listed. They will pay R9 a share in the ratio of 50 Libsil shares for every 100 held in Liberty Life. Shareholders in Liberty Holdings will be offered 120 Libsils for every 100 Libsils shares.

The net worth, based on Wednesday's market price of the investments, is R10 a share.

The last day to register for the offer is August 6.

Standard Bank and Liberty Investors, which qualify for rights through their holding in Libsel Controlling Corporation, have placed theirs with selected institutions at R10 a share and 100c a right.
Liquidations rising

MAY liquidations have risen 50% to 238 from 157 in May 1992.

This is after the March and April figures had started to show a decline on last year, according to Information Trust Corporation (ITC) statistics.

ITC managing director Tony Long points out that the average number of liquidations for the first five months of the year has increased only 10% year on year (232). Mr Long expects liquidations to carry on in line with 1992.
Imperial Group set to unbundle pyramid company

Own Correspondent

Imperial Group plans to unbundle its listed pyramid company in a move designed to make it one of the few publicly owned groups in the country.

In terms of proposals published today, Imperial Group would distribute its 49% stake in Imphold to its own shareholders in the ratio of 269 Imphold shares for every 100 Imperial Group shares held. Imperial would delist on August 27. Imphold would change its name to Imperial Holdings to leave a single listed entity "Imperial".

After the unbundling no shareholder would own more than about 15% of the group's shares. The combined management owns about 15% with the balance held by about 20 institutions and the public.

Imperial chairman Bill Lynch said true publicly owned companies were rare in SA and he welcomed the trend to unbundle large corporate structures, allowing shareholders to use voting power to protect their interests.

Behind trend

SA groups were well behind the trend in Europe and the US where many listed companies were controlled with shareholdings as low as 15% to 20%. This made a potential takeover by shareholders possible if performance was poor.

The move to abandon the pyramid company would save costs and clean up the group structure. A large number of senior staff held significant equity in the group which served as a strong motivating factor, said Lynch.

Further unbundling was not envisaged although individual businesses were independently managed, the group was structured as a unit which added value to every underlying business. Cutting the link between some subsidiaries would destroy profit opportunities, he said.

Absolute control of Imperial disappeared in 1981 when group founders the Abelkop family sold their shares to management and institutions. Once unbundling legislation was tabled, the decision was taken to collapse the pyramid.
Black business rising

By Mzimkulu Malunga

AFTER massive campaigns during the last half of the eighties, black business appears to be finally flexing its muscles.

"The time for talking is over, this is the era of action. We are late already," says Don Mkhwanazi, one of the six black businessmen who bought ten percent of Metropolitan Life.

Though ten percent is a small piece of the cake, the deal involved millions of rand and millions of shares which are going to be issued to the blacks.

More importantly, Metropolitan Investment Holdings, the new company which was born out of the deal, has got into a voting pool with a majority shareholder which means that no major decisions can be made without the company's approval.

Development

Another interesting development was when a black-owned cosmetics manufacturing company, Black Like Me, sponsored one of the biggest boxing show-downs in South Africa's history in which a local lad, Dunga Thobela, dethroned American Tony Lopez.

When an American company, Digital Equipment Corp, came to invest in South Africa, an enterprise in which blacks own a majority share was one of the two local companies awarded rights to process and sell DEC's products in this country.

Black companies involved in this deal were Thebe Investment Corporation and Vela International who hold 45 percent and 20 percent respectively in a computer company, Bhekasswwe Computer Systems.

Accompanying the likes of National Sorghum Brewers, Black Like Me, Methold, Lesitema Investment Corporation, the Maponya Group, Future Bank and African Bank as well as Alex Hur, a number of black companies of a much smaller size are emerging at a very fast pace.

Black entrepreneurs are quietly invading the services and manufacturing industries.

There is also talk doing the rounds that insurance giant Southern Life wants to sell African Life to black businessmen.

Informed sources suggest plans are at an advanced stage to facilitate this deal.

Unbundling

With unbundling becoming yet another feature in the changing business world, many in black business believe the sector could ride the wave into the mainstream of the economy.

"We need many more NSB's for the realisation of black economic empowerment in this country," says ANC head of economic affairs Trevor Manuel.

Many in the black community are keeping their fingers crossed that the major black companies, in which they have so much confidence, will sustain their current growth level.

People like NSC chief executive Mohale Mahanyele believe it is within their grasp. "When we took this company over, many said we would last only a month. A month later they said six months and when six months had elapsed they said a year — and three years on we are getting stronger," he says.

As far as Mahanyele is concerned, the whole issue of black business failure is a myth.

However, many in the black community are worried about whether technocrats in companies like NSC can successfully manage the pace at which the company is growing lest the engine overheats.

Nobody would want to imagine what an engine overheat in a million rand entity like NSC would do to the ego of black business people.
Rembrandt says no to unbundling

By ARI JACOBSON

REMBRANDT's executive chairman Johann Rupert came out strongly against the unbundling of the group's control structure at its AGM in Stellenbosch yesterday.

Speaking to the press afterwards, he said Rembrandt's operating arm was trading at a discount to the holding company and "as long as value was being passed up the pyramid there should be no need to unbundle".

Rupert said that part of the reason for the shares, at the holding company level, being offered at a higher value was because the Rembrandt group was "a family run business".

He added that Rembrandt was a small player internationally and to compete "it would have to remain intact"

"Forced unbundling is a sure way to get every entrepreneur to leave the country!"

Rupert warned that most skills were transferable and that "human capital and financial capital tended to follow each other".

He added that international capital was "totally mobile" and would always be looking for "a safe and hospitable home".

"It seems as if a political solution in South Africa would be far easier to attain than an economic solution."

As for Richemont, he said that the group would continue to remain focused and that diversification was not part of the gameplan.

He said that strategic positioning of its existing tobacco and luxury businesses was more suitable philosophy.

Here he talked of the recent opening of factories in China, Russia and Poland.

Richemont is at present reconstructing its group into separate tobacco and luxury goods businesses.

Rupert was quick to mention that the Richemont group, which went overseas in 1963, had fared far better than its predecessor locally.

He mentioned that R1.5bn taken out at that time to build the offshore company, had grown so that R1.5bn has been repatriated in dividends to South Africa over time.

The old Rembrandt group, represented as the Technical Investment Corporation, celebrated its 50th financial year at the AGM yesterday.

Demonstrating the value attached to the "old company's" shares, chairman of this company Anton Rupert pointed out that 1c a share purchase at that time, was now worth some R65 a share.

The Rembrandt group reported a 1% increase in earnings for the year to March at 189.1c (180.3c) a share.

- Richemont reversed earlier falls on the JSE yesterday, adding 75c to R49.50 in spite of a firmer financial rand.
Premier Reaps Benefits from Unbundling

By Robert Farzan

CTIA's Store Investment in the

Chief Store Investment in the

...
PROPOSED LISTING OF LBLIFE STRATEGIC INVESTMENTS LIMITED ("LIBSIL") ON THE JOHANNESBURG STOCK EXCHANGE

Joint announcement regarding:

- the proposed listing of approximately 560 million ordinary shares in Liblif Strategic Investments Limited ("Libsil") on The Johannesburg Stock Exchange,

- the proposed offer by Liberty Life Association of Africa Limited ("Liberty Life") to its shareholders of rights to 114.57 million ordinary shares in Libsil at a price of 900 cents per share in the ratio of 50 ordinary shares in Libsil for every 100 shares held in Liberty Life,

- the proposed renunciation by Liberty Holdings Limited ("Libhold") to its shareholders of its rights to 99.52 million ordinary shares in Libsil at a price of 900 cents per share in the ratio of 150 ordinary shares in Libsil for every 100 ordinary shares held in Libhold, and

- notice of last day to register for the offer of rights to shares in Libsil (6 August 1993).

1 INTRODUCTION

Libsil (formerly named The Liberty Life Investment Trust Limited) is a wholly-owned subsidiary of Liberty Life. It was incorporated in June 1983 for the purpose of holding, for the account of shareholders' funds of Liberty Life, part of the key strategic investments in leading South African industrial and financial companies which at the time of acquisition by Liberty Life were considered to be too large for prudent absorption within the policiesholders' portfolios of Liberty Life. The market value of Libsil's underlying investments was approximately R5.6 billion as at 21 July 1993.

Liberty Life intends listing Libsil on The Johannesburg Stock Exchange ("the JSE") by offering to its shareholders the renounceable rights to 114.57 million Libsil shares ("the offer shares") in the ratio of 50 Libsil shares for every 100 Liberty Life shares held to raise approximately R1.03 billion for Liberty Life before expenses. These shares will be offered at a price of 900 cents per share calculated on the basis of a discount to Libsil's net asset value of around 10% as at 21 July 1993.

In terms of the JSE regulations, Libhold, which owns 52% of the issued share capital of Liberty Life, will be renouncing its rights in respect of Liberty Life's offer in the ratio of 130 Libsil shares for every 100 Libhold shares held. The 99.52 million rights (equivalent to 27% of the offer) to which Liblife Controlling Corporation (Proprietary) Limited ("LCC") will be entitled in respect of its 52% interest in Libhold have been placed by Standard Merchant Bank Limited on behalf of LCC's shareholders by means of a private placement with selected institutional investors at a price of R10 per share, being 100 cents per right over the offer price, in aggregate approximately equivalent to Libsil's net asset value per share as at 21 July 1993. Standard Bank Investment Corporation Limited and Liberty Investors Limited have joint control of LCC, each owning 50% of its issued share capital.

2 THE LIBERTY LIFE GROUP STRUCTURE

The Liberty Life Group structure in relation to Libsil is as follows:

<table>
<thead>
<tr>
<th>Liblife Investors Limited</th>
<th>Liberty Controlling Corporation (Proprietary) Limited</th>
<th>Standard Bank Investment Corporation Limited</th>
</tr>
</thead>
<tbody>
<tr>
<td>50%</td>
<td>50%</td>
<td>52%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liblife Holdings Limited</th>
<th>Liblife Association of Africa Limited</th>
</tr>
</thead>
<tbody>
<tr>
<td>52%</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liblife Strategic Investments Limited</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Premier Group Limited</td>
</tr>
<tr>
<td>23.4% (20.0%)*</td>
</tr>
<tr>
<td>Standard Bank Investment Corporation Limited</td>
</tr>
<tr>
<td>23.6% (30.7%)*</td>
</tr>
<tr>
<td>GFSA Holdings Limited</td>
</tr>
<tr>
<td>4.6% (20.0%)*</td>
</tr>
<tr>
<td>Beverage and Consumer Industry Holdings Limited</td>
</tr>
<tr>
<td>37.3% (24.1%)*</td>
</tr>
<tr>
<td>Gold Fields of South Africa Limited</td>
</tr>
<tr>
<td>0.9% (5.3%)*</td>
</tr>
<tr>
<td>The South African Breweries Limited</td>
</tr>
<tr>
<td>34.3%</td>
</tr>
</tbody>
</table>

* Libsil's investments in Standard Bank Investment Corporation Limited, Beverage and Consumer Industry Holdings Limited, The South African Breweries Limited, The Premier Group Limited and GFSA Holdings Limited form the core of larger strategic holdings that The Liberty Life Group has in these companies. The aggregate Liberty Life Group shareholdings are shown in parentheses. The difference between such aggregate shareholdings and Libsil's holdings primarily represents the shareholdings held by the policiesholders' portfolios of Liberty Life.
3 PURPOSE AND OBJECTIVES OF THE PROPOSED OFFER AND LISTING AND RESULTANT CAPITAL

3.1 Purpose
Libsol's investments represent a major part of Libsolv Life's strategic holdings in high quality South African financial and industrial counters which are held for the account of shareholders' funds but exclude strategic offshore investments of Libsolv Life, notably TransAtlantic Holdings PLC. The exceptional performance of these investments has contributed to Libsolv Life's superior performance over an extended period of time. Libsol was formed in order to facilitate the acquisition of these strategic investments which, when acquired, were too large for prudent absorption within the policyholders' portfolios of Libsolv Life. As a consequence, Libsolv Life's shareholders' funds, together with additional finance raised, including issues of ordinary and preference share capital, provided the necessary funding for the acquisition of the balance of these important strategic holdings in excess of the levels regarded as prudent for policyholders at the time.

The listing of Libsol provides the opportunity for shareholders in Libsolv Life and Libbot and other investors to participate directly in this established portfolio of high quality strategic investments that have been built up by The Libsolv Life Group over the last decade. The proposed offer is significant by virtue of its size and the relative illiquidity and consequent lack of availability on the JSE of the underlying shares constituting Libsol's strategic investments.

3.2 Objectives
The flotation of Libsol will, inter alia:

- enable shareholders of Libsolv Life and Libbot and other investors, institutional and otherwise, to acquire direct exposure to the high quality portfolio constituting Libsolv Life's strategic investments;
- de-gear The Libsolv Life Group and balance its holding of major strategic investments;
- create flexibility with a view to expanding Libsol's portfolio of strategic investments in the future;
- achieve greater transparency of the nature of Libsolv Life's strategic investments for the benefit of shareholders and investors on the JSE in the light of the potential new market in South Africa, particularly for international investors;
- enable Libsol to utilise its equity for further acquisitions of strategic shareholdings;
- facilitate the repayment of debt and the redemption of relatively expensive preference shares previously issued by Libsolv;
- release funds for the further development of Libsolv Life;
- enhance the earnings of Libsolv Life in the future, and
- facilitate Libsolv Life in protecting the capital value of its core investments by the use of derivative instruments and specialised securities, including options, futures and other appropriate methods, to hedge investment volatility and enhance the performance of Libsol's portfolio.

3.3 Structure of share capital
The authorised share capital of Libsol comprises 800 million ordinary shares of 1 cent each and 55,000 redeemable cumulative preference shares of R1 each. After the successful completion of the proposed offer, Libsolv Life will hold approximately 80% of Libsol's issued ordinary share capital, which will consist of around 562 million ordinary shares. Libsol has total assets of almost R3.6 billion with a net asset value of about 1,000 cents per ordinary share as at 21 July 1993.

4 NATURE OF BUSINESS OF LIBSOL

4.1 Nature of Investments
Set out below is a summary of the underlying investments constituting Libsol's portfolio.

<table>
<thead>
<tr>
<th>Market value (Rm)</th>
<th>Number</th>
<th>% of share held</th>
<th>% of 21 July of share share portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Bank Investment Corporation Limited</td>
<td>28,369,378</td>
<td>25.8%</td>
<td>2,547.3</td>
</tr>
<tr>
<td>Direct and indirect interest in The South African Breweries Limited</td>
<td>1,702,084</td>
<td>15.5%</td>
<td></td>
</tr>
<tr>
<td>Beverage and Consumer Industry Holdings Limited</td>
<td>19,360,000</td>
<td>27.9%</td>
<td>1,108.5</td>
</tr>
<tr>
<td>The South African Breweries Limited</td>
<td>2,342,800</td>
<td>0.9%</td>
<td>143.5</td>
</tr>
<tr>
<td>The Peverel Group Limited</td>
<td>19,360,000</td>
<td>23.4%</td>
<td>977.0</td>
</tr>
<tr>
<td>GENA Holdings Limited</td>
<td>555,819</td>
<td>4.6%</td>
<td>217.3</td>
</tr>
<tr>
<td>Other investments, derivatives, bank deposits and money market instruments*</td>
<td></td>
<td></td>
<td>117.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3,501.1</td>
</tr>
</tbody>
</table>

*Includes preference shares convertible into approximately 515,000 shares in Standard Bank Investment Corporation Limited.

4.2 Strategic Investments
The major investments of Libsol form the core of The Libsolv Life Group's strategic equity investment holdings.

4.2.1 The Libsolv Life Group owns an aggregate 38.7% of Standard Bank Investment Corporation Limited's ("SBIC") share capital, thereby constituting it as the largest shareholder in SBIC. As part of The Libsolv Life Group's aggregate holdings, Libsolv's 23.8% interest in SBIC, having a market value of R2.5 billion based on a market price of 9,000 cents per share, constitutes Libsol as the largest and most significant shareholder in SBIC within the Libsolv Life Group. SBIC is the holding company of The Standard Bank of South Africa Limited, the leading commercial bank in South Africa. The SBIC group's activities include commercial and merchant banking, leasing and financing activities, unit trust management, participation mortgage and housing finance, life insurance and non-life insurance broking, credit card facilities and trust company services. SBIC operates in the United Kingdom, Jersey, the Isle of Man and Taiwan and its representation in Africa was expanded in 1992 when it acquired the Africa banking arm of ANZ Grindlays Bank.

SBIC also owns 50% of, and together with Libsolv Investors Limited has joint control of LCC, the ultimate holding company of The Liberty Life Group. The value of this investment, at the market value of SBIC's attributable interest in Libsolv of 11.9 million shares was R2.06 billion as at 21 July 1993, equivalent to 19% of the market capitalisation of SBIC on the JSE at such date, implying an indirect interest attributable to Libsolv of approximately R500 million in the equity of Libbot.

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4.2.2 The Liberty Life Group shares joint control of Beverage and Consumer Industry Holdings Limited ("Bevercon") pursuant to an agreement with Johannesburg Consolidated Investment Company, Limited ("JCI") and Anglo American Corporation of South Africa Limited ("Anglo American") Bevercon, in which The Liberty Life Group has a 34.1% interest, is the largest shareholder in The South African Breweries Limited ("SAB"), owning 34.3% of its issued ordinary share capital.

Libsl's portion of The Liberty Life Group's interest in Bevercun amounts to a 27.3% holding in Bevercon having a market value of R1.6 billion based on a market price of 8 050 cents per share. SAB is South Africa's largest consumer-oriented group. Its major activity is the brewing of clear beer, in which it dominates the South African market. SAB also has significant interests in the manufacture and distribution of other beverages, in retailing and hotel operations and in the manufacture of selected mass market consumer goods, together with significant investments in other businesses which complement its mainstream interests.

In addition, The Liberty Life Group also has a 5.5% direct holding in SAB, which includes Libs's 0.9% direct interest in SAB, having a market value of R144 million based on a market price of 6 125 cents per share.

4.2.3 The Liberty Life Group has an aggregate 28.7% shareholding in The Premier Group Limited ("Premier"), similar joint control arrangements to those relating to Bevercon exist with Anglo American and JCI in respect of Premier. Libsl's 23.3% interest in Premier, having a market value of R997 million based on a market price of 5 130 cents per share enjoys the benefit of forming part of this larger strategic holding. Premier is the holding company of one of South Africa's largest food and pharmaceutical manufacturers and distributors. Premier's activities comprise the milling of maize and wheat, the manufacture and distribution of food products, edible oils and fats, marine products, animal feeds, pharmaceuticals and industrial chemicals, cotton ginning and the wholesale and retail distribution of groceries, toiletries and allied products.

4.2.4 The Liberty Life Group has a 20.0% interest in GFSA Holdings Limited ("GFSA Holdings"), an unlisted company which holds 42.6% of the issued share capital of Gold Fields of South Africa Limited ("GFSA"). Libsl's portion of The Liberty Life Group's shareholding amounts to 4.6% of GFSA Holdings and has a value of R217 million based on the attributable underlying market value of GFSA at 10 500 cents per ordinary share. GFSA is a leading South African mining finance house involved in the mining and processing of gold and other precious metals and minerals.

4.3 Nature of joint control arrangements in respect of Bevercon and Premier

The joint control arrangements in respect of Bevercon and Premier include certain provisions which aim to ensure that, on a disposal by either The Liberty Life Group or The Anglo American/JCI Group of their joint controlling strategic shareholdings in such companies, such group receives a fair commercial price reflecting the significance of the joint controlling shareholding (viz 25.05% of the equity of each of Bevercon and Premier respectively dedicated by each group).

In essence:
- If either group intends to sell its shareholding in Bevercon or Premier, it must first offer it to the other group at a stipulated price.
- Failing acceptance by the other group to acquire the shareholding at the stipulated price, the offeror shall be entitled, in turn, to offer to acquire the other group's shareholding at the stipulated price.
- The offeree must either accept that offer and sell its shareholding at the stipulated price or purchase the offeror's shareholding at that price.

The terms of the joint control arrangements provide that the price to be stipulated by the mutuating group must be 25% over the market price, calculated over a specified period not exceeding six months. Libs is a member of The Liberty Life Group for the purpose of the joint control arrangements.

4.4 Strategic value of Libsl's portfolio

Although the value of the investments owned by Libs, as set out in 4.1, as based on the market value of such holdings on the JSE, Libs's net asset value does not reflect for this purpose the special value or strategic importance of such investments generally or in the light of the joint control arrangements described in 4.3.

4.5 Historical performance of Libs's investments

Libs's historical performance has been calculated on the basis that its portfolio as currently constituted has existed for the period 1 January 1990 to 21 July 1993.

Given the nature of the underlying investments of Libs, its performance is best assessed relative to the JSE Actuaries Financial and Industrial Index. For the period 1 January 1990 to 21 July 1993, Libs's portfolio of equity investments has outperformed this index by 67%.

Over the same period, Libs's compound capital growth rate based on the market value of its investments was 30% per annum, compared to the average inflation rate of 13.8% and the annual compound growth rate in the JSE Actuaries All Share Index of 9% for the same period.

4.6 Investment policy

It is the intention of Liberty Life to develop Libs's investment portfolio where appropriate, through the organic growth of its existing investments, additional acquisitions of such investments and through further opportunities which might arise for it to participate in new strategic investments which are taken up by The Liberty Life Group as a whole on similar principles to those which have been and are now applicable, whereby the requirements of the policyholders of Liberty Life in appropriate circumstances are first satisfied.

As in the past, it is the intention that Libs will, when appropriate, continue to hold and acquire, together with other members of The Liberty Life Group, strategic interests in leading companies. It is further the intention that Libs will participate in the benefits of any special arrangements entered into by The Liberty Life Group in making strategic acquisitions.

The performance of long term South African investment portfolios is not immune to the effects of international and local volatility within the equity, property, and commodity markets. Liberty Life intends applying its expertise, where appropriate, in the use of derivative instruments, such as options, futures and other appropriate methods, to hedge investment risk and enhance the performance of Libs's portfolio.
4.7 Management services
Libsil's operating expenses are expected to be minimal as Liberty Life will continue to perform the management and investment function of Libsil and will not be charging a management fee for this service for so long as Libsil remains a subsidiary of Liberty Life.

4.8 Dividend policy and financial year end
Libsil's dividend policy will be, in so far as it is practically possible, to distribute to its shareholders substantially all net income received after providing for operating expenses
The financial year end of Libsil is 31 December and dividends will normally be declared by Libsil in March (final) and August (interim) each year payable in the succeeding April and October respectively following such declarations. The first dividend payable by Libsil will be declared in March 1994, payable in April 1994, in respect of the period ending 31 December 1993 and will take into account all net income accruing to Libsil after 1 September 1993.

5. EXCESS APPLICATIONS
In terms of the proposed offer, shareholders in Liberty Life and Libhold and/or their renouncees who take up their rights to purchase offer shares will be entitled to apply for an unlimited number of additional Libsil shares in excess of their rights entitlements at 100 cents per share, being the approximate net asset value per Libsil share at 21 July 1993. In effect, such additional shares applied for will be issued at a price per share which is 100 cents in excess of the offer price. Such applications will be satisfied to the extent that the offer is not taken up by shareholders of Liberty Life and Libhold or their renouncees.

6. APPLICATION FOR LISTING
Application will be made to the JSE for a listing of the 114.57 million renounceable (nil paid) letters of allocation to be issued pursuant to the offer in the "Financial — Insurance" sector of the JSE lists and for a listing of Libsil's shares in the "Industrial — Industrial Holdings" sector of the JSE lists under the name "Libsil.

7. NOTICE OF LAST DAY TO REGISTER
The last day for shareholders of Liberty Life and Libhold to register as such in order to participate in the offer will be the close of business on Friday, 6 August 1993.

On behalf of
Liberty Life Association of Africa Limited
Liberty Holdings Limited
Liblife Strategic Investments Limited
Donald Gordon
Chairman
22 July 1993
Johannesburg
NDH BANK LIMITED
Registered Bank
Registration number 60/03693/06

FINAL REPORT FOR THE YEAR ENDED 30 JUNE 1993

The audited results for the year ended 30 June 1993 are as follows:

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BALANCE SHEET

Capital employed
- Shareholders' funds: 23 683 - 20 634
- Contingency provisions: 4 220 - 3 500
- Deposits: 1 144 461 - 1 949 323
- Current liabilities: 6 337 - 12 417

Employment of capital
- Fixed assets: 5 555 - 3 239
- Investments and loans: 1 171 619 - 1 978 181
- Current assets: 1 927 4 454

INCOME STATEMENT

Net income after providing for taxation and contingency provisions transfer: 4 821 - 3 850
Number of shares in issue: 1 648 667 - 1 226 500
Return on average shareholders' funds - %: 21,8 - 19,6

COMMENTS

Due to recent changes in the Banks Act, margins on certain assets were negatively affected which resulted in the bank reducing the size of its balance sheet.

The contingency provision represents internal reserves and is not a provision for known liabilities.

By order of the board

C L Clucas
Joint managing director
Johannesburg

22 July 1993

DISTRICT SECURITIES BANK LIMITED
Registered Bank
Registration number 04/00030/06

FINAL REPORT FOR THE YEAR ENDED 30 JUNE 1993

The audited results for the year ended 30 June 1993 are as follows:

Capital increased to R30 million

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BALANCE SHEET

Capital employed
- Total shareholders' funds: 20 459 - 12 759
- Contingency provisions: 1 752 - 1 102
- Deposits and other accounts: 1 302 345 - 1 195 837

Employment of capital
- Investments: 616 867 - 836 462
- Advances and other accounts: 707 043 - 372 465
- Fixed assets: 646 - 771

INCOME STATEMENT

Increase in net income - %: 54,2 - 73,4
Net income after providing for taxation and contingency provisions transfers: 2 700 - 1 750
Shares
- Return on average shareholders' funds - %: 19,1 - 14,7
- Number of shares in issue: 1 200 000 - 1 100 000

COMMENTS

1 Redeemable cumulative non-participating preference shares of R10 000 000 were issued on 15 July 1993
2 After the issue of these shares, the increase in shareholders' funds was 138,7%

By order of the board

C N Louw
Chief executive officer

Registered office
7th Floor
Southern Life Centre
Cape Town
8 Kieboom Street
Cape Town, 8001

22 July 1993

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ECONOMY & FINANCE

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ing shares which smaller institutions hold in Saswitch, Automated Clearing Bureau and Unexcor. This should be completed within months.

"These institutions will continue to have access to the services run by BankServ and will have a representative on its board," says Meiring. The four shareholders in BankServ have each appointed two senior executives to its board. They will be joined by a senior executive from the Reserve Bank and representatives from the other institutions.

The chairmanship of BankServ will rotate among the four shareholders every two years. Eben de Klerk, former head of Bankorp's information technology operations, who retired from Absa early this year, has been appointed BankServ CE.

BankServ will also take over the running of the myriad inter-bank committees established to devise technical standards for the banking industry.

The first benefits of the amalgamation are likely to come from improved administration. "Because the utilities operated independently in the past, they each supported their own employee pension funds, medical aid schemes, personnel departments and computer systems. BankServ will now take over these functions," says Meiring. Annual savings are expected to reach as much as R6m in the next few years.

Meiring acknowledges that the streamlining of the computer systems used by the different utility companies, which offers substantial potential cost-savings, is likely to take some time. However, several opportunities are already apparent. The banks have for some time been looking at the possibility of housing the Saswitch service at the high security premises of the clearing bureau. In addition, the Joint Banks Credit Bureau, which is currently using a bureau service, could use spare capacity on Unexcor's mainframe. Meiring says such moves are already being considered by BankServ.

Other areas of discussion include a common infrastructure for the use of smart cards issued by the banks. Some of the biggest benefits from the creation of BankServ are likely to come from greater co-operation among banks in developing new utility services, says Meiring.
LIBERTY LIFE/LIBSEL
30/7/93
What else will go in?

From the standpoint of shareholders in Liberty Life, the flotation of Liblife Strategic Investments (Libsil) is another favourable deal. For prospective investors in Libsil, its prospects are less evident as things stand.

Liberty and Liberty Holdings shareholders are being invited to buy into a portfolio of blue-chip shares which are difficult to obtain in quantity, and at a 10% discount to Libsil’s NAV as at July 21.

The deal offers financial efficiencies for Liberty Life, improves the balance of the portfolio attributed to Liberty shareholders and creates a listed vehicle for further strategic acquisitions.

The real test for Libsil as an investment vehicle will come when there is evidence of what may flow from the plan to expand these holdings. Until then, it will depend for growth essentially on the three counters — Standard Bank Investment Corp (SBIC), SA Breweries and Premier Group — making up all but 6% of the portfolio value.

Biggest is the 23.8% of SBIC, with a market value last week of R2.55bn, or 45.6% of the portfolio. Next is 27.3% in SAB holding company Bevon worth R1.56bn and the direct 0.9% in SAB, worth R143.5m, these add up to 30.5%. The 23.4% of Premier Group, worth R997m, accounts for 17.9% that only leaves 4.6% of Gold Fields of SA, worth R217.3m and accounting for 3.9%; and R117.5m of liquid assets giving the remaining 2.1%.

Market ratings of the three dominant holdings make the timing of the listing look impeccable SBIC has more than doubled from around R46 when Liberty bought the 10% stake held by Rembrandt Group in 1991. Similarly, Premier was rated from about R20 in late 1990 to more than R50. SAB has traded between R50-R60 for two years but long-term performance has been exceptional.

It may be argued that premium share ratings are justified by the historical performance, but the market prices are far from cheap. Whether it’s worth buying in at these levels would depend on one’s view of their prospects. Chairman Donald Gordon argues that all are blue chip, and should continue to perform well in the long term.

It’s partly because of the appreciation of these investments that it makes sense to lighten Liberty’s exposure to them. Its investment in these strategic counters was funded out of shareholders’ capital as they were considered too large for prudent absorption within policyholders’ portfolios.

But almost all the investments attributed to Liberty shareholders now consist of these few holdings — hardly a balanced portfolio.

There will be definite financial efficiencies. About half the R1bn to be raised through the rights issue is to be used to retire expensive preference shares on which Liberty is now paying about 10%-12% a year. The remaining funds of about R500m will be released into the mainstream of the business. Even if it is placed in the money market, there should be significantly better returns.

But what is there to persuade investors to stump up the funds? Some of these shares could be bought in the market anyway. And shareholders are essentially being invited to pay for investments they already own. Also, some analysts contend financial services and food are contra-cyclical investments, best held in a recession rather than in the upturn.

Several incentives

Institutions will probably see several key incentives. Shares like SBIC in particular are almost impossible to acquire in significant quantities. SBIC is linked to the control structure of Liberty, Bevon is key to control of SAB, both may justify premiums. The 10% discount may well be an attraction.

But the critical issue is whether the market believes Libsil will be expanded actively and reasonably soon. Gordon says further acquisitions are intended, but is enigmatic about details, except to say Libsil will hold SA investments and the quality would not be diluted. That leaves plenty of scope, from grass-roots projects to acquisitions.

Some analysts look with a tinge of scepticism at the plan to develop Libsil’s portfolio. They cite the 1986 listing of Liberty Investors (Libvest). Among the objectives of the flotation was “to provide necessary funds to facilitate diversification into new investment opportunities in selected counters.”

Apart from its one-third interest in Liblife Controlling Corp, Libvest started with a small equity portfolio, including Barclays Bank, Sasol, Fugit, UBS, SAB, Anglo American and GFSA. Its only asset now is 50% of Liblife Controlling Corp. Gordon’s riposte is that shareholders have done extremely well, and they should take a long-term view.

It remains to be seen whether Libsil (which won’t pay management fees to Liberty) will trade at a discount to NAV. Gordon believes it won’t, except perhaps for brief periods.

More detail about the intentions, or an announcement of a deal — particularly before the rights offer closes on August 6 — would certainly help generate enthusiasm.

Andrew McNulty
Beware the double tax effect

Ray Eskinazi is international tax partner, Ernst & Young

The government recently introduced legislation to avoid the local tax consequences of the distribution of shares by SA companies undertaking "unbundling" transactions. Almost at the same time, an ANC official (apparently in a personal capacity) restated the concept of a "reconstruction" or "wealth" tax.

But the consequences have not been thought through. In the case of unbundling, foreign shareholders will be taxed in their home countries. And, in the case of the reconstruction tax, there are fiscal implications for foreign companies presently in SA and, therefore, consequences for future foreign investment.

Though unbundling legislation exempts SA shareholders from a host of local taxes, this is of little or no significance to a foreign shareholder who is usually subject to tax in his home country on all worldwide income (including dividends and capital gains) with a credit for any foreign taxes paid.

In the course of an unbundling, the nature of the distribution to shareholders will depend on several factors, including whether the distributing company will be liquidated after the distribution has taken place and whether the liquidation takes place before or after the distribution.

Other relevant factors affecting the tax treatment in the foreign jurisdiction will include whether the foreign shareholder is a company or individual, the percentage shareholding and the duration of ownership of the shares.

But whether the distribution takes the form of a dividend or a capital gain, the unbundling will give rise to some form of taxable event, in the foreign jurisdiction, with an attendant tax liability. As the foreign shareholders will have paid any SA tax on the transaction, they will have no credit against their home country liability and would be faced with an additional cost — despite having had no tangible receipt.

This may well prevent foreign shareholders from lending their full support to proposed unbundling transactions.

The recent statement that a proposed "reconstruction" or "wealth" tax could take the form partly of a tax on gross assets presents similar difficulties. A tax on gross assets was introduced in Mexico (in 1988 at the rate of 2%) and in Argentina (in 1990 at the rate of 1%) and has been considered in other Latin American countries such as Bolivia, Costa Rica, Peru and Uruguay (all countries with high inflation and requiring additional revenue for major adjustment programmes).

The problem for SA subsidiaries of foreign companies, is that such a tax on gross assets would not be accepted by the majority of foreign jurisdictions as an income tax which qualifies for a foreign tax credit. This would generally result in double taxation for foreign owned enterprises, once in SA (when the tax on gross assets is payable) and once in the foreign country (through the imposition of normal income tax there).

The US, Japan and other European countries have expressly refused to grant credits against foreign taxes on gross assets, alleging that such taxes cannot be viewed as income taxes (unless they take the form of a minimum income tax).

The above examples are hardly the way to inspire confidence in a country so desperately endeavouring to market itself as an attractive investment destination.
Union drops nationalisation policy
Ferial Haffajee

AN economic policy document from the country's third-largest trade union jet-tisons nationalisation and suggests instead that the future of the economy rests with co-determination.

The Southern African Clothing and Textile Workers' Union (Sactwu) says: "Through co-determination, we (labour) can have a joint say over economic policy at national, sectoral and company level."

It also says nationalisation with compensation "would be beyond the

"The international isolation which would follow, together with the flight of skills ... and capital would cause major damage to the economy," said Sactwu general secretary Ebrahim Patel in the policy document.

The wide-ranging document also says industries need to become efficient rather than to rely on protective barriers in the form of trade tariffs.

"In the short term, it results in job security for local workers. Very soon, though, the rest of the world will retaliate and refuse to buy our goods", it says.
Deregulation pros and cons

In spite of strong public health regulations, Mr van der Velde said, infant mortality was still higher in South Africa than in Taiwan — "where there are stands all over the place selling food of a dubious and questionable nature."

In South Africa the infant mortality rate was 49 per 1,000 and in Cape Town 16 per 1,000 — compared to 5.05 per 1,000 in Taiwan.

Other examples of controls which should be reconsidered were building industry regulations — which had put housing out of reach of many people — and zoning regulations, he said.

DEREGULATION should be handled with care, Mr Frank van der Velde told the task group meeting.

Speaking both as Mayor of Cape Town and as an engineer running a small business, he said the sudden deregulation of the taxi industry had led to "chaos and bloodletting."

"But other regulations were probably unnecessary."

"We must always ask if the regulations concerned are meant to control industry or to protect the public's safety."

South Africans had an opportunity to design a new country, he said. "We must do it correctly."
Jeff and Brian — a tale of two fighters

S1 Truno (Russ) 118/93

By Julie Walker

Two companies recently topped a market capitalisation of R1-billion — Bidvest and W&A.

The common thread is Brian Joffe, managing director of W&A until his resignation in May 1998, and executive chairman of Bidvest since its establishment a few months later.

Bidvest’s value exceeds R1-billion as a result of the takeover of freighting and forwarding group Safcor in a R261-million deal. Bidvest settled by issuing shares in itself and pyramid Bidcor to institutions.

Changes

Early this year, Cape Town-based transport and logistics group Trenkor acquired joint control of W&A, backed by R700-million rights issue and restored credibility to the group, seen to be debt-laden and hit by recession.

Mr Joffe became associated with W&A when his friend and the company’s founder Manny Simchowitz left South Africa in the early 1990s. Mr Joffe had been involved in turning the business into a group worth R259-million.

W&A has a multiple-pyramid structure, capped by Wacher, FSI and FSG, controlled by Jeff Liebman.

Mr Liebman and crew built the business of Form-
Paper in exchange for cash and assets

IN issuing two lots of paper for the same thing, Brian Joffe's Bidvest makes JSE history.

The biggest grumble about Bidvest is scarcity of scrip, a topic touching a nerve with Safcor minorities.

Carlín — Safcor's controlling shareholder before the Bidvest deal — had previously granted another party a pre-emptive right to its 30,1% in Safcor. The party waived its right and Bidvest became obliged to buy or procure the purchase of Carlín's Safcor stake based on net asset value. But because of the Bidvest-Safcor agreement before the third party waived its right, Safcor was already a cash shell. The controlling shareholders took the cash, meaning that two opportunities to give Safcor minorities Bidvest scrip have been missed.

In the first place, Bidvest might have made a direct offer for Safcor shares rather than buying out the assets. Second, Safcor could have passed on the Bidvest-Bodcor paper to its own shareholders as a distribution in specie instead of having the shares placed and taking the cash.

Some Carlín shareholders live outside SA and obviously want the cash.

Hitherto, the JSE allowed only cash to be paid for shells.

This could have prevented Bidvest from issuing shares to the Safcor minority. That would have amounted to lessing shares for cash.

But 18 months ago, the JSE changed its regulations to allow companies to issue shares for cash — provided there is the support of 90% of shareholders and the limits are defined.

Bidvest intends raising R113-million by this method.

Safcor minorities are aggrieved. One says: "It is unfair that institutions which might never have had a Safcor or a Bidvest-Bodcor share have been the recipients of scrip issued by the Bidvest group to pay for Safcor's businesses. Minorities in Safcor will get cash only and lose out on the potential for their company's growth under Bidvest control."

Bidvest director George Demetriades says the total amount has been placed in the Safcor businesses and a large part of the R113-million for the Safcor shell, has been raised.

The deal should be ratified at Friday's meeting of shareholders.

Mr Demetriades says: "We are aware that 82% of Safcor shareholders want cash."

In a nutshell, Bidvest issues two lots of paper and gets cash and assets back. It's brilliant.
Charter seeking worldwide expansion

By Stephen Cranston

Charter Plc's objective is to assemble a group of industrial businesses, each with strong management and leading market position, says chairman Sir Michael Edwards.

Writing in the annual report for the year to March, Edwards says the sale of its stake in Johnson Matthey and the sale by Miniroc of its shareholding in Charter represent important steps in establishing Charter as an independent industrial holding company. It will remain in the UK, but plans to expand businesses worldwide.

The largest contributor of operating profit was Pandrol, which showed its strongest performance from the British fastenings business. The division increased exports by 26 percent and won the Queen's Award for Exports.

The fastenings division has expanded in the US and moved to a new factory, which increased chip production by 30 percent, including clips for Canadian railways.

The second-largest contributor was the building products and services group, Cape, in which operating profit rose by five percent, despite a difficult home market.

The industrial services division was helped by the development of activities in the Far East. It completed major contracts in Australia and Brunei and is embarking on work in Vietnam, Thailand and the Philippines.

The scaffolding and specialty coating businesses now provide a comprehensive maintenance service for offshore oil rigs.

Mining equipment subsidiary Anderson doubled profits and has successfully developed its repair and rebuild capability, winning a further two-year contract from British Coal.

National Mine Service increased turnover by 28 percent and maintained net margins.

Coal mining group SMI, which operates from four opencut mines in Indiana, saw profits up 13 percent in US dollars.
Malhold gives details of its plans for unbundling

MALHOLD has announced details of its unbundling, in terms of which the pyramid company would distribute its 39.47% interest in Malbax — its only investment — to its shareholders by way of a distribution in specie.

Malhold shareholders would receive about 201.78 Malbax shares for every 100 Malhold shares held, and Malhold would be delisted at the close of business on November 5.

After the unbundling, Malbax’s largest shareholder will be Sankorp with a 36% stake, with the balance of its shares held by institutions and investors. An announcement on the unbundling of Gencor, which currently controls Malbax through its 48% holding in Malhold, is expected soon.

Directors said Malhold’s shares had traditionally traded at a discount to the underlying value of Malhold’s investment in Malbax.

Marcia Klein

The decision to unbundle Malhold should eliminate that discount and release value for shareholders. The unbundling should also make Malbax’s shares more tradeable in the longer term.

Malbax executive chairman Grant Thomas said the moves would streamline the group structure and save costs.

But he added that Malbax, whose listed subsidiaries included Foodcorp, Holdums, SA Druggists, Ellerines and Haggie, would not undertake any further unbundling. According to Thomas, Malbax’s rating confirmed the view that Malbax added value to its underlying assets.

By being part of the larger Malbax group, subsidiaries could maximise their own profit opportunities and those for Malbax shareholders.

Thomas said:

He said the recent change in legislation had made the removal of the pyramid company feasible.

“The decision to eliminate the Malhold pyramid and simplify the group structure was taken some years ago, but because of the costs involved, it was not considered in shareholders’ best interest to undertake the exercise at that stage,” Thomas said.

Last month Malbax exercised its option to sell its 35% stake in Standard Engineering to Murray & Roberts in a R154.5m deal. This was in line with its objective to focus on consumer-related businesses.

The distribution of Malhold’s holding was subject to Malhold shareholders’ approval at a general meeting on September 17.

The conversion terms of Malbax’s 13% compulsorily convertible debentures would also be changed.
Malhold notes unbundling arrangement

JOHANNESBURG — Malhold has announced details of its unbundling, in terms of which the pyramid company would distribute its 28.47% interest in Malbak—its only investment—to its shareholders by way of a distribution in specie.

Malhold shareholders would receive about 283.78 Malbak shares for every 100 Malhold shares held, and Malhold would be delisted on November 5.

After the unbundling, Malbak’s largest shareholder will be Sankorp with a 36% stake, with the balance of its shares held by institutions and investors. An announcement on the unbundling of Gencoor, which currently controls Malbak through its 48% holding in Malhold, is expected soon.

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Analysts optimistic about Amic recovery

**MATTHEW CURTIN**

Earnings at year-end in December amounted to 617c a share, more than 15% down on those of the year before.

The biggest contributor to Amic’s earnings in 1992 were engineering group Scaw, chemicals producer AECI, mining equipment group Bucyrus-Hightved Steel & Vana- dium and Transvaal Steel.

Analysts said those only AECI, which turned in a 22% jump in earnings when it announced interim results last month, would improve its contribution.

Results from unlisted Scaw and Boart would reflect gloomy conditions in the mining and engineering industries.

Highveld, which was 51.5% owned by Amic, would show the continued slump in iron, steel and ferro-alloy markets.

Worst hit would be unlisted paper and pulp producer Mondi.

Papier and pulp prices had shown little sign of recovery this year.

Frankel, Pollock, Vinderme analyst Johan Snyman, forecasting a 4% increase in earnings attributable mostly to the improved performance of the group’s associate companies, said Mondi would turn in a profit only on the strength of cost-cutting.

Analysts added that the first full benefit of Amic’s increased stakes in retailer McCarthy Group and construction subsidiary IFA, which became a subsidiary last year, would bolster earnings.

**GDM beats objectives**

INTERNATIONAL trade finance company GDM Finance had emerged from difficult trading conditions consistently exceeding its objectives, MD John Cowper said in the latest annual report.

Its sound performance in both domestic and international markets over the past six years was a result of careful risk management and retaining profits to control gearing.

Cowper said the company had consistently achieved its goals since its listing six years ago. One of these was to distribute about 40% of attributable income in dividends and to maintain a conservative gearing of less than 5:1.

The company’s 64% owned subsidiary African Shipping acquired the clearing and forwarding interests of Powhe & Whyte- tock Limited and R H Freit Freight Services during 1991/92.

The group’s financial position was further enhanced by the rand hedge advantage derived from profits generated by external offices in Europe, he said.

ANGLO American Industrial Corporation (Amic) might show the first signs of its recovery from several years of poor commodity prices and the depressed domestic economy when it reports half-year results on Friday, market sources say.

Analysts canvassed yesterday said Amic could show growth in attributable earnings of up to 5% in the six months ended June 30, but even a flat performance would break a four-year run of sharply declining earnings.

Ferguson Brothers’ analyst Steve Riedenwein said “Although the commodity and mining supply sectors are still very weak, Amic’s results may have bottomed and started to swing up at last.”

Analysts’ subdued optimism has not been matched by investors on the JSE, where Amic’s shares have raced to R80 in recent weeks compared with their most recent low of R31,50 less than a year ago.

The shares’ rerating had been sustained by market confidence that the commodity cycle was about to swing.

Thus, coupled with a good reception of Amic’s tie-up with South Korean conglomerate Daewoo and promises of financial restructuring within the group, have also aroused market interest.

Analysts said any significant about-turn in commodity prices would be more keenly felt in the current six months.

Amic’s bottom-line profit stood at R165m, at the interim stage last year, equivalent to 28c a share, when an unchanged 110c dividend was declared.
CRUSADER Life will not take on any new business

Crulife said last night that shares of Crulife, Anglovaal Insurance Holdings (Avus) and the AVF group would remain suspended from the JSE "until further notice". The board believed "there was little or no value attributable to ordinary shareholders" in either Crulife or Avus.

AA Life would not pay holding company Avus any dividends for the next few years as funds would be used instead to finance preference shares in AA Life (2.32). Crulife director Dave Barber said the

board had decided not to take on any new business in a bid to alleviate the strain of paying large up-front commisions to intermediaries. As a result, growth prospects for Crulife were poor, and the assurer's size would decrease.

"Crulife has had a tough time over the past few weeks, and it was decided to take action now ahead of the final results of the actuarial evaluation. These findings will be made known within the next few weeks," Barber said.
SHAREHOLDERS and policyholders in Crusader Life Assurance Corporation (Crulife) are anxiously waiting the annual actuarial review being prepared and the comprehensive statement they have been promised.

Crulife, which is 69% held by Anglovaal Insurance Holdings (Avms), issued a statement yesterday which said it would immediately cease to transact any new business. Its activities would be limited to managing policyholders' funds with the view to enhancing their overall financial position and that of shareholders. It added there was "little or no value attributable to ordinary shareholders".

Crulife chairman Dave de Beer said there was "no further information at the moment".

A major shareholder, who asked not to be named, said he found it odd that the share price had been rising for some time, that auditors had approved past accounts, there had been growth in the dividend, Anglovaal was a substantial shareholder, UAL was linked in a venture with Crulife and "now there is nothing".

First Bowring CE Alan Wilson confirmed his company had received numerous calls from Crulife clients whose main query was what would happen to their policies. First Bowring had a meeting with Crulife today and would report back to clients. Wilson said most policies had guarantees attached.

UAL said it began negotiations with Crulife in June for the transfer of all Eilsa annuity policies underwritten by Crulife to a major insurance company. UAL director Clive Turner said developments at Crulife were being closely monitored on behalf of Eilsa annuitants, whose investment UAL was taking all appropriate steps to safeguard while Crulife carried out its valuation.

Financial Services Board long term assurance manager Oppie Opperman said there had been cases in the past where insurers stopped writing new business and subsequently had resumed.

"New business normally carries a slimmer since there are certain expenses in the beginning of a policy that have to be funded from capital, such as commissions to the intermediaries. If you don't have those expenses, all money generated goes to existing policy holders."

Crulife will operate as a closed fund, possibly for months or years, until the situation has improved.

Opperman, "talking a bit in the dark", said "Until Crulife has finalised the audit and the valuation is done, the situation remains unsure."

In a separate development, JSE president Roy Andersen said the JSE had completed its investigation into the charge of insider trading in Cru- life shares and had handed the issue to the Securities Regulation Panel.

Securities Regulation Panel executive director Doug Gar said the panel's investigation would take about a week. It would then decide whether to take the matter further.

The investigation was begun after a sharp decline in the share prices of Crulife, Avms and holding company AVF Group ahead of an announce-ment of problems in foreign associate Pegasus.

See Page 9
Suspension lifted on AVF shares

Charlotte Mathews

THE suspension of the ordinary shares of AVF Group had been lifted from today, the JSE said. The shares last traded at 60c on July 26.

AVF holds 85% of Anglovsaal Insurance Holdings (Avins), the holding company of Crusader Life Assurance Corporation (Crulife) and AA Life Assurance Association. AVF's other investment is a 40% holding in the Board of Executors (BoE).

Avins MD and Crulife executive chairman Dave de Beer said Crulife and Avins shares would remain suspended. Crulife had been suspended because "there is little or no value in the ordinary shares".

Avins was in a similar position since its investment in Crulife had no value and no income would be attributable to it from its investment in AA Life's shares for the foreseeable future.

"AVF, however, has two investments - its stake in Avins and 40% of BoE," De Beer said. "Avins is more than likely to be worth nothing, but the value of BoE is easy to obtain from its listing. It was felt it would be appropriate to have AVF's listing reinstated as soon as possible."
Attempts to privatise slated

THE ANC yesterday said it rejected attempts by a number of racially-based local authorities to privatise certain municipal services.

"This unilateral restructuring is not, as an attempt to pre-empt the implementation of more representative and legitimate councils during the crucial interim phase," the ANC said in a statement.
Buffels investors to get windfall from unbundling

By Derek Tommey

Buffelsfontein shareholders are to receive a windfall following a decision by Gengold to delink Buffelsfontein and Beatrix gold mines.

Beatrix is planning to redeem Buffelsfontein's right to 16 percent of its distributable income by handing it 9.5 million shares, worth about R233 million.

Buffels shareholders will receive 81,818 Beatrix shares for every 100 Buffels shares held.

As Beatrix shares are trading at R34, holders of 100 Buffels shares (worth about R5400) will receive Beatrix shares worth about R2762.

In exchange, Beatrix shareholders will receive an enhanced stake in the earnings of an increasingly profitable mine.

Dilution

The dilution of Beatrix's capital will not be large as the new shares to be issued are equal to about 10 percent of Beatrix's current issued share capital.

The two mines have been financially linked since 1993, although Buffels is in the Klerksdorp area and Beatrix in the Free State.

The intention behind the agreement was to enable Buffels, at that time an established and profitable mine, to help finance out of its income Beatrix's capital expenditure and reduce its tax bill.

At the time of the link-up, Buffels acquired the assets and running lease of Beatrix by issuing preference shares to its parent company, Beatrix Mines. This is the company listed on the JSE.

The preference shares entitled Beatrix Mines to 84 percent of the net distributable profits of Beatrix. Buffels ordinary shareholders received the remaining 16 percent, which Beatrix is now buying back.

Beatrix Mines also receives a royalty of 15 percent of the gross annual revenue of Beatrix. But now, with Beatrix becoming highly profitable, the agreement's tax advantages have disappeared and Gengold has decided the time is ripe to separate the two.

Gary Maude, chairman and managing director of Gengold, said last night this should result in better tradability of the shares of the two companies.

Investors had not appeared to recognise the value to Buffelsfontein of its stake in Beatrix, he said. The transaction should make Beatrix's shares more tradable because it will simplify its structure.

Because of Beatrix's complicated financial structure, analysts have been wary of the share.

The arrangement is subject to approval by various parties, including shareholders, the Reserve Bank, the London stock exchange and the JSE.

Desirable

The transaction is clearly in the immediate interests of shareholders, but some analysts have suggested that it will make it easier to separate the two companies completely.

This could be a desirable feature in the long run when Buffels, which has been operating for 36 years, starts running down.

It means that when this time arrives its output will not be subsidised by earnings from Beatrix, which result in a false picture of the mine's prospects.

Buffels has been putting up a stout performance lately, but Beatrix is undoubtedly proving a star. Both mines are producing roughly the same amount of gold — Beatrix 3250kg in the June quarter and Buffels 3582kg.

But costs are far higher at Buffels, and its working income was R207 million, while Beatrix's was R43 million.
Gencor unbundling could yield R5-billion

By Derek Tommy

Gencor has announced details of its unbundling programme, which in time could generate an extra R5 billion in market gains for its shareholders - chiefly Sanlam and Rembrandt.

Gencor is unbundling - it is handing over to its shareholders some of its assets - because it claims that the market price of its shares does not reflect the value of its assets.

It says that last Friday Gencor shares, which have a net asset value of R15,26, were priced at only R11,65.

This represents a discount of almost 25 per cent to their net asset value and means the market is valuing Gencor at around R18 billion, when the group is worth R21 billion.

Gencor, by passing on some of its shares, will enable shareholders to receive the full market value for them - and probably get a better price for Gencor as well.

For every 100 Gencor shares held, its shareholders are to receive 5.8 Engen shares, four Sappi shares, 157 Gencor shares, 21.6 million Genbel, 21 million Malbank and 54.8 million Sappi shares together worth about R6.9 billion.

The Genboehe pyramid structure will be dismantled simultaneously.

For every 100 Genboeheers, their holders will receive 90.6 Gencor shares, 14.2 Genbel shares, 5.8 Sappi shares, 5.1 Engen shares and 5.9 Malbank shares.

The value of the underlying assets of each holder of a Gencor share, which was R15.26, will not be changed by the unbundling.

Where the betterment comes from will be in the price of Gencor shares after the unbundling.

If they fall by the full value of the shares being transferred to shareholders, then, given no change in their current price, they will stand at R6.64.

But this is a most unlikely price because it would represent a discount of 35 per cent to net asset value.

On a 20 per cent discount, it would stand at R6.09, which means that Gencor shareholders would be around R2.66 a share before the market value of the company would be boosted by around R3.7 billion.

However, it is quite possible, given Gencor's brighter prospects, that the discount would be around 10 per cent, giving shareholders another R1.33 a share, and increasing its market value by another R1.68 billion.

Some indication of the possible net gain to Gencor shareholders will be found in the extent to which Gencor shares appreciate on the unbundling news.

When Gencor chairman Brian Gilbertson first announced the unbundling, he said he did not want to shrink Gencor to the extent that it lost its critical mass.

This problem has been overcome by Gencor retaining its 20 per cent direct stake in Malbank.

This is worth R900 million and will leave Gencor with net assets of R14.1 billion.

Gencor will be R1.6 billion bigger than initial calculations suggested, says Gilbertson.

Sanlam and Rembrandt will provide backing for the unbundled companies.
PROPOSED UNBUNDLING OF GENCOR'S NON-MINING INTERESTS

1 INTRODUCTION
On 11 May 1993, the Gencor board announced that it would recommend to shareholders that certain of its listed strategic non-mining interests be unbundled. In terms of these recommendations, ordinary shareholders of Gencor would receive their pro rata entitlements to shares in Engen Limited ("Engen"), Genbel Investments Limited ("Genbel"), Malhold Investments Limited ("Malhold") and Sappi Limited ("Sappi") (collectively "the affected shares") by means of a dividend in specie (the "unbundling")

2 RATIONALE FOR THE UNBUNDLING
Unbundling will provide ordinary shareholders with the ability to adjust portfolios between a number of focused companies which should result in significant benefits to them over the longer term. Enhanced focus should also increase the ability of the individual companies to develop local and international opportunities in their respective industries. The elimination of a portion of the discount that commonly exists between Gencor's market capitalisation and its net assets (at valuation) is also anticipated.

3 ACTIONS TO MINIMISE DIMINUTION OF ASSET VALUE
The same announcement stated that a major objective would be to minimise the diminution of Gencor's asset value. This objective was addressed as follows:

3.1 Transaction with Genbel
On 14 July 1993 the board announced that Gencor had reached agreement to acquire a number of important strategic interests from Genbel. These comprise all of Genbel's offshore interests, being shares in TransAtlantic Holdings PLC, cash and exploration ventures in Turkey, as well as shares in Kenross Mines Limited, Impala Platinum Holdings Limited, Samancor Limited, Trans-Natal Coal Corporation Limited and Winklebaak Mines Limited. These were acquired in exchange, inter-alia, for 8 946 813 shares in Engen and 12 391 699 shares in Sappi, then valued at approximately R762 million, which would otherwise have constituted part of the unbundling. This exchange is subject to the approval of Genbel shareholders in a general meeting to be held on 6 August 1993.

3.2 Retention of investment in Malhold ("Malbuk")

The directors of Gencor have decided that the company should retain further assets over and above the portfolio of mining and commodity-based assets which will comprise the assets of the company after the unbundling. Gencor will therefore retain its direct interest in Malbuk (with a current market value of approximately R900 million), and distribute only its investment in Malhold. Taking account of the funding requirements of Gencor's projects, and the fact that the company currently has liquid resources totalling approximately R1 600 million, there are no plans to dispose of any portion of the investment in Malbuk.

As a result of the above, the value of Gencor after unbundling will be based on the current market prices of its underlying investments, be approximately R1.6 billion more than would otherwise have been the case, with net assets totaling approximately R1.41 billion.

4 PARTICULARS OF THE UNBUNDLING
Subject to the approval of the unbundling recommendations by shareholders in general meeting, Gencor will distribute the affected shares to its ordinary shareholders, registered in the company's register of members on the unbundling record date as per paragraph 5, by way of a dividend in specie. The number of each of the affected shares to be distributed is as follows:

- 77 071 079 ordinary shares in Engen,
- 210 022 150 ordinary shares in Genbel,
- 20 988 577 ordinary shares in Malhold*, and
- 54 795 846 ordinary shares in Sappi.

*Immediately following the Gencor unbundling, Malhold will, subject to its shareholders’ approval and such other approvals as may be required, be unbundled by the distribution to its ordinary shareholders of its holding in Malbuk by way of a distribution in specie. Gencor has agreed, subject to the implementation of the Malhold unbundling, to act as agent in respect of the distribution to Gencor ordinary shareholders of Malbuk ordinary shares arising from the Malhold unbundling. Accordingly, Gencor ordinary shareholders will receive a total of 59 141 612 Malbuk ordinary shares in lieu of their entitlement to Malhold ordinary shares, on the basis of 2.8178 Malbuk ordinary shares for each Malhold ordinary share to which they are entitled as a result of the unbundling.

Gencor’s ordinary shareholders entitlements to affected shares will be calculated on a pro rata basis in accordance with the ratio that the number of ordinary shares held by them bears to the total number of ordinary shares in issue being 1 376 126 873 shares, rounded down to the nearest one ten-thousandth of an affected share.

The unbundling will accordingly result in each of the ordinary shareholders receiving, for every 100 Gencor ordinary registered or bearer shares held on the unbundling record date, approximately:

- 5 606 051 ordinary shares in Engen,
- 15 697 898 ordinary shares in Genbel,
- 4 297 074 ordinary shares in Malbuk, and
- 3 981 805 ordinary shares in Sappi.

If, for whatever reason, the Malhold unbundling is not implemented, ordinary shareholders will receive approximately 1 825 232 Malhold ordinary shares for every 100 Gencor ordinary registered or bearer shares, instead of the Malbuk ordinary shares as mentioned above.

Fractional entitlements to the affected shares will be aggregated, sold and the cash proceeds, net of costs, remitted to the ordinary shareholders concerned.

5 UNBUNDLING RECORD DATE
The last day to register ("LDR") in order to receive the affected shares in terms of the unbundling is Frniday, 5 November 1993, or such other date as may be determined by the directors of Gencor.

6 IMPLICATIONS FOR 1993 FINANCIAL YEAR AND CHANGE IN YEAR END
The proposed LDR will enable Gencor to report its income for the financial year ending 31 August 1993, particularly as regards the earnings and dividends related to the affected shares, on a basis which is consistent with that used in previous years. Furthermore, in the determination of the final dividend for the 1993 financial year, the directors of Gencor intend applying criteria which are consistent with those applied in previous years.

Gencor's first financial period after the unbundling will, subject to the Registrar of Companies' approval of a change in year-end to 30 June, be the 10 month period commencing on 1 September 1993, and ending on 30 June 1994.

7 FINANCIAL EFFECTS ON GENCOR
The unaudited pro forma financial effects of the unbundling on Gencor's consolidated income for the financial year ended 31 August 1992 and on its consolidated net assets (at valuation) as at that date as well as on 30 July 1993, are summarised as follows:

| Notes                      | Before unbundling | After unbundling | Change
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Rm)</td>
<td>(Rm)</td>
<td>%</td>
</tr>
<tr>
<td>Earnings</td>
<td>1 261</td>
<td>98,8</td>
<td>599</td>
</tr>
<tr>
<td>Cash earnings</td>
<td>765</td>
<td>60,0</td>
<td>455</td>
</tr>
<tr>
<td>Net assets (at valuation)</td>
<td>2 18 446</td>
<td>1 341</td>
<td>11 287</td>
</tr>
<tr>
<td>As at 30 July 1993</td>
<td>20 988</td>
<td>1 526</td>
<td>14 143</td>
</tr>
</tbody>
</table>

Notes

1. The figures for earnings and cash earnings after the unbundling have been calculated on the assumption that the same number of affected shares being unbundled had been distributed at the commencement of the financial year ended 31 August 1992. To the extent that the actual holdings in such shares during this period exceeded the numbers being unbundled, only dividend income has been accounted for on the related excess.
2 The figure for net assets (at valuation) after the unbundling has been calculated on the assumption that the unbundling of the affected shares had been effective on 31 August 1992. Actual affected shareholdings which were, on that date, in excess of the number of affected shares being unbundled, have been accounted for as part of Gencor's Investment portfolio.

3 The effects of unbundling on earnings and net assets for 1992 exclude any effects of the transaction with Genbel referred to in 3.1. This transaction would not have had a material effect on earnings if it had been effective throughout the current financial year, or on asset value had it been effective on 31 August 1992.

8 FINANCIAL EFFECTS ON ORDINARY SHAREHOLDERS

The table below illustrates the effect of unbundling on the composition and value of the underlying investments of a holder of 1,000 ordinary shares in Gencor prior to unbundling:

<table>
<thead>
<tr>
<th>Investment</th>
<th>No of ordinary shares</th>
<th>Market value at 30 July 1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before unbundling</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gencor</td>
<td>1000</td>
<td>1 165</td>
</tr>
<tr>
<td>After unbundling</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Engen</td>
<td>58</td>
<td>4 600</td>
</tr>
<tr>
<td>Genbel</td>
<td>156</td>
<td>625</td>
</tr>
<tr>
<td>Matlak</td>
<td>42</td>
<td>1 475</td>
</tr>
<tr>
<td>Sappi</td>
<td>39</td>
<td>2 750</td>
</tr>
<tr>
<td>Cash in lieu of fractions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gencor (value of residue as reflected in current Gencor market price)</td>
<td>1000</td>
<td>694</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Net assets (at valuation)
| of residual Gencor | 1000 | 1 028 | 10 280 |

*The actual market value will depend on the price at which Gencor trades after its unbundling has taken place*

It is assumed that Matlak will unbundled and therefore Gencor ordinary shareholders will receive Matlak ordinary shares in lieu of their Matlak entitlement.

Dividends on affected company shares will, after unbundling, accrue directly to ordinary shareholders, as will the Gencor dividends that will reflect its lower income base.

9 TAXATION CONSIDERATIONS

In terms of section 60 of the South African Income Tax Act, 1962:

- the share distribution by Gencor will not be deemed to be a dividend for the purposes of attracting secondary tax on companies and non-resident shareholders’ tax, or an amount derived by a long term insurer from the investment of funds as envisaged by section 22(1)(b) of the South African Income Tax Act, 1962 (Act No 58 of 1962), as amended, shareholders on the South African section of the register of members will be exempted from stamp duty upon the registration of shares received by way of the unbundling, and Gencor shares held as trading stock will be subject to the specific provisions set out in the aforementioned section 60.

10 PROPOSED OFFERS IN RESPECT OF ODD LOTS ACROSSING TO SOUTH AFRICAN RESIDENTS

Genbel will, other than in respect of its own ordinary shares, make an offer to ordinary shareholders resident in South Africa, registered as such on the unbundling record date, to facilitate the rounding to whole multiples of 100 affected shares of any such shareholders’ odd lots. As regards Genbel’s own ordinary shares, Sankorp will make such an offer. These offers will open approximately one week after the LDR for Gencor ordinary shareholders to participate in the unbundling. The terms and further details of the odd lot offers will be published on or about Friday, 12 November 1993.

11 PROPOSED SANKORP BEPERK ("SANKORP") FACILITY FOR NON-RESIDENT ORDINARY SHAREHOLDERS

Gencor has procured that Sankorp will make a facility available for non-resident ordinary shareholders. This facility will, in effect, enable such shareholders who elect to utilise it to sell their pre-unbundled Gencor ordinary shares to Sankorp, on condition that Sankorp will, according to a predetermined formula, transfer as consideration for the unbundling, a greater number of post-unbundled Gencor ordinary shares in registered form. Further information pertaining to the facility, which will be administered by Smith New Court Corporate Finance Limited, on behalf of Sankorp, will be published on or about Friday, 24 September 1993.

The rationale for the Sankorp facility is twofold. Firstly, it will enable non-resident ordinary shareholders to pursue their interests solely in Gencor.

12 CONDITIONS PRECEDENT

- The unbundling, the odd lot offers and the Sankorp facility are all subject to the fulfillment of the following conditions precedent:
- 12.1 the approval by shareholders of Gencor in general meeting on 31 August 1993 of the ordinary resolution to be proposed thereat for the implementation of the unbundling;
- 12.2 the approval by Genbel shareholders of the transactions referred to in paragraph 3.1;
- 12.3 the approval of The Johannesburg Stock Exchange, other relevant international stock exchanges, the Commissioner for Inland Revenue, the South African Reserve Bank and such other South African and International regulatory authorities as may be required for the purposes of the foregoing.

13 SALIENT DATES

- Circular and notice of a general meeting posted Monday, 9 August 1993
- Gencor general meeting (at 09h30) Tuesday, 31 August 1993
- LDR to participate in the unbundling (unbundling record date) Friday, 5 November 1993
- Unbundling consideration posted to ordinary shareholders by Friday, 12 November 1993
- The above dates and times are subject to change and any changes will be announced in the press.

14 CIRCULAR TO SHAREHOLDERS

A circular containing full details of the unbundling and incorporating a notice of general meeting, will be posted to shareholders of Gencor on or about Monday, 9 August 1993.

Johannesburg
5 August 1993

Gencor Limited
Registration number 1947/005326
Incorporated in the Republic of South Africa

Merchant bankers

Attorneys

FirstCorp
FirstCorp Merchant Bank Limited
Registration No 1984/0167
A member of the First National Bank Group

Sponsoring brokers

in the Republic of South Africa

in the United Kingdom

SAITH CORPORATION
CORPORATE FINANCE LTD
Member of The London Stock Exchange
and The Securities and Futures Authority
PROPOSED UNBUNDLING

Introduction

On 11 May 1993 the Gencor Beheerend Beperk ("Gencor") board announced that it would recommend to shareholders that they accept a proposal (the "Proposal") to unbundling Gencor's ordinary shares (the "Gencor Shares") as well as the shares to be received from Goldan prior to the unbundling of the Sanpack ordinary shares (the "Sanpack Shares") in Gencor's shareholding by way of a capital reduction and a dividend in specie (the "unbundling")

2. RATIONALE FOR THE UNBUNDLING

The Gencor board's reasons for its decision to recommend the unbundling of Gencor are set out in the Gencor announcement also published today. That recommendation has the full support of the Gencor board, which in turn recommends the unbundling of Gencor to its shareholders

3. PARTICULARS OF THE UNBUNDLING

The number of Gencor shares held by Gencor and shares to be received from Goldan in Gencor's unbundling ("affected shares") which are to be distributed to Gencor shareholders, was as follows:

755 192 803 ordinary shares in Gencor;
42 294 647 ordinary shares in Engen Limited ("Engen")
118 549 457 ordinary shares in Goldan Investments Limited ("Goldan")
32 455 412 ordinary shares in Malibok Limited ("Malibok")
30 670 587 ordinary shares in Sappi Limited ("Sappi")

Immediately following the Gencor unbundling, and prior to Goldan's unbundling, Malibok Limited ("Malibok") and Goldan ("Goldan") to subject its shareholders' approval and such other approval as may be required, by the unbundling of the affected shareholders' interests in Malibok by way of a dividend in specie. Gencor has agreed, subject to the approval of the Malibok unbundling, to act as an agent in respect of the distribution to Gencor shareholders of any ordinary shares which Malibok will receive in the Goldan unbundling. Accordingly, Gencor will receive Malibok ordinary shares in lieu of its entitlement to Malibok ordinary shares, on the basis of 2,076 Malibok ordinary shares for each Malibok ordinary share to which it is entitled as a result of the Gencor unbundling. Gencor will in turn distribute the Malibok shares to its shareholders

If, for whatever reason, the Malibok unbundling is not implemented, Gencor will become entitled to, and will distribute, 11 317 997 Malibok ordinary shares instead of the Malibok ordinary shares as noted above

Shareholders' entitlements to affected shares will be calculated on a pro rata basis in accordance with the ratio that the total number of ordinary shares held by them bears to the total number of ordinary shares in issue being 153 040 840 reduced down to the nearest one hundred thousand of an affected share

Accordingly each Gencor shareholder will receive, for every 100 Gencor ordinary shares held on the unbundling record date approximately:
30 655 439 ordinary shares in Gencor
5 629 323 ordinary shares in Engen
3 560 520 ordinary shares in Malibok and
3 065 037 ordinary shares in Sappi

If, for whatever reason, the Malibok unbundling is not implemented, Gencor will receive approximately 1,051 Malibok ordinary shares for every 100 Gencor shares instead of the Malibok ordinary shares as noted above

Financial results aggregated shares will be aggregated, sold and the cash proceeds, net of costs, restated to the ordinary shareholders concerned

4. UNBUNDLING RECORD DATE

The last day to register ("Registrar") in order to receive the affected shares in terms of the unbundling is Friday 5 November 1993, or such other date as may be determined by the directors of Gencor

5. IMPLICATIONS FOR 1993 FINANCIAL YEAR AND CHANGE IN GENCOR YEAR-END

The proposed LOR will enable Gencor and Gencor to report their income for the financial year ending 31 August 1993 particularly as regards the earnings and dividends received in connection with the affected shares, on a basis which is consistent with those used in previous years. Furthermore, in the determination of the provisions of both companies for the 1993 financial year, their directors intend applying criteria which are consistent with those applied in previous years

Gencor's financial period after the unbundling will subject, to the Registrar of Companies approval at a change in year-end to 30 June, to the 10 month period commencing on 1 September 1993 and ending on 30 June 1994

6. FINANCIAL EFFECTS ON GENCOR

As Gencor is to be dissolved after its unbundling the directors are of the opinion that the presentation of the financial results of Gencor for the year ending 31 August 1993 will not be material to Gencor's and the financial position of Gencor as at 31 August 1993, and the results for the nine months ended 30 November 1993, and the results for the year ending 31 August 1993 will not be materially different from those presented in the Gencor annual reports

FINANCIAL EFFECTS ON GENCOR SHAREHOLDERS

The following table illustrates the effect of unbundling on the composition and value of the underlying investments of a holder of 1,000 ordinary shares in Gencor prior to unbundling

<table>
<thead>
<tr>
<th>Investment</th>
<th>No. of shares</th>
<th>Market value</th>
<th>Percent</th>
<th>Price per share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gencor</td>
<td>1 000</td>
<td>1 000</td>
<td>10 300</td>
<td>100.0</td>
</tr>
<tr>
<td>Engen</td>
<td>50</td>
<td>4 000</td>
<td>2 000</td>
<td>19.4</td>
</tr>
<tr>
<td>Malibok</td>
<td>142</td>
<td>665</td>
<td>444</td>
<td>92</td>
</tr>
<tr>
<td>Sappi</td>
<td>36</td>
<td>2 758</td>
<td>980</td>
<td>90</td>
</tr>
<tr>
<td>Cash in lieu of shares</td>
<td>0.5</td>
<td>4 548</td>
<td>44.2</td>
<td></td>
</tr>
</tbody>
</table>

Net assets (at valuation) of 1,000 ordinary shares in Gencor is R 10 300 1,000

The actual market value will depend on the price at which Gencor trades after the unbundling has taken place

It is assumed that Malibok will undistribute and therefore the undistributed share on Gencor's shareholding in Malibok ordinary shares in lieu of its entitlement to Malibok ordinary shares will be distributed to the shareholders of Gencor.

Dividends on affected company shares will, after undistributing, be paid directly to the shareholders of Gencor

7. TAXATION CONSIDERATIONS

In terms of section 65 of the South African Income Tax Act, 1993

the share distribution by Gencor will not be deemed to be a dividend for the purposes of attracting secondary tax on companies and non-resident shareholders tax

or an amount derived by a long term insurer from the investment of funds as envisaged by section 201 (1) (a) of the South African Income Tax Act, 1993 (Act No 58 of 1950), as amended,

shareholders will be exempted from stamp duty upon the shares received by way of the undistributing and Gencor shares held as trading stock will be subject to the specific provisions set out in the aforementioned section 65

9. PROPOSED OFFERS IN RESPECT OF ODD-LOTS ACQUIRING TO SOUTH AFRICAN RESIDENTS

Gencor will, other than in respect of its own ordinary shares make an offer to Gencor shareholders resident in South Africa registered as such on the unbundling record date to facilitate the rounding to whole multiples of 100 affected shares of any of such shareholders odd lots. As regards Goldan's own ordinary shares, Sappi will make a similar offer. These offers will open approximately one week after the LOR for Gencor shareholders to participate in the unbundling. The terms and further details of the odd lot offers will be published on or about Friday 12 November 1993

10. PROPOSED SANKORP BEPERK ("SANKORP") FACILITY FOR NON-RESIDENT SHAREHOLDERS

Gencor has procure that Sankorp will make a facility available for non resident shareholders in South Africa to participate in the Offer made to shareholders resident in South Africa registered as such on the unbundling record date for the ordinary shares of any of such shareholders odd lots. As regards Gencor a non ordinary shares, Sappi will make a similar offer. Further information pertaining to the facility will be administered by Gencor, on behalf of Sankorp, will be published on or about Friday 24 September 1993

The rationale for the Sankorp facility is twofold. Firstly it will enable non resident shareholders to participate in their investments in Gencor Secondly, acceptance of the share distribution by non resident Gencor shareholders may attract undesirable tax treatments at certain countries. The facility will afford such shareholders the flexibility of re-arranging their Gencor shareholdings prior to the unbundling. However, no representation is made that all non resident shareholders will be able or permitted to utilise the facility or that it will be effective in assisting all or any of them to avoid or mitigate the tax arising from any proposed taxable event.

11. CONDITIONS PRECEDENT

The unbundling the odd lot offers and the Sankorp facility are subject to the fulfilment of the following conditions precedent:

(a) the approval by shareholders of Gencor in general meeting on 31 August 1993 of the ordinary special resolutions to be proposed final offer for the implementation of the unbundling

(b) the approval by shareholders of Gencor in general meeting on 31 August 1993 of the ordinary special resolutions to be proposed final offer for the implementation of the unbundling

(c) the approval by shareholders of Gencor in a general meeting to be held on 6 August 1993 of certain investment transactions entered into between Goldan and Gencor; and

(d) the approval of the Johannesburg Stock Exchange (the "JSE"), the Commissioner for Inland Revenue, the South African Revenue Collector and such other regulatory authorities as may be required for the purposes of the aforementioned

12. SALIENT DATES

Circular and notice of a general meeting meeting post

| Monday, 9 August 1993 |
| Tuesday, 31 August 1993 |

LOR to participate in the unbundling (unbundling record date)

Friday, 5 November 1993

Unbundling consideration proposed to shareholders

Friday, 12 November 1993

The above dates and times are subject to change and are not guaranteed

13. CIRCULAR TO SHAREHOLDERS

A circular containing full details of the unbundling and companions a notice of general meeting, will be posted to the registered sharehold of Gencor on or about Monday, 6 August 1993

14. DISGOVIGEMENT OF GENCOR

The disbursement of all of its shareholders the listing of Gencor's shares on the JSE and the subsequent listing of the shares issued from the closure of business on Friday, 5 November 1993 whenever the company is to be charged prior to being voluntarily wound up

Gencor Beheerend Beperk
Registered number 1987/000264/06
Incorporated in the Republic of South Africa

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Amic moves to higher ground

By Stephen Cranston

Amid signs that the recession has bottomed, Amic reports its first increase in earnings per share since 1989.

Reduced operating profit from its major unlisted subsidiaries Mondi Paper and Boart International led to a further 11 percent reduction in operating profit to R273 million.

But reduced interest and an abnormal tax credit lifted attributable earnings 19 percent to R191 million and earnings per share 15 percent to 327c.

The interim has been maintained at 22c, but there is a strong prospect that the final will be raised.

Chairman Les Boyd says trading conditions remained depressed, but he is hopeful that there will be some improvement in the second half.

He says the increased gold price will benefit mining sector suppliers such as Boart, Scaw Metals and ABCI and that steel sales had increased by 10 percent in volume in the year so far.

New vehicle sales rose 34 percent, which helped 19 percent-held Samcor.

Amic’s turnover increased by 18 percent to R3.858 billion, but was up only three percent on a like-with-like basis. The remainder of the increase is accounted for by the inclusion of LTA as a subsidiary for three months and of tyre and equipment group Amquip for six months.

Earnings from subsidiaries fell 10 percent to R153 million and the share of earnings of associates was down 11 percent to R90 million. Income from investments fell 17 percent to R40 million, but interest paid was reduced from R69 million to R48 million.

Tax rose from R26 million to R31 million, mainly because of an R8 million charge for the second-year tax on companies, but a reduction in the deferred tax provision, because of the lower company tax rate, led to a R43 million abnormal credit.

Amic yesterday gave a briefing on its three major unlisted companies to journalists as part of its new media-friendly image.

Boart’s income fell sharply from R28 million to R12 million, but a pick-up in demand for mining equipment, particularly in Canada means that the group is likely to show two to three times these earnings in the second half.

Mondi improved earnings after the abnormal tax credit, but its margins remain weak at 10 percent (22 percent in 1989).

Pulp prices have fallen from $840 to $325 a ton over four years, but Mondi still enjoys much better cash flow as a percentage of sales than comparable companies overseas.

Scaw Metals’s earnings have increased from R40 million to R50 million because of improved exports and increased market share.

Boyd says Amic will proceed with its demanalisation. Boart, Conlog, Kollenco and Scaw, which are now subsidiaries, will become divisions.

He says that increases to Amic’s borrowing and tax efficiency and will allow for increased borrowings at the centre to fund capex and acquire new operations.
Amic's one-off profit masks tough conditions

ONE-off profits and a deferred tax credit lifted earnings at Anglo American Industrial Corporation by 16% to 327c (281c) a share in the half-year ended June 30, masking the impact of tough market conditions on some of its key subsidiaries.

The industrial holding company — whose interests range from steel and drilling equipment to newsprint — held its interim dividend at 116c.

Chairman Leslie Boyd was confident earnings would improve in the second half. "There are clear indications the SA economy has bottomed," he said yesterday.

In an unusually informative presentation, Boyd said the process of divisionalisation which the group began earlier this year would be completed by the start of 1994, improving Amic's ability to raise cash to finance capital spending and acquire new businesses.

Turnover rose to R3.86bn (R3.27bn), but the increase mostly reflected the increased stakes in construction group LTA and industrial equipment company Amquip, which Amic bought earlier this year.

Earnings from operations dipped to R153m (R179m). Although high-velocity steel and Vanadium improved interim profits, unlisted subsidiaries Boart and Mondo battled with torrid market conditions.

Boart chairman Hilton Davies said interim earnings at the mining equipment group crumbled to R12m (R23m) as sales were badly hit by the depressed state of the Canadian mining industry and fierce competition in Europe. Prospects for the second half were significantly better due to good orders in June and July.

Mondo chairman Tony Trahar said the paper and pulp producer's ability to maintain earnings in the period was an achievement because of the collapse in prices for most of Mondo's products. He believed prices had bottomed and would improve from early 1994. A 5% increase in dollar prices would add R100m to the company's bottomline.

Wholly owned Scaw Metals turned in stronger earnings of more than R50m.

Amic's share of earnings from associate companies — including chemicals producer AECI, engineering groups Haggie and Dorkay, LTA and consumer products group McCarthy — fell to R66m (R90m). Income was undermined by the good interim performance of 29.2% owned AECI (23c).

A lower interest bill helped offset this drop in income and lower investment receipts. Pre-tax profit fell to R227m (R257m). Amic paid more tax because of R28m leved in secondary tax on companies.

After-tax profit declined to R196m (R219m) but attributable earnings were lifted by a number of one-off items.

Amic realised R18m in the sale of a stake in the Columbus Stainless Steel joint venture to the Industrial Development Corporation, plus R17m in selling some of its interest in Power-tech to the Anglo pension fund and a smaller surplus on buying Anglo's stake in LTA. The group recorded a R45m abnormal credit — an adjustment to deferred tax after the cut in the company tax rate in the Budget.

Consequently, attributable earnings climbed by nearly a fifth to R191m (R160m).

Although the group's interest-bearing debt rose steeply to R639m (R391m), its gearing remained a mere 8.9%, with interest cover at 5.9 times. Amic's cash reserves grew to R693m (R560m). 

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Matthew Curtin

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Graph: L.A. Chisholm, The]
Is there any value left? (Q. 32)

Gold shares have rocketed. Many of the leading financial and industrial counters are off their peaks amid continuing doubts about economic recovery, and gilts are again bullish. It makes the equity market unusually difficult to read, particularly with growing euphoria in parts of the gold sector.

But caution returned to the JSE's gold board on Monday and Tuesday this week, when shares generally weakened. Considering the extraordinary pace of the ascent of the JSE All Gold index and the patent speculative forces moving the bullion market, it's tempting to conclude the shares have moved much too far.

In the end, that will depend on the dollar gold price. After June quarterly results and latest dividend announcements, average historical dividend yield on the All Gold index is a meagre 2.9%.

But, assuming gold remains above, say, $385/oz, several gold analysts conclude the All Gold index is not unduly expensive on fundamentals such as the prospective dividend yield. A poll of forecasts by several analysts of forward yields gives a range between 4.7% and about 6% over the next 12 months, rising somewhat higher as the mines' hedging contracts are unwound.

That, of course, implies that gold's run-up will be maintained well into next year and is not simply a temporary spike upwards as has happened so often in the past. This is precisely what is concerning many investors. Ferguson Bros gold analysts Trevor Pearson has a model which shows the All Gold index has become increasingly undervalued as gold moved towards and then breached $400/oz.

"The index is telling us there is a lot of caution in the market about the sustainability of that gold price," he says. "We are now in a natural period of consolidation. Gold will probably test $400 again. If it bounces back, that would certainly be bullish for the shares. We are seeing a much more rational approach than we've had with some other bull markets. It is much less euphoria-driven than the 1987 bull market."

Simpson McKee's Rodney Yaldwyn feels gold could see a correction back to $395 or lower, but even then he doubts the All Gold index would fall more than 100-150 points. Another analyst who believes gold is in a medium-term bull market contends the dollar price could see a considerably greater correction, to perhaps $375 or less, causing the shares to retreat rapidly before recovering again.

If history is any guide, the accompanying 22-year chart of the JSE All Gold index does suggest the time for caution. It is not only that the index has climbed so steeply in just six months — showing on the monthly graph as almost a straight-line ascent, something that has rarely occurred over that period.

It's also interesting that when the index rose above 2.100 last week, it was approaching the peaks of 1987 and early 1990. In the euphoric market of August 1987, the index reached an all-time high of 2.499; the next high was at 2.239, in February 1990. Though there is optimism that the vicious cost spiral has been broken, the industry's cost structure is higher than in either of those years and recovery grades are often lower.

However, while it's primarily the dollar price of bullion that drives sentiment, the fundamentals are determined by the rand price. In August 1987, the dollar price was in the mid-$400 range and trending downwards. It's now in a rising trend — at $405, it is about 23% above the $330 base before the recovery. More important, the rand price is now R1 360/oz, some 47% up on the R927 of last September.

Much of the surge in the mines' profit margins was thanks to the renewed depreciation of the rand, which happened to coincide with the upswing in the bullion market. So, too, did the greater appreciation on the part of the gold-miners on the fundamental position of many of the SA producers had greatly improved in terms of costs, grades and financial management (Fox, July 30).

Having said that, the quality and risk attached to these shares vary enormously. A.J. Andonson's Bruce Williamson points out that the All Gold index is dominated by a few heavyweights gold shares Dres. Cons., Klou, Vael Reefs, Southvall, Freegold, Western Deep and Harties together make up more than three-quarters of the index.

An average forward yield on the index thus says little about the fundamentals for the highly geared and risky margins. Even more sensitive to euphoric sentiment are the mining exploration stocks, whose valuations are always problematical. Soudex (admittedly looking less and less like an exploration stock), at R38 this week from a 12-month low of R2, is a prime example.

There will continue to be special situations, such as the separate announcement this week of Buffelsfontein and Beatrix. Their shareholding structure was designed in 1983 to enable the then new producer Beatrix to use Buffels' tax shield but it hasn't worked as hoped. The announcement triggered expectations of further changes within theEngold group.

Even if you accept that gold is in a longer-term bull market, timing remains important and it is still essential to select shares carefully. Brokers say the general approach from institutions has been to sell into a rising trend (such as over the past week) and pick up stock cautiously when the market weakens.

By mid-July, many of the financial and industrial shares were significantly below their peaks set earlier in the year, but the combination of the bullish gold sector and growing confidence that interest rates will continue to weaken has helped reverse this trend (see graph).

A life assurer's senior fund manager believes there are signs of a fundamental change in the equity market. While historical corporate earnings remain stagnant, he says, there are nascent signs of economic recovery.

He cites three factors giving grounds for a better profit trend in 1994. The rising trend in interest rates and earnings in circulation, marginally better new vehicle sales, and the expectation of further interest rate cuts.

Political developments, he adds, seem to be having less effect on the market. While the breakdown of Codesa in July last year...
helped push the JSE into a prolonged de-
cline, investors now seem to be looking
through the political static.

Irish & Menell Rosenberg's Mark Sonik
notes a similar trend. He has been tracking
the correlation between share prices and
political deaths for a number of years and
believes the market is becoming more resil-
ient to violence. The St James massacre in
Cape Town was shrugged off in a day. Vi-
olence on the East Rand, in which over 90
people died at the weekend, had little or no
effect on the market, though it also coincided
with the rampant gold price.

Renewed optimism about a recovery ap-
ppears to be encouraging a search for stocks
that are still close to their cyclical lows.
Among these are the commodities and con-
sumer durables; though some may well be
premature, their rejuvenation will be robust
once sales pick up.

Highveld Steel, ahead of a good recovery
in profits announced this week, reached an
annual high of $3.90c, gaining about 30%
over two months. There has also been a
revival of interest in the Rembrandt group's
shares, which appreciated steadily over the
week to get within a whisker of their annual
high. Despite gold's surge, rand hedge
stocks continue to attract support. Del
Monte Royal, for example, appears to be
recovering from lows.

Even so, focus on the mining board and
bullish prospects in the gilts market may
contribute to lack of interest in some of the
highly rated industrial growth stocks for a
while.

But perceptions of value and quality — or
the lack of it — will determine how long this
lasts. Liberty Asset Management chairman
Roy McAlpine says Liberty's policy has
always been to concentrate on quality
counters, a policy which has paid off through
tough economic years. "We're in it for the
long term and have to ride the little bumps
and troughs you experience when the market
behaves like this," he says. Other big institu-
tions may take a similar view.

Shawn Harris and Andrew McNulty
Lenco hopes to beat sharp rise in tax rate

LINDA ENSOR

CAPE TOWN — Lenco Holdings expected to achieve earnings growth of more than 15% in the six months to end August despite a sharp rise in the tax rate, executive chairman Douglas de Jager said at the group’s annual meeting yesterday.

He said opportunities were being explored to enable subsidiary Combined Packaging (Compak) to compete internationally, either through a joint venture or an acquisition. Compak’s technological ability to handle certain resins was internationally competitive.

Export growth had proved crucial for the group’s improved performance. It is involved in clothing, shoe and houseware manufacture through subsidiaries House of Monastic, Amalgamated Shoes and Hendler & Hart.

De Jager expected the operating margin to double in the first six months of the year to end February 1994 from just under 10% but to still lag behind the targeted 15%. The exhaustion of R41.6m in assessed tax losses would mean the tax rate could rise to as high as 20% off a nil base.

House of Monastic’s exports had accelerated Hendler & Hart’s houseware exports had ensured the company was well on track to improve on its budgets. But this export drive had incurred losses — an R800 000 loss had to be borne to create a market in the UK and considerable losses were suffered in the US before orders were won.

He called on institutions to invest their funds in job-creating manufacturing projects and to stop investing in retail complexes.
JD buys Rusfurn for R85-m

By Stephen Cranston

W&A subsidiary JD Group will pay R85 million for Rusfurn. The announcement ends a year of negotiations between JD and Rusfurn’s major shareholder Absa.

The deal turns JD into a giant furniture retailer with 660 stores and annual turnover of R1.8 billion.

As part of the deal Dion has been sold to Massmart, part of Woolworth, for R39.1 million in cash.

JD chairman David Sussman says everybody wins as Rusfurn has found the right management and Absa is relieved of its holding, which it only acquired by default after the failure of a management buy-out.

JD will issue Absa redeemable preference shares issued at 783.6c, equivalent to the net asset value of JD’s ordinary shares at the December year-end, and a 25 percent premium on the current market price of 620c.

The new instruments will carry a coupon equivalent to the ordinary share dividend.

JD has the option to redeem the shares either in cash or in JD ordinary shares after three or five years.

JD will recapitalise itself with a rights issue of at least R75 million, probably in November, which will be advanced as a subordinated loan to Rusfurn.

The combined group will be divided into two operating units. One will consist of the more urban upmarket chains such as Joshua Doore, Russell, Bradlows, Rudgek and Giddy’s.

The other will focus on the black-oriented chains such as Wanda Frasers, Price ‘n Pride, Harmony, Montana and Score.
Gencor’s strip a low-key affair

The final terms of Gencor’s asset strip failed to set the market alight. The share price was unchanged at 1,140c in spite of the calculated discount to net asset value. Holders of 100 Gencor will get about 5,2 Engen, four Sappi, 15,7 Genbel and 4,3 Malbak shares. Holders of 100 Genbchein will get 99,5 Gencor, 14,2 Genbel, 3,5 Sappi, 5,1 Engen and 3,9 Malbak. Sankore and Genhol will help shareholders to round off odd lots.

The value of these companies is about 115c a Gencor share.

After their removal, Gencor is technically worth more than R10 a share — a quick-changing sum because of the volatility in golds this week.

For the market value of gross investments to remain unchanged from the current position, Gencor will need to trade at 660c, a third discount to net asset value.

Gencor will announce its results for the year to August before the last day to register for the unbundling — November 5. It will change its year-end to June.
THE liquidators of property holding company Time Holdings have raised nearly R3mn by selling its Time Botswana subsidiary to construction group Concor.

They have also auctioned the contents of its Sandton offices, but they are no closer to settling on a figure for Time's total debts of R91.8m.

Recent speculation has put the company's total liabilities at about R60m. Ernst & Young's insolvency practice director Philip Reynolds would only say that they stood at "many millions".

The banks are exposed for millions of rands while insurance companies are holding contract guarantees for an unknown amount. There are also the usual trade creditors.

"A number of companies in the group are involved in different developments and own low-cost housing property. They are also highly geared with borrowings from financial insti-
tutions and had cross guarantees throughout the group," Reynolds said. "It will take some time before we have an exact figure."

Reynolds said a few of the creditors were secured but none had submitted claims yet.

Subsidiary Time Botswana's shares were sold to Concor Construction for 1.2-million pala. Reynolds said there was some uncertainty whether the proceeds were subject to security, because the shares might have been pledged. Last week the contents of the Sandton head office were auctioned for R300 000.

The liquidators also investigated the sale of Time Life Insurance and there did not appear to be anything underhand in the sale, Reynolds said.

"Our next level of investigation will be how the funds were applied and whether there was any preference shown to anyone."
Gencor offer to odd-lot shareholders

MINING house Gencor will follow its unbundling with an offer to its SA shareholders to tidy up their holdings in the company’s former divisions.

The odd-lot offer will allow shareholders to round up or down their new shareholdings to multiples of 100, a week after Gencor dismantles its R21bn business empire in November.

The offer, which is understood to involve about R100m, will be administered through investment arm Genbel. Major shareholder Sankorp will make a similar offer to Genbel shareholders.

The proposal aims to clean up the share register following the upheaval created by the unbundling.

Gencor last week announced the details for its dismantling, by which it will pass on the bulk of its shares in non-mining activities, cutting its net asset value from R21bn to R14.1bn.

It will distribute by dividend in specie 5.6 shares in energy company Engen, four shares in paper business Sappi, 15.7 in Genbel and 4.3 shares in consumer products company Mailbox for every 100 Gencor shares held.

The odd-lot offer would also aim to clean up fraction shareholdings, the company said. The offer will run for three weeks to December 2, with the share prices driven by the market rate.

Genbel minority shareholders voted overwhelmingly in favour of the R12.2bn share swaps with Gencor and Sankorp which were unveiled last month.

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Gencor

At a special general meeting on Friday, local and international shareholders holding 138.6-million Gencor shares voted to accept the proposals. Only two shareholders, holding 21,665 shares, voted against.

Under the terms of the share swaps, Genbel swapped its international assets and part of its mining portfolio for a slice of Gencor’s industrial holdings, dismantling itself from Gencor in the process.

A chunk of the newly acquired shares was then swapped for stakes in Sankorp companies, such as banking group Absa and construction business Murray & Roberts, widening Genbel’s investment spread.

Genbel chairman Tom de Beer said the vote was a “tremendous show of faith by shareholders in management.”

To Page 2
Gresham to control new drug company

If UPD's aggregate pre-tax profits for the three years to end April 1996 exceed R110m, and if agreement is reached to list UPD, MCC will be entitled to buy enough shares from Gresham to lift its interest in UPD to 52%, reducing Gresham's holding to 48%.

The purchase price will be reached by agreement or, failing that, on the basis of valuation by a merchant banker.

If aggregate pre-tax profits for the three years are less than R75m, MCC will transfer UPD shares to Gresham to give a 75.25% share split.

Gresham

UPD has been formed by merging Gresham's subsidiaries, Amalgamated Chemists Association (ACA), Gresham wholesalers and PDC's wholly owned PDC Trading with MCC's business.

Premier is owed R21.5m by UPD for the purchase of its wholesale pharmaceutical distribution business — the Gresham and PDC pharmaceutical interests.

As a result of the UPD purchase, Gresham has a R12.1m claim against Premier and PDC a claim of R4.7m. In settlement of PDC's claim, Premier will pay PDC R14.7m in cash and assume responsibility for certain warranties if furnished to UPD.

In addition, Gresham will dispose of its non-pharmaceutical interests to Premier and its only assets will be a 52% interest in UPD and a claim against Premier. UPD will have an initial annual turnover of R11.4m and total assets of R200m. UPD will be funded and controlled by Premier through Gresham.

In the case of PDC, Premier will make an offer to acquire all the shares in PDC at R2 a share, and will also offer PDC shareholders the right to receive Premier shares and/or Gresham shares in lieu of cash. PDC will become a wholly owned Premier subsidiary of Premier and its listing on the JSE will be terminated.

As an extension of the transaction, Gresham Industries will change its name to Wholesale Pharmaceutical Holdings and transfer its stock exchange listing from the stores sector to the pharmaceutical sector in late September.

The effect of the merger is that Gresham wholesalers, ACA, PDC Trading and MCC Business all become wholly owned UPD subsidiaries. In addition, RM Failers, dealing Business and First Choice Business will be wholly owned subsidiaries of Gresham Wholesalers.
Barlow's coal executives would most likely prefer a sale to Anglovista, which already holds a minority stake. Anglovista does not have its own coal business, which would make the Barlow executives' jobs more secure. But Amcu and Tragedi Natal, which have their own proven managerial structures, could mount a longer-term challenge.

What happens to the coal from a closed mine will be crucial. If unloading it is taken as a test of the government's commitment, it would be a signal of a new era of state intervention in the coal industry. The miners would be assured of a smooth transition as they return to work.

The unbundling announcement, 6 days away. When it comes the industry will be asked to change its ways. The mining industry has always been a symbol of the country's struggle for freedom. In the past, when the mines were owned by European employers, they were a symbol of oppression. Now, as the mines are increasingly owned by South Africans, they are a symbol of hope and progress.
Barlow Rand unbundling plan unveiled

Barlow Rand is to unbundle by distributing to shareholders its interests in food group CG Smith, electronics group Reunert and mining group Rand Mines.

The distribution will be preceded by a restructuring of the group's computer interests and follows a previously unannounced R607m sale of assets to Barlow's controlling shareholder Old Mutual.

The exerese, which marks the end of Barlow's 30-year reign as SA's leading industrial group, is scheduled for completion by the end of February next year.

Barlow's itself will be left with a number of wholly owned businesses, from capital equipment distribution to paint making, as well as controlling stakes in UK-based industrial group J Bibby & Sons and freighter Portland Cement (Pty) Ltd.

The shake-up of the conglomerate's computer businesses results in two new developments: First, Reunert takes control of Persotech, the computer group which is the sole local distributor of Hitachi products; Second, Information Services Group (ISG) becomes a stand-alone company, no longer linked to the Barlow's empire.

This deal will be achieved by Barlow's swapping its 50% stake in ISG Holdings, ISG's controlling shareholder, for the 50% stake which unlisted investment company Information Services Management Trust owned by ISM staff, has in Persotech, Persotech's controlling shareholder Reunert will then acquire Barlow's 55% stake in Persotech leaving ISG in the hands of the trust and ordinary shareholders.

Reunert's position as a broadly based high-technology group with a new information technology business will be enhanced by its acquisition of Barlow's interests in Nashua's and National Panasonics's local operations. They will join Reunert's existing electronics, mechanical engineering, telecommunications, electrical engineering and cables divisions.

The restructuring will be accompanied by a wide-ranging management reshuffle on the boards of the newly independent groups. Chairman Warren Clewlow remains chairman of Barlow's, but loses Derek Cooper and Robbie Williams who become chairman and vice-chairman of CG Smith Clewlow himself will leave the Reunert and CG Smith boards.

Clive Packer and Tony Billingford remain as chairman and MD of Reunert John Hall stays as chairman of Rand Mines, simply a holding company for Randcoal and Rand Mines Properties.

While analysts have predicted the broad outlines of the restructuring, Barlow's has not sold Randcoal, as many expected it would, to raise cash for refinancing the rump of the industrial interests with which it is left.

Instead, Barlow's sold 7.5% of Reunert, CG Smith and Rand Mines to Old Mutual for R607m one month ago on July 8. Barlow's has used the money to repay debt and refinance itself, "appropriately". The group's total borrowings stood at R814.5bn on September 30 1992.

The transactions give Old Mutual effective control of the three subsidiaries being bought off Old Mutual owned 34.5% of Barlow's at last balance sheet date. The sale and share distribution will take place on October 12.

Barlow's company the unbundling will leave Old Mutual with a 31.7% shareholding in Reunert, 23.8% of CG Smith and 30.4% of Rand Mines. One result is that Mutual is assured of a blocking vote in any developments needing a special resolution (222).

Barlow's will announce more details of its break-up this afternoon. No information has yet emerged on the group's plans to revive the struggling J Bibby, whose recent R45m purchase of Spanish caterpillar distributor Finanzauto has depressed earnings already under pressure from the UK recession.

CG Smith is least affected by the changes, although analysts question what value Cooper can add as chairman to the group which is already highly rated. CG Smith owns paper and packaging group Nampak, textiles business Remex and CG Smith Foods, whose interests include CG Smith Sugar, Tiger Oats, Langeberg Foods and health products supplier Adeco.

The new look Barlow's consists of Barlow's Equipment, Barlow's Motor Investments, Rober Industrial Holdings, Barlow's Consumer Electrical Products, building materials business Federated Blankei and pants group Piascon, all wholly owned subsidiaries. In addition the group has a 79% stake in Bibby and a 60% shareholding in PPC.

Barlow's shares rose 100c to close at R44.25 on the JSE yesterday.
Increase in liquidations

ADRIAN HADLAND

PRETORIA — The number of companies and close corporations liquidated in the first half of 1993 rose 12.9% to 1,369 compared to year-earlier figures, the Central Statistical Service said yesterday.

Largest increases in liquidated companies were suffered by the wholesale and retail trade and catering and accommodation sectors, which rose in total from 476 liquidations in the first half of last year to 569 in 1993.

Mining, manufacturing, financing, insurance, real estate, business services, community, social and personal services all showed rising incidents of liquidated companies.

The only sectors which showed decreases were agriculture, in which liquidations dropped from 28 to 25, and construction, which fell from 136 to 116 for the corresponding periods.
Barlow unbundling

BY STEPHEN CRANSTON

Barlow Rand will focus on its holdings in heavy industry and capital goods after it has implemented unbundling proposals.

As expected, MD Derek Cooper leaves the board to head CG Smith, which includes strong performers Tiger Oats and Nampak.

Warren Clewlow remains as chairman of Barlow's with the task of restoring credibility to the remaining interests.

It is believed Clewlow was forced to come up with proposals for unbundling because the board was unhappy with the group's interim results to March, in which earnings slumped by five percent.

Barlow's will lose the services of many of its highly rated directors.

Nampak chairman Brian Connellan, ICS MD Nick Dennis, Reunert MD Tony El-

BARLOW Rand is to unbundle into four independent components.

Chairman Warren Clewlow has to restore credibility to what's left.

shareholders would be given separate interests in Rand Mines and Rand Mines Properties.

And as part of the deal, Barlow's will sever its connection with IBM distributor ISG as it will exchange its 50 percent interest in ISG Holdings for the IBM Trust's 50 percent interest in Persotech Holdings (Pershold).

This will give IBM the chance to return to SA.

Reunert will acquire these Pershold shares as well as Nashua and National Pan-

Barlow's has kept its domestic appliances in the difficult white goods market, but has moved out of the more exciting audio visual, fax and copier market.

The unbundling will eat Barlow's tenure as SA's largest and most diversified conglomerate.

It is speculated that its head office will remain in Barlow Park and some of its operations will move into space vacated by CG Smith, Reunert and Rand Mines.

The deal has been assisted by Old Mutual, which has a 34 percent holding in Barlow's, and which is believed to have been unhappy with its recent performance.

Old Mutual will buy 7.5 percent of the issued share capital of each of the four groups for R607 million in cash from Barlow's prior to the unbundling. This will enable the rump of Barlow Rand to repay debt and be appropriately funded.

Barlow's will be left with a somewhat pedestrian portfolio of companies.

The most highly rated part of the group is its 69 percent holding in Pootsford Portland Cement, which has shown steady earnings growth.

It also keeps its 79 percent interest in I B P, which saw its profits devastated for the six months to March by the acquisition of the Spanish Caterpillar dealer Finanzauto.

The wholly owned businesses have been disappointing performers, although paint manufacturer Plascon is well-positioned for an increase in building activity.

The building materials group Federated-Blakie has been making losses, while the capital equipment company and the Robor tube manufacturing and steel merchanting have been disappointing contributors.
R3-m share payout for ex-Syfrets team

Coronation Syndicate is about to reward the five investment funds who joined it from Syfrets.

They are to receive 500 000 Corsyn shares, worth R3 million at their current price in exchange for signing restraint of trade agreements.

These agreements will be activated if they leave Corsyn. However, David Barnes, chairman of Corsyn, is also to receive a handsome payment.

Corsyn is to issue preference shares with a conversion value of R30 million at current prices for its Bond Trading (Pty), of which he is the sole shareholder.

These details are published in a circular by Corsyn to its shareholders.

Barnes, who is regarded as a top security trader, acquired control of Corsyn last September.

News of the acquisition led to Corsyn’s shares soaring from 60c to 500c before falling back recently to 600c.

The circular gives details of the planned acquisition by Corsyn of Bond Trading, which is wholly owned by Barnes. He is also chairman and majority shareholder in Corsyn.

Bond Trading provides trading advice for over R160 million worth of actively managed assets. It trades in listed gifts, equities, bonds, options and futures markets.

In the 12 months to June its profits soared to R12.9 million from only R327 000 in 1991-92 and R64 000 in 1990-91.

Corsyn is issuing 10 million 5 percent convertible redeemable preference shares to Barnes at a price of R1.50 a share for Bond Trading.

These shares can be converted into Corsyn ordinary shares on a share-for-share basis on October 1 1994 or October 1 1995.

Those shares which are not converted are redeemable at R1.50 a share between the years 2000 and 2002.

The deal is conditional on Bond Trading having total assets of not less than R15 million, and that the audited profit be not less than R12 million.

Corsyn’s two major shareholders, Barnes and Gavan Ryan, will not vote at the general meeting calling for shareholder approval.

While the deal has a nominal value of R15 million, the conversion value of these preference shares at Corsyn’s current share price of R5 is R60 million.

This may seem a high price to pay for assets worth R15 million. But Barnes and Ryan tend to adopt a stance that the Corsyn shares are over-priced at their present levels. If one goes along with this view, then the price paid for Bond Trading looks more appropriate.

Corsyn’s merchant bankers, Firstcorp, says in the circular that it believes the terms and conditions of the acquisition are fair.
Barlows launches key unbundling moves

From MATTHEW CURTIN

Barlows PLC has formally launched a key unbundling move to create a new, independent, stand-alone company that it says will be the first of its kind in the industry.

The new company, called Barlows PLC, will be created by breaking off the existing company's electrical equipment and services business, which will be renamed Barlows Electrical Co Ltd.

The move is expected to create a new, stand-alone company that will be listed on the stock exchange, and it is estimated to be worth around £700 million.

Barlows PLC said the move was part of its strategy to create a more diverse and competitive business.

The company's chairman, John Barlow, said: "This is a significant step in our strategy to create a more diverse and competitive business, and we are excited about the potential for growth and innovation that this new company will bring."
FOOTWEAR maker Conshu, which holds about 89% of Wayne Manufacturing’s issued ordinary share capital, has proposed that it acquire minority shares in Wayne for 71c a share for cash and that Wayne be delisted from the JSE.

Wayne manufactures rubber products for footwear and industrial use. Its share closed yesterday at a ruling price of 59c.

Today’s announcement said the 71c consideration price represented a 42% premium on Wayne’s closing price, but a discount of 37.7% to Wayne’s net asset value for the year to end-June 1992. Conshu said the consideration included an amount of 1c in respect of Wayne’s dividend for the year to
Transun earnings down after political unrest

TRANSKEI Sun International (Transun), which operates the Wild Coast Sun and other gambling outlets in the area, was severely affected by political unrest in the year to end-June.

The Kersal subsidiary reported a 19% drop in earnings to R6,1c (35c) a share for the period as occupancies, the amount of day visitors and revenues were affected by political uncertainty, calls for mass action and the operation of unregulated casinos in SA for most of the year.

Turnover was 5% lower at R209.3m from R210.2m, and operating profit dropped by 15% to R56.5m from R65.5m.

Chairman Peter Vensun said this reflected the fall off in day visitors due to problems on the road to the SA/Transkei border, where the Wild Coast is located, and bad publicity surrounding political events in the region.

Vensun said Transun's high fixed costs were not offset in terms of occupancies and day visitors.

The change to net interest paid of R2.5m from net interest received of R6.7m in the previous year was due to the utilisation of cash resources and borrowings to fund major extensions to the Wild Coast Sun resort.

Pre-tax profit was 2.6% lower at R54m from R72.2m, but capital allowances arising from the extensions saw the effective tax rate fall to 19.2% from 26.8% with taxation of R10.4m from R19.3m previously.

The lower rate enabled Transun to report a 19% decline in attributable earnings to R43.6m from R53.6m. A final dividend of 12c a share was declared, bringing the full year dividend down by 16% to 25c (27.25c).

Vensun said the results were as forecast at the interim stage.

Occupancies, which were 68% at the December interim stage, were only 57% for the full year, indicating a sharp decline in the second half. Vensun said this reflected the effects of Chris Han's assassination and events which followed. Day visitors had also dropped substantially and, in the last quarter, were 39% down on the previous year (23.2).

Vensun said there had been an improvement in trading since year-end, and costs had been trimmed further.

He said Transun was a business which had good, untapped potential. Gearing of 25% (23%) was not high, and there would be no major capex in the coming year. The Wild Coast Sun had been redeveloped, and there was spare capacity. All it needed was some peace.
Unbundling could boost market

THE trend by conglomerates towards unbundling may give a much-needed boost to the property market, said Clearspan's Ernie Heathie.

Contractor Clearspan's head of operations, Ernie Heathie, said inquiries from organisations wanting to relocate had increased dramatically, and the number of firm orders coming through had risen by more than 200% since December.

Although the increase came off a comparatively low base, he said it was partly due to unbundling. There were nevertheless indications that the property market might have begun to turn.

Over the past few months, three major conglomerates have announced their intention to unbundle — Gencor, Metropolitan Life and Barlow Rand. Several smaller organisations have followed the trend and analysts predicted other firms would be hot on their heels.

"The fact that organisations are selling off subsidiaries and that conglomerates are splitting up, means big head office structures are no longer functional," Heathie said.

"There has been a definite move towards smaller, more diverse complexes."

Clearspan has recently secured contracts for the completion of four industrial complexes on the Witwatersrand and in Natal with a total value of R10.6m.

Heathie said there was a lot of activity in Durban where companies, particularly in the white goods market and the transport sector, were relocating and "revitalising".

This was a spin-off from SA's recent emphasis on the importance of exports in the general resurrection of the economy. Heathie said inquiry levels in Natal were beating all other areas around the country.

One of Clearspan's most recent undertakings in the area was a R3.4m warehouse for PG Glass Holdings' subsidiary SA Glass, which is situated north of Durban in Northgate.
‘Need for focus’ behind Barlows split

FOUR years of flat earnings growth and the need for focus within the Barlow Rand group triggered the decision to split it into four stand-alone companies, chairman Warren Clewlow said yesterday.

Detailed proposals for the unbundling would be announced by the end of September.

This week’s announcement came after a year of discussion on how the group’s interests would be structured. In terms of the plan, Barlows would distribute to shareholders its holding in CG Smith, Reenert and Rand Mines, and retain certain industrial interests. Information Services Group (ISG) would become independent. Old Mutual would be the major shareholder of the remaining groupings.

MARCIA KLEIN

Explaining the decision to unbundle, Clewlow said Barlows had grown laterally, through acquisitions, in the 1970s and 1980s, and this had been appropriate at the time.

But the group had reported flat earnings during the past four years, and it niggled me that the group’s structure might not be appropriate for the 1990s,” the board felt Barlows should become more “vertical”

CG Smith would house its consumer-related interests. Reenert would hold electronic and hi-tech interests, and Rand Mines’ main asset—would remain its holding in Randcoal Barlows, which would be left with 70% of UK-based J Dibby, 60% of

Barlows

Frelouha Portland Cement and 100% of various capital equipment, motor vehicle and other industrial interests, “would start to take on the flavour of companies linked to infrastructural development.”

Clewlow said the four stand-alone companies would be clearly focused on their areas of activity. They had sound management and were conservatively financed, with low or no borrowings. All liabilities and loans were held in Barlows, which recently received a R80m cash injection through the sale of shares.

The companies which remained in Barlows were “at a very low point of the economic cycle”, and would require working capital when the economy turned.

Clewlow said further streamlining within each company could be expected.

From Page 1

See Page 12
Gilt traders face controls

BY DEREK TOMMEEY

The recent statement by the Governor of the Reserve Bank, Dr Chris Stals and other information to hand make it abundantly clear that all traders in the gilts market (which trades government, Eskom and local authority stocks) will at some time in the future need to meet certain capital requirements.

It seems there is no argument about this.

The question now being asked by the monetary authorities is how much capital gilt traders will need to have.

Two factors have brought the matter of capital requirements for gilt dealers to a head.

The first is the sharp rise in turnover in the gilts market and its growing importance in recent years.

In 1990 the nominal value of gilts traded was R230 billion. This figure rose to R49 billion in 1991 and then jumped to R551.2 billion last year.

In the first half of this year R311 billion worth of gilts were traded, suggesting that the figure for the full year could be well over R600 billion.

The gilts market of the JSE is now doing about 10 times as much business as the equity market.

However, this huge increase in trading has also exacerbated the possibility that a trader might default and cause considerable damage to the market as a whole — a matter which seems to seriously concern Dr Stals.

The second factor is that commercial banks, which also trade in gilts, believe that because they have to meet certain capital requirements they are at a disadvantage to other gilt traders who do not.

They have been calling for an end to what they say is an inequitable situation.

They are asking for capital requirements for all gilt traders.

Echoes of this appeared in Drs statement to shareholders by Absa chairman Herve Hefer at the beginning of June.
Unbundled Barlows, Appropriate to new SA

Matthew Curtin
Anglo considers ZCCM options

ANGLO American is yet to decide whether it should recruit a partner in its bid for Zambia's soon-to-be-privatised copper company.

A spokesman said Anglo, which holds a 27.3% stake in Zambian Consolidated Copper Mines (ZCCM) and pre-emptive rights over the Zambian government's holding, would hold fire on drawing up its takeover bid until a study on the solvency had been completed. 12/18/93

Zambian Deputy Minister of Mines Mathias Mpane said earlier this week that a decision on the privatisation would be made by the end of the year.

But he warned that, although Anglo had first refusal on ZCCM, the expense of the venture meant it would have to find a partner.

ZCCM is $700m in debt and requires development investment estimated at $3bn. At least $400m would have to be invested from the outset to develop the Konkola project.

Both JCI and Gencor have expressed an interest in bidding for a stake in the copper producer, but Anglo refused to be drawn on whether they were potential partners.

Anglo, which has made clear its plans to boost its foreign copper interests, is expected to use its cash-rich offshore arm Monorco as a vehicle to pursue ZCCM.

Its ZCCM stake is held through JSE-listed Zambia Copper Investments, in which Monorco has a 50% stake.

ZCCM accounts for about 90% of Zambia's foreign earnings. (2.22)
Creditors will get 100c in the rand

BY DES PARKER

Creditors of AA Mutual short-term insurance division — which was wound up in mid-1996 after the most spectacular corporate crash of its time — are to receive a dividend later this year which will bring total dividends paid to 100c in the rand.

A spokesman for the liquidators says more than 210,000 cheques to the value of almost R36 million are to be mailed after November 1 in the 13th distribution since the motor insurer went to the wall. The dividend is 20c.

Claims of less than R20 will not be paid out but will again be retained until a final account is drawn up, which is expected to take place about the beginning of 1995.

A final payment to compensate creditors for interest lost on their money will then be paid from surplus funds left in the cumulative pool.

The spokesman appealed to the 40,000 or so creditors who have not collected dividend cheques since the liquidation, to do so.

About R11 million was outstanding, with probably another R3 million likely to remain uncollected in the latest distribution.
dreadful and sustained dip in the prices of rhodium and nickel. Rhodium, not long ago the darling of the commodities markets, nearly halved — the fall over the year was 43% Nickel fell a more modest 13%.

A decidedly mixed picture saw the platinum price rise in US$ terms by 2% and palladium by 23%. That was accompanied by a volume increase of about 20%. In part, this explains Rustenburg's ability to improve slightly on gross sales revenue. That was bought, however, at the cost of an increase in total mine costs (though unit costs on all three mines increased by an acceptable 6%). But nothing can disguise the alarming decline in net operating profit. R754m compared with 1992's R1,028m — a fall of 26%, Taxation halved, a good job too, but the bottom line has blood on it.

There are some intriguing aspects to the results. First is that the item commissions and discounts has mysteriously reduced by R24m. Davison wouldn't comment at the press conference but it seems reasonable to suppose Johnson Matthey, the UK platinum refiner in which JCI has a stake, was prevailed upon to temper its charges.

Then there's the substantial second-half improvement in Lebowa's operating results. By half-time it managed to lose R9,4m. Second-half losses of only R500,000 make R9,9m in all. That compares with 1992's loss of R29m and presages profits for 1994.

Finally, the huge reduction in capital costs for PP Rust deserves comment. The project, conceived at a cost of R555m, has been brought in at R385m, a saving of 31%. Davison conceives there was some over-estimating in the original numbers but insists that by far the bulk of the under-expenditure comes from extraordinarily competitive tenders.

**Competitive benefits**

"In some cases companies were tendering prices which we last saw three years ago," he says. "That certainly confirms the competitive benefits of prolonged recession. Davison agrees the immediate outlook is better, provided the world economy continues to improve. US vehicle sales are encour-

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**RUSTENBURG PLATINUM**

**Could have been worse**

In a bad year for platinum, Rustenburg's results must be considered rather better than expected. That doesn't hide the 30% fall in EPS or accompanying cut in dividends, it's just they could have been worse.

Understandably, MD Barry Davison puts the best face he can on a result which won't please investors but, paradoxically, points the way to an altogether brighter 1994. The main factor depressing results was the

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**GRIM HARVEST**

**Ruhost**

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<th>Year to June 30</th>
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<th>1993</th>
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* Excludes dividend in specie

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**CUTTING LOSSES**

Lebowa

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<th>1993</th>
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<td>Dividends (c)</td>
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David Gleason
GENCOR

Hanging on to some of the family silver

GENCOR has wasted no time resolving the precise terms of its unbundling programme, and the details hold at least one surprise. The unbundling isn’t to be as comprehensive as the market was led to believe. The major exception to the plan to reduce the group to its original core business — mining — is the retention of a holding of about 20% in Malbak, the industrial conglomerate.

The entire scheme has taken place over two sets of transactions.

In the first, investment company Genbel sold ownership of Genbel Offshore Investments (valued at about R512m), which has a sizeable stake in Transatlantic (Liberty Life’s international vehicle), plus about R100m of shares in Kinross and Winkelhaak as well as Impala, Samancor and Trans-Natal. In exchange, Genkor parted with shares in Sappi, Engen and Beatrix, the last-mentioned restoring Genbel’s gold holding.

The second transaction involved Genbel disposing of some of its newly acquired Sappi and Engen to Sankorp in exchange for shares in Murray & Roberts, Malbak, Absa and Mercedes Information (holding company for Didata and Datakor) plus R50m cash. This leg is worth about R385m.

Market expectations were that Gencor, valued at R20bn pre-unbundling, would fall to around R12bn after the transactions. However, chairman Brian Gilbertson made it clear he wanted some reserve in Genkor, either through pre-unbundling transactions or a retention of assets.

Retention of Malbak gives Genkor a bonus of R850m at market valuation and the exchange of Sappi and Engen shares provides another R762m. So post-bundling value is likely to be R1.6bn bigger than if there had been a straight distribution of all assets.

What comes through is that Sankorp and Rembrandt didn’t need more Malbak shares to cement their effective control at 35%, on that basis, they were happy to see Genkor keep an interest. That raises, of course, another issue. Malbak can hardly be said to occupy a place in Genkor’s strategic thinking or position. What the holding does is confer additional strength if it wants to pursue another acquisition. In fact, an interesting aspect of Genkor’s portfolio is that about 30% of its assets are in near-liquid form.

That makes it an unusually powerful player in the mining community.

CMI

Never had it so bad

It’s never been so bad at Consolidated Metallurgical Industries (CMI), JCI’s ferrochrome producer. A R41m attributable loss for financial 1993 is the worst since operations started in 1977. Not surprisingly in the circumstances, there’s no dividend.

Ferrochrome demand is inextricably tied to stainless steel production. In global terms, stainless steel production continues to grow, last year by 2.5% to a record 11.1 Mt. However, what bedevilled the industry was a supply/demand imbalance.

CMI’s result was profoundly influenced, says CE Sandy Wood, by a radical structural change in the market. With CIS states manufacturing significantly less stainless steel, contrary to the world trend, internal demand weakened in sympathy. That left traditional CIS chrome producers, Russia itself and Kazakhstan, free to divert maternal. Large quantities of Kazakhstan are found their way to China where they’ve been converted to ferrochrome for sale in Japan and elsewhere.

Marketing director Allan Kahnert says that, until 1991, the ex-USSR exported about 90,000t a year of high-carbon ferrochromes. “That’s now risen to around 200,000t.” The effect was to drive spot prices into a spiral dive. At US$32c/lb by this March, they were 30% off mid-1992 levels.

Cheap chrome appeared on all European traders’ books. CIS product was the flavour of the month and traditional steady suppliers found it increasingly difficult to move stock at reasonable prices. But it is one thing to enter into contracts and another to make delivery. Continental consumers who had deserted tried and trusted suppliers reappeared as suddenly, seeking refuge from Scandinavian suppliers in particular.

The fact that stability is being restored to the market is of little consolation to CMI shareholders. Disruptions of the kind experienced last year take long to repair. Against a background of continued high world demand for ferrochrome, yet disconcerted by potential oversupply, it’s unlikely prices will rise to satisfactory levels in the next 12 months.

One way of evening the supply/demand equation was for SA producers, the world’s largest, to trim production. Both CMI and Samancor chose that route. CMI cut production from 70% of rated capacity to 50% now.

Actions of this kind can’t be achieved without adjustments elsewhere. CMI had to retrench 17% of its workforce in a harsh environment, that means another 200 people lost their means of subsistence.

As you would expect after such a dreadful result, the balance sheet weakened perceptibly. Shareholders bear the full brunt with market capitalisation down over the year by exactly the R41m loss. However, debt has been carefully managed and shows a negligible rise. Understandably, with reduced output, stock and debtors have declined and the cash balance is marginally lower.

Chairman Barry Davison is more than a little coy on prospects for 1994. However, Wood is unashamedly frank “We’ll make a loss again,” he says.

On the information available it seems unlikely results will be anywhere near as bad as 1993’s, but investors would be ill advised to hope for an early resumption of dividends. Providing world economic growth recovers and ferrochrome producers enforce a market equilibrium, things will look much better by 1995. But not till then.

RUSTENBURG PLATINUM

Could have been worse

In a hard year for platinum, Rustenburg’s results must be considered rather better than expected. That doesn’t hide the 30% fall in EPS or accompanying cut in dividends. It’s just they could have been worse.

Understandably, MB Barry Davison puts the best face he can on a result which won’t please investors but, paradoxically, points the way to an altogether brighter 1994. The main factor depressing results was the
Is there more value for shareholders?

After agglomeration comes strategic bust-up

When a huge and diversified industrial group such as Barlow Rand abruptly announces plans to break itself up into smaller entities, it's perhaps inevitable there will be talk about boardroom battles involving senior executives and shareholders. They are probably partly true.

It is, after all, an unusual proposal. Where it has happened elsewhere, the event has generally been preceded by extreme reluctance, some form of revolution and the advent of new leaders. IBM is an example.

Though producing good profit growth at times, essentially when the local economy and international commodity markets were in an upswing, Barlow has not exactly distinguished itself as an innovative company. Nor has it been through the kind of shake-up that Gencor saw under Derek Keys.

On the contrary, the unkind perception has tended to be that Barlow is run primarily by accountants, most of whom have spent long careers steeped in the Barlow culture. Son's of the regiment all, top executives work from a head office characterised by conformity rather than innovation. For decades Barlow has knelt at the altar of size and diversity. Yet this week it tacitly conceded that this approach doesn't (or will no longer) satisfy shareholders, emphasis must be on focus and flexibility.

After a 30-year career in the smelting culture of Barlow's, where he became chairman two years ago, following about five years as chief operating officer when Mike Roholt was chairman, Warren Clewlow now talks fervently of "lean" and "focused" businesses. It smacks of instant conversion.

Clewlow is adamant that the proposal was his own initiative, on which work began early this year, steered by a small executive committee including MD Derek Cooper. He contends he took the plan to majority shareholder Old Mutual and gained approval, with considerable (often "lively") debate between the various parties along the way. "I wish I could have been credited for doing something bold," he says.

But who can blame the sceptical when they assume that long-serving executives, the summit of whose careers could reasonably be expected to be running SA's largest industrial group, are unlikely voluntarily to break up that group and leave themselves with a much smaller enterprise to run?

Those who take this view believe it more probable that Old Mutual, disillusioned with the long-term performance of a major investment, decided to impose change. But Cooper too is emphatic the impetus came from within Barlow's. Whatever the provenance of the new thinking, the initial response from financial markets has been positive in principle. They had long criticized Barlow's for management errors and structural deficiencies.

Investor concerns have been borne out in the share price performance (see graph). Over the long term it has lagged both the JSE Industrial Index and Barlow's 60% held subsidiary, C.G. Smith, now to become autonomous Stockbrokers say they would not recommend holding Barlow as a long-term investment, but rather as a counter to be bought when it's rising against the industrial market and then sold at the peak.

That criticism is partly of the conglomerate principle, which is out of fashion internationally. In SA, most other big and diversified industrials have increasingly focused on a particular sector. Simlink has moved heavily into consumer goods, Murray & Roberts has allied itself with capital investment sectors, AngloVaal Industries is primarily in consumer markets, and even Amcor is reassessing its commodities-sensitive portfolio.

In the Sixties and Seventies, acquisitive and diversified conglomerates were popular on the grounds that diversity would diminish risk. As Barlow has often shown, in reality there are invariably one or more weak entities in the portfolio that drag down the overall result anyhow.

With its breadth and size, performance became closely linked to the business cycle. And its portfolio included businesses whose profits could be highly volatile, examples were Middelburg—now sold—the consumer goods, and building equipment.

There were also some palpable errors, the obvious ones (conceded by management) occurring in the mining division, specifically platinum and generally the transformation of the venerable Rand Mines into a coal company. Of course, once the damage was done, it was better to grasp the nettle and unbundle Rand Mines, as happened over the past 18 months. Nobody blinked when Hanson Pic carved up Consolidated Gold Fields.

But the negative sentiment generated has been far more important than the financial effects, which were not particularly significant for Barlow. Similarly, fairly or not, negative sentiment arose over departures of some senior executives Tony Norton to the JSE, John Mace to Armcor and then Eskom, Bas Kardol to Investec, Richard Savage to Altron. Most of them left in the mid-Eighties, but, with the talk of boardroom dissent, their names are again being recalled.

Whatever the reasons for these departures, the exodus tended to coincide with the rise and spreading influence of Warren.

Neither the fundamentals nor adverse sentiment helped to nudge interest in the share price. Barlow's earnings remained reasonably solid in the recession, E.P.S. fell 15% in 1990, by 7% in 1991 and were marginally up last year. But the dividend was on a four-year plateau in the early Eighties, as is happening now.

Deployment of cash flow is another concern. Barlow has maintained weighty capital spending programmes R1,8bn last year, with a similar amount budgeted this year. That sounds impressive, but the market felt cash was being moved from strong performers such as CG Smith, a wholly owned company generating poor returns Middel-
stodgy share price, little immediate prospect of dividend growth and overhang of negative sentiment. Little there to whet appetites in financial circles and, many thought, limited concern at head office about financial markets' attitudes.

Clewlow candidly accepts that performance has been inadequate. He contends the present structure was right in the past but is no longer appropriate — and that there is industrial logic in the new proposals, more focus in management's environs and more prospect of innovation.

For shareholders, the change will be a simple process. If they now hold shares only in Barlows, they will also receive direct holdings in some underlying companies: food, pharmaceuticals and packaging firm C G Smith, electronics, electrical and computer firm Reunert, coal holding company Rand Mines, and Rand Mines Properties (RMP).

They will have the choice of retaining all or part of these — of attempting to balance risk themselves or focusing on the best performers. In the short term, investors can at least be assured of earnings and dividend growth from C G Smith and Reunert. Both are recognised as high-quality companies. Ultimate control will not change Mutual will retain its present effective stakes, and through cash deals on July 8 acquired additional stakes of 7.5% each in C G Smith, Reunert, Rand Mines and RMP. Effects are shown in the diagram, though it excludes any direct stakes already held by Mutual in these companies — which are sure to exist.

As expected, there will be no cross-shareholdings and no cross-directorships. Barlows will cease to have any influence over the companies that become autonomous: Clive Parker, now chairman of Reunert, will run that company, John Hall will chair Rand Mines and RMP.

The most interesting management change is the appointment of Barlows MD Cooper as chairman of C G Smith, whose present chairman, Robbie Williams, becomes vice-chairman. Cooper says Williams, Nampak head Brian Connellan and himself were closely involved in the planning, and will make an effective team enabling C G Smith "to blossom".

"The strategy is to build on Smith's skills base in the non-durable consumer goods field," he says. "No further restructuring is planned." Cooper feels C G Smith will be able to raise funds for investment by issuing its own highly rated paper without having to worry about whether Barlows will want to take it up.

Unlike C G Smith, Reunert is to acquire some business from Barlows' computer company Persetech as well as Nashua and National Panasonic. Reunert has done exceptionally well in recent years after stringent rationalisation. Parker says the new businesses will not offer further synergies so no further rationalisation is needed.

They will, however, usefully extend the product and skills range. He notes there are strong links between telecommunications and computers, for example, and an earlier strategic plan had recommended entry into consumer markets. Reunert will be large a rough calculation on 1992 figures indicates attributable profit of some R140m compared with the actual R92.4m.

The new Barlows, to be chaired by Clewlow, will be left with most of its wholly owned businesses as well as the diversified UK group J Bubby and PPC. It should also have substantial cash after debt repayments. All the local activities — motors, steel, building materials, earthmoving equipment are cyclical, linked to capital investment. Their total after-tax profit now exceeds R250m. That should swing upwards if these markets recover. But what if they don't?

Randgold's position has not been resolved, but it's unlikely to stay in Barlows' PGM Investments is remaining for now, largely for tax reasons. Though little is said about Bubby, it's fairly clear a similar process is planned for the UK group.

There will presumably be shrinkage at Barlow Park, but it isn't clear how much smaller the head office may end up. Parker says the only people moving to Reunert will be himself, his secretary and another manager.

Clewlow says that as offices are vacated at Barlow Park, the head offices of those companies staying in Barlows will move into Barlows will continue to administer the pension funds of the autonomous companies. That year, then they may go elsewhere.

Investors will have to see tangible savings and benefits for share prices to respond. So far market reaction has been muted. There's no apparent great discount to Barlows' NAV that can be unlocked to add value though this depends on values of unlisted companies.

Certainly these changes are not a conventional unbundling. They amount to a strategic realignment and a management shakeup after a period of inertia without any assurance that entrepreneurial spirit will be rekindled. Without the stimulus of seasoned comrades and an acquisitive culture, the individually managed parts could actually turn out to be less than the collectively managed whole.

However, there could be benefits in higher visibility of more focused businesses, more effective investment, and greater incentive for top management to make stand-alone groups perform.

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**WE'RE SORRY**

We apologize to *FM* subscribers who have been receiving their magazines later than usual. There are two reasons, both of which we are addressing with vigour: our printer, KNL, has consistently had machine trouble and the Post Office has not given us the service we expect.
Analysts’ views differ on W & A Investment

ANALYSTS differ markedly in their views of the W & A Investment Corporation’s profitability for the interim period to end-June — and offer projections ranging from “small profits” to “significant losses.”

Although a number of analysts canvassed yesterday said W & A would declare a small profit equivalent to between 5c and 10c in earnings a share when it announced its results on Monday next week, one market watcher disagreed entirely.

Predicting the group would make an operating profit of about R6,2m for the period, the dissenting analyst nonetheless forecast an attributable loss of between R12,1m and R18,7m in the first half. The group’s operating profit would be eroded by payments to debenture holders and dividends to preferred ordinary shareholders totalling about R3,7m, he said.

W & A’s share of “mediocre” profits from listed subsidiaries, adding up to R26,7m, would be dragged down by weak results elsewhere.

The analyst expected AAP, W & A’s largest subsidiary, to record a R18,8m attributable loss on an undiluted basis.

“However, we expect the company to pass the ordinary dividend, in which case the attributable loss will amount to about R12,1m on an undiluted basis,” the analyst said.
Doing the Thebe side-step

THEBE Investment Corporation, the ANC-linked business group, has hardly been out of the news in recent weeks as just about everything it touches turns to controversy (TIM.CO).

First there was the proposed deal between publisher Macmillan and Thebe — it has Nelson Mandela and Walter Sisulu as trustees — aimed at winning a chunk of the R500-million-a-year schoolbook business.

Thebe’s finances have also been subject to much speculation, but suggestions that it was on the rocks have been countered by Thebe, which says its businesses are either profitable or soon will be.

Now questions are being asked about the Digital-Thebe deal whereby computer giant Digital Electronics has been able to begin operations in SA while the ANC still supports sanctions.

Thebe’s controversial reputation stretches beyond SA’s borders. One plugged-in investment adviser in the US says there is a general opinion there that to enter the SA market “you first have to deal with Thebe”.

“Then the ANC appears to have an interest in maintaining sanctions. The only way you can get into the market is if you deal through Thebe,” thus advising (BUSINESS TIMES).

Companies which have had stalled discussions with Thebe include some of the best-known brand names in the world.

One is said to be a famous-name computer company. It chose not to deal with Thebe and is still waiting to enter the SA market while a competitor (Digital) has set up shop.

ANC officials have said that Digital is not really in SA, but has only established an office on a look-see basis, sort of getting ready for the real thing.

But Digital spokesman Vukile Lwazi told Associated Press that full operations, including sales, began on July 1. Ms Love did not return Business Times’ calls.

Other ANC officials are not buying the look-see line. ANC international affairs spokesman Azziz Pamad has asked Thebe to explain how Digital has opened for business while sanctions are still in place.

Mr Pamad is not the first to question Thebe. ANC education department officials accused Cheryl Carolus and Lindelwe Mahabula voiced strong concern about the proposed deal with Macmillan.

The robust criticism from the ranks of the ANC is a welcome departure from the track record of the National Party, where ranks have closed while brazening out public criticism.

How does Thebe respond to its critics? Managing director Vusi Khanyile, an anti-apartheid veteran, insists Thebe does not represent the ANC.

Digital SA has appointed two resellers in SA. Thebe has a equity stake in one of these resellers, Blakskroone. Digital does not have an equity position in Blakskroone, nor is there any exclusivity in the relationship, says Thebe.

It says Thebe is one of four equity partners in Blakskroone, the others being Persevech, a trust representing future staff; and Veita International, a private company representing black investors.

Mr Khanyile says Thebe is fostering black empowerment. Critics, he says, are jealous of the deals Thebe has struck.

But the critics are unconvinced. With sanctions still in place, the Thebe side-step appears to be the new dance in town.

Investors are trying to find out what the steps are: Is this a dance which can only take place with the say-so of a political party?

If it is there’ll be many who won’t come to the party.
Rock-bottom Barlows

THE new-look Barlows, rising from the unbinding ashes of Barlow Rand will include a mix of companies whose fortunes are tied to the fixed investment cycle.

By their nature, they are not glamorous companies and their recent performance has been rotten.

Barlows is also being stripped of most of its dynamic, high-profile directors, leaving Warren Clewlow and lesser-known executives Richard Mansell-Jones, Evert Groeneweg, Russell Chambers and John Goemersall to drive the firm.

New board appointments are expected.

Nonetheless, these factors may be enough to convince some of its 17,000 shareholders that Barlows has had its time of greatness and that the future will be more rewarding with top-performing consumer-based group CQ South or electronics firm Reunert.

The factors which count against it may well be the reasons for investors to stay with Barlows.

The remnants of the management team have been stung by the severe criticism of the past few months and want desperately to prove their worth.

The listed companies with which they have to work include cement producer PPC and foreign investment holding company J Bibby & Sons.

Barlows’ other unlisted holdings are almost unchanged from the Punch Barlows’ rollercoaster days. They include paint manufacturer Plascon, the capital equipment businesses, including Caterpillar and Barlow Handling, investments in Barlow Motor, the building materials stake held through Federated Blaikie, the tube-making business of Rober Industrial Holdings and on the domestic appliance side, Barlows Manufacturing.

Most of these divisions have taken a hammering with the progressive slowdown in infrastructure spending that has been a characteristic of the economy since 1990.

They are now at the bottom of their cycle and business cannot get much worse.

Because the companies will be coming off an extremely low base, it should be relatively easy to show good growth if domestic funds and foreign aid are injected into housing, roads and schools.

The trick remains Bibby’s acquisition of Spanish earthmoving equipment company Finanzauto last year — bought after all Spain’s infrastructure developments for the Olympic Games had been completed. Did not win any investor support.

Yet Mr. Clewlow is still defensive about the deal, saying, “You must realise that companies like Caterpillar have low stocks and will require working capital as and when — if and when — the economy picks up.”

The unbundling will not stop there, he says. “There are groupings within groupings that will have to be streamlined.”

Mr. Clewlow says that 10% of the decision to unbund is based on his gut feel.

Time will be his judge.
Simplicity sacrificed to the Kroks

PREMIER Group companies must take the year's award for mind-bending corporate finance announcements, the latest in a long series involves PDC Holdings and Gresham.

It is not often that the "before" structure is more simple than the "after", but the latest proposals arise from a disagreement with the Kroks brothers. The Kroks were controlling shareholders of Twun's Pharmaceuticals, now called Premier Pharmaceuticals (Premphla) and 58% owned by Premier.

Premier spokesman Ronnie Taurag explains that the original intention was for Premphla to house the group's manufacturing and distribution businesses, of namely wholesaler PDC Trading, United Pharmaceutical Distributors (UPD), Gresham's 89.8% of Amalgamated Chemists Association (ACA) and wholly-owned Gresham Wholesalers Salters division but excluding First Choice.

Premphla agreed to issue 8,5-million shares to Premier, PDC and Gresham in consideration. The dispute has been settled by an addendum to the agreement. Premier would not sell the pharmaceutical distribution interests to Premphla, but would procure a third party to acquire them. Premphla still issues the same 8,5-million shares only this time it is to UPD Premier instead pays Premphla R78-million in cash. UPD has also bought Medical Cash & Carry a wholesaler set up independently by Norman Knight and his team.

The upshot is that Premier now owns 8% of Premphla, the manufacturing arm, and practically 82% of Gresham. Gresham has 51% and MCC 49% of UPD.

UPD is the home for Gresham Wholesalers, ACA, PDC Trading, Salters, First Choice and MCC's operations. Mr Taurag notes how MCC came to the party "PD and Gresham have not had great results in recent years. The problems were many - management, unfair competition before the introduction of single-exit pricing, overtrading, shrinkage (reports of which he says have been hyped up) and so on." We felt stiff competition from MCC. It was hurting us, but we did not know much about the company. When MCC approached us we learned that it was highly respectable and had the backing of the Commercial Union insurance company.

"The outcome is the merging of two pharmaceutical wholesalers each with turnover of approximately R145-million, into UPD. This way Premier has not only solved its management problems, but also joined forces with a major competitor."

The Competition Board has endorsed the deal. Mr Taurag says no profit forecast has been made for the new-look Gresham - to be renamed Wholesale Pharmaceutical Holdings - because it is meaningless to guess at how much benefit will arise from the bringing together of the two components. A state-of-the-art warehouse being built in Roodepoort is expected to lead to cost savings.

Gresham has sold its non-pharmaceutical interests to Premier, and now owns only 51% of UPD and a claim against Premier Premier will help fund UPD's working capital at more favourable rates than before the deal. Gresham minorities can do one of three things keep shares, take the 75c offered by Premier (market price 150c), or accept 1.8 Premier shares worth R5 per 100 Gresham worth R130. The stock quo looks best. PDC shares will be redeemed at 80c and delisted. Holders of 100 PDC worth R120 on the JSE can apply redemption proceeds towards L7 Premier shares worth about R68, or accept 186 new Gresham shares worth about R18.

If the aggregate net profits of UPD in the three years to April 1996 top R110-million and a listing sought, MCC will be able to buy 53% control of UPD from Gresham. But if it is below R75-million, MCC will relinquish 94% to Gresham at par.

There are enough triple-tiers to sink a battleship already, and Mr Taurag says Gresham's new name will be shortened to WPH I prefer Wholph myself.
W&A in gradual return to health

W&A Investment Corporation’s efforts to reduce gearing and return to profitability have resulted in a small interim profit in the six months to end-June.

The group, which has automotive, site services, consumer and industrial interests, has announced an interim attributable profit of R1,8m. This was well below the R4,4m of last year’s first half, but up on the R1,8m (now restated as R12,8m) attributable loss announced for the year to end-December.

Although no interim dividend has been declared, joint executive chairman Jeff Liebesman said the group was on course to return to profitability and to make a dividend payment at the December year-end.

He said results were not strictly comparable as the more conservative accounting criteria introduced at end-December, after Trencor took joint control of the group, were not applied at the previous interim stage. The first half’s turnover rose to R153m (R152m), but margins came under pressure, and the interim operating profit dropped to R127,7m (R133,3m).

Net interest paid rose to R99,5m.

Lieberman said the R64m net proceeds of the rights issue in April were received on May 7, so the reduction in interest costs benefited the group only in the final seven weeks of the period. He reckoned that had the rights offer proceeds been received on January 1, the interest payment would have been R66,2m.

A R19,5m below-the-line extraordinary loss included R8,8m for the write-off of W&A’s investment in Milutan, and R8,6m

W&A

Among W&A’s consumer interests, furniture retailer JD Group was affected by unrest in the second quarter, but managed to meet its half-year budget. Rationalisation with the newly acquired Ruisurn group augured well for the future, Liebesman believed.

Industrial interests were affected by tough trading conditions in the six months. Natolit continued to rebuild its export business, but its capacity was under-utilised. MacPhail came close to its budget, but Tarry Group’s business was severely disrupted by trading conditions.

“Liebesman said that now the group had been recapitalised, executives were able to focus on the operating businesses. “After two years of strenuous focus at the corporate level, we are re-focusing our business,” he said. The group had a four-pronged strategy, including reducing gearing through the rights issue, selling non-core assets, more effective management of working capital and improving margins. This was expected to generate a better cash flow.
Southern-UAL deal replaces Crusader

MADOEN COLE

UAL Merchant Bank and the Southern Life Association yesterday announced an agreement to market an equity-linked annuity. The life annuity replaces that previously marketed by UAL and underwritten by Crusader Life.

The need for UAL to seek an underwriter apart from Crusader Life, ceasing its transaction new business earlier this month.

UAL investment planning services chairman Glye Turner said no other UAL product or unit trust had been affected.

Shares in Crusader Life, its holding company at Crusader and AVF Group were suspended last month, followed by the announcement that Crusader would write no new business.

It was reported yesterday that the suspension of Crusader and Avia had been extended until October 12 or until the companies updated financial positions were received by the JSE. AVF Group's suspension was lifted two weeks ago.
Rand Merchant Bank, NBS link up

RAND Merchant Bank Holdings (RMBH) would take over Barlows’ 18% shareholding in NBS Holdings worth R225m as part of a bigger deal between the two groups, senior sources said yesterday.

In a cautionary announcement, NBS and RMB said negotiations could result in cross shareholdings.

NBS executive director Mark Farrer said the move had its roots in the Barlows unbundling. "NBS had to find another substantial shareholder."

RMBH MD Paul Harris would not elaborate on the deal as it had not been finalised. An announcement would be possible only in about two weeks, but he said the group saw merit in a cross shareholding.

"With the muscles of the two organisations we will be able to get involved in transactions we couldn’t have before," Farrer said. He emphasised that there would be no merger. There would be no tying up of business operations or insurance interests between the two groups.

Davis Berkham Hare banking analyst Graham Balbi said the deal held exciting potential. In the past, NBS had indicated it could continue on its own and there had been no pressure on it to join another financial services organisation.

A link-up would give the two companies access to different client bases. NBS was strong in the retail banking sector and RMB had a good company base.

NBS’s share price was unchanged yesterday, but it has risen 25c to R17 this month. It is the fifth largest SA bank with a market capitalisation of R1.3bn.
JOHANNESBURG — A Goldstone Commission committee says the taxi industry should not be deregulated before informal townships and settlements have become established, peaceful communities.

This is one of the recommendations in the committee’s fifth interim report on taxi violence after it heard evidence for more than a year.

The report, which is now in the hands of President F W de Klerk, is not final, as the committee still has to investigate the role of the police in taxi violence in Cape Town.

The report notes that political rivalry and affiliation are not causes of taxi violence.

Rivalry not the cause of violence

It says the existing regulation should be replaced by a system that acknowledges the place of the minibus and seeks to protect the interests of passengers, taxi operators and the public.

“The Local Road Transportation Boards are discredited bodies and their replacement with other statutory bodies will not be likely to provide greater success,” it says.

The committee presented the following guidelines for future regulation of the industry:

- A genuine partnership should be formed between taxi associations and the controlling authority.
- The controlling body should be statutory, with powers to set the necessary criteria for admission to the minibus taxi industry.
- Permits should be issued at local level with due regard for prevailing conditions.
- Criteria should be introduced for the granting of permits.
- Every decision of the issuing body should be subject to a simple, inexpensive form of appeal.
- An independent, accessible means of handling complaints at the local level.

The committee is chaired by Mr DJ Rossouw, SC — Sapa.
Corporate unbundling: Plus ça change ...

While it will most certainly reduce its focused, competitive and hopefully better-managed companies, it has done nothing to alter the ownership picture. 

By Mondli Makanya

When managing publisher Robin McGregor

The people in power... The board of Anglo American — which will hold on to its diversified interests

ONG touted as the remedy to the country's over-concentrated economic power and a key to reconstituting wealth to black entrepreneurs and other small businessmen, unbundling is turning out to be just another balance sheet juggling exercise.

Following a worldwide trend towards focused companies South African firms are breaking themselves up and supposedly returning to their core businesses in which they have expertise.

In this process so the script goes, decades of growth by acquisition are being reversed. Companies invested in unrelated fields because exchange control regulations prevented them from investing offshore. But the reality is that these conglomerates are just liquidising companies which are remaining in their stable. The likelihood is that when the exercise is over, not much will have changed.

The fact is that pyramidal structures — which allow minority shareholders to exercise control over holding companies — will remain for the foreseeable future. Anglo American, SA Mutual, AngloGold and Sunam will continue to dominate the South African economy with their holdings in different sectors.

"It (the unbundling) doesn't really matter much," says Davis Beerman executive, Jos Sijens.

Last week's much celebrated unbundling by Barlow Rand, for instance amounted to nothing much more than the removal of a layer of management.

Recent announcements that some of the country's biggest conglomerates will be unbundled were greeted with excitement. But breaking up corporations will not necessarily be as revolutionary as it seems.

And Genen, which recently announced details of its unbundling has also gone as far as expected. While divesting its industrial shares to shareholders — thus reducing its net asset value from R3.1-billion to R1.2-billion — much of the operation remain in the hands of ultimate shareholder Suncor.

It is only the case of Suncor's sale of its 10 percent holding in Metropolitan Life that has anything to write home about.

The sale, to black-owned MetLif, is most significant in that Sanlam and MetLif have agreed to combine their 20 percent and 10 percent voting block on issues affecting MetLif.

This gives MetLif effective power in the life office.

But why is an insurer around which so many demands have centred being handled so clumsily?

Cynics say corporate South Africa is rushing the issue ahead of a drama cast order "so they can avoid undue attention of a future authority" which will definitely be tough on economic concentration and monopolistic behaviour.

The black business community and its political allies have also been bought by surprise. There is still no coherence among black business structures regarding the exploitation of opportunities presented by unbundling.

Randlords Investment Holding group managing director Fred Nkosi notes that there have not been many opportunities to exploit because companies are holding on to their good businesses.

And the blame for unbundled shares not going to blacks does not lie at the door of unbundling corporations, reckons WR Consutlants managing director Willie Ramothaba.

Ramothaba said unbundled companies cannot be expected to have the interests of black businessmen and other small entrepreneurs at heart when they reorganise themselves. Rather, this sector must mobilise itself to ensure unbundling does not lead to a structural change in the South African economy.

"It is up to us to dictate what it is in R for us," Ramothaba asserts.

Unfortunately, however, black business organisations have only just begun formulating strategies to exploit the increased interest foreign companies and local corporations are showing towards entering into partnerships and subcontracting from them.

It also doesn't look like the current unbundling will have much of an effect on the low liquidity on the Johannesburg Stock Exchange. Largely by product of exchange controls, which forced institutions to invest internally and hold tightly on to shares, low liquidity will remain until the movement of money is made free.

"It is only when that happens that you will start to see some diversification," says McGregor's Who Owns.

When managing publisher Robin McGregor
CERTAIN practices in the multi-services industry could constitute restrictive practices, the Competition Board has warned.

In a statement issued following a preliminary investigation into the real estate industry multi-listing services, the board said the stipulation by the Abxa-owned MLS service that an agency which wanted to leave the MLS system is not allowed to withdraw its listed properties may constitute a restrictive practice.

In addition, the restriction on dual membership of MLS, CPS or any other competing listing services and entry requirements or any other stipulations that set more stringent requirements than those of the responsible Minister may constitute restrictive practices "which do not appear to be in the public interest".

A spokesman for the board said they had distributed copies of their report to interested parties and were now awaiting their response.
Shareholders in wait for payout

GAMES Africa will make no profits this year.

Shareholders expect their first modest dividend in three years. The shareholders are Vela International, a consortium of black businessmen with 38% Kirdin, listed on the Israeli Stock Exchange (44.99%), Games Management Holdings (20.01%), El- lerine Brothers (15%), UAL Merchant Bank (15%) and stockbroker Simpson McKee (2%).

Shareholders contributed R12 million to launch Games Africa. This includes a foreign investment of R3 million from Kirdin, represented on the Games Africa board by Israeli businessman Itzhak Rechter.

Control of the company is firmly in SA hands. Other board members include joint chairman Gibson Tholo (vice-chairman of Kilimanjaro Bottling) and Bill Yeowart (chairman of Simpson McKee), Eric Elterine of the eponymous furniture group, attorney Henry Vorster, Brenda Koome and Steve Schubach of the SABC, Jacques Desmet of UAL Merchant Bank and Milton Latrin of Vela International.

Chief executive Mark Hutchinson of Lottery Support Group (LSG), based in Marseilles, Georgia, has been seconded to run Games Africa in the two-year start-up.

Division

He says, "I am purely a consultant and have no shares or other interests in Games Africa. My job is to impart 10 years of international lottery experience to the staff and then move on to the next lottery."

Head of national sales and marketing Alex Garlick was managing director of Promotional Campaigns, a below-the-line advertising division of Ogilvy & Mather.

Richard Biesheuvel, a SA chartered accountant, is in charge of finances and will assume control of Games Africa from Mr Hutchinson next year.

Mxolisi Mabele is manager of new business and special projects.
Wooltru sitting on a fortune

By JEREMY WOODS

BEHIND Wooltru Group's sparkling results for the year to June lies R500-million of property potential that could boost pre-tax profit by R100-million.

Wooltru's net profit rose 47%, earnings a share were up by 62% and the dividend was raised 16%.

In spite of tough trading conditions, huge cash flows enabled management to slash borrowings by R100-million, leaving gearing at slightly more than 20% in the past year.

Chief executive Colin Hall says, "We have shown we can get good returns from our trading assets. Fixed properties gave us much smaller returns."

Asked if Wooltru's money would not be better invested in trading assets than property, Mr Hall says, "It makes sense to sell the properties to institutions. They have a better tax situation on properties."

Property has been valued conservatively by Wooltru directors at R400-million, but analysts say the true figure is closer to R500-million.

Mr Hall says Wooltru earns a single-figure percentage return on its property, but profit on trading assets can exceed 30%.

"We have proved we can make money from shopkeeping and now we have a broad range of trading assets and businesses in which we can invest confidently," he says.

Questioned about the possibility of selling property and investing the proceeds in the trading side of the business, Mr Hall says, "It would make a lot of sense for the group to go that route in time."

"If we do, property sales could boost profits by about R100-million."

Specially Retail Group again produced fine results with a 28% profit increase on a 17% lift in sales to R790-million.

Control of expenses, markdowns and debtors resulted in Truworths improving pre-tax profit by 27%. Torges, which has recently refurbished many stores, increased profit by 71%.

Woolworths made "significant progress" in restoring profitability and profits jumped 71% on sales 10% higher at R1.8-billion.

The group says Woolworths is well placed to recapture its defunct market position and dominant values.

Massmart halted the previous year's decline and sales rose by 10% to R2.6-billion.

Profit jumped 19% on a 13% sales growth.

The board says a recovery in the economy looks uncertain and that the political environment makes forecasting for the year ahead "particularly difficult."

But in the absence of political upheaval, group profit growth should be satisfactory.
Bidvest sees earnings rise 38% to R37m

By JULIE WALKER

BIDVEST chairman Brian Joffe and director George Demetriades make the understatement of the year in comments on performance to June 1993. "The group reports most satisfactory results notwithstanding the state of the economy."

Other directors use the term if they manage to stay in the black. Bidvest lifted taxed earnings by 38% to R37.2-million after minorities.

Undiluted earnings a share jumped by a third to 56c. This figure was not freed by tax windfalls. Reversal of the provision for deferred tax in previous years has not been brought into the income statement.

Bidvest is ungeared and has nearly R200-million in the bank. Goodwill has been written off, excluding patents and trademarks which have been independently valued at greater than book price.

The results do not include any contribution from Safcor, the freighting and forwarding company bought with effect from July 1.

Bidvest provides a pro forma income statement to show what the effect would have been had Safcor been included for the year.

Turnover would have almost doubled to nearly R2-billion, taxed income would have been up by three-quarters at R68.5-million and undiluted earnings a share would have been a quarter higher at 64c.

All Bidvest's divisions did well. There was a big improvement in groceries and in Steiner-Crown performed to budget and Afcoar had an excellent year.

Mr Joffe says Safcor was a fantastic deal.

Bidvest moved two lots of paper to fund the R299-million acquisition, ending with Safcor assets and money in the cash shell.

Bidvest has raised its total dividend by a quarter to 21c, putting the shares on a historic-dividend yield of 25% at the current price of R80.

BIDVEST'S BRIAN JOFFE

Casinos put the 'skids under Kiplton's fine track record. Earnings a share slipped from 38c to 24c in the year to June and the dividend was passed. Turnover was little changed at R112.2-million.

Joint chairman Nigel Matthews says: "Cash was bought for too much before Supreme's liquidation. If we had known about that, we would have waited and bought it much cheaper."

Its stock was of poor quality and integration with Kiplton's casino business did not go well. It is being sorted out and the group's focus will shift to the security and safety operations which did well.

Staunton Security has been acquired. Auster Security is sold, but the industrial division suffered because of the poor economy.

Kiplton's cash flow was reasonable and R4-million of borrowings reduced. Chairman Nigel and John Matthews expect an improvement in earnings and in gearing in the current year. The share is priced at 150c.
Mr Judin says the judgment has many ramifications for SA's property business, especially the institutions that dominate it.

Some new landlords could face mass evacuation of their properties before the purchase.

But, Wits University lecturer in property practices and National Property Academy director, Harold Osewitz, does not think landlords should go into panic mode.

He advises landlords when they are not sure of a judgment.

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**Malbak's Connections**

**By CHERILYN IRETON**

The link between Malbak and travel agency, Travel Connections, is making some executives at Malbak a little scratched.

All travel bookings for members of the industrial group's head office go to Travel Connections, the Reebok agency in which Malbak chairman Grant Thomas has a 33% stake.

Travel Connections also handles the bookings for Richard Bruyns, chief executive of Malbak packaging group, Holtams.

Mr Thomas says: "The other 12 500 employees of Holtams use other agencies."

Mr Bruyns is a non-executive director of Travel Connections. His wife Geraldine and travel executives Lindy Preston ran the agency and own the remaining shares.

Ten people at the head office of another Malbak subsidiary, Foodcorp, also use Travel Connections.

Mr Thomas says under 1% of Malbak travel business goes to Travel Connections.

"At most, about 35 out of 60 000 Malbak employees. The Malbak account is less than 5% of Travel Connections' business."

Mrs Preston and Mrs Bruyns handled the Malbak account while at Budget Travel.

After it went insolvent, Mr Thomas approached and helped form Travel Connections.

Mr Thomas cleared the deal with then Gencor chairman Derek Keys and Suncorp chief executive, Marcus Daling.

"We also offered to leave the Malbak account alone, but both felt it was not necessary."

Mr Thomas says each Malbak director and subsidiary company can use any agency of their choice. "Travel Connections is one of the top 10 travel agents in the country. It is not surprising that it has some of our business."

Foodcorp chief executive, Dirk Jacobs says the relationship is at arm's length.

"I've never had any pressure to use the agency. We used to do a lot of business with another Reebok agency, but never got the service we are now getting from Travel Connections."

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**AND MEAN APPROACH**

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Eastvaal to be listed in SA and London

Matthew Curtin 23/8/93

SHARES in Eastvaal Gold Holdings, the financing vehicle for Anglo American's R1.7bn Moab gold mine, will be listed on the Johannesburg and London stock exchanges on September 23 at 230c each, giving it an initial value of R947m.

Anglo is issuing 100-million new shares in the Eastvaal rights offer which will be taken up by shareholders or their nominees in proportion to their holdings of the 278.72-million Eastvaal shares currently in issue.

Capital costs at Moab are being offset against Vaal Reefs' tax base, boosted by the recent rally in gold prices. The mine is scheduled to start production in 1997, providing replacement output for Vaal Reefs at about 11 grams a ton.

Anglo, Anglo American Gold Investment Corporation (Amgold) and De Beers have been allocated the lion's share of the new serup (88%), followed by Vaal Reefs (90%) and JCI-owned exploration company Free State Development and Investment Corporation (Freddev) with 2.4%.

Freddev, which had a 3.8% stake in Eastvaal before the rights issue, has said that to avoid unnecessary tax charges, it will not distribute its Eastvaal shares but issue options to shareholders instead, which may be exercised in five years' time.

The company's reduced percentage but higher aggregate holding of about 15-million Eastvaal shares is valued at R33m.

JCI has been allocated a 1.5% tranche of the new shares with smaller allocations for Eastvaal's other main shareholders, Lydenburg Exploration and gold-retreat-
ment operation East Dagga. More than 6% of the shares will be issued to other shareholders and "designated persons". They include senior Anglo managers who are shareholders by virtue of participa-
tion in an old share incentive scheme, current option holders and other senior staff.

Most new shares will be issued in the following proportions: 15 Eastvaal shares for every 100 Anglo shares held; 30 shares for every 100 Amgold shares; one for every 100 East Dagga shares; 10.75 for every 100 Freddev shares, and one for every 100 Lydex shares held.
Violence takes toll on Kersaf earnings

LOWER contributions from most of its leisure-related subsidiaries saw Kersaf Investments report a 5% decline in attributable earnings to R164.5m (R181.4m) in the year ending June.

The group, whose major interests are Sun International, Interleisure, offshore division Royale Resorts and Douglas Green Bellingham, increased its turnover by 10% to R1bn from R1.8bn. Executive chairman Buddy Hawton said the “relatively modest rate of increase...reflected trading conditions.”

Operating income was just 2% higher at R27.2m (R18.1m), with margins affected by the tight market conditions.

The increase in borrowing costs associated with Sun International’s capital projects contributed to a 6% decline in pre-tax profit to R395.4m (R422.6m).

Profit after tax was 3% down at R312.6m (R322.2m). But a 15% drop in income from associates—reflecting lower earnings from Royale Resorts—saw total profit after tax drop by 5% to R285.8m (R409.4m). Earnings were down 12% at 211c (240c) a share because of more shares in issue following the previous scrip dividend.

A final dividend of 8c a share was declared, and the full year dividend was maintained at 147c a share.

Royale, which had made a significant contribution to group profits in the previous year, was affected by the international downturn. Hawton said Mauritius was overtraded and business was slow.

The group was still not in a position to give details of Royale Resorts, and would wait until sanctions were removed, Hawton said Royale was negotiating for a development in the Caribbean, and was investigating other areas. He said there was a good chance the group could make another investment offshore soon.

Results were satisfactory against the background of a deteriorating economic situation and violence, which “had a markedly detrimental effect on business and consumer confidence and activity.”

Sun International’s results were “comparable,” Hawton said. Activities of unregulated casinos had been cause for concern for most of the year. After the legal closure of these operations at the end of January, many had reopened.

The hotel industry generally had another difficult year, and overseas tourism was severely affected by the violence. The group’s resorts recorded an average occupancy of 66%, three percentage points lower than the previous year.

Interleisure traded acceptably in overall terms, with revenues 8% higher and attributable earnings 8% down.

Douglas Green Bellingham did not have a good year because of restructuring costs from the merger of Douglas Green and Bellingham. Severe competition and the downturn in the liquor industry were hurting.

Hawton said Kersaf was not expecting a substantial improvement in trading conditions in the coming year. The run-up to the elections was also likely to be a period of tension which could affect business and consumer confidence and activity. But the considerable investment made in the group’s facilities should enable it to show acceptable earnings in financial 1994.

Hawton said Kersaf would like to see more clarity on the future of gaming in a new constitution. It was concerned that regional authorities could be empowered to allow unlimited gambling. Kersaf stood by its assertion that gambling should be linked to an investment which would encourage tourism.
Unbundling gains raise Barlow’s cash

ROBYN CHALMERS and MATTHEW CURTIN

Barlow’s cash pile accumulated through unbundling will grow a further R233m if market speculation on the size of the sale of its stake in NBS to Rand Merchant Bank Holdings is correct.

The sale adds significantly to cash Barlow’s raised in July when disposals to Old Mutual of 7.3% of its holdings in CG Smith, Rand Mines, Rand Mines Properties and Reuwart amounted to R607m (2.2%)

Market sources believe more asset sales may be on their way as Barlow’s continues the streamlining process. Chairman Warren Clewlow promised when he announced the restructuring of the group earlier this month Barlow’s, firmly focused in the heavy industrial sector, has a 17% stake in associate company French Bank of SA, as well as a number of listed and unlisted investments.

Among the main listed investments, according to the group’s 1992 annual report, were small shareholdings in Impala Platinum and Rustenburg Platinum, UK companies Allied Lyons and National Food Holdings and the Small Business Development Corporation and Spanish company Pecanova SA.

Barlow’s said at its announcement of details of its unbundling plans that cash raised would be used “to repay debt and so as to be funded appropriately”.

Market sources ruled out prospects of new acquisitions in the near future, noting that little cash would be left after Barlow’s had repaid its debts.

At the March 31 interim report stage, the group’s cash reserves stood at R1.4bn compared with bank overdrafts and short-term loans of R1.6bn and long-term borrowings of R2.5bn.

However, market sources said the unbundled Barlow’s — whose interests were focused in capital intensive engineering and other businesses linked with gross domestic fixed investment — would require considerable working capital to take advantage of an economic upturn.

Many companies, particularly floundering UK subsidiary J Bibby & Sons, required fresh cash injections to profit fully from economic recovery in SA and Europe.

Clewlow will make a detailed announcement on implementation of Barlow’s unbundling proposals before September 30.
AVF Group shares depressed by Avins

NEGATIVE perceptions about insurance and financial services holding company AVF Group’s investment in Anglovaal Insurance Holdings (Avins) had excessively depressed the share price, analysts said yesterday.

The price had fallen below the level which would reflect the value of its interest in the Board of Executors (BoE).

AVF Group shares closed untraded at 35c on the JSE yesterday, 25c below the level at which they were suspended after July 29. The listing was reinstalled on August 4. The share’s highest level in the last 12 months was 145c in February.

AVF Group holds 86% of Avins, a life assurance company with a majority stake in AA Life and listed Crusader Life Assurance Corporation (Crusader). Avins and Crusader’s shares remain suspended pending the outcome of an actuarial investigation.

However, the companies recently warned that little or no value accrued to Crusader, Avins and Avins was not expected to earn any income from its investment in AA Life in the foreseeable future.

AVF Group’s other major investment is 40% of BoE, whose shares closed at R13.60 on the JSE yesterday, giving the company a market capitalisation of R166.2m. On AVF Group’s 129.3-million issued shares, the value of its interest in BoE is worth about 52c a share.

Even if the value of AVF Group’s interest in Avins is taken to be nil, the shares are still trading at a discount of about 17c to their value based on their BoE holding.

Analysts said yesterday that AVF Group’s share price could be depressed by anxiety about Crusader and AA Life, possibly by a perception that it might have to make some sort of contribution.

“It is hard to imagine where AVF would incur a liability of that size that would not be passed through to Anglovaal,” an analyst said.

However, another analyst said policyholders’ money was also at stake “if a company goes down, it will hurt policyholders. So there may be a moral obligation, if not a legal one, to help out.”

As an example, he cited Anglovaal’s subscription in 1992, with Absa Merchant Bank, for R50m of zero-coupon redeemable preference shares in AA Life.
Good year for Middle Witwatersrand

Anglovaal subsidiary Middle Witwatersrand (Western Areas) increased attributable earnings to R83,9 million for the year to June from R54,1 million a year earlier.

The mining investments company has declared a final dividend of 5,6c a share from five cents previously.

This brings the total payout for the year to 7,2c a share (7c a year ago). Midwits holds investments in companies with interests in the mining industry.

Its business is to provide finance for, as well as participate in, mineral prospecting and mining development — Sapa.
Room cash boost, unbundling for HCL
SERVGro Fu 27/18/93

Needs more leisure time

Activities: Services group with emphasis on the leisure industry. Interests include Price Forbes 48%, Avis 86%, Fedics 48%, Interpark 43%, Interleisure 40%, Teljoy 48% and Nasionale Pers 22%

Control: Sankorp 78%
Chairman: P J van der Walt
Capital structure: 110,4m ords Market capitalisation R580m

Share market: Price 525c Yield 3.6% on dividend, 9.01% on earnings, p/e ratio, 11.4, cover, 2.48 12-month high, 580c, low, 500c
Trading volume last quarter, 236 100 shares

Year to March 90 91 92 93
ST debt (Rm) — — 39.5 39.9
LT debt (Rm) — — 39.9 41.8
Debt/discovery ratio — n/a n/a n/a
Shareholders interest — n/a n/a 0.49
Int & leasing cover 5.2 8.0 7.5 8.0
Return on equity (%) n/a n/a 16.2 17.3
Return on cap (%) n/a n/a n/a 14.9
Turnover (Rm) 628 725 811 921
Pre-int profit (Rm) 86.3 82.4 100.2 117.8
Pre-int margin (%) 13.7 11.4 12.4 12.8
Earnings (c) 39.7 34.6 41.3 47.2
Dividends (c) 16.0 16.0 18.9 19.0
Tangible NAV (c) n/a n/a n/a 255 273

ServGro's first year on the JSE — it listed last August — was solid rather than particularly exciting. Prospectus forecasts were comfortably met, and the share price, at 525c, is useful above the R5 issue price, but it has retreated from the high of 580c, the closest it came to the 600c-650c predicted by some brokers before the flotation.

Attributable income of R50.8m in the year to March was a fifth higher than the comparative pro forma figure for 1992, while EPS and DPS both grew 14%. A slightly lower effective tax rate helped, but pre-tax profit rose 18.6%.

Executive chairman Peet van der Walt says Avis, Fedics, Interpark and Price Forbes achieved particularly good results. Teljoy maintained its profit and Interleisure was marginally down.

Two major holdings, Interleisure and unlisted Price Forbes, contribute about 60% of attributable earnings. Last week Interleisure, facing narrowing margins, reported 8% lower earnings for the year to June. Van der Walt says trading conditions have worsened for activities involved in tourism or otherwise related to air travel, such as hotels, catering and car rental.

ServGro's profits have proved resilient, but Van der Walt cautions that poor trading conditions are expected for most of the 1994 financial year. He says ServGro's budgets were met in the first three months of financial 1994. A lower tax rate should buttress this year's profit. Nonmal EPS growth could be achieved on enlarged issued capital.

Investors looking further ahead will be asking two other questions: what rate of growth is likely compared with cyclical recovery stocks given economic recovery, and what is being done to expand the earnings base through new investments?

As earnings are primarily derived from leisure activities, profits should surge if there is a marked improvement in consumers' discretionary incomes and confidence.

Investments have been made in several ServGro businesses. Price Forbes acquired Willis Faber Enthoven, Fedics continued its modernisation and expansion, and in kitchens at Jan Smuts and Durban airports, Interleisure added 29 screens to the Ster-Kinekor chain, the Avis Wizard reservation system was opened, and Teljoy may provide a service for cellular telephones.

Capital outlays absorbed R24.8m on replacement of fixed assets, R31m on expansion and R18.1m on investments. R18m was received from fixed assets sold. Cash flow appears to be strong, as one would expect from a group mainly involved in services. At year-end liquid assets totalled R128.3m (1992 R116.9m).

The leading company had R45m available for new investments. Equity issues are possible, controlling shareholder Sankorp having indicated it could dilute its 75% stake to about 40%. Van der Walt adds little specific about intentions, except that new investments would preferably go into existing operating companies.

Another factor is the value of ServGro's 22% stake in Nasionale Pers. In the accounts the 2.4m shares are valued by the directors at R35.39 each, totalling around R85m or 15.7% of market capitalisation. A recent report on Nasionale by stockbroker Silvan Barnard Jacobs Mellet concludes that unlisted Nasionale shares should trade at about R58 but says R70 would be a more realistic price.

At R58, the firm valued the stake at 127c a ServGro share (24% of the ServGro share price). A listing of Nasionale — which some analysts think is possible within a few years — would unlock this value. Nasionale holds 29% of M-Net.

ServGro's share, on a 11 4 p e, is fairly valued on immediate prospects, but is worth considering by investors willing to take a two-year view.

Andrew McNulty
**Unbundling Fund**

**27/8/93**

**Activities:** Investment trust holding a wide spread of listed shares.

**Control:** Directors: 38.6% (23.2%)

**Chairman:** JG van der Horst

**Capital structure:** 7.4m ords Market capitalisation R522m

**Share market:** Price R70.50 Yield 2.9% on dividend, 3.6% on earnings. P/E ratio, 27.8, cover 1.2. 12-month high, R75, low, R60.75.

Trading volume last quarter, 27 000 shares.

**Year to March 31**

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<th>'92</th>
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<td>Income (Rm)</td>
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<td>Interest income (Rm)</td>
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<td>19.0</td>
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<td>Net income (Rm)</td>
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<td>17.8</td>
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<td>Earnings (c)</td>
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<td>242.5</td>
<td>249.8</td>
<td>253.6</td>
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<tr>
<td>Tangible NAV (c)</td>
<td>6 462</td>
<td>6 624</td>
<td>8 771</td>
<td>8 209</td>
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</tbody>
</table>

*At market value

**Common Fund Investment**

- **7500**
- **7400**
- **7300**
- **7200**
- **7100**
- **7000**
- **6900**
- **6800**
- **6700**
- **6600**
- **6500**
- **6400**
- **6300**
- **6200**
- **6100**
- **6000**

**SONDJFMAMJJASONDJFMAMJJASA**

**1992**

**1993**

**Emil M 27/8/93**

Comfund stock has grown twice as rapidly — from R2.25 to R70.50. The market value of the portfolio has increased from R22.3m to R60.4m over the period, indicative of its quality.

Even so, the board — and, presumably, majority shareholder Old Mutual — evidently feels shareholders are not getting the full benefit. A cautionary announcement this week states the directors are considering a proposal to unlock the value of the company’s investments for the benefit of all its shareholders through the unbundling of the company.

**Wide investment spread**

The investments are widely spread but include holdings in a number of blue-chip counters.

After additions during the last financial year to Nedcor and Stanbic, which now make up 9.9% of the portfolio, listed shares in the banks and financial services sector account for 15.3% of the portfolio market value.

Industrial holding shares Barlow and Saffron, the latter topped up by 18 000 last year, (both major investments of Old Mutual) now account for a fifth of the portfolio. After Stanbic, SA Breweries (5.5%) is the largest single component of total market value.

The 13 000 Blue Circle were exchanged for 6 000 M&R. Holdings 500 000 Longmile were converted into redeemable prefs and then redeemed. Other additions include Sappi and Randgold.

However, interest and dividends received did not bring in enough cash to finance the R8.7m acquisition bill. Management had to delve into cash resources, which fell from R3m to R2.8m. At year-end, ComFund sold the Randgold for R1.3m. Expenses increased from R396 000 to R497 000, about 2% of net income.

The share portfolio depreciated 7% in financial 1993 against the All Share index’s 1% decline. The index has, however, risen 17.8% since.

At year-end ComFund’s market value was at a 23.5% discount to the balance sheet’s NAV, against the year-ago 28.7%. At the R70.50 price now — up from R65 — it’s only 14%.

The share is the highest priced investment trust on the market. Moreover, tradability is thin, only 27 000, or less than 1% of issued shares, traded in the past quarter. The share should be held until details of the unbundling plan are released.

Kate Ruckton
PEPKOR/PEP/SHOPRITE

Kicking the inflation habit

Lower inflation and political turmoil are hurting profits

Peekor management is struggling with a new economic truth that's now curbing profits - SA's shrinking inflation rate. Largely because costs are rising faster than product prices, the trading margin has been taking a battering.

Deteriorating prospects are indicated in the share price. Peekor's price has fallen by 23%, Pep Ltd's by 33% from the peaks reached in January/February. After being among market leaders, both are now lagging the JSE Industrial index (see graphic).

Changing economic conditions partly explain the weakness. But political instability, violence and turbulent industrial relations have also taken a toll on this large consumer-based group which derives much of its sales from the black market.

Until recently, risk management had been a concept more familiar to bankers or insurance managers than to retailers. Now retailing is fraught with risk. Financial results are being affected by in-store theft, staff intimidation, strikes, arson, hijacked delivery vehicles and payroll robbery. Add the diminution of consumers' disposable income, rising insecurity, a lifestyle threatened by political upheaval and low consumer confidence, and retailing has become a vastly more complex trade.

Peekor vice-chairman Arnold Loww says top management is continuously reviewing three-year plans — though they believe these political and economic conditions are not endemic. Steps being taken to increase earnings faster than the economic growth rate fall within short-term — two to three years — plans and budgets. These are part of unchanged long-term objectives.

Pep is still planning to expand into the black townships. Growth of Pepreef, a spearhead operation which until recently was functioning well in the Transvaal, has been severely impeded. Pep shops in Bophalanga and Kwekwe, for example, trade when they can, there is no intention to close them, but "a lot of pain" is being felt there. These areas are among those earmarked for Pep Stores expansion.

Inevitably, the unrest is affecting financial results. It has permeated Peekor through the violence in black urban townships, through boycotts and labour troubles. The five-week strike at Shoprite/Checkers (Shoprite) in May and June cost Shoprite and the unions dearly.

Trading at Shoprite was good until April, even slightly better than budget. Then came the strike. Peekor chairman Christo Wiese says the real cause of the strike was different from the popular perception. It was not about wages, it arose out of an outdated agreement between the company and the union.

Wiese claims there were outstanding clauses in the agreement which made it almost impossible for management to manage. It provided that notice could be given for its termination and for a new one to be negotiated. Shoprite MD Whitey Basson and his team talked — unsuccessfully — to the union about changing the agreement. The union was given notice that it was to lapse.

Two days before the end of the notice period, the union replied that it would not negotiate a new agreement. Shoprite lapsed the old one and the union called the strike.

While the strike affected Shoprite's performance, says Basson, the consumer boycott, which happened at the same time, was more costly. Pfferage was high; inexperienced casual labour was used. Five weeks passed before negotiations broke the strike.

Wiese contends the results were not all negative. Peekor's union relationships have emerged stronger, particularly on the wages issue. A week after the strike, Shoprite satisfactorily concluded wage negotiations.

A further indication of a healthy Peekor-union relationship is union acceptance of co-responsibility in Pep Stores for shrinkage. In the first such contract in SA, productivity-linked bonuses have also been linked to shrinkage and turnover. Union officials are working with Pep to address productivity and stock loss. Moreover, the union has apparently accepted wage differentiation between urban and rural staff.

Wiese reckons there is greater acceptance by the union that for a company like Pep, conditions are different when the inflation rate is falling. Moreover, he feels it is recognised that Peekor rescued Checkers from near insolvency. "It (Checkers) was going down at such a pace, 20 000 people would have lost their jobs if we hadn't taken it over.

Shoprite is also battling against a re-launched and more price-aggressive OK. Until the recent management changes, says Basson, OK's prices were higher than Shoprite's and Pick n' Pay's. Its margin was about 2% above the others, now, he says, OK has dropped margin by at least 2% — "They will end up worse off if they don't get the additional turnover," he says.

Basson, of course, wants to retain his own customers and prevent OK from gaining market share. Shoprite's own margins will suffer as long as the price war lasts.
Basson feels it won't be too long. He contends that as Shoprite's margin has always been low, it will not be greatly affected.

Basson considers OK was lucky that its re-launch coincided with Shoprite's strike and boycott, as it could gain customers from Shoprite. He adds that statistics show OK is only increasing turnover by 5%-7%.

Basson barely considers Pick 'n Pay to be competition, as it operates predominantly in the A/B income market — unlike Shoprite. The latter's attraction is its low margin. Pick 'n Pay retains its loyal following on gross margins, which are rising. Basson puts gross margin in the supermarket industry at 15%-18%, with Shoprite at the low end.

All this has taken its toll on Shoprite's profitability. Last year, it made R15m pretax for the first half, this year it may be less. "The first half does not look good. As I sit here, I'm worried," says Basson. He points out that growth in food sales has slowed, and volumes have contracted by 5%-8% since the beginning of the year.

Aside from the strike and boycott, he is pleased with Shoprite's internal progress. Efficiencies, productivity and stock turnover are improving, leases are "coming right" and overheads could be pared further.

While there is scope for guarded optimism, prospects for Pepkor's short-term earnings growth are not good. "We've always felt that when the economy deteriorates, we could capture business from consumers trading down. That's not helping us enough now," Louw says. "It's the first time in my career with Pep that I have seen Pep under sales pressure."

Especially on the clothing side, the rate of increase in the group's year-on-year buying prices has recently been considerably lower than the official PPI rate.

Louw puts this at about 6% for 1992 and 2%-3% for 1993. Sales prices are linked to production price increases. Normally, he says, lower prices would bring extra volume, but that isn't happening. Yet other costs such as labour, rent, electricity and transport continue to rise at the CPI rate of 10%-12%.

This is placing extreme pressure on profitability of Pep Ltd (the listed company that includes the Pep Stores chain).

Pep Ltd MD Tony Haughton says the chain's expenses have been tightly managed and there is little room for further trimming. Labour demands are not easily moderated by such arguments.

To retain and improve focus during the unrest, Haughton has sectionalised the group into stores affected by strikes and boycotts, those affected by unrest and violence, and those unaffected. This includes detailed analysis to meet customers' needs. Haughton says this programme will involve substantial costs, time and effort as well as additional information systems. If successful, he says, it could improve productivity by 25%-40%.

Haughton says Pep Manufacturing, with 10 large production plants, is under pressure from several directions. For the first time, its results are likely to drag down group profit. Turnover is hampered because the blanket market has collapsed, and, because of competition, prices can rarely be increased.

Pep Manufacturing has for many years worked at full capacity. Turnover growth has depended on improving productivity and profitability on efficiencies. With prices up 2%, and with costs rising, the margin is squeezed. Earnings will be down this year.

Running the 40-store operation in Scotland has emphasised the need for change in the Pep chain. Systems more sensitive to the customer's needs have been installed, giving the managerial information. Though still losing money, the Scottish operation is showing signs of a profitable future, says Haughton. They are moving "staggering" volumes of basic items like T-shirts, underwear and socks.

"It could do much better than we ever hoped for," says Haughton. "We're realising how much of a learning process we're in."

The greater volumes require a change in distribution cycles to much shorter ones. This calls for different distribution methods and purchasing cycles.

It's hoped that Pep's South African outlets will break even this year but, with the UK economy still weak, this is improbable. The chain is gaining market share, and this year turnover is expected to exceed R50m.

Until the UK operation has reached potential, the group is unlikely to venture elsewhere in the world. Wisus believes about 200 stores could be opened in the UK. However, Pepkor may look at manufacturing in another country. Much will depend on the new SA management. Pepkor has been looking for manufacturing opportunities in the Mozambique, Botswana and even in the East.

High-income retailer Stuttafords is trading better now than a year ago, says Carol Stassen, the Pepkor director whose responsibilities cover unlisted Stuttafords, Ackermans and listed companies Smart Centre and Cashbuild.

Stuttafords' takeover of the three Garlicks stores last year was important. With the greater man power, all three Garlicks sites were converted to Stuttafords. There is now marketing and merchandise uniformity, and strong brands are being accepted by the stores' A/B income group customers. But Stassen believes growth prospects are limited because Stuttafords' market niche is not large enough to support much expansion.

For Smart Centre, like many clothing retailers which market most of their merchandise to blacks, trading is difficult. It has been forced to reduce margins and, though sales are greater than a year ago, bad debts have increased and profits are suffering.

The 130-store Ackermans chain has been successfully upgraded. Sales per customer are much higher than a year ago, but sales/m² are still below budget. Even after large capital spendings the chain is battling to make profits. But once the spending programme is over, says Pepkor financial director Cornus Moore, immediate rewards are expected.

Cashbuild, the DIY chain, went through an extremely difficult period last year. Stassen says the chain has increased both turnover and margin. Though budget is within reach if trade improves, it has not yet been attained.

Overall, Wisus says Pepkor's second six months will be better than the first, and better than the second half of last year. "We are stockpiling up in anticipation of a good second six months," he says. "It's a decision taken mostly on faith that things cannot get worse. We have to have the goods in store and hope the customer has the money to spend."

In the best position

Wisus remains optimistic. He believes disruptions may last for another year or so, but it has not caused Pepkor to deviate from long-term plans.

Wisus feels similar perceptions are being expressed by JSE investors who, he says, are looking over the hump.

"We take the brunt of the turmoil because we are in the areas worst affected. But we are also in the best position to take advantage when things improve. The direction of our businesses remains right."

However, the price weakness shows that the JSE is less sanguine about group prospects. Management is evidently struggling to produce 1994 group earnings as good as last year's.

With liquidity high — Pepkor still holds more than R30m cash, the annual dividend should be maintained. But, even after the price falls, the share is still not cheap at 2% dividend yield and 18.3 earnings multiple.

Gerald Hirsch
Report on privatising refused

Maitland abattoir losing R1.5m

CLIVE SAWYER
Municipal Reporter

"The council has decided to keep the abattoir and has also decided to privatise it."

Councillors voted 20 to five yesterday against a motion by Larry Wiesenburg asking the executive committee to report on what was being done to privatise council services.

Facing defeat, Mr. Wiebeng told the Democratic Party caucus the wording of his motion had been taken from DP policy documents, but the DP caucus voted against it.

Mr. Wiesenburg said the council should press ahead with privatisation for the sake of efficiency and to improve its image.

Joyce Gibbs said the call for privatisation had come too late.

Leon Markowitz said it would be "foolish in the extreme" to support Mr. Wiesenburg's call.

Eulalie Stott said trade unions were not confined to the city council.

Privatisation was not a cure for all ills, she said.

Peter Muller said the council had already decided in principle in favour of privatisation and all Mr. Wiebeng had asked for was a progress report.

"The DP caucus has been told to oppose this is investigating privatisation of the fresh produce market and the public open space at Clifton."

"The DP is selectively myopic — it chooses to see what it wants to."

Mr. Muller said business circles regarded the way the city was run as a joke.
Stake offered in Waterfront

29/1/93

TRANSNET is negotiating with investors interested in buying properties on Cape Town’s Waterfront. TRANSNET owns the V&A Waterfront Company.

James Ramage of its financial department says the talks with institutional investors do not mean that TRANSNET needs money. "TRANSNET is capable of raising its own funds. We have never discounted the prospect of selling completed projects. The institutions would buy a predictable stream of income without the risks of development.

TRANSNET has spent about R220-million on the Waterfront, a figure roughly equalled by investment from the private sector.

Mr Ramage says negotiations are also taking place with investors about future developments (2.32).

Mr Ramage sees no reason why the Waterfront should not seek a JSE listing later.
Altech signs up top team for networking drive

By JULIE WALKER

Altech Industrial hopes to increase its share of the fast-growing networking market after recruiting two high-calibre staff members for its Data division.

Running the division will be Jan Spies, who spent 26 years with Datakor, Graham Bell, formerly of Siltek and Grumaker Data Systems, becomes managing director of LAN Designs.

Chief executive Craig Venter says Altech Industrial cannot afford to miss opportunities in the high-growth networking market.

LAN Designs represents network groups Novell, SMC, SCO and DCA.

The focus will be on the VAR arm. This stands for value-added reselling, or systems integration, says Mr Venter. Altech intends to enter a venture with a major group and benefit from its expertise.

The third arm of Altech Industrial is Isonet Data, which will provide up-market technical products, such as management systems.

Last in the quartet is Altech Smart Card Technologies. Mr Venter says it won a tender for 20 000 cards from Telkom.

Altech has an agreement with Schlumberger, the world's largest manufacturer of smart cards and of systems infrastructure, such as terminals and meters.

Smart cards can control free spenders. A holder may be poor and entitled to a subsidy on bread, medicine, education or electricity. Credit loaded on the card for them may not be used at a bottle store because the reader will reject it.

Mr Venter is the chairman of another Altron company, Axipage, which aims to be a service provider for cellular telephones.

Smart subscriber-identification module cards (SIM) for use with cellular phones can be provided under group.

Mr Venter says Altech Industrial's Data division will turn over about R200-million in its first year. Some businesses will trade profitably from the start and the rest will follow after incurring start-up costs.
Dividend lifted to 24,5c

Creditable performance from McCarthy Group

RESULTS for the year to June are gratifying, says CE Terry Rosenberg

BY STEPHEN CRANSTON

In the first year since the merger of motor dealer McCarthy and furniture retailer Prefcor, earnings per share of McCarthy Retail on a pro forma basis rose by 5,8 percent to 57,6c and those of its pyramid McCarthy Group by a similar percentage to 76,3c.

CE Terry Rosenberg says results for the year to June are gratifying, given the difficult circumstances prevailing in the durable and semi-durable markets.

The McCarthy Group dividend has risen from 21c to 24,5c, though the dividend of McCarthy Retail, previously Prefcor, fell from 30c to 19c.

Rosenberg says, however, that McCarthy Retail shareholders have received the added benefit of enhanced stability in convertible debenture interest payments as a result of the increased profit base.

McCarthy Motor Holdings' sales of new units fell by one percent. But the division held earnings to the previous year's level.

Its share of the new-vehicle market fell from 13,7 percent to 13,1 percent, largely as a result of the Toyota strike at the beginning of the year.

Poor supplies from Volkswagen for three months and the disposal of two operations.

Rosenberg says the group should benefit from the trend towards buying down further interest payments as a result of the increased profit base.

But Rosenberg is confident the Game formula will work well, once normal trading patterns resume.

Savella Transvaal had a bad year for management-related reasons, but there were a number of closures and subsequent write-offs.

Prefcor's operating income fell by 9,4 percent, with satisfactory performances from the six other divisions, including Beares and clothing chain Bee Gee.

The three-year store opening programme in the furniture division ended in April.

Earnings were improved by a R12,2 million release of the deferred tax provision following the reduction in the rate of corporate tax from 45 percent to 40 percent.

The tax bill fell from a pro forma R90,3 million to R44,0 million and net income rose from R43,3 million to R53,2 million.

Asset management improved and net current assets fell from R153 million to R129 million.

Gearing fell from 24,3 percent to 19,3 percent.

Rosenberg says the merger was in the interest of both sets of shareholders.

McCarthy Group shareholders have seen significant increases in earnings and dividends, while Prefcor's now have a far stronger balance sheet and a springboard for assured long-term growth.

The McCarthy Retail senior convertible debentures have been converted from 480c before the merger to 670c now.
Nestlé in Dairy Maid deal

MARIA KLEIN

INTERNATIONAL food conglomerate Nestlé will acquire 50% of local food group ICS Holdings' share in ice cream producer Dairy Maid. Nestlé will pay ICS R50m cash and the two will form a new joint venture company, which they will both manage. Operating management structures will be retained.

ICS said yesterday the deal was subject to finalisation of an agreement which would give it access to the Nestlé group's ice cream and frozen confectionery products, trademarks and technical assistance.

ICS would gain a partner which had world-class technical expertise and experience in industrialised and developing countries. Nestlé would gain access to SA's dominant ice cream producer.

The deal is ICS's third recent joint venture. In June, ICS and Foodcorp announced two deals for joint control of their processed meat interests and ICS's frozen foods distribution company, The Cold Chain. The net result of both deals was a R15m cash payment by Foodcorp to ICS.

The new chilled prepared meats company would have annual sales of around R600m. In July, ICS's Dairybelle operation and Nels-Russ Dairy Products pooled some of their milk and fruit juice interests to form a joint venture company with an annual turnover of about R250m.
Squeezed margins fail to impede Grintek

GRINAKER's listed electronics company, Grintek's profit margins suffered in the year to end-June 1993, but earnings climbed 26% to R34,3m (R26,8m) after a substantially lower tax bill.

Earnings were influenced by the reduced tax rate, utilisation of tax losses from previous years, export incentives and a 55% increase in the group's share of associated companies' earnings to R4,2m (R2,7m).

Turnover increased 11% to R1,38bn (R1,24bn), but operating profit fell 7% to R93,2m (R74,2m), reflecting lower margins. Chairman Jack Sauer said the recession and economic and political turmoil had intensified competition, with inevitable effect on profit margins.

Pre-tax profit was 9% lower at R78,8m (R81,3m). The tax bill dropped by nearly half to R16,6m (R33,7m) and taxed income was 22% higher at R62,2m (R44,6m).

The dividend for the year was unchanged at 3,7c.

The final dividend was 2,7c (2c). Earnings amounted to 17,6c (13,8c) a share. Extraordinary losses of R30,5m related to goodwill written off in terms of group accounting policy. The write-off had no adverse effect on liquidity.

Listed information technology subsidiary Silek lifted earnings by a quarter to R47m. Reduced margins lowered pre-tax profit 6% to R68m, offset by increased contributions from associated companies, particularly Q Data, and a lower tax rate.

silek's systems division performed well, with Hi Performance Systems, the sole SA distributor for Hewlett-Packard products, again producing good results. Networking companies had a good year, as did software firms.

Sauer said new strategies were implemented to address changes in information technology. Operations needed to be repositioned in the market. (232)

Grintek's other major subsidiary, Grinaker Electronics, raised its earnings 37% to R6m after maintaining turnover at R256m.

A 32% decline in pre-tax profits was alleviated by tax incentive allowances. Specialised systems engineering operations achieved good results, but poor performances were recorded in project management, agencies and international operations. Manufacturing facilities remained underutilised.

Penetration of new markets had not yet replaced those lost when defence expenditure was cut back.

However, development of new products and systems in radio tracking, broadcasting, laser measuring devices, satellite and radio communication would enhance recovery efforts, he said.

Grintek subsidiary Cellstar Cellular Networks had applied to operate a cellular mobile telephone service in SA.

Sauer said the group could expect only modest growth in operating income in the current financial year.
UNBUNDLING OF GENCOR'S NON-MINING INTERESTS

1. RESULTS OF GENERAL MEETING
At the Gencor Limited ("Gencor") general meeting of shareholders held on Tuesday, 31 August 1993, the ordinary resolution, as set out in the notice of the general meeting, relating to the unbundling of Gencor's non-mining interests, was approved by the requisite majority of shareholders. In terms of the unbundling, Gencor will distribute to its ordinary shareholders its holdings in Engen Limited, Genbel Investments Limited ("Genbel"), Mailhold Limited and Sappi Limited ("the affected shares"), by way of a dividend in specie.
All the conditions precedent to the unbundling have now been met.

2. UNBUNDLING RECORD DATE
The last day to register in order to be able to participate in the unbundling of Gencor is Friday, 5 November 1993.
Shareholders who have acquired ordinary shares but who have not yet registered them in their names, should ensure that such registration takes place on or before the unbundling record date in order for them to participate in the unbundling.
All dealings on the Johannesburg and London Stock Exchanges in Gencor ordinary shares for the week ending Friday, 5 November 1993 will be for immediate settlement.

3. PROPOSED OFFERS IN RESPECT OF ODD LOTS ACCRUING TO SOUTH AFRICAN RESIDENT SHAREHOLDERS
As previously announced, Genbel will, other than in respect of its own shares, make an offer to Gencor ordinary shareholders resident in South Africa and registered as such on Friday, 5 November 1993, to facilitate the rounding to whole multiples of 100 affected shares of any such shareholders' odd lots. As regards Genbel's own shares, Sankorp Limited ("Sankorp") will make such an offer. The terms and further details of the odd lot offers will be published, and an offer circular posted to such shareholders on or about Monday, 15 November 1993. These offers will open on or about Monday, 15 November 1993 and close on or about Friday, 3 December 1993.

4. PROPOSED SANKORP FACILITY FOR NON-RESIDENT SHAREHOLDERS
As previously announced, Gencor has procured that Sankorp will make a facility available for Gencor non-resident ordinary shareholders. This facility will, in effect, enable such shareholders who elect to utilise it, to sell their pre-unbundled Gencor ordinary shares to Sankorp, on condition that Sankorp will, according to a pre-determined formula, transfer to them as consideration after the unbundling, an appropriately greater number of post-unbundled Gencor ordinary shares in registered form. Further information pertaining to the facility, which will be administered by Smith New Court Corporate Finance Limited on behalf of Sankorp, will be published on or about Friday, 24 September 1993.

Johannesburg
1 September 1993

Gencor Limited
Registration number 01/1232/06
Incorporated in the Republic of South Africa
Changes at Gencor

Gencor takes over Gemmim's mining, metals and minerals interests with immediate effect, Gencor chairman Brian Gilbertson said yesterday.

Gencor's "big-bang" unbundling, scheduled for today, also sees Gencor Bepherend (Genuheer) cease to be Gencor's controlling company.

There are a number of changes to the Gencor board:

- Genbel chairman Tom de Beer, Sappi executive chairman Eugene van As and corporate consultant Jace Fouche resign from the board.
- Sankorp chief executive Markus Dahlg and Sankorp general manager Derek Hunt-Davis remain non-executive directors. Rembrandt MD Thys Visser joins the board as a non-executive director.
- Malbok executive chairman Grant Thomas and Engen chief executive officer Rob Angel remain on the board as non-executive directors.
- Gengold MD Gary Maude and Gemmim Minerals MD Fred Roux have been invited to join the board as non-executive directors.
- Samancor MD Mike Salamon joins the Gencor board as an executive director.

--- Sepa.
Unbundled Gencor streamlines board

MINING house Gencor has restructured its board as part of the unbundling process due to be completed next month.

The restructuring simplifies the board, bringing in two new members while leaving the door open for further non-executive appointments. It follows yesterday's approval by shareholders of the unbundling.

In terms of which Gencor will pass on its shareholdings in Engen, Genbel, Sappi and Malhold.

The reconstituted board includes Eskom executive director Mick Davis, who joins Gencor as finance executive director next year. He will also take over the chairmanship of Trans-Natal.

Impala Platinum MD Mike McMahon, Samancor chief Mike Salamon and minerals head Fred Roux also join the board.

The entire board of former holding company Genbeecher will resign on November 6, the day after the company is wound up.

Rob Angel and Malbak executive chairman Grant Thomas have been drafted in as independent non-executives. Genbel chairman Tom de Beer, director Jaco Fouché and Sappi executive chairman Eugene van Rensburg, who will resign from the Gencor board.}

Gencor B/May 1993

Gencor wants to structure its non-executive board in line with recommendations from the UK Cadbury committee on corporate governance.

Rembrandt Group MD Thyss Visser joins as non-executive director, and at least two more non-executives will be appointed.

Sankorp director Marissus Daling and Sankorp's Derek Hunt Davis remain as non-executive directors, while Engen MD
Merger of the McCarthy Group’s motor interests and the former Prefcor’s durable and semi-durable trading activities seemed an unlikely mix a year ago, but sound maiden results from the new group show the marriage is bedding down and, with some qualifications, seems to have good prospects.

Harder to read are the shares of McCarthy Group and McCarthy Retail. Since the merger the former has become an investment holding company with an 88% stake in McCarthy Retail’s ordinary share capital, and about a third of its senior debentures plus about three-quarters of its junior debentures.

On ratings alone, the shares appear cheap, especially when compared to the average yields and p/e ratios in the retail sector where both McCarthy groups are now listed. The problem, however, is that they are not directly comparable to any other shares in the sector. Ratings in the motor and furniture sectors are also not particularly helpful.

The general feeling among analysts, however, is that McCarthy’s share ratings are low, and if the slump in consumer spending is at or near the bottom of the cycle, they could appreciate sharply next year. Any clear signs of an uptick in private consumption expenditure could be a good signal to buy.

Certainly, the group has positioned itself well for an increase in consumer spending. Despite depressed markets, which McCarthy’s CEO Terry Rosenberg says plunged after

**UP AND DOWN**

<table>
<thead>
<tr>
<th>McCarthy Group</th>
<th>1992</th>
<th>1993</th>
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<tbody>
<tr>
<td><strong>Year to June 30</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxed profit (Rm)</td>
<td>99,9</td>
<td>116,1</td>
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<tr>
<td>Attributable (Rm)</td>
<td>74,0</td>
<td>77,3</td>
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<tr>
<td>Earnings (c)</td>
<td>72,7</td>
<td>76,3</td>
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<tr>
<td>Dividends (c)</td>
<td>21,0</td>
<td>24,5</td>
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</table>

<table>
<thead>
<tr>
<th>McCarthy Retail</th>
<th>1992</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover (Rm)</td>
<td>4,38</td>
<td>5,28</td>
</tr>
<tr>
<td>Operating income (Rm)</td>
<td>235</td>
<td>213</td>
</tr>
<tr>
<td>Attributable (Rm)</td>
<td>84,3</td>
<td>89,2</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>54,4</td>
<td>57,6</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>30</td>
<td>19</td>
</tr>
</tbody>
</table>

† Preliminary figures, assuming the merger between the McCarthy Group and Prefcor Holdings had been concluded one year earlier. Dividends reflect actual figures for 1992.
Path to independence

Unbundling brings many changes, not least the composition of the boards of directors of affected companies. Gencor chairman Brian Gilbertson has just announced what may be far-reaching alterations in the structure of the mining house's board.

The most prominent and immediately eye-catching is that Eskom finance director Mick Davis is to take charge of Gencor's finances from the beginning of 1994. In addition, he's to be chairman of Gencor's coal mining and export arm, Trans Natal, "after an appropriate period of orientation".

The second notable appointments are those of Gemnim directors Gary Maude and Fred Roux. Maude's appointment comes just as Gemnin's role as the depository of the group's mining, metals and minerals is terminated. Gencor itself will take responsibility for these aspects in future and Maude will retain his executive control over the gold interests.

Roux will remain responsible for Gencor's mineral interests, in particular its substantial position in the new Alissaf project.

Other changes include the appointment of Rembrandt Group MD Thys Vasser and the retention of Grant Thomas (Malbak) and Rob Angel (Eugen) as non-executive directors. Tom de Beer, Jaco Fosche and Eugene van As will resign.

Davis' selection comes soon after his disappointment in the race for the CE's job at Eskom, for which he was seen by many as the most acceptable successor to Ian McRae. It certainly seems clear Davis was the choice of Eskom chairman John Maree, though in the competition which developed subsequently that may have proved a hindrance. In any event, Davis let it be known he would be looking for an alternative ballet after Eskom's council selected Allen Morgan.

David Ginslan
Deregulators head for a showdown

By CIARAN RYAN

The deregulation lobby is on a collision course with the Government over agricultural reform.

The Organisation of Livestock Producers and Sunnymede Group, which lobbies for policy reform and appropriate regulation, say the Government-appointed Policy Evaluation Committee (PEC) plans to recommend replacing one form of single-channel marketing with modified centralised control.

There are fears that the free-market recommendations of the Kassier report will be largely ignored by the PEC when it tablest its report this month. The PEC denies the charge. (232)

PEC secretary Barth van der Merwe says: "The Kassier report will form an integral part of the PEC recommendations, but we have also taken into account other submissions. The Kassier report has not been rejected in toto."

Mr van der Merwe says the report will be available for discussion.

Mr van der Merwe says the PEC is made up of trade, consumer, producer and government representatives.

Chris Daroll, executive director of Sunnymede Group, says that if the PEC findings become policy, it will amount to unilateral restructuring.

Others to question the PEC's credibility and legitimacy are producer organisations, Cosatu, the ANC and the Housewives League.

Miss Daroll says: "It appears the PEC has operated according to a hidden agenda due to the non-disclosure of process followed in the nomination of its members."

Mr van der Merwe says the PEC is inviting submissions from interested groups, but no political organisations are represented on it.

"It is the prerogative of the government of the day to decide on policy matters."
By JULIE WALKER

GRINTEK looks a cheap way into Siltek

Grinteck has two components — 60% of listed Siltek and
95% of unlisted Grinaker Electronics. Grinteck's market capitalisation at
R10 a share is R222-million.

The market value of its 30.4-
million Siltek shares of R3
is R258-million.

Take Siltek out of the Grinaker
share price and all Grin-
tek's other assets are valued
at R10-million. They earned R6-million in the
past year and are conservatively worth R5-million.

The Grinaker balance sheet at
June 30 shows net assets
value of R10, but this is a
contrived number. The
"balance sheet counts in the
value of Siltek subsidiary's invest-
ment of 43% in Q Data at
R24-million when its market value at that date
was R72-million and is
now R54-million.

Q Data's earnings rose by a
third in the past year and
Siltek's by a quarter.

Grinteck raised earnings a
share by 26% in the year to
June, largely through fav-
vourable tax. Turnover
was 11% up at R138-bal-
lion, but operating profit
dropped 7% to R69-million.

Chairman Jack Sausset says
the dividend was main-
tained at 2c, because
"grinteck needs to conserve
cash in case economic recov-
ery faltered."

Grinaker Electronics' earn-
ings climbed by 37% to R5-
million off maintained
turnover of R235-million.
Unibank hones its target

UNIBANK, which prospered on the foundations of the 130-year-old British Kaffrarian Bank, is increasing its capital base by more than 60% in an attempt to become an important niche player in financial services.

Heavyweight shareholders have put up an additional R20-million to enable the bank to support assets of more than R600-million. The injection lifts Unibank’s capital base to R335.5-million.

Managing director Gerrit van der Merwe says “This marks the beginning of our next growth stage—from small bank to significant niche player.”

After the rights issue, Unibank’s principal shareholders will be First National Bank (26.01%), Fedlife (24.54%), EGI Chapman (17%), OK Bazaars (10%) and Yabeng (10%).

The Bophuthatswana National Development Corporation (BNDC) and Fabcon have sold their 7% stakes. Fabcon is concentrating on its investment with FNB in Future Bank and the BNDC stake has gone to listed investment holding company Yabeng.

Mr van der Merwe says that as more people use banks, new risks emerge.

By CHERYLNE IRETON

“To be successful, we must have a larger base to carry that added risk.”

Unibank’s target is a capital base of R100-million in the next three years. It will then seek a JSE listing.

For the time being Unibank will continue to keep 40% of its assets in short-term lending. This is the bank’s core business and includes 12- to 60-month financing of movable assets.

Another 40% of its business is in the private label credit-card market. Unibank has 150,000 card holders—many through its Bonus Card scheme.

The remaining 20% of its funds will be aimed at the mortgage market. This includes exposure to the commercial market and will soon include housing loans of between R250,000 and R500,000.

Mr van der Merwe says, “The typical borrower will require other services like insurance and vehicle finance. Our intention is to make the package profitable rather than the individual product.”

“We are not trying to reinvent the wheel. Where possible we will use the existing banking infrastructure for things like savings accounts. But in certain areas we are seeking clients who feel comfortable outside the large-bank environment.”

“We will be able to serve that client quicker and more effectively than some of our competitors can.”

He believes that as in Zimbabwe, banking will be seen as the catalyst for upgrading living standards.

“There is a huge educational problem and there is no doubt that our risk profile will change. We will have to manage our risk prudently. We are sticking to our rule that no single borrower has more than 10% of our capital.”

Every R100 Unibank lends is secured by assets of at least R10. This compares with a Reserve Bank requirement of R6 for every R100. Although the Reserve Bank will lift its requirement to 8% by 1996, Unibank will maintain its 10% rule.

In the 10 months to July, Unibank made a taxed profit of R5.5-million. Its assets were R272-million compared with R202.5-million at September 30, 1991.

The return on investment was 1.65% at the end of July.
COMPANIES

Unibank gears up for rights issue

UNIBANK has finalised terms for a rights issue which will take its capital to R52.5m.

"This marks the beginning of our next growth stage," said MD Gerrit van der Merwe. "Now we are looking at a capital base of R106m in the next three years."

Unibank acquired the assets and liabilities of the 136-year-old, King William's Town-based British Kaffrarian Bank three years ago.

Van der Merwe said the current capital base could support assets of more than R600m without exceeding cautious parameters.

The major shareholders in Unibank would change slightly after the rights issue, but First National Bank would still hold 22.1% Fedelco's holding would be 24.41%, E.G Chapman's 17%, OK Bazaars' 10% and Yabeng Investment Holding Company, which has taken over the Bophuthatswana National Development Corporation's interest, would hold 10%.

Assets of R230.2m at the end of the first year, September 30, 1991, grew to R357.8m last year and in the first nine months of the current financial year topped R432m.

Unibank ranked second in Arthur & Peat's 1992 survey of the top ten banks' return on assets with a figure of 1.62%.

Van der Merwe said Unibank was aiming for a 22% to 25% return on shareholders' funds, but this had been lower in the growth phase. It had nevertheless improved from the first year's 14.4% to 18.17% at the end of the first nine months of the current year. Net income after tax improved from R1.7m in the first year to R4.5m last year and the bank was looking at about R6m this year, he said. — Sapa
Core development capital focus for new-look Genbel

MATTHEW CURTIN

INVESTMENT company Genbel could emerge as a financial group focused on a sizeable trading business and a core development capital portfolio after its post-unbundling rethink, says MD Anton Botha.

Shares in Genbel have slipped more than 10% in the past week amid concern about the company's future as it prepares to sever its ties with mining conglomerate Unsen.

The stock fell to a four-month low of 790c on the JSE on Friday after a disappointing set of year-end results. The commodities focus of Genbel's investments restricted earnings growth to 5%.

The falling share price has widened the discount to which the stock trades to Genbel's net asset value, which climbed to 797c a share at June 30 from 704c the year before.

Botha said Genbel had made good progress in defining the parameters of its core businesses, even if its ultimate structure and strategies were not completely clear.

Genbel had two distinct functions as an investment trust and a trading house -- through wholly owned subsidiary Unsen. This was the platform from which the company had to develop a new role given that it no longer Gencon's investment arm.

"The message from our institutional shareholders, who make up 92% of our shareholding, is two-fold. They don't need Genbel as a subcontractor fund manager duplicating their blue-chip investments and they want an investment vehicle which is going, at the very least, to outperform the all share index," he said.

As an investment trust, Genbel had added value to its mining-based portfolio but the unexpectedly prolonged trough in commodity prices had ensured that the investments underperformed in recent years. No longer tied to Gencon, Genbel would find it easier to restructure.

"It doesn't make sense to put the bulk of our portfolio into shares which the institutions would pick themselves. We want to do more than just outperform the JSE and we will set ourselves demanding targets," Botha said.

Genbel would seek investment opportunities in the development capital arena, whether it be in a project like the R7.2bn Alusaf smelter expansion or in emerging industries such as cellular telecommunications.

Genbel would also capitalise on the success of Unsen, whose investment returns averaged 30% a year in the past four years. The question was how big Unsen could grow without pre-empting its returns, the product of the efforts the company put into risk management. Genbel had injected R100m worth of the assets it acquired in the unbundling into Unsen.

Genbel's annual report, released last week, shows the extent to which its focus on commodity counters has already been diluted in the unbundling exercise. At the year-end to June, Engen, Sappi, Genbeheer, Impala Platinum and Oryx topped the investment list, but Genbel had acquired significant stakes in Murray & Roberts, Malbak and Abasa.
Libvest offers investors a capitalisation award

LIBERTY Investors (Libvest), which has an indirect interest in assurance group Liberty Life Association, has declared an interim capitalisation share award worth 12,5c a share, based on Friday’s closing share price, and a cash alternative of 12c a share for the six months to August.

Libvest owns 50% of the equity of unlisted Liblife Controlling Corporation, which in turn owns 52,4% of Liberty Holdings (Libhold).

Libhold owns 52,4% of Liberty Life Association.

Libvest’s capitalisation award follows an earlier announcement by Libhold that it would award capitalisation shares in the ratio of 1,25 new Libhold ordinary shares for every 100 Libhold shares held.

Libhold shareholders may instead elect to receive an enhanced interim cash dividend of 220c a share.

Libvest will receive shares in Libhold or an interim cash dividend through its interest in Liblife Controlling Corporation.

Libvest is, therefore, offering its own shareholders the choice between a new Libvest share for every 100 Libvest shares held or an interim cash dividend of 12c, 50% higher than the 1992 interim dividend of 8c a share.

Libvest shares closed at R12,50 on Friday.

Libvest chairman Donald Gordon said the dividend for the second half is also expected to be no less than 12c a share.

"It must be stressed that this enhanced interim dividend and capitalisation award must not be assumed as a precedent and will not necessarily be continued in the future," he said.

In the six months to August Libvest’s taxed profit attributable to shareholders was R2,2m, 18,3% above the R1,97m shown in the same period in 1992. This translated into earnings of 13,8c (13,2c) a share.

Libvest’s total assets at August 31 were R2,2bn, against R1,97bn in the same period in 1992, equivalent to a net asset value of R10,54 a share, against R9,74c previously.

Charlotte Mathews
Dimension Data expands into new arena

JSSE-listed Dimension Data said on Friday it had acquired 25% stake in the Digital Networking Holdings group, including its subsidiaries, Digital Networking and Choice Communications, for an undisclosed sum.

The acquisition is effective from September 1 and will bring Dimension Data into the DEC networking arena.

Digital Networking MD Allan Cawood said the move had strategic importance for Dimension Data and Digital Networking Holdings.

He emphasised that the companies would continue to operate independently. "Dimension Data's investment has given it access to the skills and product resources necessary to address the burgeoning DEC market which is expanding rapidly in the wake of DEC's direct presence here."

Cawood said Digital Networking Holdings, in becoming part of a JSSE-listed company, would gain the financial credibility needed to strengthen its position as a key player in the networking market.

Choice Communications MD Charles Osborn said, "While we will continue to focus on the design and implementation of communication solutions for DEC users, we will also grow our existing networking and systems integration business. Our focus will be on providing solutions which add value to our customers' businesses."

"To assist us, we will draw on the resources — both technical and product — within the Dimension Data group," he said.

Osborn said Choice would follow an operating and marketing strategy involving traditional reseller channels in SA.

Dimension Data group chairman Jeremy Ord said Dimension had always recognised Digital Networking as a force in the networking industry.

"The investment will strengthen our coverage, enhancing Dimension's support infrastructure within the DEC sphere," he said.

A new management board for Digital Networking Holdings has been constituted. Members are Allan Cawood, Charles Osborn, Alan Sutten and Andrew Turnbull.

Ord and Dimension Data marketing director Richard Came are also expected to join the board.
More companies than ever facing risk of insolvency

BY STEPHEN CRANSTON

As much as 13 percent of JSE industrial companies have a high risk of insolvency, according to the annual analysis by Status Corporate Ratings.

This is an increase from 10 percent a year ago.

The Status model has predicted insolvencies up to three years ahead.

Its predictions have been proved correct for many recent liquidations, including those of Basil Starke, Tollgate, Usko, Trimtex, Focus and Leegall.

Status uses an internationally recognised two-score methodology for insolvency prediction based on each company’s annual accounts.

Companies are accorded one of six ratings—from excellent to poor.

Results can be consolidated into valuable industry-specific risk measurements.

The consolidated industry trends yield the risk profile for the industrial sector in total.

The industrial sector showed a decline from 61 percent in 1989, which is classified as “good”, to 53 percent in 1992, which is somewhere in the middle of the “satisfactory” range.

Between 1990 and 1992 the number of companies on the industrial board fell by 40 to 297.

The two worst sectors last year were Motor, which with a score of 36 percent, was clearly in the unsatisfactory bracket for the first time, and Building and Construction with 37 percent, also debuting in this category.

Other industries showing signs of substantial deterioration last year included Fishing, Furniture and Household Appliances and, surprisingly, Pharmaceutical and Medical.

Over the past four years as a whole, Fishing, Steel and Allied, Beverages and Hotels and Furniture and Appliances have shown marked deterioration in financial health.

Unhealthy

Perhaps the most telling trend of all is that reflecting the percentage of companies currently falling in the unhealthy categories of unsatisfactory plus poor.

This increased from 21 to 32 percent, with the percentage in the “poor” category up from 7 to 13 percent.

Bad companies are spread across the spectrum of industries and not only across the industries identified as vulnerable. However, some sectors have shown an improvement.

There has been a relatively strong upsurge in performance in electronics, due to outsourcing and downsizing, bank orders for ATMs and heavy rationalisation of the industry in 1990-91.
The fuse is already lit

Nobody’s talking, but our own Big Bang is on the horizon

It’s become clear that 1994 will be the year in which the JSE steps out to meet its future. Even supposing they want to, SA stockbrokers won’t be able to postpone for much beyond that the imperatives of competition and transparency - which are forced on financial communities everywhere.

Many SA stockbrokers will argue that the opposite is true. They will say they’ve accepted the need for change and all that’s delaying the implementation of far-reaching alterations in the way the Exchange operates is the need to structure these alternatives carefully and to plan for their introduction. This is why the JSE commissioned what’s turned out to be an 18-month study by a research committee, chaired by Johannesburg corporate attorney Michael Katz, and why the JSE intimated ground-breaking discussions with SA’s wider financial industry, members of which have long been damned trading rights on the JSE.

JSE chairman Francois Talenk showed he was acutely conscious of the need to push ahead when he referred to the research committee’s work in an interview with the FM shortly after his election in June this year. Since then, nothing’s happened.

Asked to comment, JSE executive president Roy Andersen says: “It would be inappropriate for any member of the research committee to comment on any aspect of its report before it is finalised and published. I can confirm, however, that the research is complete and we are in the final drafting stage.”

The report is unlikely to reach members of the JSE’s main committee much before mid-January. Its recommendations will then be debated yet again to determine what the JSE’s governing body is prepared to accept. Only then will the proposals for change be debated and put before the JSE’s membership. On this timetable, decisions about the future of the JSE will probably be made around mid-1994.

And it must be assumed they won’t be introduced without fierce debate and controversy.

Over the last 15 years, major changes have been introduced by the most prominent stock exchanges — forced on them, some critics would argue. In the UK, the ostensibly catalyst was the intervention in the early Eighties of the Monopolies & Mergers Commission — though it’s possible to see in this the hand of then prime minister, Margaret Thatcher, determined not to countenance restrictive trade practices anywhere.

The commission argued that the London Stock Exchange (LSE) was operating a de facto monopoly and threatened to take the matter on review before the Restrictive Practices Court.

Both sides armed for a long legal battle, in the end avoided only by negotiations between Secretary for Trade Cecil Parkinson and LSE chairman Nicholas Goodson. They agreed that the LSE would be given the opportunity “to sort itself out”.

Subsequently, the LSE embarked on what its director of international relations, Martin Hall, calls “a period of self-examination and debate” in a sense it is this introspective process which the JSE is now conducting.

The trigger for the JSE was the issue of fixed commissions, the single matter which raised the ire of the Thatcher government and provoked official intervention in an independent institution’s affairs. In SA, the structure of the stock exchange is enshrined in statute, the JSE has been able to use the law to fend off the complaints of the major users, particularly those which were initiated by large investors.

In Britain, the results of the withdrawal of the principle of fixed commissions and its substitution with charges, which are negotiated, was that commissions charged on institutions and large investors did indeed fall. However, the converse was that for small investors, brokerage charges rose sharply, especially noticeable on small bargains. That was accompanied by a substantial widening of the spread — sometimes as much as 10% — between buying and selling.

The conclusion, therefore, is that while the change helped institutions and large players, it was directly prejudicial to small investors. In SA, a country which has a large emerging population which the JSE will want to encourage to use the exchange and to become direct investors, negotiated commissions may prove prejudicial in the quest to broaden the market. It is certainly an issue which needs to be handled with the utmost care. LSE planners were at a disadvantage in at least one crucial sense: they were pioneers — they were not aware of many of the traps which may lie ahead.

One area in which a naivete was sprung upon them was the matter of how traders operated. In London, a longstanding tradition was that some firms took positions for themselves directly, they bought and sold shares as principals. Very specifically, they did not deal with the public.

In time, they specialised in the shares in which they dealt on a daily basis and they became known as “market makers” in those counters. Brokers, on the other hand, acted as agents between the public and the market — in this case, the market makers. They would encourage clients to buy or sell shares and would give effect to the deals through a market maker.

In SA, all brokers are agents, there are no market makers. However, a logical extension of the withdrawal of negotiated commissions in London was that it also meant the death of single capacity trading. A corollary is that all firms have to be able to act both as agents and principals.

This matter, argued tenaciously in London, is a good example of the way the LSE’s planners found themselves forced, once they had taken the first step, down increasingly narrower corridors from which the exits to alternatives were progressively closed.

It was recognised, for example, that the London market was basically under-capitalised. The individual firms and partnerships which made up the LSE’s membership were incapable of raising the vast sums necessary, if they were to compete equally in a market in which all could act in the dual capacities of agent and principal. Hall says there was a general recognition “that London was drifting into a sort of genteel decline”.

At the same time as these trends were being confronted, the International Securities Regulatory Organisation (ISRO) had developed in London to the point where it was effectively confronting a large and uncontrollable foreign market in international securities. ISRO comprised well-capitalised foreign firms, British merchant banks and many of the big US houses, all of which had been drawn to London in pursuit of the lucrative Eurodollar and Eurobond businesses.

It became plain that, if the LSE was
Financial Mail, September 10, 1993

LEADING ARTICLES

Compete successfully with firms such as these, it would have to be an institution which embraced members of much greater net worth. A logical consequence, therefore, was to open membership of the exchange to corporates (yet another development which can be interpreted as a narrowing of corridors). London handled this revolution first by permitting partial ownership by corporates of broking firms and then by extending this to full ownership (Many individual brokers made veritable killings as they sold their patrimonies to the highest bidders and many ancient and honourable firms simply disappeared.) These are issues which are clearly mirrored, even distorted, in SA. This is a country still gripped by foreign exchange controls and severe limitations on the movement of money. A consequence of these controls, in place now for more than 30 years, is to exacerbate the market's comparative illiquidity. About 7% of the value of the stocks listed on the JSE are traded each year on average (last year it was a mere 4%), which is extraordinarily low by the standards of most of the major exchanges. And one of the reasons for this is that over a long period, SA's Savings have been forced to compete for the same stock each year. The result is an artificial investment climate, a monetary greenhouse.

To this illiquidity must be added the acknowledged concentration of financial power in the hands of a few institutions. The competence of the life assurers and pension funds is largely taken as read. What would happen, for example, if Old Mutual or Sanlam were suddenly to seek to divest themselves of their gold shares? The accepted wisdom is that it would create havoc, if only because it would be virtually impossible for the market to absorb the stock offered. "We all know," says one broker, "that it would affect the market so badly, it would be tantamount to shooting the sellers in the foot. That's why they don't do it.

The question which JSE's planners must address is whether adding corporate membership of the exchange to this concentration of financial power, as well as the ability to make markets in various stocks, will increase or decrease risk.

An example assumes that a bank becomes a corporate member of the JSE. Controlled by one of the institutions, the bank is the natural market maker in, say, a large industrial corporation's stock, controlled by the same institution. In these circumstances, there is very little that could be done to prevent the price of the industrial company from being quoted at artificially high levels. In a market as exposed as the JSE would then be, front running would become almost legal, certainly there wouldn't be much anyone could do to control it.

Another contentious issue facing the JSE is the matter of whether trading should continue to be executed through an open outcry market, or whether screen-based trading should be adopted instead. Hall says that in London, coincidentally at about the same time as the LSE was marching towards its new famous Big Bang (defined as a combination of far-reaching constitutional reforms coupled with the introduction of screen-based trading), new electronic systems were being developed, one of which - Stock Exchange Automatic Quotation (SEAQ) - was adopted. SEAQ enabled share quotations to be reflected instantly on the screens of all linked brokers and was coupled with voice communications which enabled immediate trading.

"It certainly wasn't foreseen," says Hall, "that the effect would be to close the trading floor. In fact, we just spent money refurbishing it. Within a month of the introduction of SEAQ the floor was deserted.

Shortly before Big Bang, a merger between ISRO and the LSE created the International Stock Exchange (still the LSE's formal title). However, part of the price of that merger is that many of the LSE's regulatory powers were transferred to a separate body, the Securities & Futures Authority (SFA) which reports in turn to the Securities and Investment Board (SIB). The SFA's powers extend to deciding who may be authorised to do business and whether firms meet its capital adequacy requirements.

This departure illustrates clearly the separation which has taken place between the LSE and the market. In London, the LSE now decides on the market rules and settlement arrangements, the LSE regulates the relationships between market participants, and the SFA regulates how market participants treat and handle clients.

This division of regulatory powers may go some way towards answering the problems of increasing risk which will be posed by the addition of corporate members to the JSE.

The ultimate regulatory body under the LSE system is quasi-government and reports to the Treasury. If something approximating that is introduced in SA, it will at least provide protection against an overwhelming concentration of financial power.

That highlights yet another change. The LSE has become a company owned by its member firms. It is run and operated by a team of professional managers, just like any other company, and they are, in turn, responsible to the LSE's board of directors, elected annually by the shareholders. Hall says great pains are taken to ensure that the LSE's board reflects a balance between member firms, users and the public interest.

This raises the intriguing issue of whether Andersen and the team of professionals he has assembled around him at the JSE will not, some time soon, become the managers of JSE Limited?

On the face of it, that certainly seems increasingly likely. However, the London
AVI does right by shareholders

BY STEPHEN CRANSTON

Anglovafa Industries (AVI) achieved a commendable 19 percent rise in earnings per share to 1 083c in the year to June.

This was achieved without padding out the bottom line with the release of deferred tax after the change in rates.

The dividend is up 15 percent to 19c.

Operating income was almost unchanged. 

The operating margin dropped below eight percent for the first time since 1986.

Dividends from Anglo-Alpha, which is 25 percent-owned, were included for the first time, leading to a R14,2 million increase in investment income and pushing up the share of retained earnings of associates by 58 percent to R23,6 million.

AVI's effective tax rate fell from 42,7 percent to 38,9 percent.

At the earnings level, there was a surprisingly strong 27 percent improvement from AVI Diversified Holdings, in which the engineering and textile interests are housed.

There was a strong improvement from Bearing Man in the first full year since it was merged with AVI's existing ball-bearing interests.

In textiles there were improvements from Rusa Textiles and SA Fine Worsted's and Gelvener remained strong.

Mooi River Textiles, which operates in the troubled cotton fabric sector, increased operating losses. The acquisition of the company in the disinvestment era appears to be one of the group's few serious mistakes.

National Brands was the star of the group. Earnings increased by 45 percent and it is rapidly catching up with Consol as the largest contributor to the bottom line.

Its sales volumes increased because of an aggressive advertising and promotions strategy and the restriction of price increases below the inflation rate.

There was a substantially improved result from Pleasure Foods, which includes the Wimpy, Juicy Lucy and Milky Lane franchises, and from Yardley of London.

Tea and coffee producer Beckett had another successful year and there was sustained growth from biscuit maker Bakers.

Fakco, which makes canned curry products and sauces, suffered from reduced consumer spending and did not contribute to profits.

National Brands has moved strongly into the soya protein market and acquired the entire share capital of Nedan Oil Mills and the 45 percent shareholding in National Protein it did not already own at year-end.

Among the listed subsidiaries the recovery of Grinaker from a R1,2 million loss to a R29,7 million profit was the highlight. Losses were contained and write-offs in Grinaker Construction were not repeated.

Consol suffered from depressed packaging and tyre volumes, but achieved a 13 percent increase in earnings.

Irvin & Johnson was the only major component to report reduced earnings, primarily because of declining international white fish prices.

AVI ended the year ungeared, with net cash resources of R541,8 million.

It now trades on a P/E ratio of under 13 and definitely looks undervalued.
Wingate control goes to bank

By CHERILYN IRETON

MERCANTILE Bank has entered the professional banking and finance market with the acquisition of a company that deals exclusively with accountants.

The make-up banking group will pay R78-million for 51% of Wingate Holdings.

Wingate Holdings through subsidiary Wingate Finance is involved in the provision of medium-term finance for the accounting profession. It has a low-risk profile, says Mercantile Bank managing director Derek Cohen.

The deal is being financed by a mixture of cash and the issue of redeemable debentures. It is subject to Reserve Bank approval.

Merchants’s net qualifying capital and unimpaired reserves have increased by R78-million to R23-million since January.

Mercantile has been operating since 1969.

Wingate, which was controlled by senior partners of accounting firm Levenstein & Partners and its management, has a R15-million book.

Mr Cohen says the due diligence report shows that Wingate is a well-run company. It has expansion potential because it operates only in the Johannesburg area. It will be developed through Mercantile’s branch network. There is no intention to change Wingate’s style.

Mercantile will have three Wingate directors — Mr Cohen, Alastair Lawbland and Adam Cowell. Jeff Levenstein will sit on the Mercantile board with Wingate managing director Ronnie Waldman as alternate.
McCarthy merger is 'starting to bear fruit'

THE merger of the McCarthy motor group and furniture and retail group Prefcor to form McCarthy Retail was beginning to bear fruit, CE Terry Rosenberg said at the weekend.

He said numerous synergies had already been established. The group was merging the McCarthy and Prefcor computer departments, and this would generate about R7m saving this financial year.

The group had also established a zero-based budgeting exercise. "We have been aggressive in the cost area. Inflation is coming off, so our expenses have to grow at a lower rate," he said.

The group's maiden results to end-June reflected a 12% earnings rise to 48,3c (42,9c) a share, as a lower tax rate offset the effect of weak trading conditions.

Recently the McCarthy Group and McCarthy Retail shares had gained ground. McCarthy Retail's share gained 23% over the past month to close on Friday at 320c.

Although McCarthy Group lost 28c or 4,6% on Friday to close at 410c, the share was nearer its yearly high of 475c than its December low of 275c.

Rosenberg said there had been market acceptance of the results, but the group would need to report solid results over a period before it was significantly rerated.

McCarthy Retail was working on its gearing, which would improve the quality of its earnings. At the June year-end, gearing had fallen to 19% from 25%.

Commenting on divisional performances, Rosenberg said last year McCarthy had acquired Cape Nissan and BMW dealers Auto Deutsche and Tygerberg BMW, and Burchmore's had been expanded into Cape Town and Durban.

Rosenberg said last year was the first time in the group's history that used car turnover had exceeded R8b.

Budget Rent-a-Car had settled down and turned around, and it had increased market share. Yamaha had a good year, and the group was looking at expanding its product range. McCarthy had also expanded in the UK, and now had four dealerships.

Although the past two months had been encouraging for McCarthy's business, Rosenberg said it was too early to say that an upward trend had been established.

In the Prefcor side of the business, the store expansion programme was virtually complete. The furniture division had opened 60 stores in 30 months, with nine closures. The group was growing the Bonus Building Supplies chain, and would add another six stores to the eight-store chain.
Lower tax and interest helped Edward L Bateman lift earnings 4.4 percent to 92c a share in the year to June.
The dividend has been lifted 4.9 percent to 92c.
Chairman Bill Bateman says the results are pleasing, considering ongoing difficulties in the local and international markets served by the group.
There was a more than six percent improvement in second-half earnings, compared with an increase of barely one percent in the first half.
A more impressive turnaround was reflected in turnover, up almost 50 percent in the second half after falling 19 percent in the six months to December.
Overall it was up 5.3 percent to R667.4 million for the year.
Bateman Industrial Holdings, the equipment arm,
made several significant acquisitions in the information technology industry, including an interest in Prolan and Workgroup Systems, distributor of Microsoft and Lotus.
On Friday Bateman Materials Handling acquired specialist handling company Pneu-Tech for an undisclosed amount.
Pneu-Tech was established in 1980 and has completed 200 handling installations.
In the engineering division, Batepro, action has been taken to dispose of certain loss-making non-core operations, and full provision has been made for losses on disposal.
Losses reduced Batepro's income by R5.2 million.
Its projects in the current year include a $200 million contract for a metallic magnesium project in Israel.
The division has been awarded the contract for Newmont Mining's gold heap leach project in Uzbekistan.
Foreign income, exempt income, and incentive allowances continue to reduce the effective tax rate, which was just three percent.
Continued attention to asset management enabled interest paid to fall 25 percent to R3.8 million.
RMBH, NBS in share swap deal

RAND Merchant Bank Holdings (RMBH) and NBS Holdings have acquired 20% stakes in each other in a R510m share swap deal.

The deal, giving them strategic but not controlling interests in each other, has its roots in the Barlow Rand and Sage Group unbundling. They hold 18% of NBS and 20% of RMBH respectively.

Sage sold its RMBH investment because it wanted to use the proceeds to buy back its 49% stake in Sage Life from Absa, it said. In a separate announcement, Sage said it would raise about R220m by disposing of its RMBH interest and its 40% shareholding in Imperial Car Rental.

Other aspects of the deal are that Norwich Life, which has a strategic cross-shareholding with NBS, will take up 2.6% of RMBH, and the Eskom Pension Fund will obtain 11% of NBS.

RMBH MD Paul Harris said the two main parties, NBS Holdings and RMBH, had undertaken not to increase their respective holdings beyond 20%.

The main objectives were to take advantage of the synergy between the two groups and secure their independence.

Harris said RMBH and NBS had worked together in the past, not only acquiring joint control of Aegon, but in banking as well. "The simultaneous desire by Sage and Barlows to sell was a great opportun-

SHARON WOOD

ity to consolidate relationships," he said.

NBS MD John Galway said the transaction fulfilled many of NBS's long-term objectives. These included securing continued independence, expanding the group's range of financial services and diversifying its source of earnings.

RMBH was strong in merchant and wholesale banking, while NBS was well-placed in retail banking and insurance.

"The parties will be able to refer considerable volumes of business to each other," Galway said.

Sage sold its 11-million RMBH shares to NBS for R15.15 a share and Barlows sold its 18% stake in NBS to Eskom and RMBH for R18.75 a share. RMBH and NBS had placed their shares with institutions.

NBS shares closed at R16.00 yesterday and RMBH shares ended at R16.25, 25c down on the previous day's close.

Had the transaction been in place in RMBH's year to end-December 1992 and NBS's year to March, RMBH's earnings a share would have increased 14.1% to 83.9c and NBS's would have decreased 6.1% to 129.2c. It would have increased the net asset value of RMBH 12.7% to 478c a share and decreased NBS's 10.4c to 771c a share.

Galway said the deal was not expected to significantly affect NBS's 1994 earnings.

Two directors from each company would join the other's board.
Liquidation bid halted for talks

LINDA ENSOR

CAPE TOWN — Negotiations under way between Lenco Holdings and DCM-listed Romens Holdings led to a postponement yesterday of an application for the provisional liquidation of subsidiary Romens Menswear.

Lenco has a 26% stake in Romens Holdings and it is believed that the negotiations involve an increase of its stake. The hearing was postponed in the Cape Supreme Court until today for possible settlement of the dispute by the parties.

Lenco Holdings subsidiary House of Monate Manufacturing (HOMM) brought the provisional winding-up application against Romens Menswear on the basis of a R1.8m debt for goods sold and delivered.

But Romens Menswear opposed the application, accusing HOMM of trying to effect a hostile takeover of the company.

Romens Menswear MD David Marks said in an affidavit that Lenco directors had expressed an interest in acquiring the Romens group and had exerted "considerable pressure"
Company liquidations remain at high level

Business Staff

There are some divergent but positive trends visible in the latest insolvency figures, says Luke Doig, senior economist of Credit Guarantee.

Firstly, however, for the second time this year there has been a major revision in the 1992 insolvency figures, they have been adjusted upwards by 4 percent to 5,245 (from 5,048 previously). The 1993 first-quarter figures have also been revised higher (from 1,995 to 1,913).

Insolvencies in the three months to June 1993 totalled 1,042, 16.8 percent lower than in the same period of 1992 and 20.6 percent lower than in the first quarter of this year.

For the year to date, the accumulated failures of 2,355 are 4.1 percent down on the corresponding period last year.

Company liquidations, however, are persisting at relatively high levels. Although July 1993's figure of 187 is down on June's 266 (vs 174 in July 1992), the latest three-month period is 0.2 percent up on the previous quarter and 355.6 percent above levels recorded in the same 3 months of 1992.

For the year to date, failures are 12.2 percent up and at current closure rates of 222 per month, some 2,700 companies will fail to open their doors next year.
Adjusting portfolio and strategies

Activities: Holds portfolio of investments and controls significant mineral rights

Chairman: T L de Beer; MD A D Botha

Capital structure: 432.2m ords Market capitalisation R2.5bn

Share markets: Price 588c Yields 6.5% on dividend, 6.2% on earnings, p.e ratio, 16.2, 12-month high, 685c, low, 440c

Trading volume last quarter, 9.2m shares

Year to June 30 '90 '91 '92 '93
Investments
- Treasury (Rm) 3,64 3,03 2,80 3,45
- Income (Rm) 110 106 107 108
Other income (Rm) 28 40 38 48
Net income (Rm) 157 415 291 597

Other income (Rm) 120 138 148 165
Dividends (c) 26.8 32 34.2 35.8
Net worth (c) 765 740 701 787

This investment trust company has been in the thick of the unbundling mania which has taken hold of organisations involved with Gencor. Indeed, most of the musical chairs has been conducted with Genbel as a prime facilitator.

All this activity has left the company's managers somewhat jaded and the investment portfolio significantly different from a year ago. biggest moves have come in the sale of Genbel Offshore Investments (GOI), reductions in holdings of Impala, Trans-Natal and Winkelhaak and the removal of Zamancor from the listed investments.

GOI is especially interesting since its primary holding is 12.83m A preference shares and 3.5m ords in Donny Gordon's TransAtlantic. Gencor bought GOI as part of a complex share swap and the transaction probably lends some muscle to Gencor chairman Brian Gilbertson's overseas war chest — which he will need if he's to turn Gencor into an international mining house.

All the excitement aside, Genbel's annual results are disappointing. Distributable earnings rose 4.7% to R155m; the dividend was increased to R156m by drawing from earnings on investment transactions. The dividend was 26c (1992 34c) — hardly cause for celebration. However, Genbel's portfolio is heavily concentrated on commodities — and last year was a particularly bad year to be in this sector.

- Earnings from the portfolio restructuring totalled R442m net of tax and Genbel is sitting on R165m cash — it is, therefore, highly liquid with a strong balance sheet. If I have any reservation, it is that Genbel has unsecured loans of R201m as an asset; it gives no details of these other than to note that during the year it advanced R45m as a shareholder loan to Oryx.

- This is interest-free, no time period is disclosed, nor is any disbursement given as to the underlying reasons. MD Alan Botha says the loans comprise R101m to Oryx, detailed by the major shareholders in the mine when commitments were first entered into and R100m to trading subsidiary Unsamco. However, as these loans are specifically noted as being unsecured, I believe directors are under an obligation to provide fuller information.

- Genbel's business is that of an investment trust, with the bulk of its assets in a portfolio dominated by its interest in commodities. It is also an active trader in financial markets and an underwriter of some prominence. Botha says Genbel was a key player in Gencor's fundraising activities in recent years. Between 1989 and last year, Gencor group raised about R10bn of the total R30bn raised through the JSE (of which R4.5bn was for Gencor, R1.1bn for Engen and R2bn for Sappi). In addition, Genbel filtered significant quantities of new Engen, Malbuck and Sappi stock into the market.

Botha believes Genbel has clearly demonstrated its ability to raise capital. "It is one of our major competitive strengths," he says and it's an area Genbel intends to concentrate on in the future. Considering its major shareholders are Sankorp (26%), Rembrandt (7%) and Mutual (probably greater than 10%), it's hardly surprising Botha believes he has an edge.

The "new look" Genbel will pay particular attention to its trading operations. It conducts these through wholly owned Unsamco, which Botha conceives is "very active" and which achieved an after-tax profit last year of R38m. At year-end the aggregate value of Unsamco's retained and unrealised profit exceeded R118m — equivalent to 27c a Genbel share.

Botha won't reveal the extent of Unsamco's trading. "We use Unsamco very deliberately in the market in a way which ensures other players aren't able to second guess our long-term strategies."

Strong links with Gencor won't be discarded, Botha says there are proven synergies which he's anxious to retain. Interviewed when he announced Gencor's unbundling plans, Gilbertson also made it plain he wanted continued access to Genbel's market expertise.

So it seems Genbel will emerge from this recent re-structuring as a group which will concentrate on re-shaping its investment portfolio, provide key financial assistance and ability in underwriting operations and be a significant trader.

"I'm not seeking to earn a large slice of Genbel's future income from traditional corporate finance work," says Botha. "What Genbel will be able to do with proficiency is to invest in projects which, for whatever reason, may be temporarily off-limits to traditional portfolio managers. The clearest example is Alusaf, The R7bn greenfields aluminium smelter project which is presently unlisted in which Genbel has a large stake. At some stage, of course, the company will be brought to the board and that's when Genbel will capitalise handsome.

On balance, prospects for Genbel look...
positive, some would say exciting. However, there's a need to address the heavy commodity imbalance which is clear from the portfolio breakdown and to provide a better return to shareholders. Finally, management will be tested strongly over the next year about its ability to do well out of the shadow of big daddy.
Concor lifts earnings 25 percent

BY STEPHEN CRANSTON

Concor has reported a 25 percent increase in earnings per share to 112.3c for the year to June. The dividend is an unchanged 30c.

It has disclosed actual turnover, down three percent to R488.2 million, for the first time.

Chairman Brian Murphy says the results were satisfactory, given prevailing circumstances.

He says the group looked hard at what it did, worked more smartly and improved productivity.

Despite the dearth of road-building projects, Concor's work included the widening of the Ben Schoeman highway, a major road contract in Botswana and a refocus on strip mining.

Investments

Operating income increased by 16 percent to R13.14 million, but income from investments fell from R6.89 million to R5.29 million because of lower interest rates and a reduction in the cash balance by R10 million to R53.1 million.

Murphy says the main disappointment was the failure of Tune Holdings, in which Concor had taken a stake.

Concor made a provision of R7.9 million against the investment as an extraordinary item, and expects to recover the balance through realising various securities it holds.

Provided political and economic conditions remain reasonably stable, the group is looking forward to an improvement in results.
Anglovaal enjoys 6% earnings rise

BY STEPHEN CRANSTON

A robust performance by Anglovaal’s industrial interests more than offset a weaker contribution from mining, enabling it to increase attributable earnings by six percent to R298.1 million in the year to June.

A final dividend of 72c has been declared on both the ordinary and N shares, making a five-percent increase in the total for the year to 195c.

The contribution from Anglovaal Industries (AVI) was 26 percent higher than that of the previous year, and now comprises 69 percent of total earnings (58 percent previously).

Anglovaal increased its investment in AVI in the previous financial year. Better results from National Brands, Consol and Grinaker pushed AVI’s earnings up 19 percent.

It also enjoyed a full year’s equity-accounted earnings from its 25 percent of Anglo-Alpha.

The picture on the mining front is less rosy. Earnings from this source fell by 20 percent, despite marginally higher dividends received from gold mining investments and a R4.1 million dividend from Prieska Copper, which ceased operations in 1991 (2.32c).

The major contributor to mining income, Associated Manganese Mines, saw its contribution decline by 35 percent for its accounting period of 18 months, compared with the previous financial year.

Middle Witwatersrand’s contribution rose by 16 percent after marginally higher gold mining dividend income, a R5.5 million Prieska dividend and a R9 million profit on sales from its gold mining portfolio.

Subsidiary Saturn Mining, Prospecting and Development received a R9 million royalty from the Venetia diamond mine and since the end of the financial year has received a further semi-annual royalty of R29.9 million.

Net interest was substantially lower as a result of reduced central cash holdings and the softening of interest rates.

Developments at Crusader Life had an adverse effect on earnings and provision has been made for potential losses arising from assurance investments.

Anglovaal’s operating profit declined, which is indicative of the continuing pressure on margins experienced by most operations in the group.

The recent higher rand gold price has, however, for the first time in five years, provided gold mines with a greater degree of flexibility in planning the optimum exploitation of ore reserves at reduced pay levels.

AVI has planned for continued growth in earnings in the current year.

Anglovaal says although there are indications that the worst of the recession is over, these are perhaps not sufficient to outweigh the challenges presented by the negative factors — the uncertain political climate, violence, the deterioration in the balance of payments and the slow economic recovery of SA’s major trading partners.

But the group has accepted these as challenges and has planned for a small increase in earnings for the year to June 1994.

The Anglovaal share price has slumped from R100 to R82, but at this level still offers a 1.3 percent dividend yield, compared with 3 percent in the mining house sector.

Investors get the same yield from AVI, which includes much the most attractive part of the business.

But mining profits look certain to improve, thanks to strong revenue from Venetia, the likely recovery in manganese prices and the improved productivity and returns of gold mines, notably Lorame.

The low dividend payouts remain a drawback, but this has allowed borrowings to remain low and makes capital gains more likely.
SA active in mergers and acquisitions market

Weekend Argus Correspondent

SOUTH Africa was one of the most active countries in the world in the mergers and acquisitions market last year - but few of the deals were internationally linked.

"Contrasting sharply with a 12 percent decline globally, South Africa's mergers and acquisitions market grew by seven percent last year. Records for the first half of 1993 show that there has been a decline of activity with 73 transactions valued at R4.6-billion having taken place.

Locally 193 transactions valued at R13.4-billion were published last year.

"To put this in context, this is equivalent to 5.5 percent of the number of deals announced worldwide last year, or less than two percent by value," Graham Royston, managing director, Ernst Young Corporate Advisory Services, said in an informative address to a Johannesburg conference this week.

"There were, however, no offshore deals recorded and, of the R4.6-billion, about 22 percent was a result of intergroup reorganisations."

Reflecting the poor level of foreign investment over the past few years, Mr Royston noted that since 1986 there had been a total of 51 inward investments.

These investments were concentrated in motor (27.5 percent), beverages (19.7), electronics (18.7), chemicals and oils (11.6) and engineering sectors (11.8). Other sectors comprised construction, pharmaceutical, paper and packaging and steel and allied industries.

"In Europe, the '90s are seeing a move back towards the basics, with the days of hostile mega-takeover bids and radical innovations in financing techniques long past. The emphasis is now on commercial logic rather than pure financial logic, with promoters' greed having been tempered by the investing community's reluctance to lend at all costs," said Mr Royston.
RMBH lives up to expectations

BY JOHN SPIRA

Listed last November, RMB Holdings (RMBH) has fulfilled expectations, with net income for the year to June a salutary 11 percent ahead of forecast.

Attributable net income grew by 20 percent to R44.4 million, versus the forecast of R40 million. Per share earnings rose by a like percentage to 80.6c, while the payout is up from 26c to 32c.

Features include:

- A 15 percent improvement in 65 percent-owned Momentum Life’s earnings.
- A 24 percent increase in the profit of Rand Merchant Bank (RMB), wholly owned by Momentum.

Had Momentum (a controlling interest in which was acquired in July 1992) been included in RMBH’s 1992 figures, 1993 earnings would have risen by 31 percent.

Total assets exceed R16 billion, of which 51 percent comprises insurance, 21 percent relates to banking, 21 percent to off-balance-sheet assets managed on behalf of clients and the balance to portfolio management.

The income side of the picture is vastly different, with only 41 percent coming from Momentum and 41 percent from banking.

Deputy chairman GT Ferreira views Momentum’s under-performance as a huge opportunity.

"Momentum has great potential. Taking the mean return on assets of the JSE’s life assurers, Momentum’s contribution to group earnings could more than double in the next two to three years."

Had the 20 percent cross-shareholding deal with NBS covered a full 12 months, RMBH’s earnings would have been 10.9 percent higher.

The market has gone some way to discounting Momentum’s recovery potential and the benefit of the NBS deal in the RMBH share price.

The 2 percent yield is well below the insurance sector’s 3 percent average, while the 19.5 P/E ratio is three points higher than the average.
Analysts forecast 10% improvement in earnings at AVI

BY STEPHEN CRANSTON

Analysts expect Anglovaal Industries (AVI) to achieve a 10 percent improvement in earnings per share for the year to June. This would represent its eighth consecutive year of earnings growth.

AVI has been able to grow because of the consistency of its consumer-based interests, notably Consol and National Brands, and usually Irvin & Johnson.

But this year a more important factor is likely to be the recovery of Grinaker, which lost R1.2 million last year and is expected to at least equal the 1991 profit of R38 million.

Grinaker Construcion has been substantially rationalised and the cost of the retrenchment of 2,000 people already provided for.

Upturn (2.32)

The 25 percent stake in Anglo-Alpha, which was secured by shares rather than cash, has already provided AVI with a tenth of its earnings and, along with Grinaker, gives it a stake in any upturn in building activity.

Grinaker has already reported a 28 percent increase in earnings thanks to a good performance from systems engineering and the Siletek computer subsidiary.

AVI will be a prime beneficiary of the changes in the company tax rate. It has a dividend cover of 5.5, giving it minimal exposure to the secondary tax on companies.

There was some disappointment that AVI's major contributor Consol increased earnings by just 12 percent and great disappointment that Irvin & Johnson reported a 24 percent drop.

But National Brands looks set to maintain its recent track record.

While I & J promises to be the major negative for AVI, there will also be significantly reduced interest income, which amounted to R116.8 million last year.

Cash reserves fell by R372.6 million to R141.9 million in the first half.

While there have been no significant purchases since then, a further R215.6 million in capital expenditure has been authorised, though not all yet spent.

Textile businesses, although of high quality, are likely to be affected by the downturn in the industry, notably Mood River Textiles.

AVI's P/E of 15.5 is ahead of Malbak, Barkows and Amuc in some ways it deserves comparison with SABS, which has a 20.6 P/E.

AVI might not have a subsidiary with the consistent track record of the beef division, but it does not have disappointing underperformers such as the OK and Amurel.

On that basis, AVI has the potential to increase from R1.49 to at least R1.80.
Barlows details sale of Persetech

REUNITER, the integrated electronics and electrical engineering group, will buy computer products supplier Persetech and other consumer electronics interests from Barlow Rand for R48m through the issue of 11,6-million new shares.

The announcement is the first of a series which will detail the mechanics of the Barlows unbundling unveiled last month. The transaction takes effect from October 1 and will see Reunert acquire Persetech Holdings, whose sole asset is its 50% stake in Persetech, and Barlows', Panasonic's, Nashua and Airomatic businesses, including the conglomerate's stake in a related finance company. These operations have a net asset value of R80m. The new shares will be listed on November 15.

The deal will bolster Barlows' cash reserves because the group plans to place a significant portion of the new shares on the open market. The group has already raised R60m from the sale of stakes in Reunert, C.G. Smith and Rand Mines to controlling shareholder Old Mutual, in addition to more than R220m from the disposal of its stake in banking group NBS to Rand Merchant Bank Holdings.

A spokesman said Barlows would retain some Reunert shares to boost its share option scheme, participants in which faced.

Barlow Rand

the prospect of seeing the value of Barlows shares fall below the level at which they could exercise the options.

Reunert chairman Clive Parker has said Persetech and the other businesses would give the group, with yearly sales of more than R1,1bn, important new exposure to commercial and business markets. Persetech, the SA distributor of Hitachi computer products, would become the group's sixth division.

The Barlows spokesman added that had the transaction been in place in October 1991, Reunert's earnings in 1992 would have been nearly a fifth higher, at 347,3c, compared with 292.8c a share. The group's net asset value would have climbed to 1'905c from 610c a share.

However, the acquisitions would have little impact on Reunert's future earnings. Persetech would not have "a material impact" on earnings, while good results at Nashua, Panasonic and Airomatic in 1992 were unlikely to continue in the short-term because the strength of the Japanese yen had eaten into local profit margins.

Reunert would also sell the electronic appliance finance company book to banks to reduce its risk exposure, a transaction which would come at a cost to the group.

The spokesman said the transaction would have to be ratified by shareholders and the ICM Trust, the staff-owned company which was swapping its 50% stake in Persetech Holdings for Barlows' 50% stake in Information Services Group Holdings.
Work halts over mine killings

ERICA JANKOWITZ

PRODUCTION at Randgold's Durban Deep mine was halted yesterday as miners refused to work after Tuesday night's fighting in which at least seven workers died.

Randgold human resources director Richard de Villiers yesterday explained the impasse that had led to the closure of the mine.

De Villiers said that it appeared Zulu workers had attacked others at a beer hall. He said that eight workers had been killed and nine others injured. He said that the police had been asked to intervene.

The National Union of Mine Workers (NUM) denied that its members were involved in the violence. The union said that the police had acted in an 'institutional manner' and that 'they should have acted more quickly.'

The committee, which chairs a crisis committee at the mine, would appoint peace monitors who would reside in the hostels. The committee, which includes management and ANC and Inkatha supporting factions, would 'embrace' the causes of the fighting and future mechanisms for resolving political differences and ethnic intolerance.

De Villiers stressed that the incident was a continuation of tension which had led to fighting in December last year when 15 miners died. He said that the incident was industrial relations-related but this week's incident was definitely political and historical.

A report in yesterday's newspaper incorrectly stated that Durban Deep was owned by JCI. Business Day regrets the error.

Waste Tech bid to overturn ban

WASTE TECH applied for an order in the Rand Supreme Court yesterday overturning a Germiston City Council decision to refuse consent for further toxic waste disposal at the Margolis site in Rietfontein, Germiston.

The council refused consent for further toxic waste disposal at the site after March 31 this year.

Its decision followed a history of complaints from residents in the area about air pollution.

Waste Tech is applying for an order overturning the council's decision and directing it to allow the company to use the site until the new Chloorkop toxic waste dump is commissioned and operational next year.

Alternatively, Waste Tech wants the court to refer the matter back to the Germiston City Council for reconsideration after giving the company a full hearing to state its case.

The city council is opposing the application. It has also brought a counter-application interdicting Waste Tech from using the Margolis Class I disposal site.

Waste Tech counsel Clive Cohen SC told Judge D. Beasely that the Margolis site was one of two in the Transvaal available for the dumping of toxic and hazardous waste.

He said it was also the only site available for the disposal of medical waste such as injectors, amputated limbs and organs.

Cohen argued that the council had been pressurised to make the decision to close the site and that there was a legitimate expectation that an extension would be granted until the Chloorkop site was commissioned and operational.

The council, he said, had not taken into account the fact that the site was the only one available.

Waste Tech also argued that the failure to give Waste Tech an opportunity to put its case and address possible complaints, was a breach of the principles of natural justice.

He submitted that the council knew Waste Tech's many customers, including Baragwanath hospital, depended on the facilties at the site.

The council, he said, also knew that failure to extend consent constituted a drastic interference in Waste Tech's contractual obligations to its customers.

Argument continues today.

Romens Holdings subsidiary liquidated

ROMENS Menswear, a subsidiary of DCM-listed Romens Holdings, was liquidated in the Cape Town Supreme Court yesterday.

Romens' attorney Adam Harris said the liquidated company was one of Romens' two operating subsidiaries. There was speculation that liquidation of the other operating subsidiary, De Wet Brothers, which trades

10 of the 12 retail outlets, would follow soon.

Harris said the application for liquidation was brought by Lenox Holdings subsidiary House of Manufacturings (HOMM) 232.

HOMM said earlier this month that Romens Menswear owed it R1.3m.
Little Support for Deregulation

Resistance to the
TEMPORA Fuel 24.19/93

Beverage focus (232)

Activities: Investment holding company. Major investments include Daly's, Cadwep.

Control: Suncrush 44.4%.

Chairman & MD: R.O. Hamilton.

Capital structure: 40,86m ords. Market capitalisation R716.8m.

Share market: Price 1750c. Yields 2.3% on dividend, 2.9% on earnings. P/E ratio, 34.6.

cover, 1.3. 12-month high, 2400c. low, 1700c. Trading volume last quarter, 108,000 shares.

Year to June 30 '90 '91 '92 '93

Net income (Rm) 4.3 3.8 8.3 19.8

Earnings (c) 32.1 31.2 36.4 50.6

Dividends (c) 32 32 32 41

Tangible NAV (c) 1058 1,881 1,879 2,262

The shape and nature of investment trust Tempora, Suncrush's investment arm, has changed markedly over the past six months. In March it held a R246m rights offer, the third in three years, to enable it to take advantage of future investment opportunities. Issued shares increased to 40.86m from 27.3m.

Proceeds from these issues have been used to increase exposure in beverage stock, particularly Amalgamated Beverage Industries (ABI) and SA Breweries (SAB). Beverage and confectionery-related investments at year-end accounted for over 90% of Tempora's NAV of R22.62. Of this, Cadwep represents 60% of the total, Daly's 22%, SAB 4% and ABI 3%. With the high ratings accorded beverage counters, management was prepared to live with the portfolio's bias.

The balance of Tempora's investments — in Saficon, Saker's Finance, Seariel and Searcon — performed poorly over the past year.

Since year-end, Tempora disposed of its nonrelated beverage stakes to DAB for R13.5m, a R6.5m loss for Tempora. The group's new investment trust Elington has since been listed.

In the year to end-June, Tempora's EPS rose to 50.6c (1992 36.4c). Pre-tax profit jumped no less than 140% to R19.7m — the result of increased interest earned from funds acquired in the rights issue.

Though the effective tax rate was higher at 23% (11%), attributable earnings increased to R15.1m (R7.3m). But this was not enough to fund the loss incurred on the transaction with DAB after the increased dividend payment of R11.2m (up 60%); R3.7m was transferred from non-distributable reserves.

The share trades at R17.50, just off its annual low. Trading at a 23% discount to NAV, the counter looks inexpensive. With the nonperforming interests now sold, investors could use this opportunity to increase exposure.

Marylee Gregg
ComFund announces details of unbundling

CAPE-Town based investment company ComFund Investment Society (ComFund) yesterday unveiled the terms of its unbundling plan, designed to unlock the value of the company’s investments for the benefit of shareholders.

The company said the unbundling would lead to the termination of its listing on the JSE on November 6 and to its winding up. ComFund currently owns share investments in 47 listed companies. In terms of market value, 15 of the 47 investments account for about 80% of the portfolio.

The purpose of unbundling the company was to unleash the full value of the shares in a situation where historically ordinary shares have traded at a significant discount to the market value of the underlying investments.

The distribution of shares, in accordance with the unbundling, would give greater flexibility to shareholders as they would own more tradable shares, ComFund said. It would also enable shareholders to receive the full dividends generated by the distributed shares, whereas currently about one-fifth of net dividend income was retained in the company.

To facilitate the distribution, SA Mutual Life Assurance had agreed to top up the 15 leading counters in the ComFund portfolio. In return, SA Mutual would receive the 32 counters which made up the remaining fifth of the portfolio.

The exchange would permit a whole number of securities in each of the 15 investments to be distributed for every 100 ordinary shares held in ComFund.

The exchange would be based on the ruling prices on the JSE as at the close of business on August 18 this year.

The company would receive a sum of R3.8m in cash, with accrued interest.

The portfolio of listed shares to be distributed is Barlow Rand, Standard Bank Investment Corp, Safmarine and Renties, CG Smith Foods, Samancor, Richemont, SA Breweries, Woolworths, Rembrandt Group, De Beers, Anglo American, Nedcor, First National Bank Holdings, Anglo American Coal Corp and Driefontein Consolidated.

Small shareholders would be given an option of receiving cash instead of their entitlement to shares.

Implementation of the proposals would be subject to shareholder approval.
COMPAINES

Liquidation hampers Dextral

DEPRESSED trading conditions and the liquidation of its holding company saw Dextral Industries (formerly Supreme Manufacturing Holdings) record a loss of R1.7m (R4.1m loss) in the six months to end-June. 

Directors of the furniture and steel products manufacturer noted that comparative figures for the previous year had been restated to take into account the fact that after the November liquidation of ultimate holding company Supreme Holdings, no interest was earned on a loan related to a Supreme group company. The loan was written off in the financial statements to end-December.

Turnover for the six months rose 13.6% to R38.5m from R33.9m. The operating loss was improved to just R4 000 from R492 000 previously.

But finance charges remained high at R1.7m (R1.6m), bringing the pre-tax loss to R1.7m (R2.1m).

Gearing was 80%, compared with 51% in the previous year. Directors said action had been taken to reduce gearing to acceptable levels.

MARCIA KLEIN

The loss of 1.7c a share was similar to last year's level.

Directors said the business was severely affected following the Supreme group's liquidation. Trading activity "was further hampered by stayaway action in the month of April".

Trading conditions in the first six months were extremely difficult on the back of the continued economic downturn, labour unrest and political uncertainty. Notwithstanding these factors, directors said Dextral managed to improve its results on the corresponding period in the previous year.

Directors warned that the company would "continue to be restricted in both its ability to borrow and trade freely" until the 90% of its shares held by the trustee for the debenture holders of the liquidated Supreme Holdings were distributed to debenture holders or sold to a third party.

The second half was generally better than the first, and this trend should continue in the current year, they said.
Dial-A-Movie 'under provisional liquidation'

VIDEO rental and CD franchiser Dial-A-Move, recently involved in a legal dispute with Top CD franchisees and the subject of a Competition Board investigation, had been placed under provisional liquidation, sources said yesterday.

The company operated its own stores in addition to those franchised as Top CD. Worried employees of the company-owned stores said they had been told late on Thursday that, they need not report for work as the company was to be placed in liquidation.

The employees had heard nothing since. The franchised stores, many of which have cancelled agreements with the company, continued to trade.

Chairman and MD Brian Cunningham was overseas and company directors were not available for comment yesterday. But various franchisees and employees said that the provisional liquidation order had gone through.

Despite reports of a liquidation, the company's share has not been suspended from the JSE. After a rapid rise from a December low of just 20c to a March high of 110c, the share has continued to drift lower. At yesterday's close, there were sellers at 70c.

Ron Hagger, who runs Rebel Music (previously Top CD) in Westgate, said yesterday that Top CD franchisees involved in the dispute with Dial-A-Move had been called to a meeting at the franchiser's head office last week, and offered a proposal. If it was not accepted, the company would be liquidated the following morning, they were told.

Attorneys representing the franchisees told them not to co-operate.

He said he believed a bank had applied for the provisional liquidation. All litigation which was currently in progress would be on hold pending a final liquidation order, he said.

He believed that company-owned stores closed on Thursday.
Unbundling not warranted — JCI

JCI does not think its unbundling is warranted at present, chairman Pat Relief says in the annual report. However, JCI will continue to consider competition policy and unbundling because they are part of the policy debate in South Africa.

"We shall listen carefully to the concerns expressed by some of the critics of the country's business and financial structures," he says.

He says overseas successful stories of unbundling are not necessarily applicable in SA.

It should be recognised that much of the business consolidation that has occurred in SA has been a logical response to the existing conditions.

"Foreign exchange controls — in tandem with protectionism via unduly high import duties and with externally imposed sanctions — have dissuaded most businesses from thinking imaginatively and on a world

scale about long-term development." (2.32)

These policies have impeded the international growth of SA companies and led to a concentration in investment funds.

Such funds have limited opportunities in the "restrictive hot-house climate" that has existed in SA over the last few decades, he says.

It must be recognised that all economic issues — exchange control, trade policy, labour practices and the like — are inter-connected.

Sustained growth is required for the social upliftment of many of SA's people, he says, and warns that future economic policy cannot afford to inhibit the confidence and activity of the private sector.

Turning to JCI's outlook for the current financial year, Relief says the overall outlook is too uncertain to make forecasts of an earnings trend. — Sapa.

Plan to create jobs

NEWS
Publisher has links with ANC • State bent on reducing unemployment

1893 SOWETAN

Thursday September 30
Violence and recession keep Bergers in the red

CAPE-based clothing retail chain, Bergers Trading Holdings, feeling the full pinch of depressed trading conditions and the effect of violence and stayaways on its business, has remained in the red in the six months to end-June.

The group, which operates 259 Bergers, Hilton

Werner and Jones outlets, reported a loss of 34.1c (earnings of 11.9c) a share. At the December year-end, it reported a loss of 7.7c a share from earnings of 6.2c in the previous year.

Since then, Bergers has consolidated its shares, raised R18m in a rights offer and continued to rationalise its business.

Chairman Howard Mauerberger said trading conditions had continued to deteriorate.

Results, which compare a 28-week period with 27 weeks in the earlier year, show turnover declined 6% to R66.1m. The pre-tax operating loss was R2.9m against income of R1.5m in the previous year.

Taking into account taxation and an extraordinary item in the previous year, the company reported a net loss of R12.9m (income of R407.6m) for the period.

About 20 loss-making stores were being closed.

He said the company generated most of its income in the second half and was expecting to trade profitably in the full year.

The effect of the rights offer, which closed on June 30, was not reflected in the results. Funds raised were received on July 8, but if they had been in the business for the full period, the bottom line loss would have been reduced by R1.46m, Mauerberger said.

The company would trade profitably in the second half, he said.

Bergers Group, which has a 94.1% stake in Bergers, reported a loss of 68.5c (earnings of 23.3c) a share for the six-month period.
MINORCO

Rearranging the deck chairs, again

Will Minorco be able to manage its much-enlarged asset base effectively?

Minorco, like parent Anglo American, is one of those ultimately family-controlled companies observers and analysts love to hate. If this is irrational, it is because success, size and power breed the illogical responses of resentment and envy.

In dramatic moves this week, Anglo, De Beers and Minorco chairman Julian Ogilvie Thompson gave critics rather more to chew on when he announced a re-organisation of the greater group's international investments. This entails the transfer of assets into Minorco, which will be paid for by the issue of another 55m Minorco ords.

The effect will be to give Minorco a substantially increased asset base of US$5.5bn. A side effect will be that Anglo's stake will increase to 45.8% and Centenary's to 22.6%, giving the group a total 68.4% — quite enough to inspire further market criticism.

In a series of complex shuffles, Minorco will buy the operational units Anglo American of South America (Amsa), Monds Europe, Cleveland Ptitash and the investment companies Eastern, South Sea Investments and Deerstalker. Its interest in these will be total (except for Monds Europe, of which it will own 95%).

The reverse of the coin is that Minorco will sell to Anglo its interests in Africa, principally 49.9% of Zambia Consolidated Investments, through which the group holds its interest in Zambian copper mining. Asked whether this presages a firm decision to reinvest in Zambia, executive director Gavin Kelly responded: "No, but we're certainly talking and we would like to do something."

The scene is set for a major sea change in the Anglo group's strategic approach to its role as one of the great international mining houses. Foreign eggs will now be placed, outside Africa at least, in a single basket. An important consequence will be that Minorco will undertake all group exploration activities outside Africa.

Transformation from a relatively low-key — though wealthy and cash flush ($1.1bn) — natural resources company into one with a large number of operating units, will stretch Minorco's ability to manage these at current levels. Anglo is providing additional managerial capability through a service agreement and by enlarging Minorco's board to include, among others, Amsa chairman Guy Young as an executive director.

Minorco's past is almost as important as its future, no understanding of it can be complete without an appreciation of its history. It has always been associated with high drama, from its birth as the successor to Zambian Anglo American, its infancy as the inheritor of the compensation paid for the theft of its Zambian copper mines, through the electrifying events surrounding its failed US$4.5bn attempt to take over Consolidated Gold Fields (ConsGold), the undetected extent of its efforts to buy BP's 49% stake in Olympic Dam in Australia and its current within-the-ranks of senior executives. Whatever else it may be, Minorco isn't boring.

Minorco's start in 1974 came when it acquired Engard Chemicals & Chemicals (EMC) for $155m, capitalising on a long-established family relationship. Subsequently, Minorco sold its 30% interest in Salomon Bros, acquired out of EMC, in a deal which culminated just ahead of the October 1987 stock market crash, for $1.4bn.

In 1981, Minorco acquired its original holding in ConsGold, eight years later it sold to Hanson after its bid failed (lapsed, I am told sharply by Minorco managers, is the correct word) for $1.6bn — and scored a profit of $800m in the process.

Mixed with these major deals have been transactions with Anglo elements in which Minorco has bought bits and pieces in North America — Inspiration Resources (including an agr-business, Terra and Canadian base metal producer Hudson Bay). By and large, these have been Minorco's least satisfactory travels down the acquisition trail.

Two important aspects have always puzzled observers. The first is Minorco's strategy — its long-term arms. By and large, it seems these either haven't been enunciated clearly or haven't been formulated with certainty. The principal complaint is that Minorco has never been properly focused. Even now, following the restructuring, Minorco suddenly acquires another leg — this time, in pulp, paper and packaging in Europe.

"Surely," says Kelly when this is queried, "you consider this a logical acquisition for a natural resources company. It's a cogent argument, but does paper and pulp really sit easily in a company whose concentration is to dig things out of the ground?"

As the group's international arm, what is its role to be? Is it's primary thrust to be base metals or industrial minerals? Or both in different places, as now? What role will precious metals play? Is there any intention to become increasingly involved in industry?

After all, having just disposed of control of Charter, the company now owns 10% of major platinum refiner and autocatalyst producer Johnson Matthey. Nor can EMC exactly be described as a mining company.

These are among the issues which still appear unresolved. It's strange, because Ogilvie Thompson is noted for precision, of all directors, he will be most demanding of clear thinking in formulating aims and objectives. Maybe, of course, this is a process not yet resolved, if so, the birth has been of uncommon duration.

The second aspect is Minorco's managers. In the beginning, it was pretty well rudder-
less. Eventually, a team of Young Turks was put together. Hank Slack, now CE; Tony Lea, previously joint MD with Roger Phillips, now departed Lea and Phillips were particularly associated with the efforts to buy ConsGold, supported by Sir Michael Edwardes, who had been brought in as CE — a move which apparently enraged ConsGold boss Rudolph Agnew.

All that is another story. However, a theme repeatedly heard when Minoro is discussed is that it consistently lacks the right kind of management. The great mining groups were launched and driven by men of entrepreneurial spirit. Ernest Oppenheimer cannot be denied his mastery of opportunity; first he seized De Beers, then he grew Anglo.

Of course, he was both boss and owner. For corporate man in the late 20th Century that is almost impossible to emulate. Yet many analysts are convinced Minoro’s prime need now is for an entrepreneur at the helm, an adventurer who won’t be shy to take risks or fear criticism. These are men not normally associated with great corporations (though Anglo’s had its fair share, most notable currently being deputy chairman Graham Bousted). A senior JSE mining analyst believes Minoro’s management reflects Anglo’s requirements and style: “but that doesn’t mean as a team it’s the best for the job that needs to be done.”

Until this week, operations were concentrated primarily in three sectors: industrial minerals, mostly in Europe, base metals, almost entirely in the American hemisphere, and gold, all of it in the US.

Rely calls the investment in industrial minerals, particularly in Germany, in the past year, “nothing short of brilliant antecipation.” One JSE analyst says this operating division is Minoro’s best asset. In many cases, margins from quarry production of aggregates used in road building, motorway surfacing and ballasting exceed 30%. UK quarry purchases were cleverly executed, generally targeting specific niche markets.

In one case, Buxton Lime, the company is developing the use of pulverised limestone in electricity generating stations to pick up increasing quantities of sulphur. If successful, this could mean sales of nearly 1 Mt lime a year at prices, since this is environmentally friendly, they can pretty well dictate.

In base metals, the best runners are Collahuasi, the Chilean copper project with estimated reserves of 1.1bn t, and the Lisheen lead and zinc project in Ireland. This is a business area now enlarged by Armas, which brings to the party ferromnickel and ferromubic production in Brazil, Chilean-listed copper producer Manto Blancos and a nickel deposit in Venezuela.

Farmers in Kenya’s white highlands were thought mad for living permanently above 6,000 ft, at 14,500 ft, Collahuasi will present interesting altitude problems, intriguingly, it is one-third owned by Shell mining company Bublton, for which Gencor has its corporate hat in the buying ring. So Minoro and Gencor could end up as partners.

Base metals is an area in which management achieved simultaneously its greatest success and most resounding defeat, with a bid to buy BP’s holding in Olympic Dam, the Australian copper/uranium project owned 51% by Western Mining. Rely describes the negotiations as “extraordinarily well handled.” The agreed price of $456m was considered so good that Western Mining exercised a pre-emptive right and dashed Minoro’s hopes of rapid entry into Australia.

Forays into gold mining proved less successful. It bought Independence in March 1990 for $702m — which Slack now concedes was over the top. “It was premium money to warrant our entry into North America.” It was quite a premium.

Frankel Pollak Vunderine research head Peter Davey says the asset has been heavily written down — perhaps to as little as $400m. “It won’t ever amount to much,” he adds.

In April, Minoro bought Colorado gold producer Pikes Peak for a modest $21m. While the price was cheap and the area is usually beautiful, Colorado is known as the “tree-hugging” state — very environmentally conscious. Whether Minoro will ever get the licences needed to exploit the gold locked in a vast volcanic deposit seems at best problematic. Now, of course, it has added to its portfolio the gold mines within Anupa — Morro Velho, Jacobina and Minerao — all in Brazil — and Marte in Chile.

Preliminary results, released later than usual to coincide with announcement of the substantial asset acquisition programme, are frankly disappointing (though Rely takes issue with this “Considering world commodity markets, I think they’re excellent!”)

Operating earnings fell to $55.8m, unfortunately offset by a substantial gain in interest income. That means results more or less level peg with 1992 hardly inspiring EPS before extraordinary items was $1.25 (1992 $1.22). Extraordinary income rose slightly to $68.2m, largely from Charter’s sale of its 38% of Johnson Matthey.

What continues to stand out is the strength of the balance sheet. Net cash after it’s been paid for its Charter shares is about $1.1bn, despite borrowings of $872m. Perhaps surprisingly, the dividend is to be increased 6% to US7c a share.

The share is on the JSE, at the upper end of the past 12 months’ range of R8.43–R4.5. The p/e on the latest results is 18.2. It is a classic rand hedge stock.

There’s a sting in this tale for years the group’s presence in London was at 40 Holborn Viaduct, a building which dominates its surroundings. Next door is 2 Charterhouse, the Central Selling Organisation’s home. As Charter changed character, shape and size, its need for a large, pretentious office block diminished, till finally it stowed away.

Guess who took the space last week, waving the flag of the very group whose parentage it once tried, vainly, to deny? David Giesean
IGI collapse sparks worry over veteran SA company

By ZILLA EFROAT and TENDAI DUMBUTSHENA

SOUTH Africa's fourth-largest short-term insurance company, IGI Insurance, was placed under provisional curatorship this week after a series of disastrous investments.

Its portfolio has included the likes of the liquidated Tollgate Holdings, Abacus Industrial Holdings (formerly Interboard), Time Holdings, Sparco and Rabe Holdings.

And now concern is being expressed about the future of IGI's parent, Hosken Consolidated Investments, one of SA's oldest companies. Along with IGI, it was suspended from the JSE on Friday.

It is understood that HCI, in settling a R33-million dispute with Absa over the Tollgate debacle, has lost its Hosken building in central Johannesburg.

IGI's troubles created panic among its thousands of policyholders this week, with brokers being inundated at the weekend with requests for other policies.

The full extent of IGI's troubles surfaced only recently when a fresh look at its last annual results showed that an "adjustment" of R44-million was necessary.

Speculation is that the company had previously written off too little to cover its bad investments. The results for the year to March 1993, published in June, showed that the group had already written off R84-million for bad investments.

Mr Larry Nestadt, chairman until the curatorship was imposed, confirmed that the new "extraordinary item" stems from the insurance operations, but will not elaborate further.

IGI had doubled its stake in Tollgate to 20 percent in the past two years, and its write-off for this investment is believed to be around R39-million.

The news of curatorship also created a weekend panic as attempts were made to transfer IGI's hundreds of thousands of short-term and other insurance companies.

Mr Neville Nightingale, managing director of IGI's biggest customer, Westvaco, said his company was making arrangements to ensure that its 40,000 policyholders did not go uncovered.

However, while new policies would hopefully be arranged at good rates, policyholders would have to wait for a refund from IGI.

The Insurance Brokers Council of SA was swamped with calls yesterday, as the public rushed to get cover elsewhere. Guardian-National and Commercial Union were also open for business.

Mr Nestadt says IGI is still technically solvent and has enough reserves to meet all claims.

"Tragically, the company traded profitably in the six months to end-September," he adds.

IGI Insurance's 1,100 staff members went to work on Friday uncertain about the security of their jobs.

Most had left before Mr Nestadt issued a memo advising staff of the Pretoria Supreme Court's decision to put IGI under curatorship.

But newly appointed curator Doozie Oosthuizen says as far as he is concerned, it will be business as usual at IGI tomorrow when he takes over the running of the firm.

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IGI policyholders panic

Mr Oosthuizen was 51 of Santam until he took over the company for 42 years.

Co-curator is a lawyer.

J Luttinger

Various attempts have been made to save IGI in the past few months.

One success was Fedlife's purchase of subsidiary Sast's life's funeral and credit business for R60-million.
Shape up, or face nationalisation

BY MAGGIE ROWLEY
Deputy Business Editor

This will not be a straightforward story: unless business respond appropri-B
ately, and respond itself, the repercussions would be grave.

So it was with relief that chairman of the Ebbut Observer Forum and board chairman at 40.

In the wake of the election, the social issues of the town took on a new dimension. The town's future, the employment of the people, and the involvement of the community, were all at stake. The town's leaders stepped up their efforts to bring these issues to the forefront of the public's attention.

The following year, a shift in the town's economic situation took place. The emergence of new businesses and the growth of existing ones created opportunities for the town's residents. With a commitment to the town, the newly formed community began to turn the tide.

The town's leaders saw a number of changes including the transfer of power from white hands to power sharing.

The notion, however, no doubt that power sharing would be significantly influenced by black power.

The concept of power sharing was a crucial part of a successful repositioning. It was not just about economic involvement which would bring about a commitment of 40.

In the beginning, this aspect was well thought out. The town's leaders worked hard to ensure that all aspects of life were included.

This could be done through subcontracting and allowing the emergence of small businesses on the one hand and on entrepreneurial development on the other so as to allow the concept of Free Enterprise Ownership to be implemented on a large scale to disad-

Which important here is that black must be seen to be driving the work of Free Enterprise.

"Attitudes and behaviour patterns will change beginning with an elimination of informal discrimination.

"Mainstream applies to black entrepreneurs who will have to borrow away from the philosophy of development toward doing harder to sharpen skills and management.

The new focus is for the entrepreneurs to show that there are serious about business.

Hence said the other important aspect needing to be seriously addressed by business in repositioning itself could be black advancement, or affirmative action.

"This however must be tied to the important principle of maintaining standards which must be outlined. It must be not be confused with tokenism.

"It will need in-house training and training programmes and financial support for future black managers at tertiary education level."
Thumbs up for AECI, Sasol venture

JOHANNESBURG — The Competition Board has given the green light to plans by Sasol and AECI to merge their petrochemical and plastics interests in a joint venture company with annual sales of R2.5bn.

The decision also clears the way for the R400m revamp of AECI's PVC plant.

Board chairman Pierre Brooks said last night the board believed it would not be necessary to launch a formal investigation into the transaction.

The merger was approved on condition that the chemical companies stood by undertakings not to discriminate in the supply of monomer feedstocks — ethylene and propylene — to rival chemical producers Sentrachem and Hoechst. The new plant would become SA's sole supplier of the feedstocks.

Brooks said the vertical integration of major suppliers of monomers did provide cause for concern, particularly for Sentrachem and Hoechst, adding that "the essentially monopolistic structure of the monomer market" was left intact.

The corporate realignment and restructuring that will take place is, however, potentially not more conducive to anti-competitive behaviour than was the pre-merger position," he said. Brooks added "Should Sasol/AECI and the new company, contrary to expectations, default on their assurances and undertakings, the Competition Act enables the board and government to take swift, effective remedial action."

Sasol executive director Andre du Toit said his company was "very happy" with the decision, as it cleared the way for the completion of the R400m project and establishment of the new company.

AECI MD Mike Sander said he had expected the board's approval but it still was good news. The project allowed AECI to capitalise on Sasol's competitive advantages as a feedstock supplier to create a "world class business competitive on an international scale."

Vertical merger

The project involved joining Sasol's ethylene, propylene and polypropylene operations with AECI's chlor-alkali cyanide, PVC, polyethylene and associated downstream converting companies. It amounted to a "vertical merger" of Sasol and AECI interests.

AECI's current production of PVC used carbide feedstock, an uneconomical process which made local PVC output uncompetitive on international markets, and seriously undermined the viability of PVC manufacturing in SA. The joint venture would use ethylene rather than carbide as the PVC feedstock, a cost-effective change.
No need for probe, says Brooks

Sasol, AECI joint venture gets go-ahead

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Sasol executive director Andre du Toit said his company was "very happy" with the decision. "The top management (of the new company) will be appointed shortly and we will also be able to proceed full speed with the planning and implementation of the PVC conversion project."

AECI MD Mike Sander said the project allowed AECI to capitalise on Sasol's competitive advantages as a feedstocks supplier to create a "world-class business competitive on an international scale."

It joined Sasol's ethylene, propylene and polypropylene operations with AECI's chlor alkali cyanide, PVC, polyethylene and associated downstream converting companies. This amounted to a "virtual merger" of Sasol and AECI interests.

AECI's current production of PVC used carbide feedstock, an uneconomical process which made local PVC output uncompetitive on international markets and seriously undermined the viability of PVC manufacturing in SA. The joint venture would use ethylene rather than carbide as the PVC feedstock, a cost-effective change. Conversion costs were substantial and could be effected only by pooling the resources of the two companies.

The joint venture was announced in June and the partners plan to list the new company on the JSE. Sasol would hold 50% and AECI 40% of the company.
Concor builds up earnings by 25% by ROBYN CHALMERS

Major projects such as Columbus and Alussa had boosted workloads for the 1984 financial year but margins had not improved, said Concor chairman Brian Murphy in the group's annual report.

The year had not seen any real movements in construction, and further retrenchments had taken place throughout the industry.

Nevertheless, Concor increased attributable earnings by a quarter to R12,5m (R10,2m) for the period under review, with earnings per share rising from 89,8c to 112,3c. The total dividend was maintained at 30c.

The disappointment of the year was the failure of Time Holdings, in which Concor had a 30% stake and against which it made a provision of R7,9m as an extraordinary item.

Murphy noted that all the group's divisions had posted satisfactory results, with the construction sector looking to increase its activities beyond South Africa's borders.

The techncetene division had a year of consolidation and re-assessment, said Murphy.

The roads and earthworks division improved on its budgeted contribution. The engineering division had been substantially reduced.
you want a greater exposure to gold, you will have to diversify personally, buying into a gold fund yourself.

One should not place too much emphasis on one-year performance figures. The ideal period in which to gauge performance is between three and five years.

It must be mentioned that Consolidated Fund Management (CFM) managed to produce an all-in return of more than 20 percent during the three-year period, placing it among the top-performing funds. It was beaten only by BOE and Syfrets.

Top performer

A glance at the five-year investment period once again underlines how good an investment the general equity funds have been.

Top performer here was Syfrets, with growth of almost 25.95 percent—almost double the inflation rate of 13.43 percent over the same period.

Over longer periods the more specialised funds—especially the gold and metals-based funds—do not have such proud records.

Three years

<table>
<thead>
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<th>Fund Type</th>
<th>Return</th>
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<tr>
<td>Old Mutual Industrial</td>
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<tr>
<td>UAL Selected</td>
<td>20.89%</td>
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<tr>
<td>Sanlam Industrial</td>
<td>20.04%</td>
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<tr>
<td>Guardbank Resources</td>
<td>8.23%</td>
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<td>Sage Resources</td>
<td>5.64%</td>
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<tr>
<td>UAL Mining</td>
<td>4.63%</td>
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<tr>
<td>Old Mutual Mining</td>
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<tr>
<td>Southern Mining</td>
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<tr>
<td>Standard Gold</td>
<td>1.88%</td>
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<tr>
<td>Old Mutual Gold</td>
<td>(0.41%)</td>
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</table>

Five years

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<th>Fund Type</th>
<th>Return</th>
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<tr>
<td>Sanlam Industrial</td>
<td>21.25%</td>
</tr>
<tr>
<td>UAL Selected</td>
<td>20.54%</td>
</tr>
<tr>
<td>Guardbank Resources</td>
<td>14.03%</td>
</tr>
<tr>
<td>UAL Mining</td>
<td>12.57%</td>
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<tr>
<td>Sage Resources</td>
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<td>Southern Mining</td>
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<td>Sanlam Mining</td>
<td>9.19%</td>
</tr>
<tr>
<td>Standard Gold</td>
<td>8.34%</td>
</tr>
</tbody>
</table>

“A subsequent switch back to an equity fund at a later stage would cost 1 percent (of the investment), which is substantially cheaper than physically selling the unit and reinvesting at a later stage.

“Investors should contact their brokers or a unit trust management company for full details of switching charges.”

Sign of popularity

Feldman said almost half of the inflow last month was made up of switches.

Income funds’ popularity was reflected in the growth of Old Mutual Income Fund assets from R32 million in 1991 to more than R180 million.

“Clearly some investors feel the market is high and are switching into the Income Fund until equity prices come down to more reasonable levels,” Feldman said.
Barlows enters the final stages of unbundling sales

Barlow Rand will be a shadow of its former self when it completes its unbundling shortly.

Its assets will be 66% of PPC, 79% of a reshaped Bibby & Sons — the foreign arm that is to be split and renamed — and the wholly owned operations in equipment, manufacturing, vehicle retailing, paint, building materials, steel and tubes, electrical appliances and investments.

Barlows has sold R274-million of shares in NBS. It will pass on its remaining shares in CG Smith, Reunert, Rand Mines and Rand Mines Properties to its shareholders. It sold 9.5% interests in each of these companies and in Randgold to Old Mutual to raise cash to redeem loans and debentures.

Barlows is negotiating with a buyer of the rest of its Randgold stake. If the deal falls, the stake will be sold on the JSE in December.

CG Smith holds investments in Nampak, Romatex and CG Smith Foods which in turn controls CG Smith Sugar, IOS and Tiger Oats, which ultimately controls Adcock Ingram, Langeberg and Oceanodyssey.

Bibby, which has not provided much rand-hedge joy for its SA parent, is to set up a separate company to hold the science products, paper and converted products and agricultural assets.

The rest of Bibby — materials handling and capital equipment — will be renamed Stratford plc. About 80% of the new company's shares will be sold in London, proceeds to be applied to repay Stratford debt. Barlows will retain 20% of the new Bibby as an investment.

Barlows has rearranged its electronics interests. Several years ago it listed as one group SSL its holdings in ISG and Perseitech, then split them into ISG and Perseitech.

Now it is to exchange its effective 30% holding in ISG for an effective 20% of Perseitech, doubling its holding to 55%. This amount, plus its interests in National Panasonic, Nashua and Alromatic, is to be exchanged with Reunert for a recognisable letter of allotment for 10.8-million Reunert shares.

Tradeability in the companies to be unbundled should improve on two counts.

First, they will not be in the hands of a holding company but of many individual and institutional shareholders who will take different views.

Second, the three largest are to sub-divide their shares. CG Smith will split 10 for one, Reunert five for one and Rand Mines four for one.

Barlows will announce the terms of its distributions and the financial effects after its results for the year to September 30 are published in mid-November.

Can other company sales be little changed after Friday's announcements?
Renewed foreign interest pushes Barlows shares up

Barlow Rand shares have bounced back from the RS£ low they touched last week after renewed foreign interest in SA industrials and further details of the conglomerate's unbundling exercise.

One market source said at the weekend: "Chairman Warren Clewlow is showing a new sense of purpose in the way in which he's breaking up the group, even if the scale of the operation means it is not going quite as fast as some hoped."

Barlows announced last week a reshuffle of its UK subsidiary J Bibby & Sons. Bibby's equipment and engineering businesses would be renamed Stratford, while its other paper, laboratory products and agri-business interests would be hived off in a separate company, keeping the Bibby name, to be floated in London in the first quarter of 1994.

Another analyst said that the balance of the deal was in favour of Barlows: "It's not particularly elegant, but it does lower Stratford's risk profile," he said.

The big question now was for Barlows/Stratford to turn its loss-making Spanish Caterpillar distributor Finanzauto around before, perhaps, taking advantage of the business opportunities particularly with reconstruction in eastern Europe.

Barlows stock closed at RS£1 on Friday. Bibby shares climbed 7p after the announcement, closing at 92p on Thursday compared with the 80p a share (equivalent to £3.287m) which Barlows paid nine years ago for the group.

The group's market value stood at £114m at the weekend.

Analysts said the first important consequence of the manoeuvre would be the recapitalisation of Bibby/Stratford and Finanzauto.

Stratford could be expected to raise between £50m and £80m from listing the reformed Bibby even though it had a poorly-rated asset portfolio.

However, Bibby director Russell Chambers said market conditions in UK were "right for the listing".

Bibby's businesses were looking forward to improved orders as the British economic recovery gathered momentum.

In addition, money raised from the flotation would be used to repay Bibby's debt, a strain on group earnings in the past 18 months.

Analysts said a more tightly focused debt-light Bibby/Stratford would benefit Barlows - keeping its 79% holding in Stratford which would retain 60% of Bibby - if only because it was relatively more important to the smaller unbundled group.

Although the changes to Bibby mirrored those to Barlows in SA, the company needed treading in any case, they said.

Finanzauto had been managed by Barlows, the supplier of Caterpillar equipment in SA, although it was part of the Bibby group.

Bibby acquired Finanzauto in a £25m takeover in mid-92 but was caught off-guard by the slump in the Spanish construction sector, with interest charges dragging the company into the red.

Bibby chairman Richard Mansell-Jones said: "The decision is consistent with what Barlow Rand is doing itself in SA."

"We will be left with Hyster fork lift trucks and Caterpillar. It is a mirror image of what is planned by Barlow Rand."

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Kersaf has hopes for offshore projects

Leisure company Kersaf Investments' offshore arm, Royale Reesor Holdings, is currently investigating several overseas investment opportunities, executive chairman Buddy Hawton says in the group's 1993 annual report.

It would be premature to comment in more detail at this stage, he said, but "if these can be successfully concluded the objective of achieving satisfactory growth from offshore investments over the longer term should be favourably enhanced."

In the year to June 1993 Royale, which has direct investments in three resorts on the island of Mauritius, an offshore casino and indirect investments in a number of other casinos, reported earnings a share 13% lower than in 1992 as a result of the worldwide recession.""In overall terms, the year ahead will see a marked decline in the level of project activity and a corresponding notable reduction in the amount of capital expenditure from the high levels of the past two years," Hawton said.

...years to June to R1,7bn. Within Kersaf's 80%-held companies, Sun International, The Palace and Lost City at Sun City were completed in December 1992 at a cost of R109m.

The extension and refurbishment of the Wild Coast Sun was also completed in the past year, a project which cost R89m. Other significant capital expenditure within the group was in the 57% held Interleisure group and, within Royale, improvements and extensions at Le Tourelle at Sun in Mauritius, to be completed this month at a cost of R108m.

This welcome respite will bring about heightened focus on important refurbishment activities and also permit some reduction in the level of external borrowings."

Kersaf Investments was likely to achieve "acceptable" earnings next year as a result of its considerable investments in new and extended facilities, Hawton said.

The run-up to the multiparty election scheduled for April was likely to be a period of heightened tension and might well have a dampening effect on business and consumer confidence and activity, he said.

Kersaf Investments' attributable earnings declined 9% in the year to June to R104.2m from R181.4m in 1992 although turnover increased 10% to R28m from R18.8m.

Hawton said results for the year were satisfactory in view of the deteriorating economic climate in most of SA and overseas and escalating sociopolitical violence.
Gengold seeks audit on mine

GENGOLD, Gencor's gold business, is to call in independent auditors to check the viability of its Oryx mine, as part of its efforts to rescue the struggling Free State operation.

MD Gary Maude said yesterday that the company wanted to reassure shareholders Gencor, Genbel, Sanlam and Anglo American that any rescue plan put forward was not based solely on Gengold's own assessments of the mine.

It emerged earlier this month that Oryx could need an additional R500m to fund development needed to take it into profit.

Its original financing plan, under which the four shareholders had put in R979m, had been derailed by initial grades far below previous estimates.

Gengold detailed the mine's problems to the major shareholders in a series of meetings last week.

The company had still to finalise a rescue plan for the operation, but Maude said that it would be supported by an independent check on Gengold's figures.

Maude said the aim of "having the thing audited" was to promote confidence in the options which were put forward.

Market sources believed one of the shareholders, possibly Sanlam, would have asked for the independent audit.

But Maude said Gengold had taken the decision itself.

The Gengold staff responsible for previous estimates for Oryx would also be called on to re-check their findings.

Maude said shareholders had been "understanding" during last week's meetings.

Genbel, a 19% stakeholder, said yesterday it could be prepared to provide more cash for development, given that only a fraction of the reef had been developed to date.

"I don't think you can make a decision on the mine on the strength of information known today," MD Anton Botha said.

Industry sources expected Sanlam and Anglo would take a similar line.

Though Gengold has said it wanted to resolve the funding problem as soon as possible, the mine had sufficient funding to continue through to March at present development rates.

Maude said that finding a plan to suit the four major shareholders, the mine's banks which were owed R550m, and JSE investors who held 2.5% of Oryx would likely prove difficult.

"Each of the interested parties has their own preference, and it's a job to find a solution 'that suits everybody the best'."
Bolton’s takings triple on improved returns

BOLTON Industrial Holdings, which derive its profit from Cargo Carriers and Bolton Footwear, nearly tripled attributable earnings in the six months to August to R2m from R733 000 in the same period in 1992 on better results from both its investments, according to figures released yesterday.

Although its earnings lifted to to 39,0c a share from 14,2c, distributable earnings were only 4,7c (5,1c).

The interim dividend was maintained at 5,6c a share.

Cargo Carriers, in which Bolton Industrial has a 34,6% interest, lifted attributable profit in the six months to August to R3,2m from R408 600 in the previous interim period.

Although turnover fell slightly to R90,8m from R91,3m, operating profit was 21% higher.

A profit of R2,3m was made on the sale of assets, against R294 000 in 1992, and the interest bill was almost halved to R1,6m from R3,6m.

Cargo Carriers’ earnings lifted to 16,0c a share from 2,4c but no interim dividend was declared because of the need to retain cash for future expansion, and in view of the continuing recession, its directors said.

Bolton Footwear, which is 74,1% held by Bolton Industrial, reported attributable profit of R1,3m in the six months to August from R832 000 in the same period in 1992.

Operating profit lifted by 34% and turnover was about 20% higher at R109,1m from R90,5m.

The interest charge eased to R1,5m from R1,95m.

The interim dividend was maintained at 2,0c a share on earnings of 6,5c (4,2c) a share.

Bolton Footwear’s directors said the company’s profits would have been higher if it were not for losses incurred on Searles Homes, since disposed of.

Aggressive marketing and effective cost controls helped to improve the performance of the footwear manufacturing divisions.

The management of both Cargo Carriers and Bolton Footwear expressed confidence that the stronger trend would be sustained in the second half of the year.
Following the born shopper

If you believe in Brian Joffe, it's time to invest

When investors hear the name Joffe, the usual response is to relax. Clearly, if it's Joffe it'll be all right.

Many investors hold firmly to the view that the quality of management is the most important factor in determining investment decisions. In the case of Bidvest — and Joffe — shareholder faith may be exaggerated. Is it possible he is being endowed with abilities unusual in anyone and that too much store is being laid by the man?

This is a company which, in four years, has grown from a R29m cash shell into an industrial conglomerate capitalised at R1.4bn (excluding compulsorily convertible debentures). That level of growth in shareholder wealth is awesome. Earnings have grown an average 32% a year, and the counter is now worth more than four times the R20 listing price.

No wonder Joffe is seen by admiring investors as a whizz kid. For stockholders, the key question is whether these levels of profitability and growth can be maintained.

Chairman Brian Joffe (46) admits he's a man with a mission — to build a mini-empire. While in his 30s, he sold his half-share in an animal feed company and moved to the US. Two years later he was back in SA as MD of E&W Tarry and later CE of Tarry's parent, W&A. He resigned in May 1988. There's a mystery in that why he resigned and left the W&A group in the sole hands of erstwhile colleague Jeff Liebesman is something of a puzzle. Joffe's not telling, neither is Liebesman.

Months later, he bought the R8m Icel cash shell, changed its name to Bidcor (Business Innovative Developers Corp) and added food catering supplier Cater Plus (previously WA Chipkin) and frozen food distributor Sea World to the portfolio. In March 1989, Bidcor acquired the Curries cash shell. Joffe changed its name, enter Bidvest.

The aggressive acquisition drive didn't end there. By July 1989, three more divisions had joined the growing crowd under the Bidcor umbrella: butchery and catering supplier National Space Works, food and catering supplier Eric & Stephens, and a 50% stake in cosmetic house Jutone. Before the turn of the year, Joffe, by now labelled a born shopper, went out with his basket again. This time, through Bidvest, he picked up listed paper and packaging company Afcom.

However, in the process it became obvious the group's structure was taking on a threadbare look. Bidcor needed a cleaner structure and, in July 1990, Joffe transformed it into a pyramid holding vehicle while all other divisions were placed under Bidvest. At the time it looked a clever move. It doesn't now how fashions change.

There is another dimension to this story. Joffe fancied a hardware business and textile rental company Steiner Services, then owned by the Nash family. However, a year passed before Joffe's famous persuasive talents convinced them to sell — for R84m. Six months later, yet another listed company, Crown Foods, became a Bidvest subsidiary.

Not surprisingly, Joffe came in for heavy criticism at this point. Market players, some probably a little miffed at his waxing star, put it about that he had acquired too many listed subsidiaries.

But in March 1993, while looking for a home for newly acquired meat supplier BMR Foods, he became aware of the similarities between 66.5%-held Afcom and 88.3%-held Crown, and wholly owned Cater Plus and Steiner Services. He delisted Crown and Afcom, paid out minorities and reshuffled the Cater Plus activities.

In his first review as W&A CE, he argued that company results reflect management's ability to harness entrepreneurial talent in a wide spectrum of basic industries to create a real return for shareholders. The interesting thing is that he has held fast to his dictum. He could just as easily have written this in a Bidvest report.

But it wasn't until he presented the 1991 accounts that Joffe spelt out Bidvest's strategy for the first time. He hadn't done it sooner because of the group's diverse constituency.

The strategy, says Joffe, is to invest in companies operating in distribution and trading, which may include light manufacturing. Objectives are to enhance shareholder wealth by real organic growth, selective acquisitions and control of funds. Management is motivated by decentralised structure with strong cash and share incentives to exceed realistic profit targets.

Joffe made the understatement of the year when he described 1993 results as satisfactory. Off a high base, turnover rose 30% to R775m, operating income 17% to R70.5m and EPS 34% to 55c (Not uncommonly, the boost came partly in a lower tax rate). Despite substantial growth in past years, long-term borrowings were eliminated, leaving the group unencumbered. Well, it's nice to be self-deprecating.

Just before year-end, Bidvest embarked on its largest acquisition, a R263m purchase of freight forwarding group SA Freight Corp (Safcor).

The medium of exchange appeared to be entirely paper, a sharp contrast with previous acquisitions made with either cash or a mixture of equity and cash. In fact, Joffe issued Bidvest paper to selected institutions and applied the cash proceeds to paying out Safcor's shareholders.

Safcor minorities weren't excited about this. For good reason. Before the deal, Cufin — Safcor's controlling shareholder — had granted another party a pre-emptive right to...
its 50.01% in Safcor. That party waived its rights, giving Bidvest the opportunity to acquire the stake (based on NAV). An unusual timing problem, though, meant that Bid-
vest’s arrangement with Curfin — turning Safcor into a cash shell — was in place before the earlier pro-cumulative right was ter-
minalized.
Minorities argue that Bidvest should have bid directly for Safcor equity and not just bought the underlying business, alternative-
ly, Safcor could have passed Bidvest paper to minorities as a dividend.
Year-end June 1993 Safcor results reflect a 26% rise in EPS on the back of a 17% rise in turnover. That result certainly fits Joffe’s idea of a good business.
A Bidvest pro forma statement shows that had the Safcor deal been effective all year, the effective tax rate would have risen to 30%. EPS would have been 24% better at 683c and the dividend would have been at least 237c. That would give a prospective yield of 2.8% — not unduly expensive and in line with the Industrial Holdings sector.
Interestingly, Bidvest ended with more cash on hand than the Safcor deal, R190m. That enabled Joffe to go shopping again. Bidvest has apparently bid R30m cash for Prestige Cleaners.
How this cash is spent will have a significant effect on Bidvest’s future. If it goes on one or two first-class acquisitions, it could propel Bidvest to even greater heights, much the way Malbank, through the purchases of Protea and Gencor’s industrial interests, was upgraded from a minor player to one of the JSE’s largest industrial conglomerates.
Yet the group is finely balanced. One disastrous decision could impel it into night-
mare territory. And Joffe has already had a close call. In February last year, when Bid-
vest offered Murray & Roberts R23m for its controlling 78% of Crown Foods, an R18.2m
horror was found by Bidvest involving non-disclosure of creditors and over-statement of stock.
After assessing the damage and closing the casing factory, Bidvest was compensated and the price was cut to R12.3m — R8m of which was funded by Bidvest paper.
In the past year, Crown has been exten-
sively restructured. That has cut overheads and streamlined operations.
Uneconomic business units were closed. Depressed conditions in the traditional butch-
ery businesses prompted management to develop new product lines for the bulk feeding market. That com-
pletes Joffe’s personal circle, taking him back to his roots in animal feeds.
New food ingredients divi-
sion Combined Foods encompasses Crown National and Chipkins Bakery Supplies. Chipkins, the original business, increased turnover in 1993, despite reduced de-
tal and washroom services. MD Bryan McE-
vedy says these markets are under-developed by international standards, suggesting Steiner is ideally placed to grow in real terms.
Contract-based services grew 7% in real terms in financial 1993, despite contractual shrinkage in workwear rental due to wide-
spread retrenchments and reduced linen rental volumes — all evidence of the depressed hotel business.
Cater Plus has three divisions: catering supplies, catering frozen foods, and food ser-
ces equipment and supplies. Margins came under pressure in catering frozen foods, which distributes seafood, poultry, vege-
tables and allied products to the catering and hotel industries.
Management relied on operating efficiencies to maintain profitability. The food services equipment and supplies division, which makes-Vulcan, President and Martin Cater-
ing equipment, was restructured. Vulcan’s distribution was merged with that of Presi-
dent Trading.
Afoam MD Alan Salomon says 1993 was characterized by difficult trading conditions aggravated by a month-long strike in the steel industry in August.
Production sales days lost hit demand and supply. Nevertheless, turnover and earnings increased significantly. Salomon expects real growth this year.
Taking a broad view, Joffe has clearly managed group assets with unusual dexter-
ity. He has achieved earnings growth atopi-
cal in an economic environment hostile for the past four years.
The market’s assessment of the counter
ists strangely with the results. This reluct-
tance to recognize Joffe’s efforts leaves a window of opportunity for potential share-
holders.
The share is trading on a p/e of 15.4 on 1993 results, a small discount on the Indus-
trial Holding sector’s 16.9. The gap widen
considerably if the Safcor deal is taken into account — the pre forma p/e then drops to 12.5%, rating the group at a 26% discount to the sector.
This dichotomy is heightened by the re-
turns of the past four years and by the distinct probability that Safcor will benefit handsomely from SA’s readmission as a sig-
nificant trading nation.
On the basis that the obvious explanation is often correct, what seems to be worrying the market is sustainability. There is little management can do about this, except con-
tinue to produce above-average results. Of course, if Joffe and his team can maintain perfor-
ance, there is room for a consider-
able upward rating of the share. In time, a p/e of around 20 would not be untoward, implying a price of R136 for Bidvest com-
pared with R85 now.
This test of critical element in making in-
vestment decisions is probably the ability to reach an accurate assessment of management. If you believe in Joffe, this is the time to consider testing that judgment.

Kate Rushin
'Nationalising won’t cut cost’

Staff Reporter

PHARMACEUTICAL industry spokesmen said yesterday that nationalising the industry would not reduce the high price of medicines.

They were reacting to ANC national executive member Mr Jay Naidoo’s statement that the high cost of medicine in South Africa could lead to the ANC nationalising the pharmaceutical industry when it came to power.

He said pharmaceutical companies were making medicines unaffordable to the man in the street and that the government had the right to intervene to either make it a competitive industry or nationalise it.

The price of medicine in South Africa was higher than other Western countries, he said.

Low rand pushes up drug prices

Ciba-Geigy Pharmaceutical company spokeswoman Mrs Suzanne Planetena said nationalising the industry could lead to multinational companies pulling out of South Africa.

Medicine was expensive because of the poor exchange rate and the high cost of technology used in producing new drugs.

Pharmaceutical Society of South Africa spokesman Mr Raymond Pogr said nationalising the industry had not worked anywhere else in the world and would not bring down prices.

"Most of the medicines are imported from overseas, and a drop in the value of the rand pushes up the prices," he said.

Registrar of the SA Pharmacy Council Mr Chris van Niekerk said the private sector paid more for its medicines than the government paid for health care medicines.

Costs were high because the private sector subsidised the state.

Nationalising the pharmaceutical industry was not the answer to the problem and alternative measures would have to be looked at.

It was up to the state to provide essential clinical services, he said.
Individual liquidations plunge to 30-month low

INDIVIDUAL and partnership liquidations have plunged to their lowest levels in 30 months, according to Central Statistical Service (CSS) figures released yesterday.

The data showed individual insolvencies continued on a downward trend in the year to July, falling 40% from a previous decline of 33.5%. On a cumulative basis, insolvencies slipped 8.7% from the same period last year, the CSS said.

But company liquidations were up 11.7% in the eight months to August compared with the same period last year. So far this year, the average number of company liquidations a month was about 220, from 201 in 1992.

The positive news on the company side was that forced liquidations as a percentage of total liquidations fell to 79% in August from last year's average of more than 85%.

Credit Guarantee senior economist Luke Doig said the individual liquidation figures were surprising as there had been no major pickup in the economy and interest rates had not been cut since February.

It could mean the length of the recession had forced individuals to prioritise spending and get their affairs in order. Consumers also appeared to be putting off purchases of major items because of the uncertainly in the run up to elections.

The improvement in the credit situation of individuals could explain why companies were still failing at a high rate, said Doig. Companies were being knocked even further by the reluctance of firms to build up stock levels because of the uncertain environment they operated in.

Credit Guarantee's own experience supported the rise in liquidations of companies, said Doig. The credit insurance company had paid out a record amount of claims in the first quarter. But he said there was usually a seasonal uptick in payouts in the third quarter.

The second half of the year had been seeing a slowing down. Despite these factors, it was still too early to predict future trends. He said it depended on the state of the economy and the political situation.

The negative factors were still outweighing positive elements. "While the economy may have bottomed technically, the forced shorter-term perspective of businessmen in the light of political uncertainty is hindering any significant upturn."

He expected overall economic growth for this year to be down 0.5% from last year and was not optimistic about the situation next year.

Even if things did go well after the election, it would take time to filter through, he said.

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New clothing, textile tariffs are criticised

LINDA ENBORN

CAPE TOWN — Long-awaited adjustments to the clothing and textile tariff structure were announced by Deputy Trade and Industry Minister David Granet yesterday.

The amendments, which drew sharp criticism from the clothing industry, are expected to be gazetted this month. A Board on Tariffs and Trade statement said the board had decided, as a short-term measure, to reduce ad valorem duties on clothing and textiles by 10%; not to change the maximum specific duties; and to cut the minimum specific duties by 15% for yarn, woven and knitted fabrics and by 10% for clothing and household textiles.

The duty on polyester staple fibres would be substituted by an ad valorem duty of 25% while the ad valorem duty on yarn was reduced from 35% to 32%, on woolen fabrics from 50% to 45%, on knitted fabrics from 40% to 35%, on clothing from 108% to 90% and on household textiles from 80% to 50%.

In most cases, the changes were reductions but a few upward adjustments were made to rationalise and standardise the tariff structure. In the case of knitted fabrics, tariffs remained the same.

The board rejected the request by small clothing businesses that they be allowed to import six types of fabrics at a duty of 15%, saying such an open and complex system could not be administered.

In making its decision, the board took into account the sensitive nature of the clothing and textile industries, SA's commitments within the Uruguay Round of GATT, and the international focus on ensuring accessibility of clothing and textiles to markets, and on fair and unfair competition.
Individual liquidations plunge to 30-month low

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But he said there was usually a seasonal uptick in payouts in the third quarter. There were also signs that the increase in company liquidations was slowing down.

Despite these factors it was still too early to predict future trends. He said it depended on the state of the economy and the political situation.

The negative factors were still outweighing positive elements.

"While the economy may have bottomed technically, the forced shorter-term perspective of businessmen in the light of political uncertainty is hindering any significant upturn."

He expected overall economic growth for this year to be down 0.5% from last year and was not optimistic about the situation next year.

Even if things did go well after the election, it would take time to filter through, he said.
Insolvency figures are giving out mixed signals, says Luke Dog of Credit Guarantors. Company and CC insolvencies rose 19.2 percent in August to 223 from 187 in July — 8.7 percent up on August last year. The cumulative total for the eight months to August this year is 1779 — 11.7 percent higher than for the same period last year.

In contrast, individual and partnership insolvencies fell to their lowest level in 30 months, with 249 sequestrations down from June's 328.
Editor dismisses unbundling of Press

THE argument for fracturing the ownership of the English-language newspapers was dubious, Financial Mail editor Nigel Bruce said yesterday.

Bruce, speaking at the 1989 SA Publishing Conference, said the argument to consolidate these interests further, to promote efficiencies and reduce costs, was probably more compelling.

The main competition facing SA’s newspapers was the international electronic media.

If Anglo American wanted to remain unenlightened profitably in newspapers, the savings in merging Times Media Limited (TML), the Argus Group and Carton into one commercial unit would be enormous. It would enable “greater clout and economies of scale in the acquisition of technology”, enable editorial staff to be streamlined and reduced in number, reduce administration duplication and focus management on the real competition, which was from the international electronic media.

Bruce said the unbundling of Anglo’s newspaper interests was “a fiction”.

Anglo would simply sell TML in full or part to someone else, and “it is doubtful if the shareholders in the Argus Group were given a direct stake in its constituent newspapers that the value of their assets would be enhanced”, he said.

However, there might be a commercial advantage for buying off, and separately listing, the financial publications as they had little synergy with the other products.

Bruce believed that notions of unbundling Anglo’s newspaper interests were entirely political and rooted in the ANC’s desire “to cover its own communications shortcomings by acquiring, either compulsorily or at a knockdown price, a viable newspaper group of its own”.

Ownership of a mass circulation newspaper was not important in an election, or at any other time. What was important was how it conducted itself “in the light of its readership profile”, he said.

Most, if not all, of the large English newspapers had more black readers than white, and if their interests were ignored, readership would decline.

English newspapers predominated in SA not because they were a monopoly, but because they were a valuable heritage brought to SA, and the home of freedom of speech. Anglo had provided a blocking mechanism against government’s attempts to gain control.

Bruce said Anglo should not disinvest, but prepare its newspaper interests to meet international competition emerging through technological advances.
JCI relies on Western Areas for sparkle

JCI’s gold division lifted earnings nearly a quarter in the three months to September as higher production and revenues largely offset pressure on costs.

Revenues at the group’s three mines rose 10% to R409,3m on the back of record production of 13,229kg and a 7.5% increase in averaged revenues to R37,74/kg.

Although unit cost nudged forward nearly 5% to R28,97/kg, post-capse earnings hit R72,4m (R58,7m), leaving earnings a share at 38,5c (29,5c). The showing was “all in all a very satisfactory result”, gold division chairman Ken Maxwell said.

But it relied heavily on Western Areas, which combined higher tonnage, grades and production with lower costs to post earnings 70% ahead at R37,7m.

RJ Joel, JCI’s newest mine, dropped back into a R2,5m loss (R2,2m profit) as its focus on development ate into production and lifted costs. Former mainstay Randfontein edged forward 6.3% to R37,2m as grades improved, costs pushed forward and its tax bill jumped to R29,1m (R22,9m).

Anglovaal’s four gold operations posted a similar mixed bag, with higher gold prices called on to offset rising costs.

Repeating its June quarter comeback proved too much for Loraine, which dropped back to R3,6m (R7,8m).

Strike action at Shela knocked Eastern Transvaal Consolidated’s grades and costs, cutting pre-capse profit 16% to R4,8m.

Hartebeestfontein fared better, exploiting higher yields and production to produce earnings ahead 10% at R49,4m.

A rise in yield at treatment company Village Main Reefs pushed gold production up 12%. Thus, combined with falling costs, pulled earnings up to R8,6m (R6,2m).

© See Page 12
RMB in multimillion-rand deal

RAND Merchant Bank (RMB) is to acquire cigarette and tobacco wholesale distributor Suzman & Distributors from Standard Bank Investment Corporation subsidiary Union in a multimillion-rand deal.

Neither Suzman nor RMB would comment on the amount involved, but a source estimated the deal at around R100m.

RMB corporate finance GM Nigel Brunette said yesterday the acquisition of Suzman was an investment banking transaction and not a strategic investment. RMB would be playing the role of financier in a consortium that included senior Suzman management.
PresMed buys specialist clinic

PRIVATE hospital operator President Medical Investments (PresMed) has bought Carstenhof Clinic, which specialises in plastic surgery, from Absa Bank for R22.86m, it said yesterday 22/10/93.

At the same time PresMed announced an improvement in attributable income to R2.8m in the six months to August from R2.1m in the same period in 1992. The acquisition of Carstenhof, at Halfway House, will be settled by allotment and issue of PresMed and PresMed Holdings (PresHold) shares, giving Absa a 14% shareholding in PresHold and an 8% holding in PresMed.

Its new owners will maintain Carstenhof's reputation for plastic surgery but will extend its services for people in the Johannesburg/Pretoria urban corridor. The group plans to regroup its hospitals and day clinics into two business units: PresMed Hospitals will house the six hospitals while day clinics will be grouped under PresMed Surgicentre, to be renamed.

PresMed Day Clinics

Earnings a share grew by 23% to 14.0c from 11.4c. The rate of growth was restrained by an increase in the number of shares in issue to 20.3-million from 18.4-million.

Group policy is to declare a dividend only at the end of the financial year. Turnover was 23% higher at R68.8m from R54.7m and, while finance costs lifted to R1.5m (R1.2m) on an increase in interest-bearing liabilities, the tax rate dropped to 44% from 49% previously.

PresHold's only asset is its investment in PresMed and its earnings are directly related to those of PresMed. Its earnings a share in the six months to August were 5.6c (4.5c) a share.

PresMed's directors said the proposed restructuring of the company would further streamline group activities and have a positive effect on long-term growth.
Malbak surpasses market expectations

FOOD, packaging, health care and branded consumer products group Malbak increased attributable earnings 14% to R374m (R329m) in the year to end-August, ahead of market expectations.

Malbak's share price edged up 26c a day in the past three days to close at R14 yesterday, as results from major subsidiaries Foodcorp, Holdains, SA Druggists and Ellerman indicated that it would do better than merely maintain earnings a share, as suggested by executive chairman Grant Thomas at the interim stage.

Earnings a share increased 8% to 122.4c (113.5c) on additional shares in issue. They were down 1% at the interim stage.

Thomas said trading conditions remained difficult and consumer spending continued to decline. But a concerted export drive helped lift sales 10% to R11bn (R10bn). Fierce competition and pressure on gross margins resulted in a 7% rise in operating income to R370m (R368m).

Reduced borrowings (from rights issues in Holdains and SA Druggists and control of working capital) and lower interest rates resulted in a 27% drop in finance charges to R12m (R162m), with interest recoveries increasing to 8.2 (6.3) times. Pre-tax income rose 18% to R656m (R554m).

A lower taxation rate and the benefit of adjustment in the deferred tax provision (R15m and 3.6c a share) saw after-tax income increase 20% to R479m (R381m).

Income from associates was lower, largely due to the sale of Standard Engineering. A net extraordinary profit of R2.7m was included.

In the branded consumer products division, furniture retailer Ellerman and Malbak Motor Holdings did well, substantially increasing their contribution to group earnings. Tedelex was the only company not to show profit, but it reduced losses.

The international division's contributions fell to 8% (19%), largely due to sterling's devaluation last year. Direct packaging subsidiary MV Holdings reported its third year of good earnings growth. Eagle Stainless did well but Protek International was affected by low demand for steel and a higher tax rate.

The contribution from investments dropped, largely because of the sale of Standard Engineering in this period.

Hedge's results were disappointing.

Thomas said a return to sustained economic growth was unlikely this year. Growth in earnings would depend on its own efforts, including export promotion, productivity improvements and optimisation of new projects. Malbak expected "a modest increase in earnings"
'No nationalisation plan'

Political Correspondent

THE gold mining industry could be nationalised in a new South Africa but the Chamber of Mines was not planning for such a scenario, the chamber's manager of corporate planning, Mr Johann Botha, said yesterday.

He was speaking at a city conference on planning scenarios organised by Stellenbosch University's Institute for Futures Research.

After delivering a paper on the development of strategic planning in the chamber, he was asked about the prospects of gold mines being nationalised.

"Mr Botha said the chamber operated on the underlying assumption that the mines would not be nationalised but he added, "However, we could be nationalised."

This could be done if the government forced all mines to belong to the chamber which could be controlled by the state. "I hope and believe that it will not happen but that is a possibility," Mr Botha said.
Siemens in deal to buy Telkor

By DON ROBERTSON

TELKOR, the telecommunication subsidiary of Reunert Group, is to be hived off to Siemens and Telephone Manufacturers of SA (TMSA) The move is part of the unbundling of Barlowes, of which Reunert is a subsidiary. Reunert has a turnover of R2,3-billion a year and its share price rose R3 on Friday to R48, for a R6 gain on the week (2.32).

It is believed that perhaps all five divisions in Telkor will go to Siemens and TMSA. The companies are reluctant to discuss details of the deal. A spokesman says Siemens is unable to comment because of JSE regulations. Reunert managing director Tony Ellisford was unimpressed on Friday: "We have been talking about this for a long time.

Siemens, part of the German-based electronics and electrical engineering conglomerate, has ties with Reunert.

Siemens and Reunert subsidiary GEC Alstom-SA merged their electron- motor businesses this year.

TMSA, a 67%-held subsidiary in Reunert, makes public telephone exchange systems under licence to Siemens in Germany as well as SA-rf- and voice subscriber apparatus.

In another unsung move Reunert acquired information technology group Persitech Holdings last month as well as Panasonic/ Nishau and Auromatic for R49-million. Reunert has split its shares five for one to increase marketability.
Gencor budgets for Oryx loss

MINING house Gencor has set aside more than R500m to cover potential losses in Oryx, just three weeks after the group went public on the funding crisis threatening the developing gold mine.

In what it dubbed a “prudent” measure, Gencor has taken a R500m provision in its year-end accounts to cover the cash it has pumped into the Free State mine.

Gencor, a 62.7% stakeholder in Oryx, provided most of a R700m loan to Oryx in 1991 with Genbel, Sanlam and Anglo American lending the balance. But gold company Gengold warned this month that Oryx could need an extra R500m, after poor initial grades forced its break-even target to be delayed by three years.

Chairman Brian Gilbertson said Gencor was not writing off its investment in Oryx, and that it had not ruled out the possibility of Oryx recovering. But the provision was vital, given the amount of extra cash Oryx could need. “The initial grades are substantially lower than those hoped for. It is going to take more time and money for the mine to break even.”

Gencor had to wait until December when a full assessment was available on Oryx’s future before making its decision. “What do I do until that statement is made? It’s prudent to make the provision,” Gilbertson said.

All the geological and technical calculations for the mine were being revised. Gencor would be “disappointed” if the revised break-even date of 1997 could not be brought forward.

Gencor has been expected to continue supporting the mine. But Genbel and Sanlam, which together hold more than 30%, are thought to be reluctant to spend more on Oryx. Gengold sources fear at least one shareholder could withdraw.

Gilbertson declined to say what impact its provision could have on other Oryx shareholders, saying only that Gencor could not run on the basis of trying to “influence some other company to do something or not to do something.”
Unbundling deal underpins Gencor

ANDY DUFFY

MINING house Gencor managed a slight increase in earnings for the year to August, as one-off gains offset a bruised operating performance.

The group, which is on the brink of unbundling, pushed attributable income up 12% to R1.4bn, leaving earnings on an expanded share base up 4% at R1.025 a share.

But the figures, announced today, relied heavily on transaction income trebled at R226m by gains stemming from Gencor's dismantling, and a R1.0bn tax writeback.

Underlying income from operations including gold company, Gengold, ferroalloy producer Samancor and paper and pulp arm Sappi fell 5.5% to R1.69bn, cutting earnings by 13.1% to 79.5c a share.

The group also sustained a R50m extraordinary charge against its investment in Free State mine Orkla, and a R100m charge for future medical costs.

A gain of R58m on the disposal of shares cut the below the line charge to R44m.

Chairman Brian Gilbertson said although the decline was disappointing, the results "reflect a sound operating performance in the circumstances". The dividend was held at 45c.

Gencor

Gencor's overseas and mining interests in exchange for industrial holdings, gave Gencor a R52m surplus, half of which was reflected in its contribution to Gencor.

But strong performances from energy company Engen and consumer products business Malbak were offset by Sappi, where collapsing prices helped cut its contribution nearly 40% to R119m.

Engen's earnings rose 13% to R466m, though they owed more to a wholesale price rise than to market growth. Its contribution to the group was limited to a 5% rise to R271m due to Gencor reducing its holding.

 Strict cost controls lifted Malbak's contribution 12% to R147m.

The contribution of companies that Gencor will be left with after unbundling - Gengold, platinum producer Implats, coal producer Trans-Natal, Samancor and minerals - rose 7.5% to R866m.

Higher yields and lower costs at Gengold pushed attributable income to R1.06bn (R1.02bn), while lower capex at Implats lifted its income to R90m (R83m).

Gilbertson said the contribution from both was likely to rise this year.

Trans-Natal fared less well. Though export sales rose, a fall in financing income and higher tax cut its contribution to R78m.

Despite radical cutbacks, Samancor was battered by falling prices, forcing its attributable earnings down 30% to R1.01bn.

The contribution from international business fell from R71m to R21m - a low base given Gencor's international aspirations.

Gilbertson said talks with Royal Dutch Shell to buy Billiton, its international mining and minerals operation, were proceeding well. The deal is thought to be worth around R1bn.

Gilbertson declined to comment on the financing plan, adding only that the group had to bring in at least one international partner. If commodity prices remained weak, Billiton would not be a "speculative performer", he added.

An announcement was likely at the end of the year.

He dismissed suggestions that Gencor's new direction could leave it at the mercy of the depressed commodities cycle. The balance sheet was strong, and cash and liquid financial resources made up a fifth of its R12.1bn asset value.

"The businesses are under pressure, but they're in a good position," he said. "They're well financed and making profits, despite the downturn."

See Page 8
Unidev reports a loss of R4.2m

UNIDEV, the investment holding company which now has Prestige Housewares as its sole trading company, reported a loss of R4.2m (R728,000 profit) after extraordinary items to end-August.

The company, which said yesterday that it and holding company Unicon intended to delist from the JSE, has compared results to end-August with the six months to end-June in the previous year because of a change in the year-end.

Unidev reported profit before finance costs of R1.9m, from R2.5m in the previous year. But finance costs of R1.1m (R1.4m) saw profit after finance costs drop to R786,000 from R1.1m in the previous year.

The bottom-line loss arose mainly from extraordinary items of R4.9m, which included taxes relating to periods before 1991 and current losses on discontinued operations.

After extraordinary items, Unidev's loss was 3.3c a share, compared with earnings of 0.8c a share to end-June 1993.

MARCIA KLEIN

Directors said Hyperette, in which Unidev had a 31% interest, was placed in liquidation during the period.

The interest in Medicor debentures, convertible into Southern Life shares, were disposed of to repay borrowings.

Prestige Housewares discontinued one of its divisions and disposed of some assets of that division below book value.

Yesterday Unicon and Unidev said that they wanted to delist and convert the shares held by minorities into redeemable preference shares. These shares would be redeemed by way of cash payments of 8c a Unicon share and 9c a Unidev share.

The directors said details of the delisting would be posted to shareholders tomorrow.

Unicon, whose results are entirely dependent on those of Unidev, reported a loss of 2.8c (earnings of 0.5c) a share after extraordinary items.
Gencor earnings forecast tends to satisfy analysts

BY DEREK TOMMEY

Analysts are generally satisfied with the prospects for Gencor outlined by chairman Brian Gilbertson in his annual statement to shareholders.

But some say the dividend forecast is a little vague.

Gilbertson is mildly optimistic about Gencor’s prospects after it is unbundled on November 5 and distributes its shares in Engen, Genbcl, Malhold and Sappo to its shareholders as a dividend in specie.

He reports that four of the five remaining businesses — Gengold, Impilats, Trans-Natal, Samancor and the minerals division — should show higher profits in the year to June 1994.

The weak spot is Trans-Natal, which had a 13.6 percent drop in earnings to $116 million in 1993-94, and could make commensurately lower contributions to group earnings this year.

But he is hopeful that Gengold will benefit from the higher gold price.

Based on the current price of Impilats products, he expects increased earnings from this source as well as a modest increase from Samancor.

Aluminium producer Richards Bay Minerals is expected to lift earnings of the minerals division.

Had the unbundling occurred before the 1993 financial year, Gencor’s total earnings in 1992-93 would have been 44.5c a share, while underlying operating earnings would have been 37.5c a share.

The write-back of tax provisions accounted for most of the difference.

This compares with Gencor’s actual earnings of 102.5c a share and cash earnings of 54.7c a share. It paid dividends totaling 45c.

Gilbertson says he would be disappointed if the 1993-94 underlying operating earnings did not exceed 37.5c a share.

However, it is not operating earnings that will determine the dividend, but the cash earnings and the board will consider the 1994 dividend in the light of these.

He says these cash earnings will be significantly lower than the 1992-93 pro-forma earnings of 35.6c a share.

He adds that Gencor would like its dividends to be covered at least 1.5 times by cash earnings.

This suggests that Gencor’s dividends this year could be less than half last year’s dividend.

But analysts say that it is much too early to be precise about figures.

With eight months still to go to Gencor’s year-end, Gilbertson must be expected to be extremely cautious in his forecasts.
Anglo plays key role in Zambian copper sell-off

Anglo American is playing a key role in deciding the fate of Zambia's soon to be privatized copper industry, before its planned takeover bid has even been tabled, it emerged yesterday.

Anglo's 50%-owned subsidiary Zambia Copper Investments (ZCI) said in its annual report that Anglo was working with the Zambian government and Zambian Consolidated Copper Mines in determining ZCCM's direction and financing.

Anglo has an indirect stake in the mine through ZCI, which holds 27.3%.

The report said ZCI representatives were "reviewing ZCCM's strategic options and endeavouring to ensure that its substantial new capital requirements can be secured on an acceptable basis."

ZCI also mentions that it has pre-emptive rights on ZCCM should the Zambian government cut its stake to less than 50%.

Anglo was approached on the implications for the bidding process of its close involvement in ZCCM, and the terms of its proposed offer. No one from the company was available for comment yesterday.

Anglo secured a direct stake in ZCI through last month's $1.4bn international asset swap with offshore arm Maxcor.

The group wants to take over ZCCM as part of a strategy to expand its African mining operations.

ZCI said in its report that the amount of ZCCM to be sold off, and the timing of the privatization, had still to be announced. The Zambian government has said, however, that it wants the sale to go through by the end of this year.

ZCCM, which in the year to March produced 432,206 tons of copper, is carrying debits of $700m, but needs to spend about $2bn on vital development.

ZCI said ZCCM had approved in principle the $46m Konkola Deep Mining project, which will provide 180,000 tons of finished copper a year. Work on the scheme would start in 1994, should it secure financing.

Though the stake in ZCCM is ZCI's main investment, the company does not equitably account its earnings. ZCI's pre-tax earnings for the year to June dropped nearly 20% to $0.6bn.
Lower tax rate expected to boost SAB's earnings

MARCIA KLEIN

SA BREWERIES' (SAB) interim earnings to end-September, boosted by a lower corporate tax rate and improved efficiencies in its major operations, would show an increase of between 11% and 20%, analysts estimated.

They said that as much as half of the growth would be attributable to the lower rate of corporate taxation.

Nevertheless, they said this would be a good result given the fact that its major subsidiaries, which include the beer division, Edgars, OK, ABI, Lion Match, Da Gama, Aflco and Amrel, were dependent on private consumption expenditure.

While analysts agreed the beer and industrial group would show an improved result on the 5% earnings rise reported at the March year-end, they were divided on how Plate Glass & Shutterplate Industries (PGSI), now a significant contributor to group profits, would perform.

PGSI had shown a significant improvement in the second half of the previous year.

Analysts said that its offshore operations had done well, but they believed that local operations had felt the effects of declines in activity and increased competition.

SAB's beer division, which is the backbone of the group's earnings, would not have experienced any increase in volumes.

However, increased efficiencies and better earnings from exports and non-SA operations should enable it to produce an increase in earnings.

Soft drink bottler ABI, like the beer division, would not see any increase in volumes. Nevertheless, its earnings were expected to be about 18% to 15% up on the previous year.

Analysts said that there had been an improvement in retail sales in recent months.

This should benefit the group's industrial interests - apart from OK Bazaars. OK was expected to show substantial losses, which would compare with a small profit in the previous year.

Aflco would do substantially better, and Edgars would benefit from lower taxation.

Lion Match, which has issued a joint cautionary announcement with Consol, would also show good results.

Lion Match said this week that the negotiations were wide-ranging, but could not comment further at this stage.

However, analysts said that the cautionary could refer to the sale of Lion's Interpak to Consol.
Oceana earns, pays more

Despite a 3 percent drop in turnover, Oceana increased operating income by 16 percent to R22.2 million (R18.2 million) in the 12 months to September. Attributable earnings rose 31 percent to R23.9 million (R18.2 million).

Higher profits reflect strong performances by its cold storage division and the abalone business.

Profitability was also lifted by a 23 percent increase in income from investments to R5.9 million (R5.3 million), while tax paid was largely unchanged at R23.2 million (R22.6 million).

Earnings a share rose 30 percent to 231.2c (192.8c). (232) The group is paying a final dividend of 114c (90c), making 138c (120c) for the year.—Sapa.
HIGHLIGHTS

“Go ahead” for major growth projects
- Alusaf R7.2 billion - Columbus R3.5 billion

Thrust to increase international interests

Decision to unbundle Gencor

Sound performance in difficult circumstances
- Attributable income up 12%
- Earnings per share up 4%
- Dividend maintained

PROFIT ANNOUNCEMENT FOR THE YEAR ENDED 31 AUGUST 1993

AUDITED RESULTS

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>1992</th>
<th>change</th>
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<td>Earnings per share cents</td>
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<td>Cash earnings per share cents</td>
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<td>(9)</td>
</tr>
<tr>
<td>Dividends per share cents</td>
<td>45</td>
<td>45</td>
<td></td>
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<tr>
<td>Net assets R million</td>
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<td>18 446</td>
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<tr>
<td>Net assets per share cents</td>
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<td>- at 31 August</td>
<td></td>
<td></td>
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<tr>
<td>- at 21 October 1993</td>
<td>1 271</td>
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HIGHLIGHTS FROM THE CHAIRMAN’S REVIEW

The 1993 year was remarkable for a number of decisions that will have an enduring effect on the future of the group. These included the “go ahead” for two major South African projects, a thrust to increase our international interests, and the unbundling of the Gencor group.

These decisions were taken against the background of a business environment that proved to be quite as difficult as anticipated a year ago. Weak economic conditions persisted throughout the financial year in many of the major industrialised nations, resulting in weak demand for most of the group’s export products. In this difficult environment, our group companies were generally able to maintain, and in some cases even increase, sales volumes. However, the weak markets and increased competition took their toll on US dollar export prices. At best these remained around the previous year’s depressed levels, but generally dollar prices were lower than this. Although the effects of the lower US dollar export prices were softened marginally by a weaker exchange rate, the benefit of this weakness will only be reflected in our results in the coming year.

Domestic trading conditions were also difficult. In particular, the level of consumer spending remained depressed as personal disposable incomes continued to be squeezed by increased unemployment, lower wage increases and higher effective taxes as a result of fiscal drag. In addition, heightened political uncertainty and an alarming increase in the level of violence eroded business and consumer confidence.

Despite these unfavourable circumstances, Gencor managed to increase its attributable earnings by 11.9 percent to R1 411 million. After accounting for an 8 percent increase in the average number of shares in issue during the year, attributable earnings per share increased by 3.7 percent to 102.5 cents per share. This increase was due largely to our share of Genbel transaction surpluses associated with the unbundling of the group, and to the favourable finalisation of previously unresolved Gencor tax items. Our underlying operating income, which excludes transaction surpluses and once-off items, declined by 6.3 percent to R1 094 million or by 13.1 percent to 79.5 cents per share. Cash earnings declined from 59.3 to 54.7 cents per share, though a dividend of 45 cents per share was maintained on the increased number of shares in issue. Whilst the decline is of course disappointing, these results reflect a sound operating performance in the circumstances, particularly after allowance is made for our investment during the year of some R400 million of cash in developing projects.

The combined contribution of the companies and assets which will constitute Gencor after unbundling, which topic is commented upon in more detail below, increased by 7.5 percent to R646 million. The aggregate contributions of the companies being unbundled increased by 15.9 percent to R765 million. Although the underlying earnings of Engen, Malbank and Genbel were significantly higher, their increased contributions were more than offset by the effects of a sharp fall in Sappi’s earnings, and so the combined increase in the contributions of these companies was entirely due to our share of the Genbel transaction surpluses referred to above.

There was little if any growth in the domestic market for Engen’s products and the company did well to increase its earnings by 10 percent to R400 million. The R500 million phase 1 expansion of the Gariep refinery, together with the wholesale margin increase awarded last year, was the main reason for Engen’s improved performance. Due to a reduction in our interest in the company during the year, Engen’s contribution to our 1993 earnings increased by only 5 percent. In spite of an uncertain business environment, Engen expects to at least maintain this year’s level of earnings in the year ahead.

The depressed level of consumer expenditure throughout the 1993 financial year made trading conditions extremely difficult for all of
Mailbak's divisions In spite of these adverse circumstances, concentrated efforts to improve productivity and quality, to control costs and to achieve working capital efficiencies, were rewarded by an increase in earnings. This substantial improvement on the previous year Mailbak is budgeting for a modest increase in earnings in the coming year.

At technical level, Sappi's performance during the period under review was good. However, its financial performance was dominated by the effect of the substantial fall in the prices of virtually all of its products. Consequently, its earnings of R260 million for the 12 months to 31 August 1993 were almost one-third lower than those achieved during the previous 12 month period. The relative decline in Sappi's contribution to Gencel's earnings over the same period exceeded this, due to a reduction in our interest in the company towards the end of the financial year.

Genbel's distributable earnings, which have in the past been largely dependent on the fortunes of South African commodity exporters, increased by a modest 5% percent. However, its net transaction surpluses increased by almost R300 million, of which half was reflected in the substantial increase in Genbel's contribution to our earnings. These surpluses arose mainly from a pre-unbundling exchange transaction between Gencel and Genbel, in terms of which Gencel acquired certain strategic interests from Genbel, including its investment in TransAtlantic Holdings PLC. Genbel is expecting a significant contribution to the earnings of Genbel in the 1994 financial year.

With the exclusion of dividend income on the interest which we will retain in Mailbak after unbundling, Gencel's results will not be affected by those of the above four companies in the coming year.

A net extraordinary loss of R54 million was reported "below the line". The main components of this figure were a large net surplus on the disposal of capital investments (R525 million), which was offset by a 9.9% interest in respect of our shareholder loans to Oryx (R505 million), and in respect of future medical aid costs for retired employees (R100 million).

The unbundled Gencel

Gencel's unbundling was approved by the overwhelming majority of shareholders at a general meeting held on 31 August 1993 and our holdings in Engen, Genbel, Mailhol and Sappi will be distributed by way of a dividend in specie to shareholders registered on Friday, 5 November 1993. Shareholders will receive Mailbak shares in lieu of their Mailhol entitlements in terms of that company's unbundling, and full share certificates due to them will be posted by Friday, 12 November 1993.

I believe that Gencel will emerge from unbundling with the critical mass and financial resources necessary to compete in the international resource business. At 31 August 1993, our pro-forma net assets amounted to R12.1 billion, which balance sheet was probably one of the strongest in the international resource sector, with no net debt, and cash and other liquid financial resources of R2.3 billion, or nearly 20 percent of total assets.

Gencel will henceforth comprise the five mining and metals businesses (Mailhol, Sappi, Tuscan, Trans-Natal, Samancorp) in the Minerals division (the latter comprising mainly of our important interests in Richards Bay Minerals and Alsaf). It is therefore pleasing that each of these businesses has achieved a sound technical performance in the difficult economic circumstances.

Faced with no assistance from the gold price, Gengold's management concentrated efforts throughout the period on the basics of gold mine management. They were rewarded by an increase in the average gold yield achieved, and a one percent reduction in average production costs per gram compared to the previous year. As a result, Gengold's dividends contributed to Gencel's earnings rose by almost 15 percent. The percentage increase in its total contribution to our earnings was less than this due to reduced fee income earned by German from this source. We are not likely to see higher rand gold price will result in an improved contribution to our earnings from Gengold in the 1994 financial year.

As a result of effective management action, including significant rationalisation and re-organisation, Impal's mining, metallurgical and refining operations all performed well during the 1993 financial year. The effect of a higher rand gold price will result in an improved contribution to our earnings from Impal in the 1994 financial year.

In summary, Impal's revenue did not keep pace with its increased sales and production volumes. As a result, Impal's attributable income declined by 22 percent to R201 million. However, its contribution to our earnings increased slightly due to lower capital expenditure and lower provisions. Based on the current market prices of Impal's major products, an increase in its earnings is expected in the year ahead.

Trans-Natal maintained its operating income for the year ended 30 June 1993, notwithstanding adverse market conditions. The company's revenue increased slightly due to lower capital expenditure and increased export sales volumes and the containment of cost increases. However, a reduction in financing income and an increased effective tax rate, caused income after tax to fall by 19.6 percent to R116 million. Trans-Natal's contribution to our earnings declined commensurately and could again be lower in the coming year.

Samancorp has already taken various steps to counter particularly adverse developments in its major markets during the year. Significant rationalisation of the organisation has taken place and ferrochrome output has been reduced to a rate of 500 000 tons per annum, equivalent to only 50 percent of installed capacity. In addition, important strategic alliances have been developed, in particular with Nippon Denko Corporation of Japan as regards ferrochrome and also with the major French alloy producer Societe du Ferromanganese de Paris-Oueme (SFPO). Flowing from the latter relationship, the Gencel group will also acquire a 15.1 percent stake in the Gabonese manganese ore producer, Comilog. However, the depressed market conditions which had affected Samancorp in 1992/93 saw results and its attributable income declined by over 35 percent to R176 million, and its contribution to our earnings fell in line with this. A modest increase in Samancorp's contribution to our earnings is anticipated in the coming year.

The contribution of the Minerals division increased significantly during the year. This was largely due to our acquisition, with effect from 1 January 1993, of an additional 25 percent interest in Richards Bay Minerals (RBM), taking our total interest to 50 percent. RBM's earnings also rose significantly due to the favourable finalisation of previously unresolved tax items, which allowed conservative provisions of some R100 million made in 1991 to be written back. Investment income before taxation, consisting principally of net earnings on Gencel's surplus funds, was slightly lower mainly due to the lower market interest rates. Following unbundling, Mailbak will cease to be an associated company and we will in future only bring dividend income to account on our retained investment in the company. Nevertheless, the future reduced impact of this category and the additional income on our increased interest in TransAtlantic, the net after tax corporate contribution to our investment will be lower in 1994. This is due to a reduction in the level of Gencel's surplus funds (as a result of ongoing investment in the group's developing projects), and the revision to a normal tax charge.

The major projects

My review last year noted that we were close to taking a final decision on the Columbus stainless steel expansion project, and on the expansion of Alsaf. I am particularly pleased to report that both of these major projects, which are aimed at creating world-scale, internationally competitive businesses, while increasing the proportion of our income that derives from benefitted products, were approved early in the financial year, and are progressing well. During December 1992, the Columbus stainless steel expansion project in Alabama, USA have also been announced, with the American Corporation and the Industrial Development Corporation as our partners was approved at an escalated capital cost of R3.5 billion. After completion of the expansion in 1995, Columbus's stainless steel output will rise.
**Profit announcement for the year ended 31 August 1993**

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<th></th>
<th>1993</th>
<th>1992</th>
<th>% change</th>
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<td>(audited)</td>
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<td><strong>Attributable income (R million)</strong></td>
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<td><strong>Earnings per share (cents)</strong></td>
<td>92,7</td>
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<td><em><em>Net assets</em> (R million)</em>*</td>
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<td>8 270</td>
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<td><strong>Net asset value per share</strong></td>
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<td>991,8</td>
<td></td>
</tr>
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<td>*On 31 August</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>*On 21 October 1993</td>
<td>842</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*based on Gencor market value

Gencor Beherend is an investment holding company with a 54.9 percent holding in Gencor Limited. Shareholders are referred to Gencor's profit announcement which is also published today.

**Final dividend**

A final dividend for the year to 31 August 1993 of 26,1 cents (1992 – 25,7 cents) per ordinary share was declared, payable on 25 November 1993 to shareholders registered on 5 November 1993.

A profit announcement giving more detailed information will be mailed to shareholders. Copies may also be obtained from the Secretary at the address given below.

*On behalf of the board*

**B P Gilbertson**  
**D N A Hunt-Davis**

Johannesburg  
25 October 1993

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**Gencor Beherend Beperk**  
(Registration number 53/01008/06)  
84 Marshall Street  
Johannesburg 2001  
P O Box 61820  
Marshalltown 2107
FRIDAY will be the last day Gencor exists in its current form before it distributes shares in its industrial subsidiaries and becomes a mining-only house.

For every 100 shares held in Gencor, owners will receive 5.5 Engen, four Sappi, 15.7 Genbel and 4.3 Malbank as dividend. The principle of unbundling was broached in March when Gencor was trading at R10 a share. Sappi R25, Malbank R15.59, Engen R44.65 and Genbel 576c.

Now, Gencor is 39c, Sappi R29.53, Malbank unchanged, Engen R33 and Genbel 346c.

Dreadful results are behind the fall in Sappi. Although Engen produced good figures, uncertainty surrounds feed deregulation and a potential overhang of shares after the unbundling.

Gencor pyramid holding company Genbeher will be delisted. Holders of 100 Genbeher will receive 90.6 Gencor, 14.2 Genbel, 3.6 Sappi, 3 Engen and 2.9 Malbank. Sankorp and Genbel will help to round off odd lots.

Malbank pyramid Malhold will also go.

In March, Gencor was trading at a 20% discount to net asset value. In July, it undertook transactions with Genbel. It bought from Genbel R832-million of foreign operations, shares worth R114.3-million in Impala Platinum, R13-million in Kinross, R39-million in Trans-Natal, and R46-million in Wolvebank.

These were exchanged for Engen shares worth R281-million, the same value of Sappi and R169-million of Beithix.

Results for the year to August included a net asset value of 1.27c at October 31.

Income for the year of R571-million was 17% down on 1992, but a balance sheet flush with cash and liquid assets of R2.3-billion allowed finance costs to fall by a quarter to R82-million. Exploration and project costs were up at R98-million, giving pre-tax income total of R718-million — 16% down.

The fortunate resolution of tax problems led to a write-back of R100-million of the sum provided in 1991. Gencor's tax fell from R109-million to R86-million, leaving consolidated income little changed at R735-million.

A third jump in equity-accounted income to R669-million arose largely from Gencor's share of the surplus on Genbel's investment transactions — R221-million. The pre-unbundling exchange gave Genbel a surplus of R332-million, of which Gencor received R176-million, or 12.8c a share.

Extraordinary items pumped R44-million into a net R54-million, being the amount by which the R250-million capital-investment disposal proceeds fell short of the R290-million lent to battling Oryx gold mine and another 104-million for future medical aid costs of retired employees.

Post-unbundling Gencor will comprise five mining divisions: Gengold, Impala, Trans-Natal, Suncor and minerals, as well as international business and exploration. These German businesses netted R881-million profit in the year to August 31, about a quarter of the Gencor total.

Earnings are now edged up to 102.6c and the dividend was maintained at 7c.

□ Gencor excluded journalists from a presentation on its results and prospects to selected analysts this week.
new SA campaign

WHAT may be the real reason Gencor opted to retain 20% of Malbak instead of passing it on to shareholders emerged this week.

Malbak chairman and Gencor director Grant Thomas told the Investment Analysts Society in Johannesburg that Gencor needed to raise foreign finance if it was to buy Biltston's metals and minerals operations.

Gencor's 20% could be held in trust and used as security against which a dollar or Swiss franc equity-linked bond could be issued for conversion into Malbak shares five years hence.

Mr Thomas says Malbak does not agree to this because it could mean a flood of Malbak shares coming on the market. I can't take the risk of that quantity of Malbak shares being converted on a single date and all coming back on the market.

"We require a caveat that not more than 5.5% of the Malbak shares should be converted in any year and believe that no more than 12.5% of Malbak shares should be involved."

Does he have any influence on what Gencor does with its Malbak shares?

"Well I am on the Gencor board and do have a say," is the reply.

He says that even if the Biltston deal does not go through - he gives it a 20% chance - the Malbak shares in Gencor's hands should not be seen as an overhang on the market.

"It would be against the interests of both Gencor and Genbelt to dribble Malbak onto the market."

Besides, there are two fund managers in this audience tonight, one of whom has made a written offer to Gencor for half its Malbak shares, while the other is seriously interested in the whole lot. But Gencor has R1.3-billion cash of its own - enough to see it through - and sees us as a very good investment.

"However, Brian (Gilbertson) Gencor's chairman) says he will accommodate us if we need shares for anything."

Mr Thomas continues to forecast a modest improvement in earnings for the year to August 1994.

In the past year, attributable earnings were lifted 16% to R374-million. A larger number of shares were in issue after a rights issue and earnings a share rose 8% to 122.4c. Cash flow, a share was 118c and the net asset value of R9.97 is comfortably exceeded by the share price of 145.0c.

Mr Thomas of Darling & Hodgson and Standard Engineering, plus proceeds from the 1991 rights issue, leave the parent Malbak group with cash of R1-billion.

Mr Thomas regards Malbak's holding this money as a virtue. It is an earning 9% at the moment, far less than the return on our investments. But I believe that the next five years will be characterised by peaks of optimism and valleys of despair for the country and that good opportunities will arise during those valleys - which will be exactly the wrong time to start raising money.

"That's why we have built a war chest and I stand here next year and the money has not been invested, well, so be it."

"I don't know if the strategy is correct, the jury is still out. But I do know that my own holding in Malbak is my single biggest personal asset and the same goes for the other directors. We think this is the right tack."

Mr Thomas attributes Malbak's success in the past few years to several things, the most important being charged-up management.

A breakdown of the contributions to the R374-million earnings shows that the investment and corporate division chipped in a quarter - largely from the cash, ICL and

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Malbak sets aside a war chest for its new SA campaign

WHAT may be the real reason Gencor opted to retain 20% of Malbak instead of passing it on to shareholders emerged this week.

Malbak chairman and Gencor director Grant Thomas told the Investment Analysts Society in Johannesburg that Gencor needed to raise foreign finance if it was to buy Biltion, South Africa's metals and minerals operations.

Gencor's 20% could be held in trust and used as security against which a dollar or Swiss franc equity-linked bond could be issued for conversions into Malbak shares five years hence.

Mr Thomas says, "Malbak does not agree to this because it could mean a flood of Malbak shares coming on the market. I can't take the risk that quantity of Malbak shares being converted on a single date and all coming back on the SA market."

"We require a caveat that not more than 2.5% of the Malbak shares should be converted in any year and believe that no more than 12.5% of Malbak shares should be involved."

Does he have any influence on what Gencor does with its Malbak shares?

"Well I am on the Gencor board and do have a say," in his reply.

He says that even if the Biltion deal does not go through — he gives it a 20% chance — the Malbak shares in Gencor's hands should not be seen as an overhang on the market.

"It would be against the interests of both Gencor and Gencor to dribble Malbak on to the market."

"Besides, there are two fund managers in this audience tonight, one of whom has made a written offer to Gencor for half its Malbak shares, while the other is seriously interested in the whole lot. But Gencor has R1.5-billion cash of its own — enough to see it through — and sees us as a very good investment."

"However, Bruce (Gilbertson — Gencor's chairman) says he will accommodate us if we need shares in the market."

Mr Thomas conditionally foresees a modest improvement in earnings for the year to August 1994.

"In the past year, attributable earnings were R144.8-million and the net asset value of R3.87 a comfortably exceeded by the share price of R142."

"The rules of Darling & Hodgson and Standard Engineering, plus proceeds from the 1991 rights issue, leave the greater Malbak group with cash of R1-billion."

"And I regard Malbak's holding this money as a virtue. It is earning 9% at the moment, far less than the return on our investments. But I believe that the next five years will be characterized by peaks of optimism and valleys of despair for the country and that good opportunities will arise during those valleys — which will be exactly the wrong time to start raising money."

"That's why we have built a war chest and if we stand here next year and the money has not been invested, well, so be it."

"I don't know if the strategy is correct, the jury is still out. But I do know that my own holding in Malbak is my single biggest personal asset and the same goes for the other directors. We think this is the right tack."

Mr Thomas attributes Malbak's success in the past few years to several things, the most important being charged-up management.

"A breakdown of the contributions to the R274-million earnings shows that the investment and corporate division chipped in a quarter — largely from the cash, ICL and Hagle Foodcorp contributed 29%, Holdfast 17%, SA Druggists 14%, branded consumer goods, such as Malbak Motor Holdings, Ellerines and Insera."

"Finally, the international interests of NY Holdings of Eagle Freight and Provez International made 8% of the profit."

Mr Thomas expects benefits for Foodcorp from the merging of Restaurant with Enterprise and better efficiency in the Cold Chain in which Foodcorp recently took 90% The Chilean fish-meal and processing factory should start to make profits this year."

The Pillsbury Table Top joint venture gives access to 100 Pillsbury sites worldwide where Foodcorp can procure or sell.

Holdfast bought Crown Cork SA — neglected by Crown Cork US during sanctions, according to Mr Thomas — and is slowly restoring its profitability. Crown Cork SA has approved four projects which are now before the American principal."

"Mr Thomas expects good things from SA Druggists' Arnopen baby food and Intramed intravenous fluids factories Intramed has wiped out nine months of commissioning losses in three months and is operating at world-class efficiency.

SA Druggists will launch 41 products this year and hopes to make gains in generic medicines.

Internationally, debt in Tawneydown — the vehicle for Malbak's investment in NY — has been repaid. Gearing is only 4%, all factories are making money and earnings grew by 15% to 3,5p a share."

Mr Thomas says the group's excellent companies — focused, financially disciplined, cash flush and well managed — are ready for rapid growth.
Health Writer David Robbins went to Gazankulu and found thousands of refugees in two minds about going home.

Fears of going home grip refugees' hearts

Start 4/10/93

Cold weather closing in, dust settling between ragged rows of shacks and huts made blowing, children playing a deadly cart with wood for sale, and the home of thousands of refugees from a war in Mozambique which is no longer being fought.

As many as 10,000 in the camp known as Nkomati on the flat earth, the eastern edge of the dune capital of Mozambique which, in the hot bed of popular planning, was meant to be home to South Africans. The war in this part of the world, the war, was separated from South Africa, but only by the Kruger National Park.

Food for the refugees comes from Operation Hunger, the South Africans (Jasir) of Churches, and the Catholic Church.

A timber and thatch-built school stands to one side near a packing area, a survival group.

Democratic elections

But earlier this year, the United Nations, concerned about the plight of the refugees, took a stand. The United Nations, in its process of dispersing the refugees and families, has established a joint commission to cope with the democratic elections scheduled for one of Africa's poorest countries in October this year.

Time for the refugees to go home

They say the authorities in Mozambique, although they have stated that they won't throw the refugees out, they say the refugees are not to be caught in an embarrassing position without being able to return to their homes. But whenever the refugees have tried to return home, they have been turned away. The refugees are still not sure if they can return home.

Undecided despite what the authorities and relief agencies say Mozambican war refugees are not in a hurry to return home.

People are now urging us to say goodbye to the war zone, they are saying that the war is over. But we are anxious. We want guarantees. Who can give these? In the uncertainty of a turbulent environment, and in the hope of South African's bloody transformation, the question of displacement of war will now be followed by an equally disturbing displacement of peace.

In Mozambique today, tens of thousands of Mozambican refugees are pouring anxiously into the home. Perhaps they have been here too long. Al I should try their best to get out of Mozambique. Their home has not been in Mozambique for eight years. I am here to save my life. I love my country, but I feel safe here. I am teaching in the school in the camp. My children are at school. Here I am safe, but I am a refugee. But I am Mozambican! Has everything not been destroyed?

Reports from Mozambique indicate that the country is now in need of food and medicine, and that the war has been fought by the South African Defence Force in Mozambique and Zaire.

The Mozambican refugees say they will go back only if there is peace and security in the country. They want the United Nations to be returned to their original homes. They want to be assured of basic infrastructure like schools, health facilities and clean water supplies.
Pik opens the road home for thousands

Weekend Argus Correspondent

MAPUTO — South Africa has pledged to give about 250,000 Mozambican refugees "every support" in getting back to their homeland.

Speaking at the signing of an agreement between South Africa, the Mozambican government and the United Nations High Commission for Refugees in Maputo yesterday, the Minister of Foreign Affairs, Pik Botha, said the agreement signified the opening of the way home for hundreds of thousands of Mozambicans in South Africa.

Mr Botha said the agreement, which calls for the establishment of a commission to finalise plans for the return of the Mozambicans in South Africa, signifies the "tremendous change occurring in Southern Africa."

"This agreement is proof of the success being achieved in the region in ending bloodshed and war and in persuading international nations not to forget us," he said at a Press conference at the Polana Hotel.

He said the agreement was a "message to other nations that this is the way to solve problems."

The aim of the agreement, signed by Mr Botha, the Mozambican Minister of Co-Operation, Oldimiro Baloi and the UN's High Commissioner for Refugees in Africa, Nicolas Bwakira, is to facilitate the repatriation of Mozambicans.

Mr Bwakira added that it would help "cut through the bureaucratic red tape" and facilitate "swift and orderly" repatriation.

Mr Botha offered further help in the training of both Mozambican government and Renamo forces to lift thousands of landmines.

Mr Baloi said it was hoped refugees could return to the country before the planned elections next year. If they had not returned they would not be able to vote.

Issues discussed at the meeting included the registration and documentation of refugees, transportation and the selection of border crossing points.

See page 18.
Battle to stop the flow of illegal aliens

Policemen working for the Aliens Control Unit are fighting a difficult battle to stem the tide of illegal immigrants pouring into South Africa. A report by CYRIL MADLALA, Weekend Argus Correspondent.

There are estimated to be more than one million illegal immigrants on the Reef alone.

And Sergeant William Lottering, head of the Aliens Control Unit (ACU), said the unit's efforts were "like pouring water through a sieve." This year the cost of deporting illegal immigrants is certain to top the hefty R3.5 million which the Department of Home Affairs spent on this activity during 1992.

In the first nine months of 1993, 63,191 people were deported as illegal aliens. At this rate deportations will probably exceed the 1992 figure of 82,575.

Over five years the number of illegal aliens deported has increased by 87 percent.

The supposed honeypot of the Witwatersrand is the goal of most who enter South Africa illegally to seek work. Most of the aliens are from war-torn Mozambique (74 percent) and drought-stricken Zimbabwe (14.5 percent).

In scenes reminiscent of the old apartheid days, yellow vans manned by squads of plainclothes policemen patrol the streets, arresting people for failing to produce identity books proving that they are South Africans.

The ACU policemen rely on subtle methods to identify suspects. They ask seemingly innocuous questions like the geographical details of the area their suspect purports to come from in South Africa.

Some policemen have learned to recognise Mozambicans and Zimbabweans just by their locks. The alien accent and use of language can also betray them.

"Some have no passports, having just jumped over the border fence. Others have expired residence or work permits," says Sgt Lottering.

According to Sgt Lottering, a network of informers is crucial in apprehending suspects, some of whom possess forged South African identity documents. Others are picked up in the street by the seven-man unit in civvies.

They are taken to a police station where a file is opened, and then to an immigration officer at Home Affairs in Market Street.

The authorities are so overburdened that in order to expedite repatriation, suspects are no longer being charged with violating immigration laws — the authorities just keep files.

The old pass law courts in Market Street now house the Department of Home Affairs. It is here that illegal immigrants get a taste of what life was like for black people in the "old" South Africa. Just as pass law offenders were "endorsed out," illegal aliens are issued with repatriation orders after it has been established from records if suspects are South Africans or not.

If it is proved that they are not South Africans, they are detained in prison while awaiting repatriation. Those with forged documents are charged with fraud, and the law takes its normal course, after which the immigrants are deported.

Sgt Lottering says a Mozambican could be arrested and repatriated within a week or two. But it takes more than a month in Zimbabwe because the Zimbabwean authorities insist on verifying nationality.

Illegal immigrants are kept away from common criminals in prison.

"We can keep only 500 of them at the Diepkloof Prison. If we arrested more, there would be no room for criminals," says Sgt Lottering.

In any case, he says, most eventually return to South Africa where there are better job prospects. However, unscrupulous employers pay illegal immigrants less than stipulated minimum wages, exploiting the victims' inability to take the matter up with the Department of Manpower...

In terms of the Aliens Control Act any person who knowingly employs an illegal immigrant is liable to a fine of R20,000 or five years in jail, or both.
UN will pay to get Mozambicans home

ADRIAN HADLARD
BRETORIA — The UN has agreed to pay for the repatriation from SA of an estimated 250,000 Mozambican refugees.

An agreement concerning the voluntary repatriation was signed in Maputo on Thursday by the SA and Mozambique governments and the UN High Commissioner for Refugees.

In terms of the agreement the UN — whose secretary-general Boutros Boutros-Ghali was expected to arrive in Maputo yesterday — would foot the bill for the repatriation, including the transportation of the refugees as close to their homes as possible.

The UN has said about 15000 refugees scattered throughout southern Africa, Sapa reports.

A Foreign Affairs spokesman said the refugees, who had fled Mozambique during years of civil war, lived mostly in KaNgwane and Mpenga along the SA-Mozambique border.

Foreign Affairs multilateral section deputy director-general Jeremy Shearer said estimates of the numbers of Mozambican refugees were rough at best.

It was difficult to gauge how many Mozambicans had entered the country illegally, and the registration of refugees would be one of the first tasks of the joint tri-lateral commission created as a result of the agreement.

The agreement, signed by Foreign Minister Pak Botha, Mozambique Deputy Co-ordination Minister Olumuro Balou and the UN commissioner's Africa director Nicosias Bwakira, set out who was entitled to refugee status based on current UN and OAU policy, "with some caveats."

It followed an accord signed last month between SA and the UN agency, recognising, for the first time, Mozambican refugees' legal rights.

While the UN would ultimately foot the repatriation bill, SA would also consider making a contribution,

Shearer said. The repatriation would be voluntary and the department believed "far more want to go back than stay."

It would be up to the commissioner, in conjunction with Mozambique and SA, to decide how to handle refugees who did not want to return.

Boutros-Ghali, who will meet Mozambican President Joaquim Chissano and Renamo leader Afonso Dhlakama in Maputo this week to boost the UN-brokered peace process, said recently the repatriation programme would be completed by April.

This was possibly a little optimistic, Shearer said.
R700 000 rule not for all immigrants

Staff Reporter

Mr Theron said the R700 000 rule applied to those who claimed "to be financially independent."

Skilled persons from other countries who wanted to immigrate had to find themselves jobs here, and then get their employers to give reasons to the government why they should be allowed in, he said. In such cases, the R700 000 rule would not apply.

The rule did not apply to doctors either. Their immigration was left largely in the hands of the SA Medical and Dental Council, which required all to register and some to write exams, he said.

Half the 6 301 immigrants in the first six months of this year came from Europe, with about 1 300 from Britain.
Sunday braai in Mozambique

South Africans have trekked north for a new life

South Africans worried about the future in their own country are increasingly looking to Mozambique for a new life. But some have found accommodation so expensive that they have set up makeshift homes in a squatted campsite - Joe Latakagomo of the Argus Africa News Service reports from Maputo.

When Chris and Annette Groenewald left their modest Barberton home and moved to Mozambique they took along very little money but lots of determination to succeed in business.

Chris, an engineer, and Annette, a housewife, found that with the political and economic transition in Mozambique there must be opportunities.

The Groenewalds are one of 14 South African families who have found their way to a campsite at Maputo, within walking distance of the beach, where their caravans are now their homes.

They have marked out their own boundaries, fencing off their “property.”

The road is a winding, unpaved one from the Groenewalds’ campsite to the Maputo beachfront. They have put up the inevitable razor wire fences. Yet another has used hessian, just for a little privacy.

The South Africans are huddled in their own little corner of the campsite. All the other end of the site are more permanent structures housing locals, many of whom have been settled here by the government after being displaced by the civil war. They seem not to mind their white neighbours.

Liz and Paul Halloren sold up everything they had in Durban and moved to Maputo.

“We thought that with the kids off our hands, we needed a change in lifestyle so we came to Mozambique,” said Paul.

The Hallorens arrived in the camp in 1991, and they now run a successful travel company. In 1992, they also started a car rental company.

“Life has become very expensive here,” says Liz. “You just have to put up with less.”

A two-bedroomed flat in a run-down apartment block in Maputo can cost up to $1,500 (R1,400) a month. The rent for a house can go as high as $4,000 (R13,200).

Locals who have apartments — for which they pay the equivalent of R25 a month — prefer to rent them out and live in shacks while renting in rent that is far more than they can make from their monthly salaries.

Officially, Mozambicans are not permitted to own more than one apartment, but some succeed in acquiring apartments by squatting. It’s all about who you know and how much you are prepared to pay.

Foreigners who live in the caravan camp pay the equivalent of R240 a month while the locals pay the equivalent of R10.

Rudolph and Ruby Senekal and their daughter, Janita, left White River nine months ago and are doing relatively well. Ruby does administration work at the Matola cement factory while Janita will manage a canteen which is due to open shortly. Husband Rudolph is up north, looking for suitable land for starting up a cattle ranch and a dairy.

Asked why they left South Africa for the relative uncertainty in Mozambique, the Senekals say they believe they have a better and more secure future here than in South Africa.

“What is coming to an end here (in Mozambique) is just beginning in South Africa,” said Ruby.

Collette Faur and her husband have had some terrifying moments in Mozambique. Recently, they were shot at while on their way back to Maputo from Nelspruit. Such violent attacks, although isolated, are the talk of South Africans who travel between the eastern Transvaal and Mozambique.

“They have taken it all in their stride, though,” Faur added.

The Fauirs have secured their camp home with barbed wire. Colette works for a tour company in downtown Maputo, while her husband runs a ferry service to Inhaca Island.

The rudimentary infrastructure of the Maputo campsite can barely sustain the people who live there. Yet, according to Annette Groenewald, a travel company has arranged a camping holiday for a further 300 South Africans who are due to arrive on the campsite in December. Most of those will not be bringing in to settle, but rather to have what they presumably expect will be a dream holiday at the Mozambican coast.

“Just where will they fit in 300 people or even 20 more caravans?” asked Chris Groenewald.

“Clearly, somebody is just making a quick buck. There are only one and half bathrooms in the abattoir block which the city council is not even maintaining. Many people have been forced to rig up their own showers, and there seems to be no plans to improve the facilities.”

But it’s not only South Africans who have been forced to live in the camp. Some, like Colin Bird, an Australian, use the camp as a base. He has been travelling through Africa since February. With him is a man from Petersburg who says he is “only visiting.”

“But these South Africans who will be coming here in December with a dream camping holiday vision are in for a shock,” said Colin.

“I would advise anybody planning such a holiday to ensure that they are not part of the group which they plan to bring in here. Just where can they fit into this already crowded camp?”

On a Saturday or Sunday afternoon, the aroma of braaiers pervades the camp. The community spirit among the South Africans is very strong. For their rugby update, a trip downtown to the Mondo pub is essential, for there they can have their Castle while watching Match of the Month SuperSport.
Somehow immigration continues to rise

WILLEM STEENKAMP (23b)
Weekend Argus Reporter

IN SPITE of political violence and one of the highest crime rates in the world, South Africa still remains a popular destination for prospective immigrants.

So much so that Minister of Home Affairs Dane Schutte this week announced new stringent selection measures to ensure that citizens will be able to take their rightful place in the economy.

"To put it bluntly, charity begins at home. We must ensure that the labour market is not prejudiced by prospective immigrants who would either not be a proven asset to the country or who may be guilty of abuse," Mr Schutte said.

Only applications of prospective immigrants who can provide documentary evidence of appropriate qualifications and experience will be considered.

Furthermore, prospective employers will have to provide satisfactory reason why a South African citizen or a permanent resident cannot be employed in a particular position.

According to figures supplied by the department of Home Affairs, immigration to South Africa has snowballed in the first six months of this year in spite of the high level of political violence and crime in this country.

From January to June last year, 3661 people immigrated to South Africa while this figure jumped to 5376 in the first six months this year.

The figures of people who emigrated from Britain to the Republic more than doubled in the first six months of this year compared to the same period last year.

From January to June last year, 583 people emigrated from Britain to South Africa. This figure more than doubled to 1,192 for the same period this year.

But the department also has a huge task in controlling and repatriating illegal immigrants.

From January to September this year, Home Affairs officials traced 79,422 illegal aliens countrywide. Of these 63,191 were repatriated to their own countries.

In the Western Cape, 548 illegal aliens were traced and steps were taken against them.

A Home Affairs spokesman said the department applied a very strict policy towards people working in South Africa illegally.
A world awash with privatisation, South Africa still resists the tide. Even formerly Marxist-led countries have taken to the idea of state-owned enterprises. The Economist magazine has estimated the amounts raised through privatisation once really caught on in the mid-1980s at more than $500 billion.

In South Africa, privatisation—started after ex-president PW Botha announced in February 1980 a programme to sell off state assets—has been stoked by the political process. In years to come, capital is going to start flowing.

Despite the African National Congress's earlier affection for nationalisation, the new government is likely to come under pressure to privatise state corporations.

The main reasons are twofold and as acute as the 1950s seemed to have had to do with the ideology of reducing the state with which it is not in the best interest of the country to foster economic efficiency.

Afrikaner countries have privatised bloodied-state bureaucracies to free them and secure their own foreign relations.

The US dollar is also a good example, 100% of revenue for governments who need more cash for capital spending. The bulk of infrastructure in South Africa is well known and the temptation to sell off the family silver to raise money understandable.

Exactly how much could be raised by privatisation is not clear.

Event ex-Botha's office for the Office for Public Enterprise and Privatisation, says how much can be raised in South Africa depends on the objectives of privatization. If maximizing income is the aim, more than R30 billion could be raised. Total assets of public enterprises are worth over R100 billion.

The total liabilities substantially reduce the net asset value. Nor does asset value necessarily indicate how much could be raised. Since demands for the corporation's goods or services and hence its shares are to be taken into account.

If income is maximised, shares would end up in the hands of the few who can afford to invest in the public sector and get shares, while residential many hands as possible, revenue will be lost and would be transferred to those who got shares. Van Zonden considers.

Various methods have been suggested for privatisation in the new South Africa, ranging from a straightforward way to mix methods.

A redistribution was the route chosen for the privatisation of National South African Breweries, which is now getting itself to take

The other controversial privatisation, of liquor, was more conventional, though workers who faced the newly privatised company.

The move was strongly opposed by the National Union of Metalworkers of South Africa, which. fairly recently threatened to nationalise the airline.

What's going to happen to privatization?

Unlike other African countries or worse, Eastern Europe, South Africa has never really had a countrywide state ownership. Nonetheless, notes Van Zonden, supporting less making enterprises a burden on the state and there are state enterprises in the country.

A key strategy of privatization, he says, is to stop making enterprises to units of value which will generate investor confidence. Unless state corporations are profitable enterprises, there will be no buyers. Van Zonden points out. They will remain under state control, and will continue to be a drain on government finances, ultimately going... gone!

Applications are invited for the following posts from suitably experienced and qualified persons.

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A person who can teach Maths and/or Physics, or Chemistry is required for appointment at one of the following levels:

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- Head of Department - Maths (Post Level 4)
- Lecturer - Maths/Physics

All positions are subject to budget and salary levels.

Post 2 - Head of Department: Music

The successful candidate will be required to develop further an appropriate syllabus for high school teachers. The role is expected to have the experience of traditional music and methodology.

Post 3 - Lecturer: English

Applicants should ideally have experience in English language and literature.

Requirements:

Professional qualifications are essential for all positions. An appropriate Master's degree preferably in Education, Science, Math, or English is essential for the post of Head of Division. An appropriate senior degree are required for the post of Head of Department. An appropriate degree is required for the post of Lecturer. Leadership qualities and sound organisational abilities are essential for both posts.

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All applications should be directed to the Registrar, Gwinyi College of Education, Private Bag X0672, Gwinyi 0296. Applicants should be accompanied by a detailed CV with two recent colour photographs, their names, addresses, and telephone numbers, certified copies of academic qualifications obtained at the University of Zimbabwe, with all qualifications obtained outside South Africa, and the present salary scale. The college is located at 0151627535 or fax (0151627535) at the following address:

Closing date: Friday, 12 October 1984. Quote Ref. WM 1787
Unbundling brings MBOs back into vogue

Management buyouts were popular during disinvestment. Corporate unbundling has revived their popularity, reports Mondi waka Makhanya

CORPORATE restructuring is bringing management buyouts (MBOs) back into vogue.

The phenomenon whereby company management buys out the existing owner of a business was a common feature in the late 1980s when foreign firms were succumbing to pressure to divest from South Africa. The local stakeholders of those companies didn’t fall into the hands of large conglomerates went to the management of the company.

Memorable MBOs include the management takeover of General Motors, which spawned Delta Corporation, IBM’s sale of its local stake to management of what became IBM and Ford South Africa’s metamorphosis into Samcor.

After a full of a few years MBOs are picking up again, this time driven largely by companies’ attempts to make themselves leaner and more efficient to resume competing internationally.

“Although there will not be a boom, I think we will see a pick up in the number of MBOs over the next 12 months,” says Johannesburg Stock Exchange president Roy Andersen.

A typical MBO involves a merchant bank putting up 100 percent of the capital. This loan is secured by the assets of the new company as well as limited personal securities of the management team. The bank also takes out a five-year shareholding of between 20 percent and 49 percent as compensation for the above-average risk of financing such a venture. Since the transaction involves a bank taking a huge risk, it receives the right to appoint a board member, see all the monthly accounts and approve major transactions the company may wish to undertake.

The most recent MBO involved the sale of East London-based Despatch Media Ltd to a management consortium. The R22-million deal, in terms of which the company’s name changed to Beach Ltd, was initiated after management and Standard Merchant Bank realised the shares were at “a significant discount” to their real value. These shares, like those of most other JSE-listed companies, were tightly held and there was no prospect of a significant movement in their price. The company decided to delist after the buyout.

Another recent deal involved NEI Africa’s R23-million sale of Propower and AG Walker to its management. The deal was meant to focus NEI’s core business of industrial and electrical engineering.

There was also speculation this week that Randgold Exploration management was set to buy Barlow Rand’s 27 percent stake in the company Barlows — which is busy unbundling, is buying off its unneeded subsidiaries and some of the buyers may be the managements of those companies.

There are several reasons why MBOs have been so unused in South Africa in the early 1990s. A big reason has been South Africa’s international isolation which forced companies to hold on tightly to local concerns since it was not easy for them to expand internationally.

“There have not been many willing sellers,” says Andersen.

And when opportunities did present themselves, there was just no cash forthcoming.

South African interest rates are high and the recession has pushed access to capital out of reach.

“These kinds of deals require substantial amounts of capital and management don’t have these resources and do not have the collateral if they had it every management would be buying out their owners,” quips Econometrics Tony Twine.

Enter the merchant bankers, who made a killing out of the 1980s MBO boom. The country’s merchant banks are again seeing the favourable conditions for MBOs and are actively encouraging management to take this option.

“The background to MBOs may have changed. It is no longer being driven by disinvestment but the need of large companies to restructure as they gear up to compete internationally,” says First Corporate Bank senior vice-president Andre Roux.

Standard Merchant Bank general manager Rob Dow believes there are quite a lot of non-blue chip companies on the JSE that are ripe for management buyouts.

“But a lot of management have not gotten round to considering MBOs as an option,” says Dow.

But don’t brace yourself for dramatic takeovers — a la 1980s Wall Street. The South African corporate structure is just too rigid. Shares in blue chips are too tightly held by institutions and the pyramid structure in some large companies is unfriendly to takeovers. It will take a while for the opening up of the economy to have an effect on these restrictive features.
SAB buys 50% stake in Tanzanian Breweries

KELVIN BROWN

BEER and industrial group SAB has expanded its share of the sub-Saharan beer market by acquiring a 50% stake in Tanzanian Breweries.

SAB announced at the weekend it had obtained Reserve Bank approval for a deal involving an investment of R54m in Tanzanian Breweries to privatise, rehabilitate and expand its facilities.

Bank insistence that overseas investment by local companies bring immediate returns to SA has scuppered a number of planned projects in the past year.

SAB said it would supply Tanzanian Breweries with SA capital equipment worth R57m and inject R37m into the brewing company over the next two years. This would enable the Tanzanian company to rehabilitate its two existing breweries and construct a new brewery.

An agreement was signed earlier last month between the Tanzanian government and SAB’s Netherlands-based subsidiary Indol allowing Westgate Worldwide, the offshore group of SAB, to acquire 99% of Tanzanian Breweries, with Indol taking over its day-to-day management.

The Tanzanian government would initially retain the other 50% share of Tanzanian Breweries. But SAB said the World Bank’s private sector arm was negotiating with the government to buy a 10% stake in the Tanzanian brewer from the authorities.

SAB said the acquisition was part of its plan to enter new markets in developing countries. Indol already operated in Botswana, Lesotho and Swaziland.

The SA group said the latest brewing venture represented an important beachhead within its sub-Saharan focus and held the potential for further expansion.

The group’s foreign operations had become an important source of revenue for its beer division as recessionary conditions at home restricted local growth.

Analysts predicted SAB’s interim results to September, due out this week, would not reflect any increase in beer volumes. A rise in earnings was expected to come from increased efficiencies and better earnings from exports and non-SA operations.
Anglovaal does not see what the fuss is all about

MATTHEW CURTIN

Carter, refraining from comment on Anglovaal N shares themselves, says the exchange supports the principles of shareholder democracy and voting equality, and would have to examine "any attempt at control through establishment of quasi second-tier pyramids using de facto equity instruments".

The JSE has been told of Anglovaal’s attempts to create a new News Corporation super-structure, where the company’s proposal is to issue shares in a special purpose company, Minga Holdings, to acquire a stake in Anglovaal. This would allow it to control the company through a subsidiary without having to own more than 30% of its shares.

Herovs says Anglovaal’s offer is structured in such a way that it would be difficult for shareholders to resist, and that the company’s strategy is to create a "virtual" company that could be controlled by Minga.

However, the Anglovaal Holdings scheme is equivalent to only 10% of the market capitalisation of the company, and would not provide the same level of control as the offer to Anglovaal shareholders.

Anglovaal’s offer is also structured to ensure that the company’s management team retains control, and that the offer to Anglovaal shareholders is only part of the company’s strategy for growth and development.

Carter says the JSE would have to examine any attempt at control through establishment of quasi second-tier pyramids using de facto equity instruments. He says Anglovaal’s proposal is a breach of the market principles, and that the exchange would have to intervene.

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Anglovaal’s record in posting earnings growth through the past three years contrasts with the havoc the company’s price slump has wrought particularly on its ferro-alloy and basic metal businesses. In the last few weeks, Anglovaal might end up with four distinct main minerals, including its own nickel project, and the Slaaheb nickel deposit.

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AND Mines dismembered. Barlow Rand broken up. Gencor unbundled. Anglovaal’s share structures at Anglo American/Minorco reshuffled — it has been a busy year for two in the boardrooms of SA’s mining industrial groups.

Less so on the eighth floor of 56 Main Street where Anglovaal chairman Basil Herovs says he cannot see "what the fuss is all about". He agrees SA business faces new domestic and international business conditions affecting the demand for mining and lifting of sanctions, but he believes Anglovaal is neither better nor worse prepared for meeting a changing commercial environment than it has been in the past.

"Perhaps it’s an overreaction," Herovs suggests. "In another matter whether the small band of minority Anglovaal shareholders, winning at the R10m provision from the group’s accounts of the Crusader Life debacle, feel quite a chipper.

He says Anglovaal did not fall down over Crusader, the long-term insurance group placed in curatorship last year, but holds a controlling interest in the group’s management and investment. He believes it is important to distinguish between subsidiaries which Anglovaal manages and invests, such as Crusader, 61%-owned by Anglovaal’s finance subsidiary AVF. If Crusader proves "a catastrophe", it is because its own management systems failed.

He does not accept that any blame should attach to Anglovaal or its management. He adds that it is doubtful whether the group "could or should have used" what influence it had on the Crusader board, but in any case Anglovaal has made a "full and frank" provision for its insurance investments.

Nevertheless, Herovs concedes that the group’s experience in the insurance business fostered its innovative approach towards Crusader but the turnaround at AA Life "may be the group’s first step to shareholder profit and investment is rising to go up. Herovs says that there is a good argument for owning only well-owned, wholly-owned subsidiaries.

He believes that, despite the arguments put forward for unbundling in terms of making SA corporations more comprehensible and attractive to potential overseas investors or partners, the market rating, the risk structure and the company’s share classes, are too small. "Bound up in" is what they are, he says, because investors like large, tradable assets.

Anglovaal may well be large enough. It is a peculiarly diverse group. Its interests range from ferro-alloys and gold to tyres, biscuits, fusing, water and metal financial services. There is no immediately obvious synergies. Sales in 1992/3 stood at R5,5bn and the group’s market value is R1.5bn.

Herovs says Anglovaal is fairly valued, but if there is any concern — and he stresses it is not at the top of the group’s agenda — it is in the tradeable of the tightly held stock.
Manufacturers team up to cut costs

Drug companies form joint venture

BY MICHAEL SPARKS

Four major drug manufacturers have formed a joint-venture distributing company to provide better controls over their drugs as well as reduce prices, it was announced at a Sandton press conference yesterday.

The new company, International Healthcare Distributors, will start to operate from the beginning of next month, said its chief executive Trevor Lauf.

It has been formed by four competing multinational drug manufacturers — Roche, Ciba, Bayer and Boehringer Ingelheim — which together account for about 12 percent of South Africa's pharmaceutical market.

FOUR pharmaceutical multinationals create a distribution network which could reduce the price of their products by about 5 percent

Lauf estimated the new distribution company could result in a 5 percent drop in the price of pharmaceuticals, saving the consumer between R30 million and R40 million in the first year of distributing the companies' 350 products.

International Healthcare chairman Johann Niehaus said one of the major benefits would be that the improved controls would prevent counterfeit products reaching the consumer, through careful control of batch numbers and other mechanisms.

He described an incident in Nigeria, where a counterfeit painkiller turned out to have been made with industrial solvent, killing 140 people.

Niehaus estimated that between 5 and 7 percent of pharmaceutical products were counterfeit, placing the consumer at great risk. The new distribution system would make it far more difficult to introduce counterfeit products, while also making their detection much easier.
Maitland abattoir
sale hits snags

CLIVE SAWYER
Municipal Reporter

THE sale of Maitland abattoir is be-
ing delayed by trade union resistance
and difficulty in finding a suitable
buyer.

Former amenities and health chair-
man Leon Markovitz said SA Mutual
had offered to buy the land, but did
not want the abattoir

"Important land like that could not
be sold without going out to tender," 
Mr Markovitz told the committee yest-
terday.

Arthur Wienburg said a sub-com-
mittee should be formed to investi-
gate ways to get rid of the abattoir
"Think laterally," he urged.
Lion Match controls offset lower demand

LION Match has increased its earnings 17% to 15.49c (13.25c) a share in the six months to end-September as strict controls and a lower tax rate offset a real decline in private consumption expenditure.

The SA Breweries subsidiary, with interests in matches, packaging, and shaving, home and garden products and appliances, also announced the R20.5m sale of its packaging division Intersap and Intersap Properties to Cosmol in the year to end-March, packaging contributed 54% of the group's turnover and 40% of trading profit.

Lion's turnover rose 7% to R148m (R138.5m) Trading profit increased 13% to R19.2m (R17.1m). Directors said this reflected the benefits of improved productivity and reduced overheads.

Lower finance costs of R3.2m (R3.7m) and a lower corporate tax rate saw profit after tax rise 33% to R9.2m (R6.4m).

But equity accounted joint venture company Amalgamated Appliances showed a loss on the back of a substantial decline in electrical appliance sales and further rationalisation costs (2.32) (1.42).

Lion's R2.2m share of Intersap's losses saw attributable earnings rise 17% to R7m (R6m). A 17% higher interim dividend of 6.15c (5.25c) a share was declared, in line with the board's policy of distributing 40% of earnings as dividends.

Cash flow from operations increased to R16.5m (R10.2m) on the back of successful management of working capital.

Lion invested R22.6m in a significant capex programme in the packaging division. As a result, net financing requirements rose R7.7m, but gearing was reduced marginally.

No divestment comments were given. However, in its announcement of the disposal of Intersap, Lion said that in the six-month period, Intersap contributed 33% of turnover and 37% of trading profit.

The company said consumer demand was not likely to show any real improvement in the rest of the financial year, and earnings excluding Intersap would approximate those of the previous year.

But earnings, including the benefits from the sale of Intersap, would show a satisfactory increase.

Today's announcement showed that the sale price represented 45c a share. An analyst said it made sense that the share was moving upwards yesterday it added to previous gains, closing 25c up at 55c.
Consol acquires Interpak for R205m

MARCIA KLEIN

PACKAGING and rubber group Consol Ltd has acquired 100% of Interpak from SA Breweries (SAB) subsidiary Lion Match for R205m cash.

The acquisition, funded largely from cash resources, follows a cautionary announcement on October 25 that the groups were involved in negotiations.

Consol also announced it had acquired Nampak's custom mouldings business located in Transvaal and Natal, and it had sold its carbonated soft drinks PET bottles business to Nampak.

Consol MD Piet Neethling said yesterday Interpak would be acquired debt free, and the name Interpak would be maintained. Lion would receive R205m cash, equivalent to 45.6c a share. The deal was effective from yesterday.

Lion, which today reported a 17% interim earnings rise to 15.4c a share, said Interpak operated as an independent business with its own management. There were only minor opportunities for synergies with the broader Lion group. Lion was approached by Consol at a price which took into account potential benefits of integrating Interpak with a larger group.

Lion said shareholders' value would be enhanced by the offer Lion's reported earnings of 15.5c a share at end-September would increase to 21.7c after the disposal.

Neethling said Interpak would fall under the control of Consol's paper division.

Consol

the year to end-June 1994, the acquisition would have a small adverse effect on Consol's earnings. But "this sizeable acquisition provides Consol with strong market presence in fields in which Consol is not presently involved."

Interpak converts and prints cardboard and paper in its folding carton, label and printing operations. It also makes plastics, metalised and laminates, produces books, and has a merchanting operation for printing inks and related materials. It has four plants in SA. Two are included in the deal, and suitable rentals are in place with Lion for the other two.

Neethling said the transaction gave Consol entry into the R430m-a-year folding carton market and an annual label market of more than R150m. Interpak was making a new investment in metalised labels, which were already appearing on SAB products. Since SAB bought Interpak in 1988, it had upgraded plants and equipment and Interpak had shown a good profit.

The deal requires the approval of both Consol and Lion shareholders. Controlling shareholders - Anglovaal Industries and SAB respectively - said they would vote in favour of the deal.

Commenting on the acquisition and disposal deals with Nampak, Neethling said: "There is no significant difference between the amounts involved for the purchase and the sale of these businesses regarding fixed assets and working capital."

Consol would continue looking for investment opportunities to expand its position in packaging and rubber.
Barprop acquisition boosts RMP results

Rand Mines Properties raised turnover by a fifth to R227m (R189,5m) for the year ended September 30, boosted by the acquisition of Barlow Rand Properties (Barprop) and a recovery in the group's gold operations.

The effect of the Barprop acquisition was evident in operating profit before interest, which doubled from R18,6m to R40,8m. However, servicing the Barprop loan stock increased the interest charge to R20,6m (R156,000) and led to profit before investment income rising 5% to R18,9m (R18,4m).

Interest received was up 41.6% from R5,4m to R7,6m, leaving profit before tax of R27,4m (R23,8m). The tax bill was reduced 24% to R7,8m (R10,5m) which left after tax profit up 48% to R19,7m (R13,6m).

This was equivalent to earnings per share of 130c.

ROYCHALMERS...

a 31% rise over last year's eps of 106c. A higher final dividend of 70c (55c) was declared, resulting in a total dividend of 125c against 85c last year.

RMP MD Colin Steyn said the results were not comparable because of the acquisition of 78% of Barprop, which contributed just over R4m to the bottom line.

Steyn said the group's results were also helped by a strong turnaround in the performance of its RM3 gold recovery operations in Johannesburg Record gold production at Rand Mines Milling and Mining of 4,204kg arose from a higher head grade and more efficient gold extraction.

"This enabled RMP to return to profitability and produce better than expected results," said Steyn.
Johannesburg — The ANC PVW region reaffirmed its belief in a clause of the Freedom Charter which is largely seen as supporting the nationalisation of some key sectors of the South African economy.

A resolution passed at the weekend’s congress called for “reconfirmation of the demand in the Freedom Charter that the mineral wealth beneath the soil, the banks, and monopoly industry ‘shall be transferred to the ownership of the people as a whole’.”

However, a member of the commission which drew up the resolution, Mr Ben Turok, said the clause did not specify a mode of public ownership, although he did not rule out nationalisation. The resolution contradicts the stance of the ANC’s department of economic planning — Saga.
GOLD recovery holding company East Dagga affairs is to unbundle, passing on to shareholders JSE stakes worth R15.5m by the end of the year.

Announcing interim results this morning, the company said the unbundling, which will leave it dependent on its slimes and sand operations, would unlock shareholder value in the company.

The shareholdings — in Lydenburg Exploration, Knights Gold Mining and Randex — were valued at R5m in East Dagga’s 1995 accounts, against a book value of R14.3m. But gold’s recovery since then has boosted the value of the holdings.

Chairman Peter Bieber said last night shareholders would be offered shares worth R1 for every East Dagga share held.

“These investments are not taken into account by the market in valuing the company,” he said. “This (the unbundling) will add value to shareholders’ interests in East Dagga.”

Its right to subscribe in Anglo American’s Eastvaal scheme, through its 12.4% Lydev stake, will be offered directly to East Dagga shareholders.

In the six months to September, the company lifted net earnings to R4.5m (R3.7m). The interim dividend nudged to 28c (25c), as higher revenues and lower tax offset a deterioration in operating performance.

Revenues rose to R19.9m (R18.2m) despite a nearly 25% drop in production to 1.509kg prompted by falling grades and recovery from slimes dams material brought from Gold Fields two years ago.

The material, on which it had spent R23.3m, had begun to hit forecast head grades. The treatment of high grade slimes Project Pluto, in which East Dagga has a 9.5% stake, contributed R0.6m.
The lack of a balance sheet hampers analysis, however. Reductions in long-term liabilities, down to R72m (1992 R151.4m), with a decline of R34m in short-term borrowings, has plainly had a material impact on financing costs. This illustrates an inherent strength. Gearing has reduced to 16% (27%) and cash holdings at year-end were R89m, says chairman Brian Connellan. All these factors indicate it is possible to manage companies a good deal meaner than in the past, despite acutely difficult market conditions. Both Connellan and CE Trevor Evans concede the company contains problem areas. "The blood bath in paper goes on," says Connellan, and Nampak continues to experience difficulties in the corrugated packaging area where the move to plastic crates has hurt.

Capital expenditure, over the past five years, has totalled about R1.2bn — an average of R240m a year. Last year, Nampak spent R237m, the largest single portion of which (R50m) was devoted to completion of the new ends plant at Bevcan. Evans says he expects capitalisation this year to be about R250m, much of it on replacement items to ensure continuing competitiveness.

Nampak's business is in a sector noted for the aggressiveness of its players. Principal competitors are Holdains and Consol and, emerging now with its aluminium can, Highbeld Steel's Rheem division. The scramble for market share is unlikely to diminish, however, in Nampak's favour is its considerable unutilised capacity — probably about 20%. This makes it well placed to take up increased demand when the economy turns.

At R94, the counter is below its 12-month high of R103, and is on a p/e of 15 compared with the sector's 14.4. Indications are that Nampak will achieve real earnings growth of about 3% this year, placing the forward p/e at 13.5 — indicative of continuing value in the share.

David Glazman
Minorities to be offered R10 a share

**SAB to delist debt-ridden OK Bazaars**

**MARCIA KLEIN**

SA Breweries (SAB) has decided to delist its troubled retail chain OK Bazaars in an effort to save itself from a crippling debt burden of R57m.

SAB said an offer of R10 a share would be made to OK minority shareholders. This compared with a net asset value of more than R15 and yesterday's closing price of R9. The offer would cost SAB R40m.

Today's announcement coincided with the release of interim results to end-September, which showed losses of R51.4m (restated profit) a share, a result significantly worse than market expectations.

The move came after continued assurances from management that the OK would not delist, and that its financial affairs were not materially different from those at the March year-end.

MD Mervyn Serebro said yesterday: "As the months went by, it became increasingly obvious that we could not trade our way out of the debt burden."

A delisting had been under discussion "from the moment" he was appointed MD in January. "The debt burden is enormous, and SAB will want us to delist in a process of recovery which will take years."

The OK had to re-engineer its whole business and reposition financially. "This could be done only if SAB owned the business in its entirety," Serebro said. SAB had never considered selling the OK.

According to the announcement, management was restructured at the beginning of this year and a strategic view was taken to reposition the business. But losses continued and gearing reached "unsustainable levels". The restructuring programme would be protracted, and the OK would not be profitable for a number of years, but it was imperative that the huge debt burden be addressed. This could not be done with minorities in place.

Today's published interim results showed that turnover rose 5.9% to R2.59bn (R2.54bn), but operating profit was slashed to R5.5m (R8.6m). The operating margin was 0.2% (2.3%). Serebro said costs had moved up, and margins down.

Operating profit was eroded by the debt burden of R57.1m (R56.9m). The attributable loss was R59.4m from last year's pro-

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**OK Bazaars**

fit of R2.5m, and a R4.9m loss at the March year-end. (2.32)

An additional R27.2m was written off as an extraordinary item for rationalisation costs. The interim dividend was passed.

Serebro said the OK had not expected to produce a profit this year. The company had shown real sales growth (with food inflation at 2.4%), but operating margins were "under considerable pressure".

Asked about the performance of OK and Hyperama stores, he said both had performed as expected. "There are problems in both businesses." Every aspect was being re-examined to maximise efficiencies, improve services and lower costs. Serebro said he was not looking at closures, apart from stores whose leases were coming up for renewal. Large-scale restructurings were not planned.

The OK would incur further losses at year-end, but at "a slightly reduced rate".
Health care division gives a boost to Afrox results

EDWARD WEST

AFROX lifted inflation accounted earnings 13% to 35c (31c) after a profitable year to end-September 1993 for its health care division. This was despite falling demand for industrial gases and welding products.

Turnover was nearly a tenth higher at R1.21bn (R1.11bn).

Operating profit was 5% higher at R227,4m (R217m). Gross margins fell to 18.8% (19.5%).

Interest charges fell to R35.7m (R35.2m), resulting in a 7% increase in pre-tax profit of R194.7m (181.9m).

Tax of R87m (R84.7m) excluded the deferred tax release of R11m which was brought to account in the R9.6m extraordinary item.

Attributable income was 13% higher at R108.8m (R95.2m). Earnings a share were adversely affected by charging earnings with additional depreciation of R15.6m, which was further compounded by the Receiver of Revenue not recognizing such depreciation for tax purposes, said MD Royden Vice.

A final dividend of 135c (119c) was declared, lifting the dividend for the year to 215c (180c). Gearing improved to 21.4% (23.3%).

Vice said demand for industrial gases among many traditional customers dropped as they struggled to retain markets in an environment of stayaways and recession in the gross domestic fixed investment sector.

However, the gases division maintained its resilience. This was because of its many long-term supply contracts and because its customers were spread in industries ranging from mining and heavy engineering to food processing and beverages.

The division strengthened its supply sources by commissioning a 60-ton-a-day argon plant and now also had access to five alternative sources for atmospheric gases on the Reef. Increased demand for carbon dioxide led to the commissioning of a plant which would take up streams from the Mossgas installation.

The welding business suffered from the recession, but major projects such as Alusaf and the Columbus stainless steel project would mean increased activity and sales for industrial gases and the welding business in financial 1994.

The health care division refocused its hospitals on their primary markets. The Princess in Hillbrow was closed and the Springs Parkland Hospital on the East Rand was acquired as part of this rationalisation.

The Amieron Clinic in Klerksdorp was bought and a management contract signed for Voelspoort hospital Botseleng-Emfulweni.

Vice said it was difficult to make a forecast for the 1994 financial year.
FLISTESTAR vs SA AIRWAYS

Upset in the making

SA is not following the script when it comes to airline deregulation. When other countries open up the industry and let competition reign, it's usually the government-owned or heavily coddled private airlines that rapidly lose altitude. Having grown fat on protection, they're no match for more imaginative and aggressive rivals. The new defunct Pan-Am and Eastern in the US, and the money-losing Lufthansa and other State-owned European airlines are prime examples.

Just the opposite has happened locally since deregulation. The privately owned Fitestar was expected to make a quick meal out of SA Airways. Instead the upset is bleeding red ink while the government-owned airline has trimmed its fat and learnt to adapt to competition. SAA turned a R70m loss in fiscal 1992 into a R78m profit in fiscal 1993, while the much smaller Fitestar has dropped R70m in the two years since it started.

Instead of the stoody veteran asking for government help, it's the brash newcomer that's calling for a lifeline. Last month, for the second time in a year, Fitestar convinced the Competition Board to investigate whether SAA is competing fairly.

The first investigation ended in January with a recommendation that SAA should reduce its capacity and increase its fares on domestic flights, which it did. The second investigation, expected to be completed in two months, could result in much more stringent recommendations.

But if the result doesn't go Fitestar's way, the airline might not be able to survive for long. It has captured a respectable 22.5% of the market on the domestic routes it serves with SAA, but there's no end in sight to the losses. The three owners — Rentmeester Beleggings, which holds 46%; Saffren Rennes Holdings, 37.5%, and Pretoria's De Mouelenaar family, which holds the balance — are not willing to pump more capital into the operation. Money is too tight that advertising has been cut.

Critics point to Connair, which is making money by offering cut-rate flights from Johannesburg to Cape Town and Durban, and conclude that Fitestar's losses must be caused by mismanagement. But Fitestar denies this. It has commissioned a study of Fitestar's proposals and done a comparison of the prices charged by international airline consultants SHE that "found that for our size, our cost structures and distances covered compare favourably with other airlines."

Fitestar claims that it entered the market after undertakings by government that SAA would run as a commercial enterprise and that its capacity would be constrained, at least during a transitional period. If Fitestar can establish that these promises were specific enough to show that a breach has occurred, it may have a case for some accommodation.

If Fitestar folds, the shareholders will lose their entire R300m investment because the airline has no assets to sell. Its aircraft are leased, its offices rented. SAA maintains its aircraft and Safair does ground handling.

But if Fitestar can hold on for another year, it may get help from an unexpected source. The ANC. An ANC government might reverse the NP policy of commercialisation that has made SAA and other State-owned companies leaner and more competitive than ever. If it uses SAA and the other companies as job-creation programmes and patronage pools as the Nats once did, Fitestar would get a second lease on life.

The Competition Board probe is looking at possible malpractices by SAA "resulting from its dominant position in the domestic air transport market." These possible malpractices could stem from how it handles its frequent-flyer programme, corporate discount arrangements, payment of sometimes more than minimal commissions to travel agents, and its computer-reservation system.

Board chairman Pierre Brooks says the investigation will be more formal than the last one. If the finding goes against SAA, Public Enterprises Minister Dawe de Villiers, "may have to declare certain SAA conduct unlawful."

SAA CEO Mike Myburgh's feeling is that Fitestar is using its position as the underdog to "get the board to carve pieces off of SAA. I agree that government's attitude should be to help the weaker airline stand on its own two feet, but not at the expense of the stronger one. Fitestar hasn't benefited from the help it was given by our reduction in capacity and increases in fares."

He says Fitestar's complaints about how SAA operates amount to objections against normal business practices. "Fitestar also operates a frequent-flyer programme. Corporate discounts can be equated with volume discounts, and paying higher commissions to travel agents is probably the oldest way of doing business."

He denies that SAA's use of its computer reservation system puts Fitestar at a disadvantage. The airlines and local travel agents are linked by a computer system devised by SAA, but there are no specific allegations that SAA has manipulated this system to the other airlines' detriment.

Fitestar says it objects to SAA's frequent-flyer programme because SAA has a much larger domestic route system, allowing customers to earn bonus miles on more flights and cash them in to more destinations. This puts Fitestar at a disadvantage, so it wants bonus miles earned on either airline to be good for flights on the other airline.

But Myburgh says this would defeat the purpose of the programme, which is to reward customer loyalty.

Fitestar's complaint about corporate discounts is based on its fear that SAA is sewing up all the big corporate customers, such as Anglo American and Barlows. Finally, Fitestar's objection to higher commissions appears to be a red herring, for it gives a 9% commission on all tickets sold, one point more than the minimum, while SAA grants the higher commission only in certain cases.

SAA must be given time to show an adequate return on capital. But Fitestar's own capital inadequacy is not an argument against SAA's practices. Where Fitestar may have an argument is if government is in breach of specific undertakings, especially if it has weakened the bridge bringing SAA to full and private privatisation.
Gencor firms ahead of unbundling

BY DEREK TOMMEY

Shares in Gencor, the mining house which is unbundling this weekend, gained 60c to R10.40 yesterday.

This suggests that unbundling could help make its shareholders richer, which is Gencor’s stated reason for taking the step.

Shareholders are to receive about 5.8 Engen shares, 13.7 Genbel shares, 4.3 Malbaks and 3.98 Suppi shares for every 100 Gencor shares.

At the close of the JSE last night these shares were worth R432.

With 100 Gencor shares valued at R1040, this means that the unbundled portion of every 100 Gencor shares should be worth about R618, or R6,50 a share.

Analysts say Gencor’s unbundling will emphasise the value of its gold investments and attract investors who want to invest in gold shares.
Recession sees Amrel go deeper into the red

The poor trading environment and severe pressure on gross margins hit Amalgamated Retail (Amrel) hard in the six months to September 1993 as the attributable loss almost quadrupled compared to the same period a year earlier.

Trading profit plunged by a third to R20.1 million (R30.2 million) dragging the SA Breweries-controlled household group deeper into the red with an attributable loss of R5 million (R2.1 million).

However, the loss could have been much worse had it not been for deferred tax credits of R5.1 million for the retailer of furniture and footwear and provider of TV, video and printing services.

The attributable loss per share amounted to 36.5c compared with 22.8c a year ago and Amrel did not declare an interim dividend because of the loss-making position.

The group ascribed its performance to the turbulent trading environment, plagued by social unrest and the recession-stricken economy.

Consequently, Amrel said it would hard-pressed to break even for the year as a whole.— Sapa.
Nationalisation of Reserve Bank unlikely

JOHANNESBURG — The African National Congress might oppose a recent proposal that the South African Reserve Bank be nationalised, the organisation's department of economic planning said yesterday.

It was responding to a Macro Economic Research Group (Merg) suggestion that SARB policy approach would have to fall in line with the economic imperatives of a new democratic state.

Merg co-ordinator Dr Vella Pillay said on Friday recent research had shown that the SARB should be subordinate to the government "to allow monetary, interest and exchange-rate policies and the flow and direction of credit in the economy to be consistent with the democratic state's policies."

But in response, the ANC said "Such an approach is unlikely to find favour in the ANC as we are developing our own approach to monetary policy which will not require nationalisation of the South African Reserve Bank."

Merg was started in 1991 by the ANC, Congress of South African Trade Unions, and other organisations as an independent research facility to undertake economic policy research and submit recommendations.

"Their (Merg's) reports do not constitute ANC policy," the economic department stressed in a statement yesterday.

We are currently involved in negotiations on the conduct of monetary policy in the democratic South Africa," the statement added. — Sapa
Sugar and spice makes HLH nice

Hunt Louchans and Hepburn Group has reported an 86 percent increase in attributable earnings to R32.1 million (R23.6 million) for the six months ended September 30, 1982.

HLH said this was primarily due to increased contributions from Transvaal Sugar and Robertson's, while Rainbow's losses were greatly reduced.

An unchanged interim dividend of 13.5c was declared for the period.

Group CEO Neil Morris said he expected the positive trend to continue into the second half of the financial year.

Huntoor, whose only investment is in HLH, also declared an unchanged dividend of 27.2c. - Sapa.
LTA buys stake
in Wade Refuse

CONSTRUCTION group LTA had acquired a 50% stake in waste
collection and disposal company Wade Refuse for R15m, LTA said
yesterday.

The acquisition, which took ef-
fect from July 1, would lift LTA's
earnings for the period to Decem-
ber by 6c a share.

This area of operation would
become of strategic importance
to the group, said LTA financial
director Jimmy Oosthuizen.

The acquisition price was based
on net asset value and an amount
for goodwill calculated in part on
Wade's expected performance
over the next three years. The
R15m would be settled by an ini-
tial payment of R10.5m and the
balance at the end of three years,
all of which would be funded from
LTA's cash resources.

The initial purchase price of
R10.5m included R6.3m for good-
will which would be written off by
LTA as an extraordinary item.
Deregulation changes 'ethos of service'

BY THABO LESHIMO

The deregulation of the South African economy, which has seen the taxi industry grow hugely in the past few years, is expected to pick up speed, bringing great challenges to business, says visiting marketing expert Dr Aubrey Wilson.

He says parastatals, companies and other service bodies, would have to radically change their methods and attitude if they are to survive and flourish in the new competitive environment.

"The whole ethos of professional service changes under deregulation."

Make life easier

Wilson is recognised worldwide as having played an important role in the emergence of business-to-business marketing as a management tool.

He says competition would force enterprises in deregulated markets to realise their job in life is to make the client's life easier.

They would also have to speak the language of the client and be able to serve the clients' needs — even those needs the client is unaware of.

"As clients become more questioning and demand courtesy, respect and dignity, "the very paternalistic attitude of I know what is best is going to have to change," says Wilson.

This has been seen in the case of Aids patients who, in some cases, have proven to be more knowledgeable about their treatment and conditions than their doctors.

"This extreme example came about because of the formation of self-help groups — often threatening established organisations.

Wilson says it is difficult for laymen to assess the technical quality of services, but they can assess the way the service is delivered: how good is legal advice, medical treatment, quantity surveyors' calculations among other things.

"More and more we judge companies by the quality of the way service is delivered, rather than by the quality of the service itself.

"People don't care how much you know until they know how much you care."

This will be the motto of the future.

"The buzzword is empowerment" and junior staff should be able to take some on-the-spot decisions without consulting their managers.

"We have to motivate people to want to make decisions and help them to make the right decisions."

Customer care is very much linked with the ability to make the whole organism work smoothly.

Organisations have to know that "everybody in an organisation is somebody else's customer and somebody else's supplier."

The internal chain has to be made foolproof because if one of the people in it fails, the chain gets broken.
The plan: to significantly outperform the JSE

Genbel is looking for a billion rands

The thrill of the chase, is what Genbel is offering investors.

BY JOHN SPIRA

Genbel, having been unbundled from Gencor, is to borrow up to R1 billion as part of a strategy to transform itself into a diversified company.

Its traditional ties to Gencor have been severed and the company now aims at a fresh focus. Thus it will expand its securities trading operation to “significantly” outperform the JSE all share index over time.

Restructure its core investments to shift emphasis gradually away from commodities.

Genbel has previously fulfilled the traditional role of a mining holding company. As such, its portfolio has been dominated by Gencor-controlled companies, with disproportionate holdings in shares subject to cyclical commodity prices.

“The Gencor separation now enables Genbel to create its own identity,” says managing director Anton Botha.

Genbel’s core portfolio, which accounts for about two-thirds of the total portfolio value of R3 billion, would be partially swelled by R400 million in debt financing to acquire new growth investments within the next two years.

“The current portfolio is geared to an expected upswing in the commodity cycle. Over time, the core portfolio will be refocused by replacing exposure to commodity shares with investments that can provide above-average growth.”

In the interim, R400 million in gearing will be used to take advantage of buying opportunities in long-term growth investments as they occur.

“Our debt-financing arrangements are such that we do not have to sell commodity stocks at the bottom of the cycle, but can hold them until the time is right to sell.”

Genbel’s trading portfolio, currently under the umbrella of subsidiary Unisen, will be enlarged to R1 billion, nearly a third of the total net assets.

Additional debt financing of up to R600 million will be used in the trading portfolio — a debt level which, says Botha, is not uncommon in similar international companies and which should enhance the trading portfolio’s ability to generate above-average returns.

Botha notes, “Fluctuations in Genbel’s earnings will not affect the company from its primary objective — to concentrate on significantly out-performing the JSE all share index as measured by total return — growth in net asset value plus dividends.”

Genbel’s dividend policy will also change — with effect from next year — such that future dividend growth will be at least equal to the yield on the all share index. Botha indicates that it will be about 24c versus 1993’s 36c.

Genbel will apply to the JSE for its listing to be moved from mining holdings to banks and financial services.

With a view to demonstrating to shareholders the sort of earnings fluctuations they can expect from their transformed company, Genbel has recalculated its earnings over the past four years on the new basis.

The result is earnings of 39c a share in 1990, 10c in 1991, 76c in 1992 and 140c in 1993.

The actual figures were 25c, 32c, 34c and 36c respectively.

This is how Genbel’s Unisen (trading) portfolio performed in relation to the JSE’s all share index. The revamped Genbel is hoping to achieve similar results in the future.

Botha creating a new identity.

Accordingly, what will now be adorning the JSE boards is a company like no other listed entity investors seeking the thrill of the chase will eagerly buy the shares, which, however, aren’t for the a without strong nerves.
OK BAZAARS

How the spiral started

SAB shareholders deserve an explanation

We were in danger of losing our way we had to take our punishment for straying from the path of conventional sense. — OK CE Meyer Kahn, 1979

The lesson has been long in the learning.

And now, 60 years after it was listed on the JSE, the company whose far-flung emporia made it “the store where SA shops” is about to become a delisted failure.

SA Breweries (SAB), the OK’s principal shareholder with 69.9% of the equity, has obviously decided that the giant retailer’s steady retreat in the face of unremitting competition is now so embarrassing it must be removed from the investment spotlight.

Not that SAB executives will admit that they spared a host of reasons, from hugely burgeoning debt to political unrest.

OK Bazaars, whose genesis lay in the combination of two unlikely traders, one the owner of a modest store in Harrismith and the other a travelling salesman and sometime hairdresser, was established in 1918.

Sam Cohen and Michael Miller commanded a capital base of R150 and called their firm United Commercial Agencies.

Their sole motivation was to make profits quickly, they had no intention of being trapped by the plate glass and mahogany which characterised their opposition. Not for them the Edwardian opulence that surrounded the great British stores. That’s why it became the OK — goods which were OK, at OK prices.

The old OK died when SAB acquired its interest in 1973. Marketing director Louis Ozanne told the FM excitedly that SAB’s involvement clearly marks the change from brilliant pioneer development by entrepreneurial families into total professional management.

Really?

SAB’s management in the early years produced good results. The share price fell initially from SAB’s purchase price of R7, bounced along for six years, then took off in 1979 to a peak of R27 in April 1983. Since then, it has been downhill all the way.

As with all slow disintegrations, it’s difficult to pinpoint the reasons for ultimate failure. Nevertheless, there are some strong candidates. First is management style — ethnic, ethos, culture. Cohen and Miller represented themselves and their own money, and there’s no substitute for the owner’s foot.

Essentially, they were traders looking for the main chance.

Even in his 80s, Cohen used to spend a couple of hours at a till every Saturday morning in the basement of the Eloff Street OK. He thought it important to keep in touch with customers and the shop floor.

Subsequently, Meyer Kahn became CE in 1977. Kahn is nothing if he isn’t a trader.

But when he moved to SAB’s head office in 1983, OK’s share price went into a spiral dive from which it has never recovered.

Kahn was replaced by Gordon Hood, architect and property developer, who presided over an empire in decline.

The choice of Hood surprised observers.

There was no questioning his hotel and store planning abilities, first at Southern Sun and at OK, but running a huge company with thousands of employees isn’t given to an executive described as “wooden” and “auto-centric.”

As management trainee and then CE, Kahn clearly developed “a soft spot” for his alma mater. Maybe this precluded him from acting sooner and with greater vigour — especially when the alarming trend in OK’s interest burden became evident.

In this sense, at least, Kahn has some answering to do: what would OK be like now if he hadn’t insisted on being so laid-back, so remote, and had been more of a hands-on chairman?

SAB planning and development director Malcolm Wyman says SAB’s policy is to give operating subsidiaries maximum freedom from central control “We actively employ a decentralised management philosophy,” he says. That is a policy many support, though not at the expense of common sense.

A second factor is that OK simply lost its way in the Eighties. The temptation for managers of retail operations is to cater for every sector indiscriminately. OK was no exception — as evidenced by its 1993 annual report entitled “Back to Basics.” By Kahn’s own admission in 1979, OK flirted with high fashion and was “eaten alive” by competitors in furniture.

In the circumstances, it’s strange that the illness was allowed to continue. When SAB took control in 1973, it told the FM its involvement would be at the strategic level of making the right big decisions — directions of growth, new outlets, finance, profit targets, top appointments. What has happened to these proud and perfectly proper promises? The unadorned answer is that SAB hasn’t delivered.

The third reason is probably the most curious of all. It is that OK’s technology has lagged that of its major competitors. Given SAB’s profile in hi-tech applications in other sectors, its irrelevent approach to OK seems wayward. OK CE Mervyn Serebro admits, for example, the company’s accounting systems are unbelievably anachronistic.

And OK has fallen behind in critical areas such as in-store controls. These technology-related failures are illustrated by a comparison with Pick ‘n Pay (PnP) where, for example, debits expressed against days’ sales are 0.6 against the OK’s 29.5. Other ratios are: the number of days’ stock held by PnP is 23.8 compared with the OK’s 30.5 — more than double; and PnP wins in its use of creditors’ money — its stock is financed to the extent of 164%, compared with the OK’s 98%.

Wyman objects to this comparison: PnP isn’t at all like the OK, he says, because it doesn’t have to fund a huge furniture book. It’s true OK’s HP book amounts to close on R500m and the product mix of the two retailers differs: 85% of PnP’s business is food while at OK it’s only 60%. Comparisons may be odious but they have to be drawn.

Wyman defends OK’s record in this area.
by claiming that important technology taken time to implement. That's true but doesn't explain why OK entered the race so late.

Whenever the FM challenges OK's performance, Wyman's stock response is that it was grievously affected by the pervasive social, economic and political uproar. Wyman says OK's trading policies improved significantly when the situation improved. It's a seductive argument — but it doesn't explain why OK's competitors weren't affected to the same extent. Wyman attributes this to OK's exposure in rural and mining areas.

SAB's decision to make a Section 31 offer to minorities raises a number of issues. The first is that SAB's intention to make OK wholly owned smacks of a repeat of the Southern Sun saga. Investors will recall that SAB's response to the embarrassment of Sun's continuing losses was precisely that. The impression is that it's a lot easier to sweep unpalatable facts under the carpet when there are no public reporting requirements.

Wyman denies that is SAB's intention. "No, we won't hide anything. We don't hide our hotel results, for example. Nor do we hide the results of our beer division. Anyway, OK's results are already consolidated fully into SAB's financial statements, so it will have no additional impact."

However, Wyman refuses to say what kind of financial restructuring of OK is intended. One thing is certain, the company is horribly undercapitalised and a consequence is a colossal debt burden (now close to R1bn). Such matters as how SAB will deal with the debt, whether it will replace it with new capital or use other instruments (prefs, convertible debentures and so on) remain undisclosed.

Asked why the alternative of a rights issue wasn't adopted, Wyman says SAB concluded minorities wouldn't subscribe. He claims the unusual activity in the share recently (1.7m shares have traded so far this year, of about 3.7m held by private investors) is speculative. Another option — that the major institutions might have been prepared to subscribe for a rights issue underpinned by SAB — was discounted by Wyman as unrealistic, given OK's past performance. THIS IS AN OVERT ADMISSION OF ITS PARLIAMENTARY STATE.

SAB's offer to minorities of R10 a share may be taken either in cash or in SAB scrip (based on a share price of R68). That is, at least, a concession which allows shareholders to get in touch with their OK investment. The offer must be compared with OK's net asset value: at March 1992 it was R28, by April this year it was R27. Now the managers say it is R15 and falling fast.

Another important feature is that the first Hyperamas, opened in 1976, was intended to solve the OK's self-imposed problem of being the place where the nation shopped. Hyperamas were introduced (at a time when the group was doing particularly well) to lift the load from OK Stores of what was a capping philosophy. They outsourced OK's ability to service it.

It is only now — under Serebro — that the essential differences between Hyperamas (serving A-B income groups) and OK Stores (concentrating on the C-D sectors) is being articulated. Indeed, the Hyperamas success and OK's ability to make it work has been camouflaged in the perceived interest of shoring up the steadily declining performance of OK Stores.

The group is coy about releasing information, but it's possible to deduce that last year the Hyperamas contributed about R50m to group operating income. The inference is that Hyperamas work. OK Stores don't. Wyman rejects suggestions that SAB intends to hasten Hyperamas separately.

Twenty years ago, SAB laid R136m on the table to secure control of OK Stores. Anybody always suggested more than the CPI over the years since then as a measure of return, OK's outlay should now be worth R1,788m. It is worth no more than R61m.

This is sobering because, taken alone, it is uncomplimentary about SAB's management and strategies of diversification. Wyman, heavily defensive, says SAB is in "the mass market-orientated business. We have had poor periods. We are, after all, a proun of the economy. We can't divest and translate our holdings into cash whenever the environment looks poor."

Soon after the FM went to press, SAB unveiled its interim, against a background of 26 successive years of unbroken annual growth in earnings. The unpalatable truth is that this has been achieved despite — not because of — the diversification programme. Beverages always pulls SAB through.

Though it's hard to say this in the face of a record unmatched in SA business, SAB's shareholders would have done better if their managers hadn't so adventuresously.

<table>
<thead>
<tr>
<th>Turnover (Rm)</th>
<th>1995</th>
<th>1987</th>
<th>1989</th>
<th>1991</th>
<th>1993</th>
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<td>Pre-interest profit (Rm)</td>
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<td>28.5</td>
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<td>4.4</td>
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<td>DPS (c)</td>
<td>4.5</td>
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Returns on average total assets:
- 1993: 5.7%, 8.6%
- 1991: 4.8%, 6.0%
- 1990: 3.6%, 4.8%

Returns on average capital employed:
- 1993: 5.7%, 8.6%
- 1991: 4.8%, 6.0%
- 1990: 3.6%, 4.8%

Returns on average equity:
- 1993: 5.7%, 8.6%
- 1991: 4.8%, 6.0%
- 1990: 3.6%, 4.8%
Earnings and dividends up

DROUGHT main stumbling block to even higher earnings

By Derek Tommey

CG Smith, recently unbundled from Barlows, has made a good start as an independent. Despite operations being hit by a severe drought in Natal, which slashed sugar production, and by the recession and unrest, which trimmed earnings of associate, CG Smith Foods, it was able to post a 6.7 percent rise in attributable earnings in the year to September (2.32).

But for the drought, the increase would have been 14 percent, says chairman Derek Cooper.

Helped by a strong performance from packaging interests, productivity improvements, rationalisation, and lower interest and tax payments, earnings rose from R82.9c to 94.6c a share.

It is paying a final dividend of 310c, making 527c for the year (335c).

On November 29, CG Smith share price was split on a 10-for-1 basis and shareholders will get a dividend of 21c on each sub-divided share. However, the total dividend will be unaffected.

A strong positive cash flow of R490 million and lower interest rates led to a 29 percent fall in funding costs. Profits were also helped by a reduction in the tax rate from 37 percent to 33 percent.

CG Smith Foods increased turnover by 7 percent to R13.9 billion, but pressure on volumes, and food prices generally contained below the inflation rate, caused a 3 percent decline in operating profit.

Attributable earnings fell by 5.1 percent from 324.9c to 305.6c. It is paying a final of 63c, making 85c (105c) for the year.

CG Smith Foods' interests include Tiger Cuts, Adokek Ingram, Logos Pharmaceuticals and Oceans Fishings, all of which improved performances.

Sea Harvest was hit by the decline in white fish prices - Associate companies of CG Smith include Nampak and Romanex.

Group capital expenditure during the period was just short of R700 million.
MINING company Gencor is attempting to simplify its odd-lot offer to shareholders, following its unbundling last week.

The dismantling of Gencor and its holding company Genbeheer and the distribution of shares by Melhold had left about 8,000 odd-lot shareholders in Gencor, Sappi, Melbak, Genbel and Eugen.

The odd-lot offer, which runs this week, is designed to allow shareholders to round up or down their shareholdings to multiples of 100.

But Gencor said over the weekend that complex company law, JSE rules and the intricacies of unbundling meant shareholders would receive confusing forms of election and surrender.

Gencor said it would overcome such difficulties by colour coding election and surrender forms to the colour of the relevant share certificates. The company has also commissioned a step-by-step users’ guide to take shareholders through the process.

All forms of election and surrender would be individually printed to conform to each shareholder’s stake.

Share quantities and prices would be preprinted on the election forms, requiring the shareholder only to check the required block, sign the form and place them together with their share certificates in a pre-addressed return envelope.

For those shareholders still bemused, Gencor has also set up a free telephone helpline.

Gencor said such “proactive steps” would simplify the process “to avoid shareholder apathy through intimidation and confusion.”

Genbel and major shareholder Sankorp, which are administering the offer, have also opted to absorb the costs of the transactions.

Gencor said this would mean shareholders would not have to pay brokerage or dealing costs, and would receive a market price for the shares, rather than an odd-lot price which usually has a 15% premium or discount to the market value.

The options to shareholders have been tagged “round up your odd-lot shareholding and sell your odd-lot.” For shareholders who fail to reply to the offer the default alternative is dubbed “keep my odd-lot.”
CG Smith shows 6.8% earnings rise

MARCIA KLEIN

FOOD, packaging and textile group CG Smith, recently unbundled from former parent Barlow Rand, announced at the weekend it had increased attributable earnings by 6.8% to R443.3m (R413.1m) in the year to end-September.

It also intended splitting its shares on a 10 for one basis.

Newly-appointed chairman Derek Cooper — formerly Barlow's MD — said the results were achieved despite a 5% fall in earnings from significant contributor CG Smith Foods on the back of sharply lower profits from CG Smith Sugar.

Cooper said CG Smith Sugar was affected by the drought. The performance of most other group companies, which include Tiger Foods, Nampak, Romatex, ICS Holdings and Adcock Ingram, was strong.

He said CG Smith's 5.8% rise in turnover to R18.2bn (R18.1bn), a decline in real terms, reflected pressure on sales volumes and prices. Net income before interest and tax was marginally up at R1.4bn. But sharply lower financing costs — due to strong cash flow from operations and lower interest rates — and a reduction in the tax rate enabled it to lift bottom line earnings 6.8%.

Earnings were up 6.7% to 94.1c (88.2c).

□ To Page 2 □

CG Smith company. The number of head office employees was now 18, and there was no intention for it to get bigger. Cooper said companies in the stable were substantial in their own right, and the head office responsibility was to give strategic direction. It would ensure that the group structure maximised the return to shareholders.

Commenting on the share split, Cooper said CG Smith had been thinking about splitting its shares for some time as the share price was getting high. But the final decision was triggered by the unbundling.

CG Smith was looking forward to the number of shareholders increasing dramatically, Cooper said, and the group wanted to make the unbundling as advantageous as possible. The share closed on Friday at R14.49, off a yearly high of R16.25 and a low of R11.85.

He believed that the group's strategic direction, which he said would become apparent over the next few years, would indicate that it would increase shareholders' wealth.

Commenting on the dual pyramid structure — of CG Smith and CG Smith Foods — Cooper said this was a strategic decision that would be addressed. But getting rid of one pyramid would not result in a huge cost saving, and the structure as it stood did not impede the group's strategy or funding.

It was difficult to make short-term forecasts, Cooper said, as there could be some disruptions prior to and during the elections. Nevertheless, CG Smith had set its target growth in excess of inflation (which it estimated would be at around 6% to 9%) in financial 1994.

This year CG Smith Sugar's performance would show a small improvement, and it would come back strongly in financial 1995.
Anglo details gold firms’ unbundling

ANGLO American has finally disclosed the terms for unbundling its gold investment companies, under which investors will gain shares worth R5.5bn in Anglo’s Freegold mining operation.

Anglo said today Opti shareholders would gain 221 Freegold shares for every 100 Opti counters held under the planned dismantling, while Welkom investors would receive 67.98 Freegold shares for every 100 Welkom shares held.

The two companies together hold 55% of Freegold, which closed on the JSE on Friday at a year high of R68.25 amid strong stock buying from local and US investors.

Anglo also said foreign shareholders in Opti and Welkom would be given the option to limit tax penalties by swapping their shares for new Freegold shares, though on less favourable terms.

Opti and Welkom would be delisted after the unbundling, becoming the vehicle by which Freegold would hold shares in itself.

Anglo disclosed plans to unbundle the companies in April, in the first attempt by a company to exploit Budget proposals on corporate dismantling.

Opti and Welkom had been seen as unnecessary by JSE critics, while Anglo said the unbundling would cut discounts to net asset value endured by the companies.

Freegold

The group said it had to wait seven months before detailing the dismantling because it wanted to see the unbundling provisions of the Income Tax Act published beforehand.

Anglo said ensuring foreign investors were not penalised by the move had also led to the delay. Its plans to assist overseas shareholders would offer 267.77 new Freegold shares for 100 Opti, and 72.05 new shares for 100 Welkom.

The exchange, which would follow the main pro rata share swap, was less favourable because of additional costs linked to issuing and transferring new shares Anglo said it was trying to reduce such costs.

Anglo’s effective interest in Freegold would remain unchanged at around 55%.

An Anglo spokesman said at the weekend that it was not sure how many foreign shareholders there were, but in July about 35% of Welkom and Opti’s shares were foreign held. It was also difficult to say how many new shares would be issued, as it did not know exactly how many foreign shareholders there were, or what choice they would make.

Anglo plans to call a general meeting to gain shareholders approval for the plans. It said it expected the plans to go into effect next March. An announcement of dates would be made in January.
Barlows' earnings 'set to take a huge knock'

Barlow Rand is heading for a steep earnings decline when it publishes its final set of results tomorrow, the last of SA's flagship industrial group.

Analysts canvassed at the weekend put estimated year-end earnings at between R30c and 375c a share in the year to September 30, at least 14% below the

MATTHEW CURTIN

The group's listed interests such as Nampak, Pretoria Portland Cement, Resnet and Romalex have turned in solid performances — marred only by CG Smith Sugar's disappointing performance — in the past two weeks, but analysts said the poor showing from UK subsidiary J Bibby & Sons and Barlows unlisted subsidiaries would dent earnings.

Ferguson Brothers analyst Steve Rubenstein said the 80% collapse in Bibby's earnings was equivalent to a 95% decline in rand terms, compared with an expected 75% fall, and would knock R10m off Barlow's bottom line.

Analysts agreed there would be uniformly poor results from the unlisted subsidiaries whose recession-hit businesses ranged from tube manufacture, steel merchanting, to the supply of electrical appliances, paint-making and capital equipment distribution. Aggregate earnings could fall by as much as 25% to R12m (R16m) from Barlows' domestic and overseas unlisted interests.

Barlows would also have absorbed significant costs in the restructing of its interests.

However, the new look Barlows was set to emerge with cash-flush and debt-free balance sheet assets of as much as R1,2bn. One analyst suggested a fair market value of the streamlined group would be close to R15 a share with not unpromising long-term prospects given the exposure of the subsidiaries to any pick-up in gross domestic fixed investment in the economy.

Barlows shares closed on Friday at R41.25, 100c or 2.6% up on the day.
BUSINESS

Good start for new 1000 CC Smith

DEBREY TOMMY
Barlows Rand’s plan to sell Persetech falls through

Plans by Barlows Rand to sell computer subsidiary Persetech as part of a R400m deal to electronics group Reurnet have fallen through in a surprise last-minute hitch to the conglomerate’s unbundling.

The change adds extra weight to the new-look Barlows, to be renamed Barlow Ltd next year, which is going ahead as planned with the distribution of shares to shareholders of its stakes in its subsidiaries C G Smith, Rand Mines and Reurnet.

Based on the value of Barlow Rand shares on Friday of R4.725, the total value of the distribution is R24.25 a share, leaving Barlows with an impuited share value of R23.50.

Barlows shares fell nearly 2% or 75c yesterday to close at R4.1, just above their year-low of R3.98.

Standard Merchant Bank has undertaken to offer to acquire any lots of affected shares from Barlows’ ordinary shareholders for cash at a price to be announced on January 14.

Barlows chairman Warren Clewlow said yesterday the parties had been unable to tie up the deal because of pressure from Hitachi — whose mainframe computers and components Persetech distributes in SA — preventing the company joining the Reurnet fold.

“Persetech stays with Barlows,” Clewlow told a news conference called to announce the final unbundling details.

He said Barlows planned to reduce its stake in Persetech from 66% to closer to 30% to leave the company as an associate. Persetech did not fit with the group’s new focus on heavy industrial interests.

Talks were under way with a syndicate interested in taking a minority stake in the company.

The syndicate is understood to be led by Persetech chairman and non-executive director Roux Marnitz, one of the founders of subsidiary Persatel, which first distributed Hitachi products in the early 1980s.

Reurnet directors were unavailable for comment but the failure to clinch the Persetech deal means the recent restructuring of the group, aimed at securing across-the-board exposure to electronics markets, falls short of directors’ expectations.

Reurnet has acquired Barlows’ Nashua, Panasonic and related interests for the issue of R250m worth of its paper.

Clewlow said Barlows had raised R424m in the restructuring which had been used in large part to recapitalise its overgrown, unlisted subsidiaries — which received an aggregate R200m cash injection — and Barlows itself, holding “free cash worth R500m”.

The group would adopt a more conservative dividend policy of 2.5 to 4.5 times cover.

Pro forma figures for the new cash-flush, debt-light Barlows showed the group would have reported sales of R12.3bn (R11.2bn) in 1983.

Pre-tax profit would have stood at R578m, sharply down from R735m the year before, with after-tax profit standing at R544m (R608m).

Barlows’ earnings would have been a quarter down at R297m (R360m), equivalent to 15c (20c) a share.

The biggest contributor to pre-interest, pre-tax profit of R740m would have been Pretoria Portland Cement at 36%, followed by Barlows’ international (16%), information technology (10%), and capital equipment (7%) interests.
Barlow Rand’s last report tells of slide

Barlow Rand, in its final announcement as SA’s largest industrial group, reported a 15% slide in earnings to R37.4m (42.2m) a share in the year ended September, but declared an unchanged 137p dividend.

Profitability was hit by weak performances from most unlisted wholly owned subsidiaries, a slump in earnings at UK subsidiary J Bibby & Sons, and the tough conditions facing C G Smith and Randcoal.

The results are Barlows’ last as a diversified mining industrial conglomerate, as the unbundling plans announced in June have led to the disposal of its interests in electronics, consumer products and gold mining. The new group, to be renamed Barlow Ltd in January, has emerged as a cash-rich, low geared heavy industrial group with significant overseas interests.

Turnover rose only 7% to R37.9bn (R35.4bn), the slowest rate of growth in more than a decade. Operating profit before interest was down 9% to R2.5bn (R2.7bn), reflecting a decline in the average operating margin to 6.5% (7.5%).

Income from investments was 21% higher as Barlows received R607m from Old Mutual in July for the sale of shares in Reunert, C G Smith, Rand Mines, RMP and Randgold, on which two months’ interest income was earned. Profit after tax, in...

To Page 2

Barlows

Chairman Warren Clewlow said the British included the costs of restructurings, recognizing some companies and continuing social commitments undertaken by the Barlow Rand Foundation.

If all the transactions in Barlow’s restructuring had been effective from October 1992 and the R65m provision had been used evenly over the year, its earnings would have been 39c, a fall of 5c or 0.7%.

The conglomerate’s adjusted net asset value a share in 1993 was R22.90. However, on the basis that the distribution of shares in C G Smith, Reunert, Rand Mines and RMP had taken place, the net asset value at September 30 would have been R12.80.

Clewlow said Barlows’ weakest performers were coal mining and the Spanish...
SAB buys stake in Hungarian brewery

SA Breweries has acquired an 80 percent stake in Kobanyai Sorgyar Rt, Hungary's oldest brewery, for $50 million ($170 million).

SAB said yesterday it had also agreed to institute a $40 million reconstruction, rehabilitation and upgrading programme over four to five years.

The programme will enhance Kobanyai's production, marketing and distribution activities. Capacity will be restored to 2.5 to 3 million hectolitres a year. A well-known brand, Dreher, will be given particular emphasis.

The investment by SAB will be held through its Westgate Worldwide group established in the 1970s to handle SAB's offshore beverage-related investments. — Sapa.
Tough anti-cartel laws planned

Competition Board wants more bark and bite to end price-fixing
Unbundling ‘fails key objectives’

MARC HASENFUSS
Business Staff

UNBUNDLING came under the spotlight at the opening session of the 1993 CEO Institute Southern African Emerging Markets Forum in Cape Town today.

Professor Michael Katz, senior partner at Edward Nathan & Friedlander, said that the unbundling of Barlow Rand and Gencor had only achieved business focus.

He said the unbundling of the two of South Africa’s biggest companies had failed the key imperatives in the local economy such as the redistribution of wealth, black economic empowerment and the illiquidity of the Johannesburg Stock Exchange.

Barlow Rand chairman Warren Clelow — one of the panelists in the first session — said the unbundling of Barlows into four groups was aimed at keeping the industrial conglomerate focussed.

The unbundling also meant that the four entities did not have to follow “an agenda of the past”.

He admitted that the shareholding of the group did not change through the restructuring.

Responding to a question on the significance of Barlow’s unbundling for black economic empowerment, Mr Clelow said the group’s building materials division would be split into smaller units that could be accessed through partnerships.

“We intend to hive off those smaller business units to allow black business persons to buy into them.”

He pointed out that unbundling would not solve the prevailing economic problems immediately.

“Three to five years down the road we will see how successful the unbundling has been.”

Mr Clelow said Barlows favoured the development of small black entrepreneurs “This will not solve the problem but will get the ball rolling.”

A delegate from Kenya — Mr Chris Kirubi, chairman of DHL/Iasco Industries — stressed that local companies include ordinary people in their shareholding.

He suggested that companies issue 10 percent of their share capital to the man-in-the-street. This share issue would be funded by banks.

Initially dividends declared would be paid back to the banks who funded the share issue.

“No-one who has shares in a company will advocate the destruction thereof.”
Beverages as a whole did well, with ABI contributing R13,9m to the bottom line despite the effects of a strike of worrying intensity and continuing concern about the company’s labour relations. Applecres’s volumes continue to be affected by consumers’ preferences to buy down. International beverage interests appeared to do well and the continued decline of the rand over this period has worked in SAB’s favour.

Turnover rose 10% to R11,3bn but competitive conditions in the nonbeverage industries squeezed margins and constrained the rise in operating income to R971m — up 8%. Tax benefits were not as great as the market expected. MacFarlane attributes this to timing, suggesting further benefits will be felt at year-end (March) to 067.

Cash flow halved to R272m as a result of an increase in net working capital, partly reflecting the tardiness of debtors (not unexpected in a recession). Net borrowings are enough to insures a temporary twitch. A year ago, net borrowings stood at R79m. This time, it’s R790m — an increase of R691m and debt/equity has jumped from 0,54 last year-end (March) to 067.

SAB’s bond issue of R1bn with a coupon of 14,8% was made in the expectation that double-digit inflation would continue. As it hasn’t, and interest rates have fallen commensurately, SAB should be on the losing end of this stock. That it isn’t is entirely due to the intelligent application of derivative hedging instruments.

MacFarlane says the R1bn financing raised will be used in SAB’s R2bn expansion — the most it has spent in any year. R800m went into fixed investment over the six months, locally and abroad. He says offshore assets are being repositioned and energies channelled into developing beer interests — an area neglected in the past because of the substantial growth in beer volumes during the Eighties. Acquisitions planned include breweries in Tanzania and Hungary.

Most activities usually have a stronger second half, but beer sales are particularly resilient. Adhering to the policy of using volumes and general efficiencies to offer value for money, the annual beer price increase will again be below inflation. Chairman Meyer Kahn is forecasting real earnings growth for the 1994 year and says he will be especially pleased if 12% EPS growth is repeated in the second half. This puts the counter on a forward p/e of 19,3 and dividend yield of 2,3% — certainly comparable with other blue chip consumer companies.
LEADING ARTICLES

SAFREN

How much of a gamble is it?

New chairman Buddy Hawton is confident an expansionary phase lies ahead

For years, the market regarded Safren as a blue chip, largely impervious to recession, thanks to Safmarine's dollar earnings and Kersaf's tourist and gambling activities. Yet, in 1993, turnover barely increased, operating profit rose a mere 3% — and that only because of a R58m profit on disposal of fixed assets — and EPS fell 12.3%.

This disappointing performance, the questionable decision to buy into Belgian shipping company CMB Transport (CMBT) and the dubious investments into leisure real estate have dented the share's image. Since 1991, more than R100m has been lost in these two areas alone. Another area of uncertainty is the security of earnings from Kersaf's casino operations.

As the graph shows, some of the blue has rubbed off this chip. Should the market change its historically bullish rating because of the setbacks?

There is fresh excitement in at least one division. Kersaf is involved in a R450m international transaction. Through an intermediate company, it has negotiated to invest in a playground in the Bahamas. Though the project has been considered for some time, it is the first major step by new Safren executive chairman Buddy Hawton.

Hawton's vision is exciting. He intends "to expand the group considerably." He sees opportunities to acquire more ships, possibly in alliances with major international partners. He sees Sun International expanding resort operations, especially in the Indian Ocean islands, the Caribbean and central and South America — Mexico for example.

After three years as CE, Hawton assumed the chair three weeks ago. He is optimistic. Safren will generate higher earnings in financial 1994 from improvements in the local and international economies, provided conditions don't worsen again.

This view contrasts with the stance apparently being adopted by investors. The chart suggests the short-term price will continue to drift. Evidently some investors are not yet convinced earnings will strengthen.

However, Hawton's positive outlook is founded on firm fundamental observations of trends developing in Safren's widespread activities.

While Safmarine, with assets at book value of R2.6bn, has always been the biggest earnings contributor, its performance has been muddied by three high-profile losses. Kersaf (market capitalisation R2.7bn), which has continued to invest heavily in projects like the Lost City and Carousel, with large fixed costs, Safmarine's 1993 results were hit by the international and local recessions, the marked slowdown in world shipping volumes and losses by its associates, Safair and Flitestar.

Highly Centralised

Partly in response to tough trading conditions, Safmarine MD Tony Farr rationalised and restructured its highly centralised organisation. At the beginning of the year he cut staff by 14% and split the company into three autonomous operations: Safliner, Safmarine International (Safinternet) and Safair Freighters.

Hawton believes that, since the changes, the individual businesses are performing better. There is greater clarity of objectives, a more focused approach, faster decision-making and better esprit de corps. Responsibility is now commensurate with autonomy. Farr adds that managerial development has accelerated and productivity has improved. It's all beginning to show in the bottom line.

Apart from management efficiencies, says Farr, "An upturn in liner business in the past three months is holding up." Import volumes are higher than expected. Hawton is confident this indicates the local economy has bottomed and points toSA's high propensity to import when this happens.

Farr says export volumes are holding at expected levels, slightly above 1993's. In the European trade, and to a lesser degree in the US, he says, rates have edged up. Consequently, Safliner's business is improving. Safinternet's market is up slightly, though the reefer market remains in the doldrums.

Fortunately, Safliner is the dominant business: "It is a volume-sensitive operation which, when it improves, will overshadow the rest in turn around and profit contribution," says Farr. "Much stronger earnings are coming through now."

For investors, it is a relief to hear these assurances. A number of recent investments have so far been fruitless and costly. In July 1991, Safren bought 49% of CMBT, a major European shipping operation, for what Hawton calls "a relatively low investment of US$25m (R78m)." He knew it was grossly mismanaged, but its condition was worse than thought. Last year, Safren wrote off this investment to a nominal R1. The write-off was charged as an extraordinary item, shareholders' funds suffered accordingly.

Hawton says CMBT is beginning to make operating profits, but its debt, though down by more than a third in the past two years, is still creating pre-tax losses. He hopes for a pre-tax profit (in dollars) in 1995.

He's less sanguine about 37.5%-held Flitestar, which started up in October 1991 and has made losses ever since Safmarine's share of the 1993 loss was R1.49m. This investment has also been written off: "If the airline continues to make large losses, we will..."
have to close it," says Hawthorn. But, he adds, the situation is improving.

Payloads have increased considerably, though they (and revenue) are still only 72% of capacity. The market share of the Cape Town-Johannesburg route is about 27%, Durban-Johannesburg 23% and overall just below 20%. Farr hopes financial 1994 will produce cash break-even which, he says, will give the airline a good chance of survival. This seems attainable.

Customers also learning that Fli sharpen offers competitively priced seating which is more spacious than its competitor's food and service, especially in business class, are markedly superior.

The third area of significant loss in 1993 was Safair. Revenues were difficult to collect throughout Africa but especially in Angola. A R45m provision dented 1993 earnings. Hawthorn contends these funds should be recovered over time.

Meanwhile, Safair's basis of accounting has been changed. Revenue will be accounted for only when received; payment is now requested in advance.

Farr says Safair's long-term strategy is to reduce dependence on the Hercules aircraft. Since sanctions were lifted, inquiries from outside Africa have increased. Some are turning into contractual commitments.

In summary, Hawthorn reckons the quality of Safran's earnings will be much better in 1994. While the significant 1993 tax benefit — the write-back of R48m deferred tax (representing R80m in operating profit) — will not recur, he is optimistic operating profit will increase by at least this amount. To do so, it will have to rise by at least 48%.

Because Safair will not have to pay cash tax, cash flow will be substantial, Farr predicts. No major capital expenditure involves about R100m (R330m) on a first phase.

Intermediate holding company Sun International Investments has contracted to buy 60% of Paradise Island Resort & Casino for R75m, and with the minorities, are to invest a further R25m. This and a R75m long-term loan will finance refurbishment of existing resort facilities and the first phase of another ambitious park development (a Lago Lost City) with a Caribbean theme.

Resort activities already occupy much of the island but there is 80 ha undeveloped land. There is a 3,300 m² casino. The golf course will be upgraded to international standard.

Approval for the deal is in the hands of the US courts, which are examining the financial re-structuring package. It's expected the offer will be accepted in May/March. It could provide a substantial rand hedge investment to complement the currency hedge element in Safair's earnings.

Closely to home, Kearsar is grappling with effects of the recession on hotel room occupancy and competition from new casinos in 1993, its pre-interest profit rose 1.6% but attributable earnings fell by 9.3%.

Hawton admits that "across the board, occupancy rates are still a little soft," a situation he ascribes to the economy and a lack of tourists. "But our gaming revenues are up because of intensified marketing and promotions." In Kearsar's main subsidiary, 80%-held Sun International, the first quarter's results are better.

Business remains difficult for other subsidiaries, Interelux (37%) and Douglas Green Bel-

The stock market is usually no slouch in anticipating earnings trends, but, bearing in mind the economic downturn began in 1989, it saw the difficulties confronting Safair's and subsidiaries later than it should have. Perhaps Safran's US dollar earnings capacity helped shore up the share price. Despite considerable negative evidence, the price continued to rise strongly.

In mid-1988 Safair traded at R17.25. It rose to R46 in February 1990 and then began a seven-month reaction which ended at R33.75 that October before resuming a further 21-month ascent to R101 in June last year. Only then — at the financial year-end — did investors appreciate the group was struggling to maintain earnings growth.

That point concluded with intensified social and political unrest, which inhibited holiday and leisure (gaming) travel, as well as the appearance of scores of competitive casinos, which took market share from the gaming oligopoly controlled by Kearsar. Only then did the market begin to mark the share down. Last month it fell to R67.

Analysts are almost unanimous the share, around R74, is at least a hold; many recommend it as a buy. On the technical side, with the four-and-a-half-year long-term upward trend line broken, there is little support until about R50. But for a group of Safran's stature and earnings record, it seems unlikely the price will fall that far without the whole market declines.

If you believe SA has a future, shipping, travel, tourism and leisure facilities will remain in demand.

If Hawthorn's predictions are sound, the market should soon restore a deeper blue to the share and the present price could prove cheap.

Gerald Wisker
When the sharpies have to go

IF South African business needed to be jolted into action to reverse an ominous slide in its ranking among global trade rivals, the alarm has been rung by the 1993 edition of the authoritative World Competitiveness Report.

South Africa, freshly out of political isolation, made its debut in the annual country-by-country comparison of economic muscle a year ago. The results shook South African business to the core.

Among the 36 rival nations listed in the 1992 study, South Africa was ranked as low as 30th, sandwiched between Mexico and Venezuela.

At the time, however, it was widely assumed that a rapid climb to higher status was virtually guaranteed with the removal of the sanctions blockade and trade handicaps.

The optimism has been dashed. In the 1993 survey South Africa has skidded still lower in the international rankings, now down to 32nd out of 37.

South Africa's ranking among world trade rivals is slipping. The Competition Board wants far wider powers to crack down on business scams and sharp practices that hamstring economic performance. Weekend Argus Correspondent & Michael Chester reports.

Nor can South Africa moan about the disadvantage of a relatively small economy. Judgments, it is stressed by the authors, are based on economic fitness tests — regardless of size.

Clearing any suspicions of unfairness by comparison with such economic giants as Japan and the United States, listed as "advanced industrial nations", the survey has placed South Africa among smaller global players under "newly emerging industrial nations".

Even here, South Africa is shunted down to a lowly 11th slot, among the bottom one-third and far outclassed by Far East tiger cubs like Singapore, Hong Kong, Taiwan and Malaysia.

The sharpie goals are also being led by Justice Brooks, chairman of the Competition Board, to reinforce arguments that the board needs far wider powers to enforce new rules on business practices — and all the while to encourage a faster economic tempo.

Insiders believe Brooks has been well groomed to draft the rule book with the experience of five years at the helm of the Competition Board — an special secondment from the post of Professor of Mercantile Law at the University of South Africa.

In fact, he has already delivered his proposals to the government on the framework of new legislation that he hopes will win consensus among all the main business and political players before going to parliament for approval and implementation as new competition policy.
Barlow Rand’s unbundling to cost R250m

By CHERYLIN IRETON

In downsizing from an asset base of R23.5 billion, Barlow’s relinquishes its crown as SA’s top industrial conglomerate — an honour it held for the past 21 years.

It will also cease to be the country’s biggest employer. Its staff complement will fall to 28 000 once all the restructuring is completed from a group tally of 160 000 at the end of 1992.

Workers are spread between the main remaining operating subsidiaries: Pretoria Portland Cement, Stratford Pte (formerly J Bbaby & Sons), Barlow’s Equipment, Barlow’s Motor Investments, Pierson, Federated-Blakie, Rober Industrial Holdings and Barlow’s Consumer Electro Products.

Mr Clewlow says each of these divisions has been refinanced in the reorganisation, and now have an average debt-equity rate of 20%. Barlow’s also has around R150 million in cash which will be used for acquisitions and organic growth.

After another dismal year — in which earnings fell 15% — there is light ahead.

We do see signs of the end of the recession but the first half of the year will be difficult as we are still in a pre-election era. Nonetheless, I believe the new group will show real earnings growth next year," says Mr Clewlow.

Barlow’s is a little weightier in terms of assets; it has net assets of R4.2 billion against M&R’s R3.4 billion.

A third of Barlow’s assets are found in the International division, 19% in cement and lime manufacturing division and 10% in capital equipment.

The reconstituted Barlow is not yet quite as Mr Clewlow envisaged when he first put the unbundling proposals to shareholders. Perse-tech’s major principal, Hitachi, was not keen to allow the sale of its technology to Reunert and so management is looking at alternative solutions.

Negotiations over the sale of Randgold are also still up in the air. If Randgold’s directors don’t wrap up a deal to buy these shares by mid-December, the holding will be put on the market for sale to institutions.

An institutional fund manager confirmed that Barlow’s and M&R, in focusing on activities related to gross domestic fixed investment, are the two groups most likely to benefit from any infrastructural spending that follows next year’s election.

Both are also well traded and marketable and that may be where the similarities end.

M&R is considered to be over its difficulties, lean and well managed. A big question mark still hangs over Barlow’s management, particularly in Bobby, its international division. Although Bobby will be free of its crippling debt problems after being being restructured and recapitalised, many of the same faces that watched over its dismal performance in the years since Barlow bought it, are still around.

Until there are concrete signs that Bobby can succeed under their leadership, Barlow will probably remain in the shadow of M&R.

The reshaped executive team headed up by Clewlow includes Des Arnold, Russell Chambers, Philip Bellinger, Ronne Fritz, Mike Gagnon, John Gossmann, Andre Lamprecht and Richard Mandles-

Jones

Mike Levett is Old Mutual’s non-executive representative on the board. He is joined by Dick Goos, Peter Cartis, John Maree, Sam

Motsenwe, Prof Wiseman

Nkhuu, Jan Steyn and Prof Louise

Tager.

In terms of the unbundling each

Barlow Rand shareholder is entitled to

1,218 shares in CG Smith,

0,666 shares in Reunert,

0,1976 shares in Rand Mines and

0,0039 shares in RMP.
Randgold's classic move restores a promising look to ERPM

THE classic gold play is how East Rand Proprietary Mines' management company Randgold views the rejuvenated mine. The 100-year-old Boksburg mine is having a rights issue to raise R553-million. Holders of 180 shares will have rights to 866 new shares at 500c each. The current market price has fallen from R10, when the terms of the offer were made known, to 650c and trade in the nil-paid letters opened at 12c to 76c.

The mine has struggled along for 20 years and by the end of this year would have incurred 18-month debt of R644-million, pumping loans of R38-million and a Randgold loan of R18-million.

By JULIE WALKER

Repayment of the first instalments of the debt falls due before year-end and ERPM does not have the money. For this reason, a rights issue now is critical.

Management says everybody wins under the arrangements, which relies on the securing of an underwriter - FirstCorp and French group Paribas - with Randgold sub-underwriting a portion of FirstCorp's commitment to keep its shareholding at 28.5%. The big players cannot sell their shares for two years.

Liquidation is avoided, lenders repaid, 6500 jobs saved, the exposure of the SA Government to debt reduced, Boksburg reprofited and shareholders are only diluted and not wiped out.

Excluding any mining of reserves beyond 2003, any cash or any break-up value attached to the mine thereafter, ERPM will not provide a real return on equity using Randgold's conservative gold forecasts.

Randgold assumes a constant dollar price of gold at $359/oz, and depreciates the currency by the rate of producer-price inflation as forecast by the University of Stellenbosch's Bureau for Economic Research - 10%-ish.

In rand terms, the present value at 5% real return in 1994 is R400c and at 5% real return is R310c.

But a 10% higher gold price lifts dividends and the present value at 0% climbs to R73c a share and at 5% to 443c. The higher the gold price, the better the returns on equity, hence the gold play.

Managing director of the mine, the entrepreneurial Glean Laing, says investors can apply their own view on the gold price. ERPM shares will always be available in large numbers for speculators and investors - more than 14-million have traded this year. There are 16,4-million in issue, which will rise to 127-million with the rights issue.

ERPM forecasts a 50c a share dividend next year, rising to a peak of 150c in 1998. Thereafter, the grade has been marked down because of the reduced confidence level of predicting mineable grades after then, not because the grade drops.

Only half of ERPM's 95km² lease area has been mined. The mine's future is centred on the southeast portion in the new far-east vertical shaft system where in situ grades top 8g/ton, of which more than 6g/ton is recovered. Exploratory work has identified faults and dykes and accommodated them in the mining plan.

The use of ico in cooling the deep-level mine will allow access to previously sterilised ore blocks. Ore will be sourced from the L, K and Hercules shafts as well as from the Far-East upper and lower sections. The Anglo dump is also being treated. Gold production should rise to 11,9 tons by 1998 from 9,3 tons in 1994.

Mining costs exceeded revenue in recent years because the tortuous haulage from deep levels in the older, less modern sections of the mine is so expensive.

Although ERPM will remain a high-cost producer, the mining cost is expected to come down from R23 400/kg in 1994 real terms to R27 300/kg in 1998 real money because the new workings are modern and recovered grades and productivity should rise.

Hedging of gold production is also a critical factor for ERPM's future to allow it to plan, secure minimum returns yet be flexible enough to allow the upside benefits of a gold rally to be reaped.

Put options have been bought to secure the bottom price at $360 from early next year. If the mine had hedged everything this month, the revenue would have exceeded the amount budgeted by 4%.

ERPM intends to maintain a cash balance of R100-million at all times. It is to invest a total of R52-million by 2003 in a tax-free trust to cover rehabilitation costs. The mine will pay no tax in any event for several years because of large assessed losses and unredeemed capital expenditure.

Mr Laing says that investors are effectively getting a R3-billion brand-new mine with tried and tested procedures, a proven ore body, trained workforce and complete infrastructure, for only R550-million.

Investors need to be bullish on the gold price to follow their rights, but ERPM offers considerable leverage. Mr Laing notes that the foreign participants have taken a bullish view on gold and that sentiment has turned...
Malbakh policies ‘yet to pay off’

Marcia Klein

STRATEGIC longer-term decisions had affected Malbakh’s short-term earnings growth, chairman Grant Thomas said in the company’s annual report.

But the decisions had placed the food, packaging, healthcare and branded goods group in a powerful position in the longer term.

Malbakh, which has major interests in Foodcorp, Holdans, SA Druggists, Ellerines, Malbakh Motor Holdings, Tedex and offshore, increased attributable earnings by 14% to R374m on a 10% improvement in sales to R1bn in the year to end-August.

Thomas said the group continued to make “excellent” progress, especially in its core consumer-orientated businesses, which had experienced a 20% growth in their share of Malbakh’s attributable earnings.

The group itself, however, had reported relatively flat earnings over the past few years because of structural changes (including the acquisition of Pedfood and SA Druggists), changing interest rates, a dilution in its major underlying quoted companies and the sale of Standard Engineering and Darling & Hodgson.

These developments had cost shareholders 74c a share, or 6.5%.

The sale of Standard Engineering and Darling & Hodgson had been part of a longer-term move to ensure greater focus. About R192m of the cash it had raised had been invested in subsidiaries Holdans and SA Druggists.

Thomas said Malbakh now had a much lower risk profile and managerial resources which had not been fully utilised.

It was in a position “to seek out new investment areas which match our strategic profile and focus”.

Consumer spending levels remained depressed and prospects for a meaningful improvement in the economy were “not encouraging”.

Possible interest rate reductions would reduce income from the group’s cash reserves, but would benefit operations. “Growth in earnings will, therefore, be wholly dependent upon our own efforts, which will include export promotion, productivity improvements and optimisation of the new projects embarked upon recently”.

A modest increase in earnings a share was expected in 1994.
Lion Match gives
shares to Tedelex

LION's Match, the consumer products
company owned by SA Breweries,
has given away its stake in Amalga-
mated Appliances to fellow stake-
holder Tedelex after failing to gain a
return from the joint venture com-
pany for nearly two years.

"Lion said yesterday that Amalga-
mated Appliances, which produces
small electrical goods for consumer
and food markets, had traded at a
loss since its creation last January.

"The equity accounted joint venture
had "knocked nearly a quarter off
Lion's earnings for the six months to
September, in spite of heavy rational-
isation. Substantial further cuts were
incurred to lift Amalgamated Appli-
cances out of the red," Lion said.

Tedelex had the "potential to real-
ise synergistic benefits between
Amalgamated Appliances and its
other operations, (232)

"Lion's directors said they believed
it was in the company's best interests
to retain its stake in Tedelex.

The deal comes just three weeks
after Lion sold its packaging arm
Intepak to Consol for R205m.

Lion posted earnings 17% up at
15.5c in the six months to September.

It said that had both deals gone
through prior to the end of the period,
earnings would have risen by more
than a fifth to 22.5c.

The transactions would also have
lifted Lion's net asset value from
326.5c a share to 338.3c, it said.

"Lion said it would put both pro-
posed deals to shareholders at a gen-
eral meeting, but that its 70.6% share-
holder SAB had already said it
would vote in favour of the proposals.
Servgro lifts earnings and dividend

BY STEPHEN CRANSTON

Despite what chairman Peter van der Walt calls "perhaps the most difficult six months of trading ever", leisure group Servgro lifted attributable earnings 11 percent to R27,3 million and earnings per share by six percent to 24,7c in the six months to September.

The interim dividend is up seven percent to 8c.

Turnover rose 14 percent to R485 million, but there was severe price competition in certain areas such as car rental, which led to a mere five percent rise in operating income.

Borrowings remain low and gearing stays at 17 percent. Interest paid increased from R6,4 million to R6,9 million, but interest cover is a solid 8,3.

Van der Walt says there were improved contributions from Price Forbes and Teljoy.

Price Forbes has merged its Medicaid subsidiary with Medscheme, which will create a low-cost operation.

It has also announced an agreement with the UK insurance broker Nelson Hurst to set up a joint company to provide services for corporate customers in the UK and Europe.

It has an option to acquire 50 percent of the Nelson Hurst retail insurance broking operation.

Van der Walt says Teljoy has turned the corner, having substantially scaled down its troubled business services division.

It has established a new business unit, which will operate as a service provider to Vodacom in the cellular phone industry. This division, however, will only make a contribution from the 1995 financial year, reaching its full potential in 1996.

Interleisure has become more focused since selling its sports distribution division, including the Pro Shop.

There has been real growth from Avis, particularly in the second quarter, although price cutting in the car-rental sector continues to be severe.

One of the most promising parts of Servgro is its 22 percent holding in Nasionale Pers.

It is accounted for on a dividends-received basis, though if Servgro decided to equity-account its interest -- as it is entitled -- it would account for more than 20 percent of group attributable earnings.

The value of this investment, however, is not reflected in the Servgro share price, which, at 600c, is still below the net asset value of 650c. There is value in the shares.
Fewer treading insolvency path

BY CLAIRE GEBHARDT

The high rate of individual and company liquidations appears to have abated somewhat as the economy begins a patchy recovery.

Central Statistical Service (CSS) figures show that the level of company failures and insolvencies in the latest three months is down on the previous quarter.

Company failures, though still at a high rate, with 633 closures in the three months to September, are 10.9 percent up on the same period last year but 7.7 percent down from the previous quarter.

On the insolvency front, sequestrations of individuals and partnerships in the three months to August fell 20 percent from levels a year earlier and are also 14.8 percent lower than in the previous three-month period.

For the year to date, a total of 3,074 insolvencies is 7.7 percent down on the corresponding figure for 1992.

Liquidations, however, have moved up marginally to a peak reached earlier this year.

Credit Guarantee economist Luke Dolg says 233 liquidations were recorded in September, against 195 a year earlier and the same number the previous month.

"The accumulated total for the year to date of 2,002 is 12 percent up on the first nine months of 1992."

"Given that insolvencies are classified as a leading indicator, the figures add credence to the view that the economy has turned the corner for the better."

He says the recent drop in interest rates will further alleviate pressures in this area.

However, he notes that the percentage of total liquidations contributed by compulsory, or forced, closures, which accelerated from 79.4 percent in August to 82 percent this month, is worrying.

Econometrix economist Tony T'Veme says liquidations and insolvencies generally exhibit a lag on total spending.

"Though gross domestic product (GDP) has turned, with three quarters of accelerating growth, this is not necessarily the case for gross domestic expenditure."

He says the mixed results around liquidations and insolvencies can be attributed to the patchy recovery, with good growth in agriculture, less good but still positive growth in manufacturing, depressed mining and construction, and zero government spending.

"The good thing is that we are getting some positive changes at a relatively early stage in the cyclical recovery."
Servgro pushes up attributable profit

MARCIA KLEIN

LEISURE and services group Servgro International’s attributable profit rose 11% to R27.3m (R24.6m) in the six months to September with improved results from the Price Forbes group and Teljoy and “stable” results from its other investments.

The group, which has among its interests Inter Leisure, Avis, Fedics, Interpark and Naspers, reported turnover up 16% at R466m (R434.5m) but pressure on margins saw operating income grow 5% to R54.2m (R51.1m) Pre-tax profit rose to R57.3m (R54.7m), but lower taxation resulted in an 18% rise in taxed profit to R59.7m (R33.6m).

The drop in income from associates to R5.8m (R6m) reflected the poor performances of Fedics associate Protea Hotels and some associates in Price Forbes.

Servgro

BIDAY 23/11/93

Executive chairman Pieter van der Walt said the hotel industry was badly hit by socioeconomic conditions. In addition, the

interim period represented Protea’s off season. Remedial steps had been taken, particularly to cover costs.

Earnings rose 6% to 24.7c (23.4c) a share on more shares in issue. A 7% higher interim dividend of 8c (7.3c) was declared.

Naspers, from which Servgro derived dividend income, was expected to show results for the six months in line with the previous year’s. Van der Walt said.

Price Forbes concluded an agreement with UK insurance broker Nelson Hurst to provide services to corporate customers in the UK and Europe.

Price Forbes subsidiary Medicaid Administrators yesterday announced an agreement with Medscheme to merge operations to become “the leading medical administration group in SA.” Price Forbes would have a minority interest in the combined operation

Van der Walt said he was happy with Servgro’s mix of businesses, but the group was looking at acquisition opportunities.

There were indications that volumes were picking up, but margins would remain under pressure. Nevertheless, Servgro should be able to match the earnings growth level achieved in the first half
Unbundling tax breaks extended

Finance Minister Derek Keys has extended unbundling tax concessions to unlisted companies that plan to go public within six months.

The Income Tax Amendment Bill tabled yesterday proposes the following concessions to private companies to be listed within six months:
- Exemption from the 1% Stamp Duty on share transfers, and from the 15% secondary tax on dividends paid in terms of the unbundling...
Handsome rewards
at Malbak
Star 24.11.93

BY STEPHEN CRANSTON

Malbak has created sustainable long-term growth for its shareholders over many years, says chairman Grant Thomas.

He says in the annual report for the year to August that R1 000 invested in 1975 is worth R31.250 today and has generated R4.150 worth of dividends over that period.

This is equivalent to an average annual compound return of 21.9 percent a year, outstripping the average inflation of 13.9 percent over the period and exceeding growth in the JSE Index.

He says the market capitalisation of its packaging subsidiary Holdains has more than tripled since 1987. In the two years since the acquisition of SA Druggists, its market value has risen from R472 million to R1.359 billion.

Thomas says the acquisition of SA Druggists and Fedfood in 1999 increased Malbak's risk profile considerably as they were large businesses requiring a lot of attention.

Significant managerial resources were committed to addressing problems and to optimising existing opportunities.

Malbak now has a much lower risk profile and underused management resources.

It is again in a position to seek investment areas matching its strategic profile.

Within most of group companies considerable efforts have been made to increase markets and product ranges.

After forming a joint venture with Pillsbury, Foodcorp will launch Pillsbury baking prod-

Grant Thomas... acquisitions increased risk profile.

ucts, prepared dough, pizza, snacks and pet foods along with Green Giant frozen and canned vegetables.

Foodcorp has gained access to international technology, formulations and marketing expertise. With its existing product range it has already targeted the Middle East and Far East, where it has sold more than 100 tons of frozen vegetables...

Holdains not only acquired 50 percent of Crown Cork South Africa during the year, but also acquired 50 percent of Crown Cork operations in certain other Southern African countries.

Another part of Malbak's regional expansion has been setting up an SA Druggists production facility in Malawi. Output will service a large proportion of Malawi's needs and open new markets in neighbouring countries.

Eagle Freight has nurtured links with well-established freight operators in the US, Europe and the Far East. It now conducts 70 percent of its business outside the Malbak group.

Steel trader Protea International has begun trading in Cuba, Costa Rica, Puerto Rico, Malaysia and India.
OK's financial system ‘must change radically’

TROUBLED retail chain OK Bazaars needed the financial muscle of parent SA Breweries (SAB) to give relief in a structured fashion and to let it radically change its entire financial system, MD Mervyn Serebro said yesterday.

Financial director Godfrey Keerling said SAB’s loans to the OK totalled about R400m, although the amount fluctuated.

While details of the OK’s recapitalisation had yet to be announced, he said it would involve ‘converting some of that funding into something else”.

Serebro said that since he took over on January 1, it had become increasingly evident that the debt burden was such that the OK could not rely entirely on turnover growth and improved efficiencies to change the ratios relative to the debt.

In the first step toward recapitalising the OK, SAB would debut the retail chain, offering minorities R10 a share. The OK sustained a R29.9m attributable loss for the six months to September against last year’s profit of R2.2m, and a R44.9m loss for the year to March.

“It is essential that we re-engineer that debt to shorten the recovery time,” he said.

“This sort of surgery cannot be done with minorities in place.” With OK’s market capitalisation at just R84m prior to the delisting announcement, a rights offer would have raised only limited funds.

When Serebro relaunched the retail chain in May, he made clear his focus would be on marketing and low prices. While marketing and discounting remained major thrusts, the overwhelming priority was to run in costs and to resilience

| MARCIA KLEIN |

Serebro said some of the re-engineering—like technology and implementing new systems—was costly, and the OK would struggle to justify these investments in the medium- to long-term future “when we are fighting for survival in the short term”.

He said his strategy of discounting and increased marketing was right for the business. The OK had not produced the necessary volume growth, so it had to bring more people into the stores. The stores were well located and had a good support base, but needed to capture the younger customer.

In the past six months, the OK had reduced its board by two thirds, removed layers of management across the business, and reduced management in each division.

It had taken advertising—previously handled in-house—back to an agency, changed its image, talked to its supply network, rearranged departments and changed its method of procuring merchandise and was cutting business costs.

The company was 11 months into a three-year programme to overhaul its computer systems. It had also made substantial progress in industrial relations, “settling wage talks in five days”.

“Returning the business to profitability hinges substantially on addressing the cost-to-sell ratio, which in turn depends largely on the re-engineering with which we are presently engaged,” Serebro said.

Although a return to profitability remained the short-term priority, the OK would still look at expansion. It had just completed research into opportunities in marketing and new stores, he said.
Engineering a better asset mix

Is Murray & Roberts (M&R) buying control of Dorbyl? Certainly this is one conclusion that could be drawn from the publication of cautionary notes by both groups this week. Latest returns accentuate the poor performance of Dorbyl during the recession, but results from M&R have been good — it's proved adept at making fruitful acquisitions and has a powerful balance sheet.

Though Dorbyl has large turnover and asset base, the cost of acquiring control need not be particularly high. Market capitalisation of holding company Metkor (which owns an effective 36.5% of Dorbyl, through intermediate holding company Ipa), is about R185m, 51% of that is only R94m. Dorbyl is Metkor's major asset, others are Metkor Industries and Wapaco.

This would assume the existing controlling shareholders would be willing sellers. If Sanlam held control now, an outright sale to M&R (a Sanlam subsidiary) would seem more plausible. Sanlam has presided over numerous large deals to achieve better management and focus.

In this case, though, the controlling shareholder is Rembrandt Group, with about 50% of Metkor and a direct 10% of Dorbyl. Remgro has tended to avoid selling troublesome companies — a policy stemming partly from former chairman Anton Rupert's “partnership” philosophy. The preference usually is to work on improving returns from within. The recent debacle at Rainbow, where management has changed, is an example.

Remgro did slightly reduce its effective interest in Abasa, when the latter acquired Bankorp and Sanlam became Abasa's largest effective shareholder. Even so, if control of Dorbyl passes to M&R, which would perhaps issue shares in exchange, it would presumably signal that chairman Johann Rupert — who has been in the chair for about a year — is embarking on a more active approach towards improving returns from Remgro's investments.

A more likely outcome may be that Dorbyl is to sell some major assets as part of its continuing rationalisation. Management has stated it wants to lessen dependence on activities which are linked to fixed investment M&R, on the other hand, has focused increasingly on the fixed investment sector.

STILL SHRINKING

<table>
<thead>
<tr>
<th>Year to September 30</th>
<th>1992</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover (Rm)</td>
<td>2,986</td>
<td>2,690</td>
</tr>
<tr>
<td>Operating income (Rm)</td>
<td>141</td>
<td>97</td>
</tr>
<tr>
<td>Attributable (Rm)</td>
<td>92.3</td>
<td>64.6</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td>287.6</td>
<td>169.3</td>
</tr>
<tr>
<td>Dividends (c)</td>
<td>108</td>
<td>60</td>
</tr>
</tbody>
</table>

Dorbyl's Mostert: changing of emphasis

On that basis M&R could acquire assets which have been particularly problematic for Dorbyl, but which could fit logically into its own activities — notably, Dorbyl Heavy Engineering (DHE) and Dorbyl Structural Engineering (DSE). These operations, as well as Dorbyl Manne, constitute its contracting division, which in the year to September posted an operating loss of R25.8m — after a year ago profit of R13.3m. This division's sales of R447m — down from R934m in 1992 — contributed 17% of Dorbyl's turnover.

Since fixed investment (GDFI) started falling in late 1988, it has declined more than 10% a year in real terms. Capital spending on power generation has dropped by an annual 17% over the past five years. Construction of capex in the mining industry is estimated at 30% in 1993 and 1994. Dorbyl has already done much to scale down and reduce its dependence on fixed investment. It has aggressively pursued export opportunities — now representing 13% (R330m) of sales.

Benefits continue to be clouded by costs of closures, rationalisation and rectification. Of the R59.6m (R180m) extraordinary charge, R44m related to the closure of DHE Vanderbijlpark. DSE Germiston was also closed. Group revaluations amounted to R27m, half being treated as extraordinary items.

Full-year turnover slipped 13% to R25.9bn, mainly because of a 50% reduction in the contracting division's sales. Competition abroad and locally saw operating income drop 31% to R97.3m, margins were squeezed to 3.5% (4.7%) Capex of R175m, of which R96m was invested in seamless tube maker Tosa, helped lift debt by R42m to R230m, and gearing from 27% to 34%.

The trading arm improved its sales — up 12% to R1.2bn (46.5% of total sales) — and operating profit, up 42% to R39.9m CE Dawid Mostert attributes this to the end of Stewarts & Lloyds' losses and a better performance by Baldwins.

The manufacturing division, which includes Tosa, saw sales slip 3% to R939.6m, which was down 11% on 1990 Profit declined particularly in the automotive and transport product businesses.

Mostert says Dorbyl has secured major contracts on projects such as Alusat, Columbus, Namakwa Sands and TSB. These are worth around R300m and should help improve the contracting division's order book. Brighter agricultural conditions will boost other divisions, the bottom line should benefit in the second half of financial 1994.

Despite this more positive outlook, the share, at R250, trades at half its NAV. There could be some rerating if Dorbyl is relieved of its heavy engineering interests, but it will take more than that to turn the counter into an attractive investment.

FOREIGN INVESTMENT

Back in flavour

SA may be the latest in international investment flavours. JSE figures show net foreign purchases of SA equities since last November to be R2.8bn — and that compares with last year's rolling 52-week average which shows net disinvestment of R1.1bn.

Stockbrokers are back in smilling territory. It's rumoured some have even blown the cobwebs off their mothballed Porsches now they can afford to fuel up. Share transactions over the four weeks beginning October 25 and ending November 19 totalled 329.7m shares valued at R4.6bn (an average per share value of R14).

The current rule of thumb is that the exchange needs average daily trade of around R120m to ensure all brokers make a satisfactory living. Over the past four weeks (20 trading days), the JSE has averaged R221m a day — enough to raise jealons eyebrows again "What they don't realise," says one senior broker, "is that for very long periods over the past three years, we've had to operate at levels so low that many firms have returned losses. These so-called good times simply gave us an opportunity to get back to where we were."

Interestingly, the JSE's figures show the
In a remarkable first half, when — with the odd exception — most other retailers have been despondent about their markets, Foschin’s EPS have risen 37.4%. In this subdued economy it is an outstanding result, though below the group’s annual compound growth rate of 43% in interim earnings since 1987.

<table>
<thead>
<tr>
<th>Good Mix</th>
<th>Six months to</th>
<th>Sep 26</th>
<th>Mar 31</th>
<th>Sep 25</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>’92</td>
<td>’93</td>
<td>’94</td>
</tr>
<tr>
<td>Pre-interest profit (Rm)</td>
<td>n/a</td>
<td>73.9</td>
<td>121.5</td>
<td>88.3</td>
</tr>
<tr>
<td>Profit after tax (Rm)</td>
<td>n/a</td>
<td>38.8</td>
<td>64.6</td>
<td>53.3</td>
</tr>
<tr>
<td>Earnings (c)</td>
<td></td>
<td>88.2</td>
<td>147.8</td>
<td>117.1</td>
</tr>
<tr>
<td>Dividends (c)*</td>
<td></td>
<td>88.9</td>
<td>142.7</td>
<td>116.3</td>
</tr>
<tr>
<td>* Scrip dividend only.</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

MD Clive Hirschorn says turnover (not disclosed) rose 17.8% as the Foschin chain, Markhams, Pages and Sterns all traded well. An exception was American Swiss which experienced a soft patch, during three of the six months (25%). Management was again able to enhance productivity, as shown by the 19.5% rise in pre-tax profit. Other than increasing unit prices — a risky marketing practice when...

competition for market share is intense — this was the only way to magnify margin enough to lift operating profit faster than turnover

Hirschorn reckons this successful result was derived partly from the mix of stores and their positioning throughout SA Advertising and marketing promotions run by the divisions in the larger metropolitan areas have paid off. Lack of competitors in smaller country towns allowed the group to capture a larger share of disposable income in those areas. Foschin’s credit facilities give it a distinct advantage over cash-based businesses (252).

Pre-tax profit was also boosted by a lower interest charge, following repayment of debt. This interim marks the seventh occasion that scrip dividends are being declared. During fiscal 1993 this practice added R102m to cash flow, saving about R10m in interest payments. In fiscal 1994, these savings could be larger.

Hirschorn is optimistic about prospects for the second half. After a moderate 12-store expansion in the first half, the pace of new store openings is being stepped up, there were 15 in October. All the divisions are trading well. The interim scrip dividend is one new share for every 56 held. The share price is again at an all-time high of R75. The question is whether it will, in chartist jargon, form a “double top” or whether the price will set new heights. The share’s long-term bull trend is intact and Foschin’s compound annual growth of EPS of 25.6% over five years suggests it will rise further unless the market collapses.

Gerald Hirschorn
Argus shares at new high
Star 26/1/93

By John Spira

Argus Holdings shares added a sharp 11 percent to reach a new high of 823 yesterday.
A total of 272,700 shares changed hands — well above the stock's average trading volumes.

Analysts noted that the shares of the group's principal listed investments — CNA, Gulf, Times Media, CTP and M-Net — had been advancing strongly and Argus had drifted out of line with the value of its underlying investments.

A leading dealer disclosed today that a relatively large line came on offer and investors wasted no time in snapping up the shares at the higher price.

In the past month, M-Net has risen by 33 percent, CTP by 27 percent and TML by 26 percent.

In the same period, Argus, even after yesterday's gain, has risen by 20 percent, indicating that the share was overdue for a re-rating and that a further advance could be in store.
Offer to Milstan minorities

BY STEPHEN CRANSTON

Minority shareholders in Milstan Holdings, which was delisted in August, have been offered 10c a share by majority shareholder Stan Etkind's company Securat Investments.

Analysts say minorities are lucky to receive anything for their shares — in the year to February, there was a loss of over R11 million, equivalent to 40c a share.

Extraordinary items added R7.23 million to the deficit and net assets stood at a negative R23.8c a share.

Minorities will convert their existing ordinary shares into redeemable preference shares on a one-to-one basis.

Additional redeemable prefs will then be issued on a capitalisation basis to shareholders in the ratio of three new prefs for each converted share.

These will be redeemed at one cent each. The remaining six cents a share will be funded through a cash redemption payment from Milstan's share premium account. Payment will be made on December 20.

The Miltons and Stan's chains will then go their separate ways with a Milton Etkind-led consortium acquiring Miltons and a Stanley Etkind-led consortium left with Stan's.

The minority shareholders in Hi-Fi Specialists, a 51 percent-owned subsidiary of Milstan will acquire the company from Milstan.

Milstan had a good start after its 1987 listing. In 1989 it made pre-tax profits of R98.5 million and the share price peaked at 125c.

Problems developed in 1990 and later led to major write-offs after a revised settlement policy by the tax authorities on rebates on film and music video productions and exacerbated by subsequent cash flow problems.
MINING house Gencor has cleared another crucial obstacle in its bid to take over Billiton, the minerals and mining group owned by Royal Dutch Shell.

But the company warned that the deal — estimated to be worth $4.6bn — still hangs in the balance.

Gencor chairman Brian Gilbertson said yesterday that pre-emptive rights over Billiton's assets — which had been seen as a key threat — would not scupper the deal.

Gencor had determined that it could secure those Billiton assets deemed central to the takeover. It is thought these include a 30% stake in the Australian Boddington gold mine and its 40% stake in Worsley Alumina, both of which would generate hard currency vital to Gencor's offshore funding strategy.

But Gilbertson said that it was not certain the takeover would go ahead by the end of December deadline. The deal would be finalised, but "it could go either way."

He refused to be drawn on the remaining sticking points, but it is understood the two sides have still to agree a final price.

The company has secured Shell's agreement to its debt/equity funding package, and drafted in foreign banks to provide borrowing facilities. Gencor has recruited at least two foreign equity partners, though Gilbertson refused to name them.
Unions win rights on privatisation

Ferial Haikajee

A

n industrial court judgment delivered in October has set a precedent compelling the government to consult trade unions on the privatisation of state-owned companies.

"It seems to us that the minister was obliged to consult the National Education, Health and Allied Workers' Union (Nehawu) on the decision to implement his decision (to privatise the state abattoirs, Abacor)," the presiding officer said in an application by Nehawu against the minister of agriculture.

The judgment continued: "Consultation between Nehawu and the minister or his officials could have concentrated on ways to avoid a redundancy situation." The court said that by failing to consult, the department had committed an unfair labour practice.

The judgment has effectively halted the privatisation of Abacor by extending its implementation date. The minister of agriculture approved the privatisation of Abacor in March this year and set October 1 as the implementation date.

But Nehawu said no consultation had taken place until late September.

Nehawu members who work in state abattoirs and who stood to be retrenched as part of the privatisation plans brought an urgent application to halt the privatisation, pending negotiations. Lawyers for Nehawu also argued that the Department of Agriculture had breached an agreement on Abacor made at the National Economic Forum, where the government undertook not to proceed with privatisation.

Labour lawyer Barbara Adair believes the judgment may have implications for a number of privatisation exercises being carried out by the government.

It is also the first judgment in terms of the Public Service Labour Relations Act which came into effect on October 1.

"The court showed it is not afraid to say to the government that it passed the Act and is therefore subject to the Act and should be treated like any other employer," said Adair. Up until now, the government has railed against being defined as an employer.

The judgment said employers must consult about the decision to retrench, not just on the process of retrenchment. The courts have been ambivalent on retrenchments with some decisions confirming this judgment's view but others holding fast to the perception that the decision to retrench is in the scope of management prerogative.

Adair added that because the judgment was delivered by the president of the industrial court, Adolph Luchman, and by a senior member of the court, Arthur de Kock, it was likely to have added clout.
Investors disappoint

Gencor

ANDY DUFFY

INVESTOR response to Gencor's decision to dismantle its business empire had been disappointing, chairman Brian Gilbertson said in the group's annual review.

The plan to shed the bulk of Gencor's non-mining assets in a R6.2bn share distribution had been aimed at unlocking shareholder value in the mining house.

The discount to net asset value in Gencor's share price varied between 20% and 40% before the unbundling in November.

Its share price closed yesterday at 695c, against 610c on November 8 after Gencor started unbundling.

"The behaviour of the share prices has been disappointing," Gilbertson said. The "overhang" of the shares to be unbundled - Engen, Genbel, Malhold and Sappi - had also pulled prices down.

The unbundling leaves Gencor with gold division Gengold, platinum producer Implats, coal business TransNatal, ferroalloy company Sunmecor and its minerals division, which includes a stake in the R7.2bn Alusaf project.

Market sources have been concerned that the unbundled Gencor would be too exposed to the depressed commodities cycle.

Gilbertson said: "We continue to believe that shareholders will in the longer term reap the rewards."

Gencor's attributable earnings were up 12% at R1.4bn in the year to August as gains stemming from the unbundling offset a subdued operating performance. This left earnings a share up 4% at 102.5c, while the dividend was held at 45c.
Higher earnings forecast for RMP

Rand Mines Properties (RMP) is expected to show some improvement in earnings in 1984, chairman John Hall says in his latest statement to shareholders.

This follows a year (to September 30 1983) in which the group increased its earnings by 31 percent from 106c to 139c a share.

"The property market is not expected to show any material improvement until political conditions stabilise and the elections scheduled for April 1984 have been held," says Hall.

"It is therefore unlikely that the demand for township land and opportunities for township development will increase in the next financial year," he adds.

During the year, RMP acquired 78 percent of Barprop for close to R100 million.

"Barprop is expected to show modest growth from the escalation of existing leases and rent received from additional investment properties developed or purchased," he adds.
German buys control of Profurn

The future of which hung in the balance following the liquidation of its parent companies last year, has been bought by an offshore investor for R17.8m.

German investor Class Daun — represented by Daun & Co — bought just over half the company, or 178-million shares at 10c a share, in 25 deals yesterday.

Daun also owns furniture and sports goods retailer Markels.

Profurn said Daun would extend an offer to minorities to buy 55% of their shares for 10c a share in cash.

Profurn’s listing on the JSE would be maintained

Profurn had been looking for a buyer following the liquidation of ultimate shareholders Supreme Holdings and Supreme Investment Holdings.

The two liquidated companies had held the 55% of the shares acquired by Daun.

There was speculation earlier this year that JD Group would buy the company.

A Profurn spokesman said management, under chairman Gerald Rubenstein, had stood its ground and survived a difficult year after the parents’ liquidation.

It was in good shape, and had brought gearing down considerably.

The spokesman said the current management would remain in place and that Daun would be appointed to the board.

Profurn was well positioned in the SA market, in neighbouring countries and in the TBVC states.

In the six months to June, the company lifted earnings 30% to 0.5c a share despite a 6% fall in turnover to R58.4m.

It cut its gearing to about 15% from 161.5% at the December year-end and was expecting a better performance in the second half.
Ready for next growth phase

Activities: Consumer-based conglomerate.
Control: Sankorp and Rembrandt (40%)
Executive chairman: G S Thomas
Capital structure: 305.5m ords Market capitalisation: R5.1bn
Share markets: Price 1675c Yields 2.1% on dividend, 7.2% on earnings, p/e ratio, 13.7, cover, 3.5 12-month high, 1775c; low, 1225c. Trading volume last quarter, 1.8m shares.
Year to Aug 31 '90 '91 '92 '93
ST debt (Rm) 686 550 713 478
LT debt (Rm) 171 189 161 154
Debt equity ratio 0.40 0.27 0.03 0.12
Shareholders' interest 0.46 0.49 0.52 0.56
Int to leasing cover 3.0 4.2 9.3 28.7
Return on cap (%) 14.3 12.6 11.3 10.8
Turnover (Rm) 6.37 8.44 10.03 11.00
Pre-nt profit (Rm) 670 537 854 712
Pre-nt margin (%) 6.8 6.4 6.5 6.5
Earnings (c) 119 124 114 122
Dividends (c) 30.6 32.6 33.6 36
Tangible NAV (c) 672 684 775 867

The current financial year is the start of a new era for Malbak. After seven years in the Gencor stable, it has regained a strong measure of independence through Gencor’s unbundling. If the rerating of the share is anything to go by, this development has the enthusiastic endorsement of investors.

At the preliminary results (Fox October 22), the FM noted that the discount at which Malbak was rated relative to the Industrial market had narrowed from 27% just before the Sankorp group asset shuffle was announced in October 1991, to below 20%.

With the latest surge in the share price, from 1450c a little over a month ago to 1675c now, the discount is down to 13.5% based on relative p/e. If one then takes into account that, because of its more conservatis dividend policy, Malbak’s dividend yield is well below the industrial sector average, it could be argued that the discount has been eliminated completely — a remarkable rerating for a conglomerate, even if its spread of interests is more focused than before.

At one level, the market’s reassessment must obviously be gratifying to the Malbak board. But there is also a clear message that investors expect Malbak to re-establish a pattern of real earnings growth, this has been absent since 1989 when EPS peaked at 136c.

This should not, however, be taken to indicate a perception that the Gencor era was unproductive. On the contrary, it was a period of extraordinary growth which catapulted Malbak from the small time to one of SA’s major industrial groups. In 1986, before the Gencor deal, its assets totalled only R309m. Today they amount to R6.6bn, a growth rate clearly beyond reach except by a deal such as that offered by Gencor.

Against this, there were a few negatives. Apart from some raised eyebrows that Malbak had been willing to surrender its independence, analysts noted that the enlarged group had become unwieldy in that certain of the interests acquired from Gencor did not conform to the traditional concentration on businesses close to the consumer sector. This was recognised in the 1991 asset shuffle, which saw Malbak dispose of its GDFI-based (fixed investment) interest in Murray & Roberts while acquiring SA Druggists and Fishfood from Federale Volksbeleggings.

In a sense, therefore, the wheel has come full circle. The asset shuffle restored Malbak’s traditional earnings profile (though on a much larger scale than in the pre-Gencor era), while the unbundling has restored a degree of autonomy absent since 1986.

Two other characteristics need to be noted as Malbak enters its next development phase. Its low profitability and the fact that the balance sheet is awash with cash. These are related to the extent that, regardless of the recession and its effect on business, it has become difficult, if not impossible, for Malbak to generate the returns investors are used to while 15% of assets is cash earning a diminishing return as interest rates drop.

This is acknowledged by finance director Brian Steele, who has calculated that the gross return on capital employed, excluding R756m cash held at centre and the income from that, would have been almost two percentage points higher than the 20.5% achieved last year. More to the point, the 10.8% gross return on total assets (based on FM definitions, which differ from those of the company), is probably an historical low.

Another aspect here is that Malbak has so far had little success in absorbing its cash pile, as indicated by net cash increasing by R524m (from a negative R105m) in 1993 to a positive R419m, equivalent to 12% of total permanent capital.

Of the R524m increase, R335m can be traced to structural changes — the minorities’ share of the Holdmans and SA Druggists rights issues, plus the cash proceeds of the sale of the rest of Standard Engineering to Murray & Roberts. The balance of R171m must have come from cash flows, which, at R696m gross, means that interest income plus cash flows from the subsidiaries to head office was more than could be spent productively.

The same pattern is apparent with cash held at the centre. Despite a shortfall of R33m attributable to Malbak’s investments (its share of the two rights issues, subtracting the proceeds from Standard Engineering), cash at the centre rose from about R700m in 1992 to R756m — reflecting too much cash flowing from the subsidiaries.

Many JSE companies would love to have this “problem.” Even so, cash, like any other asset, needs to earn its keep if Malbak is to meet its objective of creating sustained growth for shareholders — without which,
Merg proposes anti-trust caution

Policy plan omits forced unbundling

THE ANC-aligned Macroeconomic Research Group (Merg) has signalled that caution should be the watchword in dealing with large conglomerates and anti-trust policy.

But Merg has applauded moves by Sanlam and Old Mutual to unbundle their interests, and is calling for the extension of "this process of deconglomeration".

Merg, which handed its policy framework to the ANC, Cosatu and the SA National Civic Organisation (Sanco) on Friday, unequivocally opposed breaking up conglomerates, for the sake of it.

Although Merg's framework is not formal ANC policy, sources said the recommendations on anti-trust policy were likely to find favour as ANC deputy economics head Tito Mboweni had written parts of the chapter.

Merg supported "a more vigorous" anti-trust policy that would strengthen the resources and punitive power of an anti-trust authority.

"The dismantling of conglomerates is not recommended, but Merg suggests that a commission to look into conglomerates be established," the report said.

The suggestion of a commission was added to the original proposals. Sources said the addition reflected Merg's decision to tighten up the approach after comments from Cosatu, the "ANC and Sanco.

Merg's report said the factors causing firms to collude rather than compete should be addressed.

The key factors underpinning collusion were to be found in ownership structures.

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Gret Steyn

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- A small number of shareholders controlled a major slice of corporate SA.
- Policy measures to encourage unbundling could be implemented, such as legally prohibiting pyramid companies, and tightening up and extending controls over corporate mergers and acquisitions.
- The controversial recommendations on banking and finance have remained largely intact since the proposals were drafted, but the wording describing the Reserve Bank's role has been softened.
- The draft called for the Bank to be nationalised. The final document omits the word but still recommends the Bank should fall under the Finance Minister.
- ANC economics head Trevor Manuel noted that the Merg report would serve as input into ANC economic policy formulation.
- Cosatu negotiations co-ordinator Jayendra Naidoo said many Cosatu members might regard the Merg proposals as far too modest.

Merg head Vella Pillay, in an article in Business Day today, says the group proposes a large-scale programme to promote skill acquisition and training, and enable workers to move from one skill level to the next "on the basis of competence".

"The provision of career paths enabling workers to achieve continuous training and gain skills which are transferable to other sectors will provide a new and important incentive to those who are currently the lowest paid."
Merg 'cautious' on unbundlings

From GRETA STEYN

JOHANNESBURG — The Anti-aligned Macroeconomic Research Group (Merg) has signalled that caution should be the watchword in dealing with large conglomerates and anti-trust policies.

But if the report authored mainly by Samih and Mvule to unbundle the interests and is calling for the extension of "this process of conglomerates".

The report framework is the policy framework to the ANC's Cosatu and the "Four Organisation" concept. It moves on anti-trust policy sources and the framework is the policy framework to the ANC's Cosatu and the "Four Organisation" concept.

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ANC economics head Trevor Manuel noted that the Merg report would serve as input into ANC economic policy formulation.

Cosatu negotiations co-ordinator Jayendra Naidoo said many Cosatu members might regard the Merg proposals as far too modest.
As such there is no cross transportation in the industry. The cartel system, he said, allowed suppliers to make a modest return on their investments through thick and thin which stabilised the industry and allowed the country to make the most efficient use of its production capacity.

If the industry, subject to the volatile fluctuations of the building industry and the intense competition arising there from, many of the plants would be closed and the country would have to rely on expensive imports. Contrary to misconceptions, the industry was not protected by import tariffs, he said.

He also denied there was no competition under the cartel system.

"On the contrary, when cement prices are set, this means the only way we can make improved earnings for our shareholders is to drive down the cost of production. "As such the cartel serves to make us as productive as possible."

"The low risk to investors means lower returns. If this situation was changed, it would increase the risk to investors and therefore they would look for higher returns."

"It was in the country's interest for the industry to have lower returns and be more stable as in this way the most efficient use could be made of the country's production capabilities."
More visitors from abroad
THEO RAWANA

The number of bed nights sold to foreign tourists in September this year was 25% higher than the previous month, although it was still lower than the same month last year, the latest Central Statistical Service figures show.

A total of 72,481 bed nights were sold in September, compared with August's 61,669. The figure for September last year was 61,119.

Two-star hotels, with a market share of 26.5%, sold 18,931 bed nights, the largest number of bed nights to foreign tourists. The most popular spot was Johannesburg, with a market share of 37.4%.

Liquidators move to set standards

INSOLVENCY practitioners — liquidators, curators and sequestrators — plan to begin moves from 1994 to form a statutory body with powers similar to those exercised by the legal and accounting professional boards.

Newly elected Council for the Association of Insolvency Practitioners of Southern Africa chairman Laurie Pereira said in an interview the benefits of a statutory body would be stricter discipline and control over insolvency practitioners and the improvement of professional standards.

There were about 230 insolvency practitioners in SA, of which about 200 were members of the association.

Most insolvency practitioners were accountants, but it was also possible to become a member of the association by writing a report, leading to the Insolvency Diploma. From 1985 the one-year course would be extended to two years, and Pereira said it was hoped eventually to make it a three-year course.

Two accusations often levelled at liquidators concern the length of time taken to wind up a company or the sequestration of an individual, and occasional instances of dishonesty. The most recent case was that of Golden Trust Services MD Neville Jes- sop, who has been charged with fraud totaling about R68m.

Pereira said the liquidator usually moved as quickly as possible on a winding up because no fees were paid until the liquidation process had been completed. However, the conclusion was frequently delayed by litigation which, if it went to the Appeal Court, could take up to five years to resolve.

He acknowledged that dishonesty occurred, but said it was not confined to liquidators. The establishment of a statutory body would also help correct dishonesty as the board would have the power to discipline and disbar any member found guilty of serious contraventions of its code of ethics.

Commenting on the recent trend in insolvencies, Pereira said they tended to track the economy by nine to 12 months.

In the case of company liquidations there had been a flattening out of the upward trend but personal sequestrations had declined. As well as indicating a recovery in the economy, the trend reflected increasing attempts by banks to save debtors rather than hasten them into insolvency, Pereira said.

Kuwait sends shipment of oil to SA

KEWUWAIT has backed up its lifting of sanctions by sending its first official delegation and oil shipment to SA in 30 years.

Kuwaiti oil minister Ali Ahmed al-Baghihi said last week the delegation had met political and business leaders on a fact-finding mission. Future ties between the two countries and possible avenues of investment were discussed, he said.

There had been no oil or other trade relations between the two countries during the past 30 years. But al-Baghihi said that with sanctions lifted last month, the first shipment of oil had been delivered to coincide with the delegation's visit.

He said trade between the countries should be reciprocal, and that the cornerstone of any investment was political stability.

Kuwait had to import most commodities which created great potential for SA exports, he said.

Kuwait was also the world's leading lender and provider per capita of development aid. About $1bn was granted annually for development projects — 86% of which was destined for African countries. Al-Baghihi said SA could now gain loans and aid from Kuwait provided it followed development funds criteria.

Kuwait's oil production capacity was 2.5-million barrels a day, but it was currently producing only 2-million barrels a day, in line with Opec quotas.

Approximately $500m was being spent in rebuilding Kuwait's oil industry — already about 80% complete. Most of the work was funded by the country's Future Generation Fund. He said 16% of Kuwait's annual oil revenue had been set aside for the fund over the past 40 years.

Drop in unemployment

THE number of unemployed workers registered with the Manpower Department fell for the second consecutive month in August, the department reported on Wednesday.

The department said there were 318,680 beneficiaries of unemployment insurance and bond fide work seekers in August — almost 11,000 fewer than the July total.

A spokesman said the upward trend earlier in the year had abated slightly in July, and the August decline seemed significant.

"Although this figure cannot be seen as a true reflection of the actual extent of total unemployment, the trends in these data are a sensitive indicator of short-term economic fluctuations," the department said.

Another indication of falling unem-
New turn in Supreme saga

BY MARC HASENFUSS

Cape Town — A German investor by the name of Claus Duan last week snapped up a controlling stake in Proefan Furnishers (Profurn) for R13 million — a deal that has some interesting implications for 7 500 aggrieved investors in the liquidated Supreme Group.

Duan, who is also the controlling shareholder in Cape Town-based furniture and sports retailer Morkels, paid the market price of R6 a share for the 50.1 percent holding.

The shares were bought from Profurn’s holding companies — Supreme Holdings and Supreme Investments — both of which are now in liquidation.

The Duan deal means less of a Hobson’s Choice for Supreme investors.

Liquidators have offered ex-debenture and preference shareholders a choice of taking up shares in Profurn in proportion to their investment in Supreme or, as an alternative, a liquidation dividend in cash.

The new controlling shareholder should swing Supreme investors in favour of letting their “fortunes” ride with Profurn.

But the tight economic circumstances could well see many opting for a cash payout — even if the liquidation dividend proves to be a measly one.

Although the deal does not link Profurn with the well-established Morkels Group (Duan’s holdings in Morkels and Profurn are two separate investments), the German investor’s financial muscle should help the furniture retailer realise something like its true potential.

Offer

Shareholders Association chairman Lesy Goldberg urges Supreme investors to accept an offer of Profurn shares in lieu of the cash payout, which he estimates might bring them only R6 to R8 in the rand.

“Those who accept the Profurn share offer will be able to hold the stock until the economy improves or convert the shares into cash by selling on the JSE at a suitable price,” he argues.

Goldberg says that with the backing of Dunn & Co AG — which is reputedly in a strong financial position — Profurn’s shares should prove to be a reasonably good investment.

He speculates that for every R2 invested in the Supreme Group, investors should receive one share in Profurn.

“Alternatively, if only half the Supreme investors exercise their right to take up Profurn shares, debenture and preference shareholders should be offered one Profurn share for every R1 invested,” he says.

Profurn performed reasonably in the interim period to end-June.

Market talk is that Profurn’s performance for the full year to end-December could show better-than-expected profits.

Coopers & Lybrand, joint liquidators of the Supreme Group, said last week that debenture holders, preference shareholders and creditors could see the first distribution of dividends by April next year.
Unbundled Barlow Rand hoping for better days

BY STEPHEN CRANSTON

The new Barlows is unequivocally a management company directly participating in the affairs of its subsidiaries, says chairman Warren Clewlow.

In the annual report for the year to September — the last report before Barlow Rand is unbundled into five separate companies — Clewlow says that with its increasing size and diversity, the company was slowly moving away from its original role in the hands-on management of subsidiaries.

Clewlow admits that the old Barlows, with turnover close to R38 billion and assets of more than R15.6 billion, had too many management layers between the strategic and operating levels.

"It was becoming increasingly difficult to impart the quality of decision-making appropriate for the size and diversity of the group."

Less charitably, without the founding vision of Punch Barlow and the impressive group of strategy shown by Mike Rosselet, the Barlows management team was out of its depth, analysts say.

Clewlow says earnings growth over the past ten years, taken up mainly by the period since he was appointed chief executive, has not met the high standards called for and has certainly not been in keeping with the breadth, depth and quality of the group's investment.

The faltering of the Rand Mines interests trapped resources needed for development in the wrong areas.

The structure of Barlows ensured that most of the earnings in good performers such as Nampak and Tiger Oats was attributable to outside shareholders.

Dividends

Much of the cash generated by star companies such as Tiger Oats was funnelled into dividends paid to minority shareholders in CG Smith and CG Smith Foods before it reached Barlows.

Clewlow, however, now has the chance to prove his critics wrong as he takes the helm of the reconstituted Barlow Group.

It starts off a low base. Earnings of what is now Barlows fell by 17 percent to R259 million in the year to September.

Its taxed return on funds employed was barely eight percent, but almost all the Barlows companies are involved in the infrastructural area and are currently at the bottom of the cycle.

The building materials group Federated-Blakie and Barlows Appliances both moved from operating losses into small operating profits, but still made losses.

The only company to show good improvement was Barlow Motor Investments, which increased operating profit by 29 percent to R46 million, thanks to a discernible improvement in the market.

Cement producer PPC is looking forward to the long-expected low-cost housing and infrastructural boom, but the possible ending of the cement cartel could be a severe blow to its fat profit margins.

After unbundling, Barlows is likely to be listed at around its net asset value of R13.46, giving it a P/E ratio of about 10, which is fair for a company at the bottom of its earnings cycle.
Barlows relaunch drives shares up

BARLOW Rand shares reached their highest level in five months on the JSE yesterday as management relaunched the streamlined industrial group to shareholders, investors and employees.

Barlows shares closed 50c higher at R47,00 — their highest level since July 1 and just R3 below their R50 annual high achieved in February.

An analyst said yesterday that the exact valuation of the shares, still reflecting the “bundled” group, was subjective because it depended on the value of Barlows’ substantial unlisted interests. When the unbundling details were announced in November, management estimated the value of the unlisted interests at R17,50 out of a total share price of R41.

Group public affairs GM Ken Ironside said yesterday it was difficult for the group to comment on the performance of its shares. He said the first two months of Barlows’ financial year had been “quite good”, and had confirmed an upward trend in the performance of the company across the board.

However, “the equity market had been fairly positive” towards the counter since year-end results were published in mid-November, he said.

Those figures showed a 14% drop in attributable profit to R721m from R839m and earnings a share, on an increased number of shares in issue, were 15% lower at R37.4c (43.2c). The dividend was held at 173c.

Chairman Warren Clewlow said in the group’s annual report, released yesterday with an official relaunch brochure, that the new-look group would face a tough first half of the 1994 financial year in the run-up to the elections. However, he believed the group’s earnings were sustainable and were likely to show real growth in the coming year.

In an interview published in the new Barlows brochure, Clewlow was asked whether the Barlows group would be looking for new acquisitions after restructuring.

“Obviously we would look only for interests that are closely related within our sphere of influence, both locally and overseas, and I look forward to taking advantage of new opportunities,” he said.

“We will also be aware of the fact that our existing businesses can expand as well.”

He said in the annual review that the disappointing earnings in 1992/3 were mainly due to lower contributions from coal and the recently acquired Caterpillar dealership in Spain and Portugal, which failed to come up to expectations. Most of the rest of the group had produced satisfactory results.

Barlows announced earlier this year it would split into five business groups. The core business, to be renamed Barlows Ltd, would be focused on infrastructural spending. The other interests separated from the group were CG Smith, Reurnert, Rand Mines and Rand Mines Properties. Overseas arm J Bibby & Son was also restructured, but would remain within the Barlows group.

Barlow Rand shareholders would retain their interest in the new Barlows group. For every 100 Barlow Rand shares held, they would receive 121,52 CG Smith shares, 05,66 Reurnert shares, 19,76 Rand Mines shares and 3,59 Rand Mines Properties shares.
Gencor yields plunge after unbundling

Business Staff

Gencor yields have plummeted since unbundling because the mining house has parted with some of its most profitable components. What’s left accounts for 43.4 percent of the original group’s earnings. So, to preserve pre-unbundling yields, the share price would have needed to fall almost 97 percent.

Instead, the price has fallen by 29 percent from 960c to 690c. This has pushed the P/E ratio up from 9.4 to 15.5 and the dividend yield has fallen from 4.7 percent to 2.8 percent.

Though no pro forma dividend is given, the JSE, on the suggestion of Brian Christie of Gencor’s sponsoring broker Martin & Co, has calculated the dividend by using the dividend cover of 2.2x on the old earnings on pro forma earnings of 44.5c a share.

Prior to unbundling, Gencor had the most generous dividend yield of all the major mining houses.

Though the gap has narrowed, its dividend yield is still well ahead of the 2.1 percent of Anglo American and GFS.

Gencor’s P/E ratio, on the other hand, which languished at the bottom of the pile, has now overtaken Anglo American’s 14.5, though it is still below the rating for JCI, Anglovaal and GFS.

To some extent, the market has indicated its preference for a more focused Gencor.

The discount to net asset value has narrowed from 29 percent prior to unbundling to 22 percent.

The new Barlows is unequivocally a management company directly participating in the affairs of its subsidiaries, says chairman Warren Clewlow.

In the annual report for the year to September — the last report before Barlow is unbundled into five separate companies — Mr Clewlow says that with its increasing size and diversity, the company was slowly moving away from its original role in the hands-on management of subsidiaries.

Mr Clewlow admits that the old Barlows, with turnover close to R38 billion and assets of more that R15.6 billion, had too many management layers between the strategic and operating levels.

"It was becoming increasingly difficult to impart the quality of decision-making appropriate for the size and diversity of the group."

Less charitably, without the founding vision of Punch Barlow and the impressive grasp of strategy shown by Mike Beall, the Barlows management team was out of its depth, analysts say.

Mr Clewlow says earnings growth over the past 10 years, taken up mainly by the period since he was appointed chief executive, has not met the high standards called for and has certainly not been in keeping with the breadth, depth and quality of the group’s investment.

The faltering of the Rand Mines interests trapped resources needed for development in the wrong areas.

And the structure of Barlows ensured that the majority of the earnings in good performers such as Namipak and Tiger Oats was attributable to outside shareholders.

Much of the cash generated by star companies such as Tiger Oats was funneled into dividends paid to minority shareholders in CG Smith and CG Smith Foods before it reached Barlows.

Mr Clewlow, however, now has the chance to prove his critics wrong as he takes the helm of the reconstituted Barlow Group.

It starts off a low base. Earnings of what is now Barlows fell by 17 percent to R239 million in the year to September.

Its taxed return on funds employed was barely eight percent, but almost all the Barlows companies are involved in the infrastructure area and are currently at the bottom of the cycle.

After unbundling, Barlows is likely to be listed at around its net asset value of R13.45, giving it a P/E ratio of about 10, which is fair for a company at the bottom of its earnings cycle.
Gencor yields slip

By Stephen Cranston

Gencor yields have plummeted since unbundling because the mining house has parted with some of its most profitable components.

What's left accounts for 43.4 percent of the original group's earnings. So, to preserve pre-unbundling yields, the share price would have needed to fall almost 57 percent.

Instead, the price has fallen by 29 percent from 960c to 660c. This has pushed the P/E ratio up from 9.4 to 13.5, and the dividend yield has fallen from 4.7 percent to 2.8 percent.

Though no pro forma dividend is given, the JSE, on the suggestion of Brian Christie of Gencor's sponsoring broker Martin & Co., has calculated the dividend by using the dividend cover of 2.28 on the old earnings on pro forma earnings of 44.5c a share.

Prior to unbundling, Gencor had the most generous dividend yield of all the major mining houses.

Though the gap has narrowed, its dividend yield is still well ahead of the 2.1 percent of Anglo American and GFSA.

Gencor's P/E ratio, on the other hand, which languished at the bottom of the pile, has now overtaken Anglo American's 14.5, though it is still below the rating for JCI, Anglovaal and GFSA.

To some extent, the market has indicated its preference for a more focused Gencor.

The discount to net asset value has narrowed from 29 percent prior to unbundling to 22 percent.
New-look Winbel posts a profit

MINING supplies and plastics holding company Winbel posted a R1,1m attributable profit (R1,5m loss) for the year to September, after completing its long-running restructuring. Winbel chairman Bob Wenteler said yesterday that the group planned to grow internally and improve existing facilities.

Turnover edged forward to R204,5m (R200,4m), but operating profit increased more than fourfold to R3,5m (R0,9m). Net financing costs dropped to R1,4m from R3,9m. Earnings were 1,5c a share (3,4c loss), but the dividend was passed.

Winbel subsidiary Winhold reported attributable earnings of R1,6m for the year from a R2,4m loss last time. Its earnings improved to 2,6c a share (4,6c loss).

Winhold derives its income from a 73% stake in mining supplies company Immis and an 86% holding in plastics company Plastall.

Immis turned 1992's loss of R508,000 after extraordinary items into a profit of R2,1m for the year. Although turnover fell slightly to R142,8m (R145,5m), operating income lifted 15% to R2,1m (R1,9m).

The contribution due to outside shareholders rose to R59,000 from R158,000, reflecting 1992's financial restructuring, which saw R13,7m of interest-bearing debt converted to cumulative redeemable preference shares. An extraordinary profit of R54,000 was made on property sales.

Earnings were 5,9c a share (2,5c loss), but the dividend was again passed.

Plastall's turnover grew 11,7% to R23,4m (R20,5m) despite the closure of its seating operations in May. Wenteler said the company's market share in its core plastics business had risen 17%.

Operating income was R1,4m (R0,9m loss), but increased financing costs of R1,5m (R1,6m) and a higher tax bill left a deficit of R53,000 (R2,6m).

The loss a share eased to 4,6c from 17,9c in 1992 and no dividend was declared.

Winbel shares closed 5c higher at 25c on the JSE yesterday, while Winhold shares doubled to 20c.
Wiese moves in on Boland Bank

PEPKOR chairman Christo Wiese effectively took control of Boland Bank yesterday after a series of deals in which 30% of the bank’s issued share capital changed hands.

Wiese — who already owns 20% of the small Cape-based bank — said he had bought the bulk of the shares on the open market. It was not clear who the sellers were. About 4.6m shares worth R43m changed hands at R25c a share — 5c off its high — and 4.4-million preference shares worth almost R43m and priced at 50c were also traded.

Wiese said he had come close to securing overall control of the bank, but he had no plans to increase his stake further. He had earlier denied that he was seeking control of the bank. He said the bank had lacked a “directional stakeholder” for some time.

After Wiese increased his stake from 8% to 20%, making him the largest shareholder, the share moved off its October 72c low. An analyst said if Wiese had lifted his stake substantially, it could mean the bank was independent of the large financial controlling groups in SA.

Sanlam previously held the biggest stake (11.25%). Other major shareholders were Remgro, Absa, Momentum and the Mines Officials’ Pension Fund, none with much more than 10%. With Sanlam and Remgro working closely with Absa, the major groups collectively held 31.1%.
Remgro's net income rises

A modest operating income gain, combined with the lower corporate tax rate, lifted Rembrandt Group's (Remgro) net income from business operations 17 percent to R530.8 million for the six months to September.

Operating income rose 8 percent to R322.5 million, while the lower corporate tax rate resulted in net income increasing 9.6 percent pre-tax and 14.5 percent post-tax.

Earnings from normal business operations rose from 87.2c to 101.7c a share.

The conglomerate, with investments in financial services, mining, industry, food and tobacco, is paying an interim dividend of 17.9c (14.2c) and a special dividend of 14.52c.

Remgro notes that income does not necessarily accrue evenly throughout the year and that earnings in the second half should not be expected to be the same as in first six months.

The results of Rembrandt Controlling Investments (RBB), which has an effective 51 percent stake in Remgro, are entirely dependent on Remgro's performance.

RBB reports earnings from normal business operations at the interim stage of 75.3c (64.6c) a share.

The interim dividend is 12.61c (10.51c) and a special dividend of 10.75c has been declared.

The results of the Technical Investment Corp (Tegkor), which has an effective interest of 20.7 percent in Remgro through its shareholding in RBB, are entirely dependent on Remgro.

Tegkor posted earnings from normal business operations of 66.1c (55.7c) a share and has declared an interim dividend of 11.06c (9.22c) and a special dividend of 9.43c.

The results of Technical and Industrial Investments (TIB), which has an effective stake of 17.4 percent in Remgro through its interests in Tegkor and RBB, depend solely on Remgro.

TIB achieved earnings a share from normal business operations of 70c (60c) a share.

It is paying an interim dividend of 11.78c (9.77c) and a special dividend of 10c.

— Sapu.
Delcorp sells its chemical interest

DEL Monte Royal Corporation (Delcorp) has sold its last remaining chemical interest for R30.6m cash, in line with its decision to focus purely on food following the massive acquisition by Royal of European food group Del Monte.

The deal will see Royal Chemicals (Roychem), originally the core business of the Royal group, become a cash shell (2.32p).

According to an announcement yesterday, Ferro Industrial Products, which was bought by Roychem in 1991 for R35m, has been sold to a consortium consisting of FirstCorp Merchant Bank, institutional investors and two individuals, K Case and L Tollemancha.

Ferro manufactures and supplies speciality materials for the ceramics, porcelain, enamel, powder coatings and steel industries. The sale, which is subject to certain conditions, is effective from September 27.

It was estimated that Roychem's cash value would be about 155c a share. The share last traded at 145c, off a January high of 225c and a November low of 115c. With 48.2m shares in issue, Roychem has a market capitalisation of R97m.

When the Royal group bought Del Monte a year ago to become Delcorp, it said it intended to focus on its food interests.

Following that announcement, chemical distribution agency and analytics businesses Holpro-Lovaz and M & T Chemicals were sold to Chemical Services (Chemserve) for R37m cash. Holpro-Lovaz was the cornerstone around which the Royal group was built.

In June it sold Laser Pharmaceuticals to the Premier Pharmaceutical Company for R35m cash, and cautioned shareholders that there were negotiations for the sale of Ferro.

Yesterday Delcorp cautioned shareholders that a further announcement, which would confirm the final net cash position of Roychem, would be made by the end of January.
Wiese takes control of Boland

PEFKOR chairman Christo Wiese has emerged as controlling shareholder in Boland Bank, amassing just over 60% of the Cape-based bank's issued share capital.

Wiese, formerly a member of Boland's board, said board changes were likely. It emerged yesterday that Wiese, who owned 20% of the bank, had bought additional Boland shares in the open market, though he had said he had not gained a controlling stake. But deals over the past few weeks, culminating on Wednesday with the purchase of 4.5-million shares, had left Wiese with 8.1-million of the bank's 18.45-million issued ordinary shares.

Wiese said the transactions had been cleared with the Reserve Bank, and had the backing of Boland's other major shareholders, Sanlam, Reprobrandt Group, Absa and Momentum Life.

The Pretoria-based bank reported a 10% rise in earnings a share in the six months to September, but failed to detail its bad debt charge and income tax payments in its income statement. Analysts said Boland's low level of disclosure in the past had made it difficult to assess whether its provisions for bad debts had been adequate.
Berek's Berek a stroke

Environmentalists have attacked Berek's dominance or if it did a deal

Philips & Berek of London.

Part of the arrangement extended to the purchase of an offshore investment. The present directors of Berek and Voltex cannot now pretend innocence of the B&F deal if they went along with it at the time. This is what director responsibility is all about and the FM hopes shareholders will robustly re-

Voltex:
Activities: Manufactures and distributes electrical equipment

Central: Berek Brothers
Joint chairman: M C Berek and S H Morris
Capital structure: 300m shares Market capitalisation: £75m

Share market price: £125.00 Yield: 4.4% on dividend, 11.41% on earnings, p/e ratio: 12.6, dividend cover: 1.6, dividend high yield, 1.40, low, 0.86, trading volume: last quarter, 1.00, shares

Year to June 30
ST debt (000s) £453 £473 £503 £553
LT debt (000s) £880 £910 £930 £950
Debt/equity ratio 0.24 0.24 0.24 0.24
Shareholders' share of current profit 0.01 0.01 0.01 0.01
Int & seeing cover 4.0 4.0 4.0 4.0
Return on cap (%): 13.6 11.0 14.9 14.9
Turnover (000s) 293 £293 £293 £293
Profit before tax (000s) 95 £95 £95 £95
Profit after tax (000s) 75 £75 £75 £75
Dividends paid 8.75 £8.75 £8.75 £8.75

* recalculated by FT to include UK subsidiary and to deduct from EPS interest on debentures and STC (in 1995)

As reported in 1995 annual report, the directors received a commission of £75,000.

Those things said, the accounts of the two principal companies in the pyramid reflect the obvious desire of directors to shake off the last two years and concentrate on the immediate future. Berek attacks largely reflect Voltex's performance, it holds other assets in the business. Borrowings have been reduced marginally, debt/equity, at 0.14, is comfortable. The balance sheet is strong, notwithstanding the fall in EPS and the dividend cut of 19%.

Voltex is the key to the Berek group and the FM felt it appropriate to re-calculate its published balance sheet to see if it could consolidate B&F. The result is contained in the table, with 1995's figures restated. These reflect the differences between the FMs approach and that of Berek, particularly in the EPS, which the FM calculations after deducting the interest on debentures and provisions for STC as 10.18% compared with the company's 15.03%. This is a difference large enough to require shareholder attention.

Cultivating gloom

The future is what it's all about. Voltex and Berek are strategically well placed when it comes to giving effect to nationally stated objectives of providing electricity to all. "The culture of gloom," says Berek, "which has strangled fixed investment in recent years, could swing quite dramatically the other way upon even a modest improvement in political outlook." That is nicely said, and, on current climate changes, looks as though Berek's fervent wishes are about to be met - at least in part.

Both share prices have strengthened in recent weeks, probably reflecting relief that the B & F saga is over 1994 should be the year in which the potential finally shows signs of being realised.

David Galloway
What’s it worth after unbundling?

Activities: Mining house with investments in gold, platinum, coal, base minerals and metals in SA and an expanding international business base

Controls: Sanlam and Rembrandt are major shareholders

Chairman: B P Gilbertson

Capital structures: 1.4bn ords Market capitalisation R9.8bn

Share market: Price 700c; Yield 2.8% on dividend, 6.4% on earnings, p/e ratio 16.7, cover 2.3, 12-month high 1.225c, low, 588c

Trading volume last quarter, 24.6m shares

Year to August 31 '90 '91 '92 '93

Investments
Carrying value (Rbn) 5.59 7.18 9.17 10.65
Valuation (Rbn) 14.61 15.69 16.58 17.54

Earnings (Rbn) 1.479 1.405 1.261 1.411

Earnings (c) 128.5 119.5 98.8 102.6

Dividends (c) 40.6 43.0 45.0 45.0

Net worth (c) 1375 1473 1341 1344

A key question about the unbundled Gencor is what its share price should be — and there’s considerable difference of opinion between the market and chairman Brian Gilbertson over the answer.

The share price collapsed from 980c immediately before the unbundling date of November 5 to a low of 585c. From there it recovered slowly, reaching 690c before jumping suddenly to 715c in renewed market interest at the end of last week.

Gilbertson, in his review dated October 22, comments, “The behaviour of the share prices of Gencor and the companies being unbundled since the terms of the unbundling were announced in May has been disappointing.” Presumably, he must have found the performance since November 5 even more disappointing, but some JSE analysts feel Gencor at around 700c is fairly to fully priced in terms of discount to net asset value when compared with other mining houses.

The sudden jump in price during Thursday’s trading is being attributed to speculation over developments concerning Gencor’s bid to acquire Bilton. Recent increases in share prices of various mining houses have narrowed the discounts from 25%-18% for Gencor, and from 20%-15% for Anglo.

“Around 700c looks a fair price for Gencor to me,” says Ferguson Bros director.

William Bowler, another analyst, feels Gencor looks pricey above 700c. “If Anglo shares are going to trade at discounts to NAV of 20%-15% then Gencor should trade at 20%-25% until we know precisely what’s going to happen with Bilton,” he says.

It’s argued that Gencor should stand at a larger discount than Anglo American Corp, Anglovial or ICI because it no longer has the diversity of interests (with less volatile earnings) that these rivals have through their industrial and other investments.

As Gilbertson points out, the “new” Gencor is a tightly focused, natural resource group comprising five mining and metals businesses, Gengold, Impala Platinum, Trans-Natal Coal, Samancor and the minerals division which holds stakes in Richards Bay Minerals and Alusaf (see table)

The only industrial interest retained is 20% of Malbakh, worth about R900m at the unbundling. Gilbertson says that was done to ensure Gencor had “the critical mass and financial resources necessary to compete in the international resource business.” The implication is that the Malbakh stake is an asset which could be traded if necessary to help fund deals in the core mining business.

Much of the latest annual review is, of course, academic interest because it reflects the situation at end-August, when stakes were still held in Engen, Genbel, Malhold and Sapp. These were disposed of through the unbundling. However, the review includes a section on the unbundled Gencor and pro forma results for the past two years on the assumption the new structure was in place during this period.

These show EPS would have dropped 5.1% to 44c (previous year — 46.9c) instead of increasing to 102.5c (98.8c), with net assets at August 31 of R12.1bn would have been 65.1% of the actual R18.6bn.

Net financial resources available to the new group at August 31 totalled R2.3bn, of which cash accounted for R1.1bn or 48%. That’s a powerhouse war chest and, as Gilbertson points out, it has one of the strongest balance sheets in the international resource sector.

This funding power will be needed given the expansion plans, in particular the Alusaf project to which Gencor is committed to investing a further R767m by December next year. The house had already ploughed R338m into Alusaf at end-August. Then there’s the Bilton acquisition which would need some imaginative financing if agreement is reached.

The share price appears to be suffering from the aftermath of the unbundling and uncertainty over the Bilton acquisition.

**SECTORAL ANALYSIS OF EARNINGS**

<table>
<thead>
<tr>
<th>1992</th>
<th>1993</th>
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<tbody>
<tr>
<td>Rm</td>
<td>%</td>
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<td>Impala</td>
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<td>Samancor</td>
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<td>Exploration</td>
<td>(85)</td>
</tr>
<tr>
<td>Total</td>
<td>599</td>
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</tbody>
</table>

* Proforma results for the unbundled Gencor

Once conditions have settled down, and there is a decision on Bilton, the share should benefit Gencor offers growth, growth and more growth through its exposure to Alusaf, Columbus and the increased stake in Richards Bay Minerals. All that’s needed to realise the full benefits is an upturn in the world mineral commodity markets.

Brendan Ryan

**NAMPAK**

**Growth by management**

Superior results for the 1993 year were signalled a few weeks ago with the release of Nampa's preliminary EPS rose 17% off an already high base and the dividend is being increased 16% to 238c.

The balance sheet should be an area of focus for shareholders and analysts Total.
Rivals’ day for comparisons

By JULIE WALKER

RIVAL consumer giants Tiger Oats and Premier Group laid out their plans to shareholders this week.

Premier chairman Peter Wrightson reported interim earnings 11% up on the six months to October last year, to 132c a share and a 6c higher dividend of 60c. Turnover climbed by more than a quarter to R7.2-billion because of the inclusion of United Pharmaceutical Distributors and dairy group Bonnita. Without these, turnover would have risen 6%.

Premier now consolidates groups in which it has management participation and so adds CNA and Teltron for the first time.

Premier aims to split its shares, currently at an all-time high of R61 — five for one to lift accessibility and marketability in 1994. The group’s market capitalisation currently exceeds R5-billion.

It will also list Bonnita separately in the second half of the year. Bonnita bought control of yoghurt and ice cream producer and distributor Aylesbury in August and Premier Pharmaceuticals bought the businesses of Laser Pharmaceuticals, Leppin and Pharmatec.

Robbie Williams’s chairman’s statement in the Tiger Oats 1993 annual report calls for clarity with regard to tariffs and to the deregulation of agricultural marketing.

Mr Williams says Tiger fully supports deregulation but hates the uncertainty. Once clarity is obtained on tariffs and other issues, Tiger Oats will be better able to position itself.

He says last year’s poor showing in maize milling, relating in part to low-quality maize, could have been limited had Tiger been able to make its own purchasing arrangements. In any event, Tiger is upgrading its Randfontein mills and lifting capacity to enhance cost-effectiveness.

Export destinations are being investigated by Tiger group exporters, mainly Langeberg and Beacon.

Tiger sold Star Foods and is fixing broiler company County Fair. The group also suffered in oil and margarine — an industry Mr Williams describes as chaotic because excess seed-crushing capacity prohibits a reasonable profit.

Tiger’s market capitalisation is almost R7-billion. The shares were R50 in May, falling to R37 by October on disappointing results — earnings a share rose by 3% to 22c in the year to September. The price has since rallied to R46.50.
Better news on insolvency front

BUSINESS STAFF

Yet another positive economic indicator has emerged in the form of much improved solvency data.

According to figures released by the Central Statistical Service, insolvencies of individuals plummeted in September to a preliminary 299 — a substantial 45.4 percent lower than the 548 of September 1992 and 20 percent down on August 1993's 374.

Trend

For the year to date, the total of 3,401 is 12.3 percent lower than in the first nine months of 1992.

The downward trend has now been in place for four quarters, a peak of 4,427 sequestrations having been recorded in the second quarter of 1992.

Company liquidations, too, appear to have peaked. In the latest three months to October they were just under one percent below those of the previous quarter.

Credit Guarantees economist Luke Doig says: "It would appear as if the 668 company liquidations recorded in April to June of this year represented the peak in the current liquidations cycle."

"This adds credence to the idea that somewhat more than just circumstantial evidence exists to suggest the economy bottomed around the middle of this year."

For the year to date, the 2,232 failures are 11.6 percent up on those of the previous year.

Closures

On a month-on-month basis, of the 237 closures in October (versus 223 in September and 220 in October 1992), the largest sectoral increase was in manufacturing, where 35 occurred, against 28 in the previous month.

However, for the year to date, most sectors have recorded performances similar to last year’s.

Dolg believes that the worst of the cycle of business failures may now be over.
Thebe moves into entertainment arena

THEBE Investment’s involvement with Games Africa, marketer of the Ithuba and Viva scratchcard lotteries, was its first stake in the entertainment industry, Thebe’s Moss Mashini said at the weekend.

Ithuba is to acquire an 18% interest in Games Africa through its new leisure arm, Sports Afrique, effective from November 1999.

“We recognise the major role such trusts (Ithuba and Viva) play in producing maximum benefits for welfare and development and in creating jobs.” Sports Afrique chairman Mashini added.

Games Africa confirmed Thebe had exercised an option offered 18 months ago aimed at increasing Games Africa’s SA shareholding.

Other Games Africa shareholders are UAL, the Ellerine brothers, Simpson McKie, Vela International and Kardon.
ICS in another joint venture

FOOD group ICS will sell its underperforming poultry division Festive Farms to Earlybird Farm, a wholly owned subsidiary of the OTK co-operative.

This said, and a cash payment of R10m to OTK, will give ICS a 50% stake in the enlarged Earlybird, to be run as a joint venture.

The agreement, published today in a cautionary announcement, follows a spate of similar joint venture deals involving other ICS subsidiaries.

In June ICS and Foodcorp announced two deals for joint control of their processed meat interests and ICS's frozen food distributor, the Cold Chain.

In July, it announced its Dairybelle operations and Nels-Blist Dairy Products had pooled certain milk and fruit juice interests to form

MARGA KLEIN

a R10m-a-year joint venture called D & B Foods.

A month later, it sold 50% of its Dairymaid division to Nestlé for access to Nestlé's trademarks and technical expertise.

ICS said yesterday Festive Farms and Earlybird each had about 4% of the national market.

The market is dominated by Rainbow Chicken, Festive's market was primarily the major food chains, while Earlybird's was the general trade. According to ICS, the agreement would allow for a single producer to serve a larger market.

The new company would be well placed to service the market.

In its annual report, released last week, ICS said Festive had sustained a sig-

ificant loss because of depressed prices cause by industry oversupply. This was despite production results being at their most efficient yet in the farming and processing areas. Since April, supplies of poultry meat had been more evenly balanced with demand.

Details of the financial effects of the deal will be made known when the agreement is signed. The deal has been approved by the Competition Board.
Thanks to upturn, fewer firms go bust

THE improving economy is leading to fewer companies going under, just as it has already led to a decline in personal insolvencies.

The Central Statistical Service reported yesterday that company liquidations fell 0.9% to 663 in the three months to October.

In the previous quarter liquidations were up 6.5% to 689.

Economists said this was in line with their expectations, as company liquidations tended to lag the end of a recession by a few months.

The figures indicate the downward trend in individual insolvencies continued in the third quarter, falling 5.5% to 906 in the three months to June. Insolvencies were down 18.9% to 1,972.

Credit Guarantee senior economist Luke Doig was optimistic about the company figures and predicted liquidations would start coming down if there was no hiccup in the political situation.

But he said the financial position of larger companies was expected to show more of an improvement as liquidations of smaller companies tended to continue rising in the early stages of a recovery.

The percentage of forced company liquidations was still high at 82% in October, compared with the previous recession when compulsory liquidations reached 75%, he said.

The wholesale and retail trade, catering and accommodation services and financial services were still suffering as liquidations continued to increase.

But business failures in these sectors could be close to bottoming as recent indicators of consumption and expenditure had shown signs of improving, Doig said.
PresMed extends network

CHARLOTTE MATHews

PRESIDENT Medical Investments (PresMed) has bought Faerie Glen Hospital and 25% of Wilgera Hospital, both in Pretoria, for R26,75m to be settled by the issue of new shares in PresMed and PresMed Holdings (PresHold), it said today.

The acquisitions are in line with PresMed's strategy of building a network of hospitals and day clinics.

Faerie Glen Hospital is being acquired for R8,75m. Pre-tax profit for the year to February 1993 was R1,5m.

Vendors of Wilgera Hospital have warranted it will earn an audited profit before interest on shareholders' loans and tax of at least R12m in the year to February 1994.
Clegg and Hortors in joint venture

CLEGG Holdings, CTP Holdings and its subsidiary, Hortors, have announced two deals which will result in synergies between previous competitors in the packaging and printing industry.

Clegg subsidiary H R Clegg Labels has bought Avery Labels from CTP at NAV, with nearly £4m being settled by the issue of some Clegg shares, and the balance in cash.

Subsidiary H R Clegg Litho entered into a joint venture with the sheet fed division of Hortors to create a new packaging manufacturing group specialising in high quality folded cartons, paper labels and general lithographic printing.

The deals, effective from October 1, follow various cautionary announcements by Clegg and Hortors that they were involved in negotiations.

In an announcement published today, the companies said the joint venture would be 66.7% held by Hortors, with the rest being held by H R Clegg Litho.

Clegg and its subsidiaries will change their year-end from June to March.
followed, the portfolio could change significantly over the next few years.

Among recent investments are a 15% partnership interest in cellular telephone network Vodacom, and a further 6% in Lenco for R28.3m, lifting the total stake in that company to 18.8%.

Rupert emphasizes Remgro did not instigate the current negotiations with Murray & Roberts about control of Orbirl, Still, Dorbyl, and its holding company Metkor, have long been among the stodger elements of the tobacco giant's portfolio. An exchange of these assets for M&Rs shares would certainly be a positive step.

The unbundling of Gencor has left the Stellenbosch group with 13.8% of Gencor, 6.8% of Engen, 5.1% of Sappi and 7% of Malibak. These may well be sound operations but it will be interesting to see whether Rupert believes he can add value to them — and what will happen if the answer is negative. An analyst believes that, with further asset disposals, the R690m cash held at September 30 could rise to about R1bn by March 31 barring large acquisitions.

With the large cash flow generated by tobacco products and the stability that this offers, the implications of possible disposals and acquisitions add spice to the share and help justify the slim 1.2% dividend yield (covered five times) and pec of 16.7. Based on the profitability and prospects, the share does not seem unduly expensive at 3050c.

This is not to say there are no reservations. For example, there are concerns that a new government could sharply raise excise and other taxes on goods such as tobacco and liquor. These are price-sensitive products, whose sales volumes and profits could well be curbed. Rupert says he doesn't believe it will happen. But it is a risk that cannot be ruled out.

Geraldine Worsham
Barlow's Clowow shrinking the asset base

Partly calculated ratio achieved by the whole group in 1993, a gross return on capital employed of 8.7% (12.2% on a fully comparable basis), and a decidedly substandard return on equity of 9.8%, down from 15% Part of the reason for the weak ROE of the unbundled group relates to a strengthening of its balance sheet. The unbundling involves giving up about two-thirds of the total assets, but turnover, profits and equity funds decline by a relatively modest 44%. The new group also ends up with an unsecured balance sheet, with cash resources exceeding residual borrowings by R4.4m.

What is the new Barlow worth in terms of share price? Based on this week's pre-unbundling price of 5 050c, and the corresponding
prices for C G Smith, Reunert, Rand Mines and R M Properties, the market seems to be putting a residual value of just over 2,000c on it. With pro forma earnings of 132c, the historical p/e is about 1.5, while the dividend yield (assuming a 2.5 times cover) would be around 2.6%. These ratios reflect an improved rating for Barlows relative to the old group which, based on 1993’s actual results, was trading on a 13.7 p/e at 5.050c and a 3.4% historical dividend yield (2.32%)

The improved rating is justified if one believes that Barlows will soon see the benefits of the concurrent restructuring of its overseas operations. If not, the much lower 11.5 p/e of Murray & Roberts, dependent on basically the same business cycle as Barlows, should act as a warning signal.

Brian Thompson
is forecasting EPS of 235c-250c for the 1994 year. Assuming EPS of 245c, this puts the counter on a forward p/e of 13.7 - not expensive, particularly if conditions in the food market improve.

Marylow Group

OCEANA FISHING GROUP
1-11-2193
High Liquidity

High liquidity

Activities: Catching and processing fish, cold storage, trading and shipping.
Control: Tiger Oats 68.7%
Chairman: R.A Williams, MD: D.F Behrens
Capital structure: 9.6m shares Market capitalisation R264m
Share market: Price 2.750c Yields 5.7% on
a dividend of 3.11% on per share of 10.9
PREMIER GROUP

Food activities still under stress

True to form, one which the market has come to expect, Premier achieved earnings growth of 11% in the six months to end-October. That was better than average for the industrial sector, but it's notable that real growth in earnings was again derived from diversified interests in pharmaceuticals, wholesaling, retailing and entertainment rather than the core business of food.

Because of the effects of the recession on food groups, their role as defensive counters on stock markets globally is being challenged. The continuing strain on the profitability of local food groups is hardly surprising. Aside from tougher competition and weaker demand, food price inflation for September was only 2.4%—a sharp contrast to figures of around 30% just 12 months ago.

This, with the threat of greater international competition and continuing deregulation in the food sector, has presented Premier with a “whole new ball game,” says chairman and CEO Peter Wrighton. “Rather than wait, management has decided to be proactive and to revise the operational structure of the food division.”

Wrighton declines to give any details of what is intended but says it would involve building on the food division's strengths, such as its distribution system, computer network and merchandising. By using these more effectively across the board, he hopes to make Premier the lowest-cost producer—critical when the inflation rate is falling. He envisages the process will take up to three months.

The food business normally lags the general economic cycle by 12-18 months and tends to be a stable, if pedestrian, profit generator. In the year to end-April 1993, food—comprising Premier Foods and Bonnita—contributed R3.29bn (29%) to group turnover and R1.12bn (48%) to earnings.

The 26% jump in turnover to R7.17bn is somewhat distorted by the inclusion for the first time of United Pharmaceutical Distributors (UPD) and Bonnita. If these are excluded, turnover growth is a more realistic 6%. To reflect the group activities better, those companies in which Premier has a substantial stake, namely CNA and Teltron, have now been consolidated and 1992's figures restated. The 1992 tax charge has also been restated to allow for the corporate tax cut. Interestingly, Premier's effective rate of 34% is five percentage points higher than that of competitor Tiger Foods. This is partly explained by its conservative approach—Premier provides for deferred tax comprehensively.

Borrowings have leapt from R280m to R747m and interest paid doubled to R40m, but this is because of the consolidation of UPD and Bonnita and the broader expansion of the group. Though gearing has risen to 35% (18%), Wrighton is not unduly concerned, attributing the increase partly to stockpiling up for Christmas. He expects the figure to be below 30% at year-end.

In any event, a more useful ratio in this context (interest rates are falling anyway) is interest cover. At year-end, it was a high

though not cheap on a p/e of 20 and a yield of 1.6%, offers more medium-to-long-term value than it did a year ago. 

Marylin Grig

Premier's Wrighton revising food division structure

18.6 times. Though it had declined to 7.1 at the interim, it remains comfortably above the average for the past five years of 4.7. Management's decision to subdivide one ordinary share into five worth R12.10 each (the price is now R60.50) will put the counter in reach of the smaller investor—an appropriate move as SA enters a new political dispensation.

Its belief that trade will improve in the second half of 1994 suggests the share,
Kersaf books into City Lodge hotels

By CIARAN RYAN

KERSAF re-entered the SA hotel market this week when it acquired 44% of hotel group City Lodge in a R186-million share swap with the Mine Pension Funds.

The deal gives Kersaf a majority stake in the fastest-growing hotel group in SA and gives City Lodge access to Sun International’s local and overseas marketing arms, opening the door to international expansion.

Kersaf owns 76% of Sun International and both had been prevented from entering the SA hotel market because of a restraint of trade agreement with Southern Sun, which has since expired.

City Lodge managing director Hans Enderle and Kersaf will exercise joint control over the hotel group. Executive chairman of Kersaf and Safren, Buddy Hawton, says the acquisition fits comfortably with the group’s hotel and leisure interests.

“This partnership with Mr Enderle opens new opportunities for growth,” says Mr Hawton.

“Although most of City Lodge’s short-to-medium growth will continue to come from southern Africa, the expertise that exists in the company together with the financial resources of Kersaf should provide the stimulus for international expansion.”

City Lodge now returns to the group where it originated. The limited service hotel chain was first conceived by Holiday Inn, then part of Remens Consolidated Holdings, before Holiday Inn was taken over by Southern Sun. The latter’s gaming interests were floated off under Sun International. Both hotel groups retained a cross-holding in each other, but Sun International sold its stake in 1990.

Mr Enderle left Holiday Inn with the City Lodge blueprint as a gold-plated handshake. Eight years later his 26% stake in City Lodge is worth nearly R65-million. He is also one of Business Times’ Top Five Businessmen of the Year for 1993.

“Being part of a wider group gives us access to a broad pool of skills, particularly as far as management succession and marketing are concerned,” says Mr Enderle.

“The next few years will be good for growth. If we have peace, tourism will pick up and this will impact on our bottom line. By raising our room tariffs by just R2 in existing occupancy levels we add R1-million to pre-tax earnings.”

There is no plan to use City Lodge as a springboard into gaming in SA, says Mr Hawton.

“Kersaf will receive 10.9-million ordinary shares and 5-million compulsory convertible debentures in City Lodge, representing 43.5% of issued shares and 37.2% of debentures. The purchase price of R186-million will be satisfied through the issue to Kersaf of 4.4-million new Kersaf shares. The deal was struck at R10 a City Lodge share and R10.61 a convertible debenture. Minorities will be made a similar offer, although Mr Enderle says he will not participate in the offer.”

The current share price is R10.60.

Mr Hawton says the price paid by Kersaf is fair. “We pick up a majority interest in a very attractive group paying an insignificant amount of goodwill. This deal dilutes Kersaf’s earnings per share by 1.4% and net worth per share by just 1.5%. We are selling Kersaf at a high price-earnings multiple and buying City Lodge also on a high multiple.”

“Goodwill paid is R17-million after setting off the premium to net worth in the share swap.”

MPF’s more than doubled its investment in City Lodge since the hotel group was listed in November 1992. It bankrolled the group’s hotel developments, netting a 35% compounded annual return over the last eight years. MPF’s general manager Graham Dickason says the fund decided to relinquish control of City Lodge because of its policy to be a portfolio investor and not a controlling shareholder in listed public companies.

“We have developed City Lodge to the best of our abilities but we cannot offer the broader horizons and growth potential inherent in such a major group operating on a local and possibly an international basis.”

Mr Dickason says the MPF will retain an indirect interest in City Lodge through its Kersaf shareholding.

City Lodge comprises 13 hotels and 1900 rooms throughout the country. Last year it opened two new City Lodges and one Town Lodge, adding 460 rooms to the total.
Kersaf to buy 42% City Lodge stake

KERSAF would invest R183m to acquire an effective 42% stake in hotel chain City Lodge, it announced at the weekend.

Kersaf, whose interests include resorts group Sun International and leisure and entertainment group Interleisure, is to acquire the entire investment of the Mine Officials' Pension Fund and Mine Employees' Pension Fund (MPPF) in City Lodge.

The acquisition, effective from January 1,1994, will be settled by issuing to MPPF of R4,6m new Kersaf shares.

Kersaf will receive 10.8-million ordinary shares and 5-million debentures in City Lodge, amounting to 43.9% of the issued shares and 37.2% of the issued debentures. Assuming conversion of the debentures, its effective stake will be 42%.

City Lodge MD Hans Enderle, who started the chain in 1985, will control City Lodge jointly with Kersaf. He will become chairman and CEO of City Lodge, and a Kersaf director. Kersaf chairman Buddy Hawton and financial director Alan van Biljon will join the City Lodge board.

Kersaf said it would make an offer to minorities. Enderle, who holds 26.15% of City Lodge, said he would not take it up.

Enderle said the deal "could open up wider career opportunities for City Lodge management and staff".

Hawton said although most of the short-term to medium-term growth would come from the focused activities of City Lodge in southern Africa, "the expertise that exists in the company together with the financial resources of Kersaf should provide the stimulus for international expansion".

City Lodge, listed on the JSE in November last year, will remain listed.

Kersaf said City Lodge's high-quality economy hotels were a "logical extension to Kersaf's hotel and leisure interests".

Kersaf's resorts include Sun City and others in the TBVC and neighbouring states, and it has an interest in three resorts in Mauritius and one in the Comores.

Recently Sun International announced it would acquire 80% of Paradise Island Resort and casino complex in the Bahamas for $75m, with $100m added for upgrading.

The latest deal represents Kersaf's entry into the SA hotel market, and places it in competition with Southern Sun, from which it broke away several years ago.

Kersaf said its investment would give City Lodge access to a wider base of management skills and "broaden City Lodge's horizons as regards expansion".

MPPF GM Investments and City Lodge chairman Graham Dickason said the deal was in line with the MPPF's policy of being a portfolio investor and not a controlling shareholder in a listed company.
MURRAY & Roberts Holdings was still in the market as a buyer following the failure of the construction group’s bid to acquire a controlling interest in Dorbyl, said group financial director Lionel Bird.

Bird said the reason for the cessation of talks between Metkor, Dorbyl and M&R, originally announced on November 23, was that no agreement could be reached on the terms of the deal.

"Dorbyl’s shareholders were willing to sell and M&R were, and still are, interested in buying, but there was a deadlock over the terms. One of the issues was price," said Bird.

The deadlock put an end to market speculation that M & R would take over Dorbyl. The engineering company had been hard hit over the past two years as a result of poor economic conditions and the virtual collapse of gross domestic fixed investment spending.

Dorbyl’s earnings a share have slipped significantly over the past two years. They fell 26% to 237.6c during the 1992 financial year and fell further to 165.3c in 1993.

Bird said M & R had a long-term strategy to increase its holdings within the gross domestic fixed investment sector, but the group had not identified any specific companies in which it would invest.

M & R CE Dave Brink said in the 1993 annual report that the group had a strong focus towards activities which enhanced the productive capacity of the economy. These included infrastructural development and the provision of industrial, commercial and residential shelter.

The group was also becoming more export-oriented. Brink said SA’s main trading partners were coming out of recession and the remaining sanctions were being lifted, which meant export opportunities would grow.

"As SA emerges from isolation, M & R’s businesses, in line with all businesses in the country, are seeing opportunities open up around the world," he said.

A tie-up between Dorbyl and M & R would have removed M & R’s biggest competitor and furthered its aim to become a major global player.
Milstan to split into two companies

MILSTAN shareholders voted on Friday in favour of restructuring the electronic products retailer into its two operating companies, Miltons and Stans.

They also voted that minorities would be bought out at 10c a share by Baccarat Investments, which was wholly owned by Milstan majority shareholder, Stan Etkind. The troubled company was delisted from the JSE in August at 25c.

Etkind said that it had become apparent that the group "would almost certainly collapse under its debt load with everybody, including minorities, losing every-thing".

In terms of the deal, a Milton Etkind-led consortium will acquire Miltons from Mil- stan. Stanley Etkind will be the sole remaining shareholder in Milstan, whose trading asset will be Stans.

Minority shareholders of 81%-held subsidiary Hi-Fi Specialists will acquire it from Milstan.

Since the delisting, Miltons and Stans traded through agreements with creditors, which had claims of R38m.
Institutions to merge into new banking group

PORT ELIZABETH — Two financial institutions based in the city, Fidelity Bank and EP Building Society, will merge in February next year to form the eastern Cape's largest independent banking group.

The merger is still subject to approvals from regulatory authorities and the members of Fidelity and the building society. Circulars to members will be posted on or before January 21 and special general meetings will be held on February 14.

Fidelity will be the listed controlling company and the building society will house the merged operations. It will be known as Fidelity Bank.

Fidelity MD and the new Fidelity Group CE designate Julet Langenberg said shareholders and clients would benefit from the merger. He said rationalisation and redundancies would be inevitable, but "the remaining staff will be employed by a strong, independent banking group, offering enhanced career opportunities".

The new group would have a total capital base of more than R125m and total assets exceeding R1 700m.

Although the size and capital adequacy of a banking group was of prime importance to investors, the only test from a shareholder's point of view was an improved bottom line, Langenberg said.

Fidelity's Koos Roets would become general banking activities MD and the building society's Trevor Jemings group services MD.

Fidelity's main shareholders, the Board of Executors and Fedlife, will eventually hold between 27.7% and 30% of the new Fidelity Group.

In September this year the building society reported that it had reached R1bn in assets. Fidelity Bank's annual report showed continued strength in the six years since its listing.
IBM returns with 24% stake in ISG

SEVEN years after pulling out of SA, IBM yesterday announced it would return with the acquisition of a 24% stake in local distributor Information Services Group (ISG) at a cost of R110.5m.

Analysis described the acquisition by the world's largest computer group as a major vote of confidence in the new SA which would make it easier for other US organisations to justify their return.

In terms of the agreement, IBM will purchase 3% of the issued share capital of ISG from the IBM Trust and 21% from ISG Holdings, which is a wholly owned subsidiary of the trust. The trust will retain its 100% stake in ISG Holdings, but ISG Holdings' share of ISG will be reduced from 60% to 33%

ISG CE Brian Mohl said IBM had secured further options until December 31, 1997 to acquire more shares in ISG from ISG Holdings. Should the options be exercised, IBM could attain a controlling interest in ISG. If IBM decided to increase its stake in ISG to more than 50%, it would first make an offer to ISG's minority shareholders in accordance with the Securities Regulation Panel rules.

The cost of the deal at R110.5m equated to 316c an ISG share, considerably lower than yesterday's share price of 856c. Mohl said it had been agreed that the price of the shares would be taken from when the two parties initiated negotiations at the beginning of November.

"The acquisition was only made possible by the decision of former ISG joint owner Barlow Rand to unbundle in October. This left ISG as an independent entity, controlled by the trust which was set up after IBM disinvested," said Mohl.

"The trust's decision to acquire Barlow's 50% interest in ISG Holdings was made in order to put ISG in a position to strengthen its ties with IBM or seek new partners.

Mohl said IBM had not negotiated a buyback agreement with the trust when it disinvested in 1986. He said the strengthened relationship would enhance ISG's image in the market. "ISG will now have more ready access to the international IBM base of skills and will also benefit from being closer to IBM's technological developments and strategic thinking.

"It will make available a large pool of resources which can be utilised for significant and leading-edge customer projects,

ROBYN CHAILMERS

IBM

but there will be no staff or name changes made to ISG as a result of the deal.

IBM world trade Europe, Middle East and Africa chairman Hans-Olaf Rehbein said IBM was delighted to be able to build on the relationship with ISG. "We are confident that this is a very good investment for IBM. The implication of this action will be that ISG's position of sole supplier of all IBM products and services to SA and Namibia will be enhanced," he said.

SIMON BARDER reports from Washington that IBM said it would be making no formal announcement of its return to SA. Spokesman Mark Holcomb downplayed the significance of the move.

The company had decided to take an equity position in ISG because it saw a "viable business opportunity", but "the fundamental working relationship" with ISG would not change, he said.

There was no time frame on when IBM might take up its option to buy a controlling stake in ISG. "If we do it will be determined by a wide range of factors,"
COMPANIES

ICS, OTK close Earlybird deal

FOOD group ICS and OTK co-operative had signed the final agreement for a joint venture to run Earlybird Farm, announced on December 14, ICS said yesterday.

ICS sold its underperforming poultry division Festive Farms to Earlybird Farms, a wholly-owned OTK subsidiary. The sale, together with a cash payment of R16m, would give ICS a 60% interest in the enlarged Earlybird Farm.

The transaction's effective date was October 1 this year, ICS said. The Festive Farms poultry division was sold on the basis of its net asset value on this date of about R83m.

CHARLOTTE MATHEWS

If the joint venture with OTK had been in place for the financial year to September 30, ICS's earnings a share would have been 15c higher at 17c. The effect on the net asset value a share on October 1 was "not material", ICS said.

The company warned that the poultry industry was a cyclical industry and that performance was linked to the availability of protein.

"The future impact on the earnings of ICS will accordingly be influenced by national surpluses or shortages of protein."
Boland's Wise

calling the tune

FNM 24/12/93

least the next 15 months (Fox Dec 17) And, on the face of it, his purchase seems to have been in co-operation — if not in concert — with his corporate adviser The Board of Executiors (BOE) While Wise was acquiring his stake, BOE was buying 63% of the compulsorily convertible preference shares Yet there is no indication that an offer is to be made to minorities, either because Wise alone now has voting control, or because he and the BOE together control more than 50% of Boland’s total permanent equity Wise is chairman of Pupkor and the IDC and his other directorships include the Reserve Bank He and BOE deputy MD Phil Biden deny there was collaboration or that their respective purchases were planned in concert Both assert that no agreements exist between any of the parties involved But both say they were aware of each other’s purchases, and that they intend to work closely with Boland’s management Biden points out BOE had talks with Boland Bank more than a year ago about a possible merger between the two He emphasises these talks were well publicised at the time The talks came to nothing, he says, but they showed that in BOE’s opinion the bank was undervalued, and that view hasn’t changed Wise, until he joined the Reserve Bank board, was a director of Boland and held a 10% stake in the bank for years Securities Regulation Panel (SRP) CE Doug Grau confirms BOE was told the SRP had ruled (and this was presumably passed on to Wise) that an offer to minorities was required only if any party acquired more than 35% of the total permanent issued capital

As the FM noted last week, the SRP’s decision that there need not be an offer to minorities seems strange considering that Wise has acquired 63% of the issued voting shares When the convertible prefs are converted, his stake in the permanent capital will be diluted to less than 35%, but that won’t happen before April 1996

In defining circumstances that trigger a mandatory offer to minorities, Rule 81 (a) of the Takeover Code says an offer is required when “any person holding less than the specified percentage acquires, whether by a series of transactions over a period of time or otherwise, securities which (taken together with securities already held by such person or held or acquired by persons acting in concert with him) carry the specified percentage or more of the voting rights of a company”

A complicating factor with this deal is its status under the Banks Act Section 37 requires the Registrar of Banks to approve any transactions in which more than 15%, then 24% and finally 49% of the equity of a bank is acquired by any persons Above 49%, ministerial approval is required Wise says the Reserve Bank approved his transaction.

Until Boland’s constitution was changed in March, nobody could hold more than 10% of its issued shares As soon as he could, he bought the second 10% Then, in the past few weeks, he acquired the balance, all through the market, until all the major stakeholders — Rembrandt, Sanlam, Momentum Life, Absa and Sochoeld had sold out completely. While Wise was lifting his holding in ordinary shares to 63%, BOE was buying 63% of the prefs from these shareholders. Whatever the full diluted holdings may be, for at least the next 15 months, Wise will be in a position to call the tune at Boland — even though he says he doesn’t intend to join the board. This is not to say the outcome will be adverse. Boland’s earnings have shown negative real growth over the past 10 years Under Wise’s direction, and with the synergies that BOE’s entrance could create, earnings capacity could improve materially. The bank could be one of the better performers for the next few years and further mergers and acquisitions may occur.

The SRP requires that a mandatory offer to minorities is priced at the “highest price paid by the offeror or any person acting in concert with it for securities of that class within the preceding 12 months.” Wise paid a top price of 920c a share and the BOE 960c for the prefs By this week the market price was R1.1 I would not be a seller if an offer to minorities eventuates But the principle is clear. Control of Boland has changed. If all classes of shareholders are to be treated with the equity demanded by the Takeover Code, then an offer to minorities must be made.

Gerald Horan
Kersaf's return heralds hotel industry fireworks

THE HOTEL industry could see fireworks next year as major groups take up positions to capture their slice of the expected buoyant market.

Kersaf fired the first salvo, in what some sources say could become the battle of the Sun, with its recent re-entry into the SA hotel market after buying a 42% share in the City Lodge group in a R150m share swap with the Mine Pension Fund. Kersaf's reappearance, after a long absence, is not expected to go unchallenged.

The deal gives Kersaf a majority stake in one of the fastest-growing groups and gives City Lodge access to Sun International's local and overseas marketing. Kersaf has a 76% stake in Sun International.

The move places Kersaf in competition with Southern Sun, from which it broke away several years ago. The group was kept out of the SA hotel market by a now-expired restraint of trade agreement with Southern Sun.

Southern Sun group operations director Helder Pereira said it did not matter who controlled City Lodge.

"But there's already a war going on in the industry, and much will depend on how aggressively Kersaf pursues its interests in the domestic market."

The group was waiting for the finalisation of the Gambling Act before taking a decision on entering the casino business.

MADDEN COLE

"We've had experience of running casinos before, we have access to the capital and expertise required and we are looking at entering this market," Pereira confirmed.

The decision on whether to build new properties or to add casinos to existing properties would depend on the requirements of the new Act.

Pereira expected occupancy rates to be boosted next year by what he termed political, media and business tourists observing the run-up to the general election. This should give the industry "an excellent first five months", he said.

"If the election goes smoothly and violence is controlled, the overseas leisure tourist will return, and as the economy improves there will be an increase in domestic tourism."

"But an escalation of violence after the election could find the hotel industry in a trough."

Southern Sun had invested R300m in the past two-and-a-half years in refurbishing existing hotels and building new ones. It planned to open 20 new Formule 1 hotels, and upgrade other hotels, including the Plettenberg and Sunyoyode Park.

"We are also looking at expanding northwards into Africa in either franchising or management contracts, and have already signed Luasita," said Protea Hotels regional director for Transvaal, Free State, Swaziland, Zimbabwe and Malawi.

William Ford foresees a bullish trend in occupancy rates next year.

"I expect an upsurge in tourism in the latter half of 1994, and it all bodes well for the hotel industry."

Group capital expenditure for next year would continue as keeping with the expected rise in hotel revenues. Expansion requirements would be met as the need arose.

Protea Hotels was well placed to take advantage of any change in SA gambling laws. Ford said his group was the only hotel chain apart from Sun International which was involved in a currently legitimate casino/hotel operation in southern Africa.

"The casino operating at our Pigg's Peak Hotel has given us a degree of expertise in this field. We are looking at options and, given a suitable product and suitable location, we will consider further participation in the casino business."

The group has been active in expanding into Africa and the company manages hotels in Zimbabwe, Mozambique, Kenya, Swaziland and Mauritius. In a recent deal, the company won a contract from the Malawi Development Corporation to upgrade and run seven hotels.

"We are also considering opportunities in a number of other African countries, including Tanzania, Nigeria and Uganda," Ford said.