FINANCE – GENERAL

1991

JANUARY

Confusion over Act's limits

GRETA STEYN

CONFUSION surrounds the full ambit of the new Deposit-Taking Institutions Act which replaces the Banks' Act next month.

The Reserve Bank is giving urgent attention to the issue after mining houses and stockbrokers that fall foul of the Act have asked the Bank to let them off the hook. Lawyers administering trust funds are also seeking clarity on the full implications while the life offices are waiting for Finance special adviser Japie Jacobs to report on their fate.

The definition of deposit-taking in the Act is wide, as it was written against the background of the deposit-taking activities of Albert Vermaas. The burgeoning "grey" money market and increasing efforts by banks to circumvent the Act also spurred the writers of the Act to use as wide a definition as possible.

A Chamber of Mines spokesman said yesterday it had asked the Bank for exemption on behalf of the mining houses.

Gencor treasurer Marius Ferreira said mining financial houses were affected because the Act was written in such a way that a treasury taking cash from an associate would be defined as a deposit-taker.

Deloitte Pim Goldby banking expert Tim Storr said: "As the Act stands, some large mining houses with treasury divisions would have to register as deposit-takers or cease administering their associates' cash."

Registration means complying with the costly capital and other requirements in the Act.

The office of the Registrar of Banks would say only that the ambit of the Act was receiving attention. The Act empowers the Registrar to make exemptions at his discretion. It is understood that exemptions and conditions will be published in the Government Gazette in January.

Act set to overhaul the financial sector

58

8Nov 7/11/91

With the Deposit-Taking Institutions Act soon to become law in South Africa, the Financial Times of London examines the likely effects of its implementation

The Deposit-Taking Institutions Act, which becomes law next month, will make life tougher for the financial services sector after a period of lax regulation and injudicious asset growth in the 1980s.

The Act, which levels the playing field between banks and building societies and brings capital adequacy requirements into line with the Basle Concordat, has been welcomed by bankers who reckon it will encourage a more stable banking industry.

It also promises to speed up the rationalisation already under way.

Dr Hennie van Greuning, Registrar of Banks, says the main policy underlying the Act is the desire to enhance risk management.

Thus fuller disclosure is required of banks, there is a strong role for auditors' committees and — similar to Section 39 of the Bank of England Act — the registrar may ask the auditors to express an opinion on any aspect of a bank's management.

A big philosophical shift underpins the Act, with the new legislation focusing on function rather than being institutionally based as in the past.

The convergence of banks and building societies in recent years is recognised through consolidating regulatory legislation into a single Act and providing a basis for equitable competition by removing differences in such matters as capital requirements and lending constraints.

Convergence is most obvious in the home loans sector, where banks have nearly 50 percent of the approximately R55 billion market.

The desire by Nedcor, the country's third-largest banking group, to acquire a mortgage portfolio was the stimulus for its merger with the Perm Building Society.

Further rationalisation appears on the cards — the United and Allied building societies and Volkskas and Sage Financial Services banks are discussing links to form one integrated financial services group.

The favourable risk weighting of mortgages in terms of regulations under the Act — 50 percent, against 100 percent on other loans — is thought likely to further stimulate competition in the mortgage market as banks seek to expand their home loan portfolios to reap the benefits of reduced capital requirements.

The Act's other main feature — stricter capital adequacy requirements — will also encourage rationalisation.

Chris Liebenberg, Nedcor chief executive, thinks the Act will usher in an era of stricter asset management control, greater attention to interest rate margins and more stress on bottom-line profits.

With small interest rate margins having ruled out asset growth as a method of boosting profits, off-balance-sheet income will become a more important source of profit.

Something of the flavour of things to come is shown by First National Bank, whose assets declined 0,9 percent in the 1990 financial year.

Piet Badenhorst, chief executive of United, stresses the importance of technology to remain competitive.

"Economies of scale and increased productivity will be required to protect profit and this will require large investments in technology."

He adds that as the industry becomes more technology-driven, "mergers and takeovers among financial institutions will become inescapable to make the large investments in computer systems viable".

He reckons that banks unable to invest in technology will not survive to the end of the century.

Capital requirements are being phased in from 1992 to 1995, with 4,5 percent capital/assets ratio required by the beginning of 1992, rising to eight percent by the beginning of 1995.

This will prevent follies such as Bankorp's 40 percent rate of asset growth in each of the 1988 and 1989 financial years, which forced it to go to its shareholders in both 1989 and 1990, raising R915 million, to bolster its capital adequacy levels.

Most local bankers welcome the fact that the Act brings the country into line with international practice, making it a leader in certain areas.

They maintain that as South Africa returns to the international fold, dealings with foreign banks will increase and the larger, better capitalised local banks will be preferred.

Complementing the stricter capital adequacy requirements are more stringent disclosure requirements.

Lax disclosure has allowed poor management to go unnoticed until the damage has been done.

Now banks will be required to provide the registrar with a monthly breakdown of their exposure to various risks.

Other features of the Act include limits on shareholdings — the maximum single shareholding will be raised from 10 percent (30 percent for a financial institution) to 49 per cent — and a detailed account of what degree of competence is expected from non-executive directors.

Bankfin expects 10% rise in 1991 car repossessions

GARETH BELL

STANNIC and Wesbank predict "possible increases" in the rate of repossession of hire purchase cars in 1991, but Bankfin is less optimistic and expects a 10% increase over its 1990 level.

Market analysts say Bankfin's high rate of repossessions is the price it is paying for the lax credit policies applied in earlier years.

However, Bankfin senior GM, credit and risk, Dawie Botha dismisses market perceptions of an abnormally high repossession rate and says Bankfin's repossessions over the past 18 months have been in line with major competitors.

Market sources say Bankfin's problems stem from an attempt to increase market share. But Botha counters by saying Bankfin's market share dropped in 1990.

He says Bankfin's policy is to achieve a moderate growth rate and that credit policies have been tightened since 1989.

"Everybody makes mistakes and in the current economic climate even the most credit-worthy business becomes unpredictable."

He adds that current car repossessions could be from business taken on in 1989 and 1990.

Wesbank GM Robin Shales says Wesbank experienced a 15% increase in the rate of repossessions in 1990 compared with 1989.

Stannic MD Gutch Vickers says market share has increased over the past five quarters. The repossession rate was about 40% up on 1989 figures from a very low base.

UBS may revise its merger terms

FNB puts in strong offer for the Allied

GILLIAN HAYNE

FIRST National Bank wasted little time in making a bid for Allied yesterday which, purely on the cash price offered, is better than the UBS merger terms.

But banking analysts say this neither guarantees success for FNB nor is it likely to be the final round in the battle, though some believe the FNB offer may have sprung a trap for UBS.

A major attraction of the FNB offer is the 100% cash underpin with 250c offered for every Allied share, compared with the offer by UBS and its other merger partners of 240c for only 50% of the Allied shares.

Analysts warn that UBS might have little room to manoeuvre.

The difficulty in pulling four companies together is that any improvement by UBS to the terms for Allied will prejudice Volkskas and Sage Financial Services (SFS), the other two parties to the proposed mega-merger into a financial giant called Amalgamated Banks of SA (Absa).

UBS chairman Herc Hefer said last night this was only partly true as Absa's offer for SFS was conditional on its success in getting Allied.

Hefer was surprised that the FNB offer made no mention of whether Competition Board and Reserve Bank approval had been obtained. He said UBS, Volkskas and SFS were considering their options. He did not rule out a change in the price and composition of the UBS offer.

The renewed FNB offer, announced yesterday, will give Allied's shareholders 35 FNB shares for every 400 Allied shares, translating into 262,5c an Allied share; or 250c in cash for every Allied share held; or any combination thereof. The calculations are based on an FNB share price of R30.

Southern Life and Fedsure Holdings are equal underwriters to the 100% cash underpin. The offer is conditional upon the UBS merger proposals not being finalised.

"We are looking at the business interests of Allied, not just the cash shell," FNB's MD Barry Swart said.

Swart said although many thought Allied's share was fully priced at 220c, FNB was prepared to offer a premium, because of Allied's strong strategic value.

He would not speculate on FNB's chances of success but believed his bank's offer was better than the terms proposed by UBS. Based on a UBS share price of R7,70, Allied shareholders were offered 100 Absa shares for every 320 Allied shares, equivalent to 240c an Allied share.

FNB calculations indicate that the at-

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FNB offer

☐ From Page 1

traction of the FNB offer for the "unsophisticated" Allied shareholders — who make up the majority of the 48 000 shareholders — is a 34,4% increase in capital value and a 212,5% increase in income should the shareholder opt for the cash alternative.

FNB, Southern and Fedsure own 14,6% of Allied shares. Of Allied's 48 000 shareholders, 30 000 own less than 2 000 each.

If an Allied shareholder accepts the FNB shares, he would achieve an increase in capital value of 41,1%, an increase in earnings of 42,9% and an increase in dividends of 9,4%. The comparative figures for the UBS offer are 29%, 19% and a 7,8% decrease in dividends. The calculations assume the FNB share price of R30 and an Allied share price of 186c.

The Allied board has two weeks to respond. Swart said: "We cannot speculate on the attitude of the Allied board. They have indicated they are prepared to go with the UBS and we hope they may be persuaded to change their minds."

● Picture: Page 3

Rejected Allied suitors could seek hand of NBS

B/Day 31/1/91 (58)

ANDREW GILL

NBS, the only independent building society not yet involved in the turmoil in the banking industry, intends to remain fiercely independent.

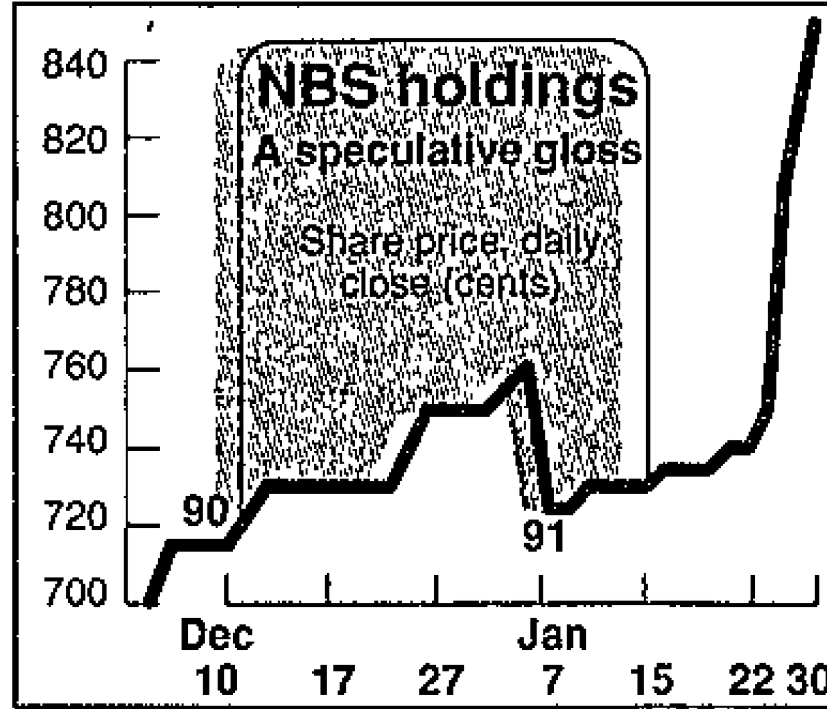
In two days the group's share price rocketed 13,3% to a new high of 850c on speculation that it was bound to be "taken out" at some stage.

NBS GM, public affairs, Brian Short said management had ensured the shareholding fell into "friendly hands" and was determined that the group would retain its independence.

There had been no offers as yet, he said, but he did not discount the possibility of one of Allied's suitors turning to them if they failed.

NBS Holdings' home-loans book stood at around R5bn for the building society alone, he said. The 20% growth target for the year had been achieved in only nine months.

Management believed that there was a place for an independent building society such as NBS in the short- and long-term future of SA, he said.



Graphic LEE EMERTON Source JSE

Analysts said yesterday there was a possibility that NBS could be the subject of an offer from one of the larger banks with little exposure to the home-loans market.

A large home-loans portfolio, seen by some to be the growth industry of the new SA, is lacking in three of the major banks, Standard, First National and Bankorp.

Bankorp was unlikely to make any offer to NBS as it "had its own problems" and the two cultures were likely to clash, analysts said.

First National, with an effective 11% interest in NBS already, could look towards the Natal-based group if its attempt to control Allied failed, they said. Standard could be in the running too.

Another analyst said the benefits of acquiring such a portfolio under the new Deposit-Taking Institutions Act would be that capital constraints were less stringent. Also, home loans were set to continue growing as housing needs escalated across SA.

NBS's major shareholders are Norwich Life at 10% and First National (through nominees) at 11%. Management and staff have a share option scheme constituting 8,6% of the shareholding.

Other banking shares have been taken up by the speculative spiral with Saambou well traded at the ruling price of 152c, Allied rising 10c to a new high of 250c, UBS at its strong 760c and Volkskas up 25c to a new high of R17,50.

Nedcor was also stronger with a 5c gain to R10,10 and Boland Bank, which has gained 7,1% or 40c over the past week, rose 4,1% or 25c to 625c.

African Bank considers listing 'in a few years'

BDay 31/1/91 (58)

MARCIA KLEIN

AFRICAN Bank is considering a listing on the JSE in a few years' time, finance and treasury GM Ismail Mamoojee said at the bank's AGM yesterday.

He said management would like to see African Bank list "three to five years down the road, and become available to the general public".

African Bank chairman Sam Motsuenyane said that in the past the bank had reasoned that if it were to go to the JSE blacks would not invest. Furthermore, a listing would mean that blacks would lose control of the bank.

Motsuenyane said the bank would be happy with a 60% black shareholding, but "would have to go carefully to the JSE so that it would maintain control".

However, he said African Bank was aware that by limiting the growth potential of shareholders, it would delay its own growth.

Motsuenyane said a difficulty facing the growth of the bank was its capital restraints, and share capital would have to increase in order for the bank to grow.

Yesterday shareholders approved a resolution to open the shareholding in African Bank to all race groups, subject to certain conditions.

Motsuenyane said it was pleasing that the bank had achieved satisfactory results in the year to September 1990 with a 28,3% growth in assets to R213,8m, despite a difficult year in the country.

● MOTSUENYANE

"In a perod characterised by deep recession, one of the difficulties facing the bank was high interest rates but despite these times the bank's branch network has grown to 18 branches," he said.

Shareholders approved the increase of the company's ordinary share capital from 6,25-million shares to 12,75-million shares, increasing the capital of the company to R17,25m (including 3,75-million 8% cumulative redeemable preference shares and 750 000 16% cumulative redeemable preference shares).

Motsuenyane said that in order to compete with the larger banks African Bank would have to gear itself to grow faster than in previous years.

Directors said cheque facilities remained "the biggest most important service we want to provide".

The bank had said last year that it would provide a cheque facility, but it still needed permission and it needed to prove that its infrastructure and systems could handle the facility.

FNB counters UBS bid for Allied

Cape Times 31/1/91

ARI JACOBSON

FIRST National Bank (FNB) took a brash step last night to attempt to capture the mortgage book embedded in the Allied Building Society by countering the offer from the UBS-led alliance.

Allied MD Kevin de Villiers added credence to this R750m bid by undertaking a straw poll among his managers, prior to the press conference, which was solidly in support of victory for FNB.

The offer, announced by FNB MD Barry Swart, provides shareholders with a share consideration — 35 FNB shares for every 400 Allied shares held — a cash alternative pitched at 250c a share or any combination thereof.

MD Barry Swart said the 100% cash underpin was noticeably absent in the UBS deal (at a price effectively 10c higher) while superseding any market price of Allied shares since its listing in June 1987.

De Villiers remarked that a cash underpin would swing Allied management overwhelmingly in favour of an FNB merger.

From the writer's perspective the Rembrandt-structured deal is hardly synergistic, duplicating the building society profile (UBS and Allied) while overlooking the need for a corporate component.

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

Analysts canvassed said the FNB-Allied alliance was the most compatible. They pointed out that FNB has a relatively barren home loan book and has a strong management link with Allied.

From a portfolio viewpoint a fair price for Allied would be 190c a share, one said.

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

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

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

FNB's late dash to acquire a building society was handicapped by a low share rating — currently at about R30 a share — which traded at R14 roughly a year back.

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

Cit Times 31/1/91 58

British banks still backing sanctions

Own Correspondent

LONDON. — Anti-apartheid organisations say financial sanctions by Britain's leading banks against South Africa are still firmly in place, despite the lifting last month by the European Community of the ban on new investment.

This emerges from correspondence between the British Anti-Apartheid Movement and End Loans to South Africa and leading banks.

On January 1 the organisations wrote urging British banks to support the "peace process" by refraining from extending loan facilities to South Africa.

The Bishop of Oxford and president of ELTSA, the Rt Rev Richard Harries, commented on the 10 replies: "It is clear that as far as the most important British banking institutions are concerned, financial sanctions are still firmly in place.

"The only negative reply we have received has been from Standard Chartered Bank: We will be following the matter up with them."

He said they were "greatly encouraged by the positive responses of the banks, which show clearly the significance they continue to attach to this issue".

The reply by Mr John Pank, head of group communication for Standard Chartered Bank, to which the groups objected, read as follows: "The moves in South Africa towards irreversible change are, in our view, unstoppable and we believe that, despite the difficulties still to come, apartheid will be dismantled and a juster society will prevail in South Africa.

"Any decision to increase lending to South Africa in the future would be based on both political and commercial considerations."

Among other responses received were the following:

Sir John Quinton, chairman of Barclays Bank plc, said "I can confirm that it is Barclays general policy not to extend new, medium- or long-term loans to South Africa, and that Barclays supports only the trade of bank customers whose business with South Africa complies with the official policies of their respective governments."

Sir Jeremy Morse, chairman of Lloyds Bank, said he could "readily give" an assurance that his bank would not jeopardise efforts to end apartheid.

Lord Alexander of Weeden, chairman of National Westminster Bank plc, said his bank had "consistently and publicly deplored apartheid, which it regards as intellectually flawed and morally offensive".

On the restructuring negotiations in 1989, he denied that NatWest was chair of the group of creditor banks, but said that in supporting such discussions "a judgment was taken that restructuring would maintain continued pressure on the South African government for the earliest repayment of its bank debt".

Some heavily indebted South American countries had failed to make either capital or interest repayments on their debts, making it impossible for banks under such circumstances to enforce any demands for payment in full.

"As South Africa has already twice restructured its debt, demands for immediate repayment could have led South Africa to repudiate its debts, thereby relieving it of the need to make any repayments on either capital or interest and indirectly relieving pressure on apartheid."

Counter-bid for Saambou possible

By Ann Crotty

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

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

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

The close of trading on Thursday is important for a number of reasons. Many Saambou shareholders will not commit themselves until Thursday afternoon.

They will want to see if there is any other offer and how the market price compares with the Trafalgar offer before deciding whether or not to take up that offer.

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

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

Potential

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

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

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

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

He says many of the 18 500 Saambou shareholders are probably not familiar with the workings of the stock exchange and may prefer to respond to the offer letters received from Trafalgar. In addition, the 150c JSE price may not be sustained if a lot of sellers come to the market.

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

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

There are four possible scenarios facing Mr Hougaard: Trafalgar receives zero to 10 percent of the shares; it receives 10 percent; it receives 10 to 30 percent; it receives over 30 percent.

Option

With less than 10 percent, Trafalgar has the option of whether or not to accept. This would not be a sufficient stake to be able to play a part in management.

If there were another bid, Trafalgar could sell-on the shares. If not it might have to see the share price fall back to 100c.

Depending on how much over 10 percent was received, Trafalgar would have some sort of scope to get involved in management — even if only as a nuisance factor at shareholder meetings.

Despite speculation about his objectives and his backers, Mr Hougaard remains adamant — he has identified Saambou as an undervalued investment and is using the funds in his care to try and get a strategic stake in the company.

With this stake he would attempt to impress upon management the need to boost operating performance.

Mr Hougaard says that while the 140c offer may not look too attractive against the book net asset value of 235c, it is very generous compared with the trading range of the share and the company's earnings performance. (Based on the R22 million revaluation of the properties that are now in Saampro, NAV is around 260c a share).

FNB poised for counter Allied bid

GILLIAN HAYNE

FIRST National Bank (FNB) is expected to make a counter-offer to acquire 100% of Allied today with a cash offer of about 250c a share.

This follows the announced merger plans between UBS, Volkskas, Allied and Sage Financial Services to form Amalgamated Banks of SA (Absa). Allied shareholders are being offered 240c a share in terms of the deal.

Analysts warned that Allied shareholders would have to consider the longer-term prospects in judging the merits.

FNB senior GM Viv Bartlett said the FNB offer should preferably be considered — like the Absa merger — on the basis of existing legislation on mergers. If the Securities Regulation Panel subjected the offer to new regulations (effective from Friday), FNB would be "relaxed", providing Absa received the same treatment.

Analysts said initial market reaction to the merger was positive.

UBS provided the interest in a dull market yesterday with its fall from 780c to 720c, but it closed at 760c. Allied (up 15c to 240c) was well traded with 275 000 shares worth R656 495 changing hands in 67 deals. Volkskas rose 25c to close at R17,25, and Sage (800c) did not trade. FNB shares held their recent high of R30,00.

● Comment: Page 6

Bank merger drama expected as curbs Act deadline nears

Business Staff

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

First National Bank is expected to make a counter offer today to acquire 100 percent of Allied. This follows the announcement Monday that Allied intended merging with UBS Holdings and Volkskas to form South Africa's largest bank with assets of R50 billion to be called the Amalgamated Banks of South Africa (ABSA).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Trading charges

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

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

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

SA in an economic crisis . . .

Economist calls for investment in black community

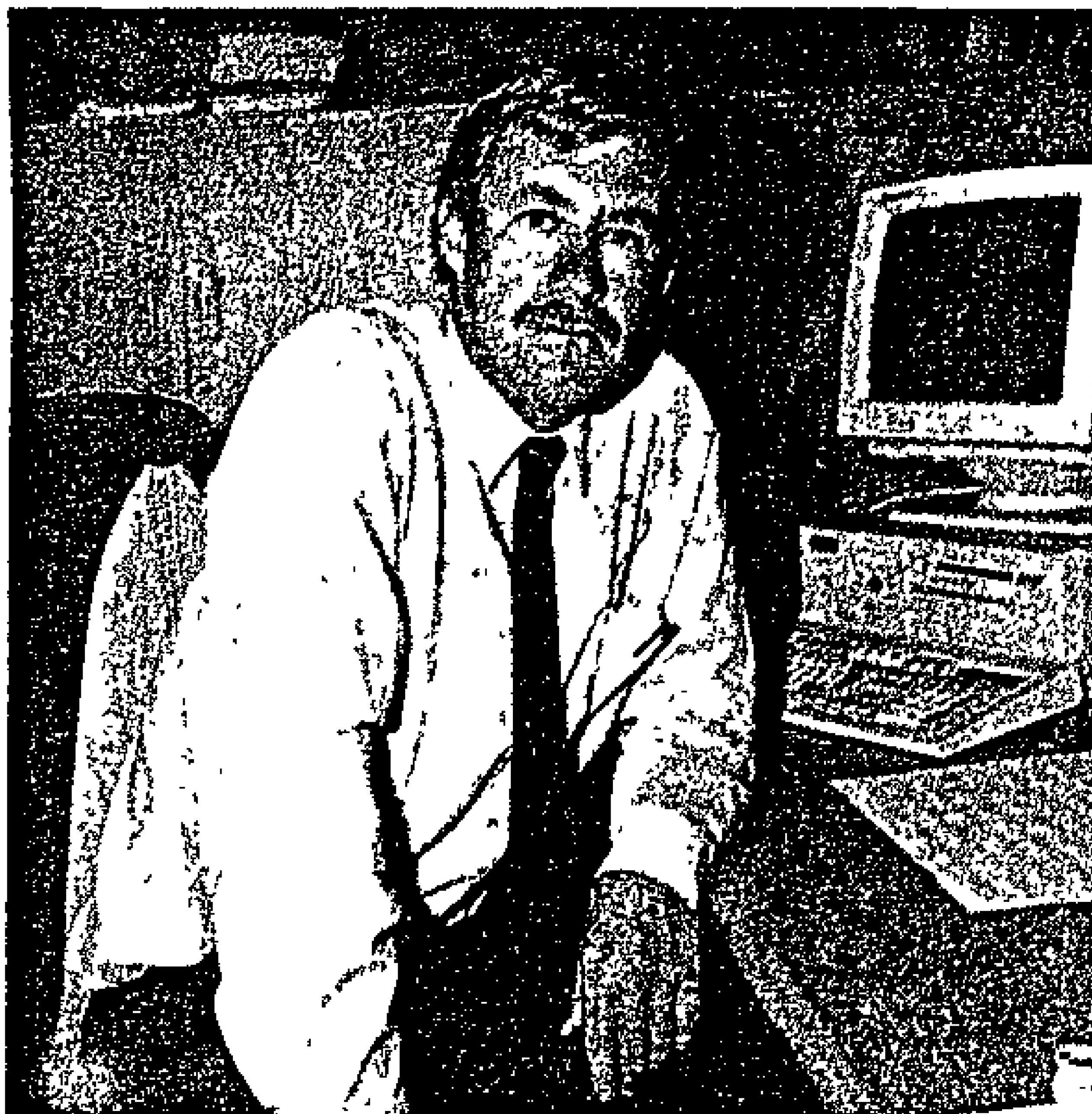
Cape Times 30/1/91

By AUDREY D'ANGELO
Business Editor

SA is in an economic crisis — and growth must be stimulated by investment in black housing and education and the electrification of township houses, says leading economist Rob Lee.

Interviewed yesterday, Lee, who has just joined the Board of Executors, said he now thought it would be in the national interest for life offices and building societies to invest a small proportion of their cash flow in black housing.

He had lost his earlier opposition to this after talking to ANC economists. They admitted socialism had failed and were learning rapidly how markets worked.



ROB LEE . . . we are going to have to do some relatively unorthodox things to get growth going

But talking to them had given him new perspectives and made him realise that Western-trained economists, too, were blinkered in some ways.

"SA has an economic crisis. We need to grow much faster and I have a feeling that we are going to have to do some relatively unorthodox things to get growth going.

"We need to redistribute wealth by investing in the black community. We must invest in education, housing and the electrification of black townships.

"This will create more jobs, which will have a multiplier effect throughout the economy, and will lead to a more stable and productive workforce."

Lee said the work could be carried out without increasing imports significantly. The capacity was already available in SA.

There would be no need for a horrific tax burden to pay for it. The private sector would have to play a role "and should be able to do it in a viable way".

He thought foreign investors would buy housing bonds if they saw positive action being taken and if violence and unrest disappeared.

Investing only 3% or 4% of the cash flow of life offices and building societies would pay for enormous housing schemes, and would be in the longterm interests of the policyholders and investors.

Business must be pro-active. Yesterday's announcement that R500m would be made available by a group of companies for education and other social welfare projects was the kind of initiative needed.

The private sector was realising that "if the country went up in flames it would not be a good environment for business".

But, Lee pointed out, housing initiatives would not work if people were afraid to go into the townships and if rents were not paid.

And the black leadership would have to deal with unrealistic expectations which had been built up.

"The economy can deliver only so much. SA is not a rich country, although the impression has been built up that it is."

SA confident of raising R1bn in Germany market

CAPE TIMES 30/1/91

Own Correspondent

JOHANNESBURG. — SA is confident of raising almost R1bn on the German capital market this year to refinance government-backed bond repayments falling due, government sources confirmed yesterday.

Although spokesmen declined to comment on the record, it is understood that a Reuter report from Bonn claiming SA would reschedule about Dm500m this year was close to the mark.

This amounts to about 20% of SA's total foreign debt due this year — indicating less pressure on SA's foreign exchange reserves in spite of an expected drop in the current account surplus.

SA's efforts come at a time of rising demand for capital from former East Germany and Eastern Europe.

Nonetheless, SA's relative success on the German capital market started last year when more than R430m in bonds was refinanced.

Government, the IDC, Transnet and the Post Office were successful in private issues of bonds. But this year could be different in that the financing might not take place through private placings but publicly via a listed issue.

The Reuter report, quoting German bankers, said SA had improved its image sufficiently to allow public issues of debt abroad.

They said a government-backed bond issue was planned, but detailed talks had yet to open.

"We have been informed by the government and private borrowers that SA intends to come back to test the water this fall," a German bank official said.

An SA diplomat said the move would probably take place after sanctions were lifted by the EC, which was expected at the June EC summit.

SA had outstanding debt of Dm1,76bn with German banks in September 1990, compared with about Dm1,37bn in 1985, German central bank statistics showed.

Money market

FNB still 'hungry' for Allied group

Star 29/1/91 (58)

By Derek Tommey

The fate of the Allied Group is still in the balance, even though it said yesterday it intended merging with UBS Holdings and Volkskas to form SA's largest bank with assets of R50 billion to be called the Amalgamated Banks of South Africa (ABSA).

Viv Bartlett, a senior general manager at First National Bank (FNB), said last night FNB was still keen on acquiring Allied.

On Friday FNB said it had made a proposal for the acquisition of Allied, which was rejected.

Mr Bartlett said FNB was considering its position and hoped to make a statement by tomorrow.

He said the proposed merger of Allied with UBS and Volkskas still had to be approved by Allied shareholders.

But he thought it iniquitous that a simple majority of shareholders at an annual meeting could approve the sale of Allied's assets.

"You know how few shareholders turn up at an annual meetings," he said.

Herc Hefer, who is to be chairman of ABSA, outlined the reason for choosing the proposed method of merging at a press conference yesterday.

He said the alternative would require the approval of 75 percent of Allied's shareholders, which meant that a few shareholders could block the transaction.

He said investors holding almost 30 percent of Allied's shares had indicated they would support the merger.

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

Outlining the merger, Piet Badenhorst, who has been designated chief executive officer of the new organisation, said at the press conference that each of the banks would retain its separate identity, would continue with its present activities and would be encouraged to expand its market share.

The savings arising from the merger would come from the rationalisation of support services, including computer operations.

It was expected that the operating costs of the amalgamated banks would be cut by 11 percent in the first year of operation, though this figure could be higher.

The board of UBS Holdings/ABSA would be reconstituted to reflect the constituents and structure of the new group.

Herc Hefer will be chairman, Joe Stegmann deputy chairman, Norman Alborough, Graham Boustred and Louis Shill vice-chairmen.

Other board members will be Mr Badenhorst and Dr Danie Cronje, who will be deputy chief executive.

The new group will acquire from Sage Financial Services a 49 percent interest in Sage Insurance Holdings.

This would afford substantial scope for growth.

Mr Badenhorst said the merging parties had already received approval in principle from the Registrar of Banks.

The Johannesburg Stock Exchange and the Monopolies Board had been informed about the negotiations.

The merger is to be effected by UBS Holdings changing its name to Amalgamated Banks of South Africa and issuing shares as follows:

- 100 ABSA shares (valued at R7,70 each) for every 320 Allied shares, putting a price of R2,40 on each Allied share.
- 240 ABSA shares for every 100 Volkskas shares, equating to a Volkskas share price of R18,48.

Renamed

A consortium has undertaken to give Allied shareholders R7,70 in cash for half of their ABSA shares, which is equal to R2,40 for each Allied share.

Sage Insurance Holdings, which owns, among other things, the entire share capital of Sage Life, will be renamed and ABSA and Sage Financial Services (SFS) will investigate the rationalisation of their respective insurance interests in due course.

ABSA will acquire the 49 percent stake in Sage Insurance Holdings through the issue of 20,0 million ABSA shares to SFS at a price of R7,70 a share.

This amounts to a purchase price of R154,2 million and is effective from January 1 1991.

The major shareholders of ABSA — Financial Securities Limited (a Rembrandt Group company), SFS and the Mine Officials & Employees Pension Funds — have agreed to pool their ultimate respective interests in Holdco.

Collectively this amounts to a 30,4 percent stake.

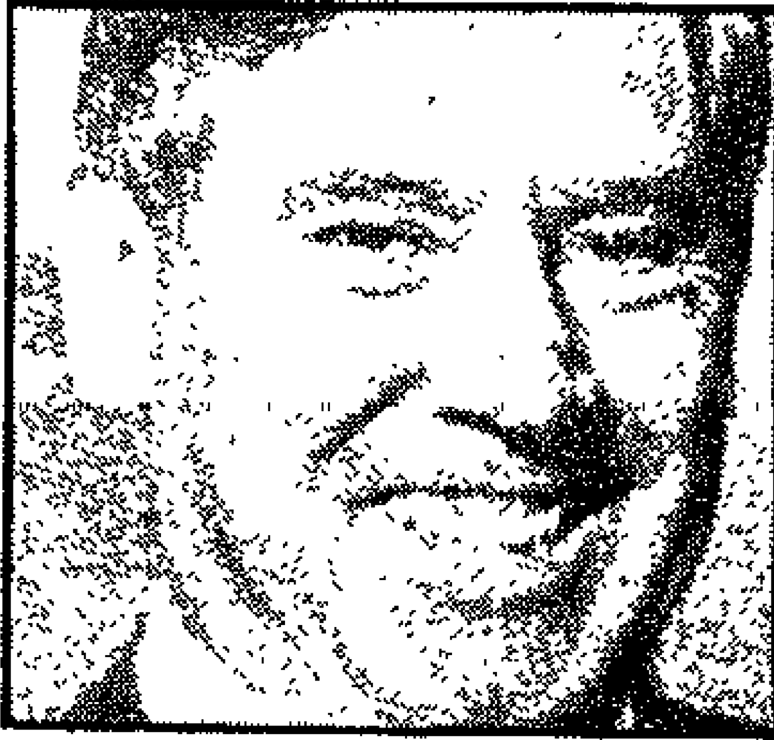
Their respective interests in this pooling arrangement will be 39,4 percent, 39,4 percent and 21,2 percent.

The merger will increase the annual earnings of UBS/ABSA shares from 81,7c to 88,3c, the annual dividend from 32c to 34c and the net asset value from 603c to 656c a share.

Allied earnings a share will rise from 23,2c to 27,6c, its dividend will drop from 11,5c to 10,6c (if it maintains 2,6 times cover) and its net asset value will rise from 193c to 205c a share.

The merger will have the effect of reducing Volkskas's earnings a share from 267,9c to 212c, cut its dividend from 90c to 81,6c, and the net asset value from 1966c to 1574c a share.

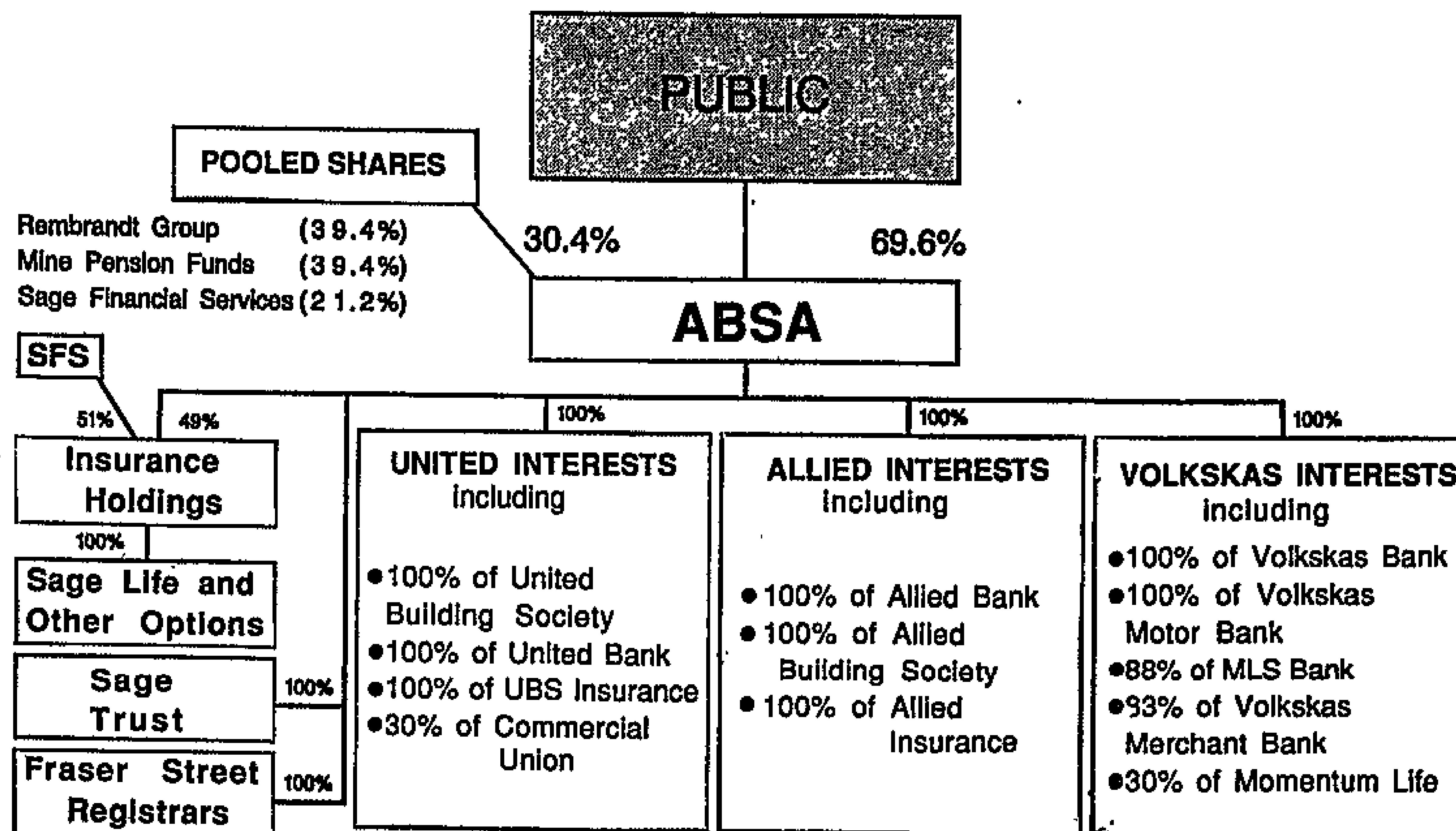
It will increase the earnings of Sage Financial Services from 36c to 44,7c a share; enable it to raise its dividend from 18c to 19c and increase its net asset value from 200c to 250c a share.



Herc Hefer chairman.

Joe Stegmann deputy.

Piet Badenhorst CE.



Group structure of the proposed Amalgamated Banks of South Africa.

Merger likely to escape scrutiny

Counter bids for Allied are 'beaten off'

BDay 29/1/91. (58)

GILLIAN HAYNE

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

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

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

If the merger goes through as planned, Absa will effectively be controlled by Rembrandt, the Mine Officials' Pension Fund, the Mine Employees' Pension Fund and SFS, which have agreed to pool their 30,4% interest in Absa into a single holding company. This would have the power to block any transactions requiring special resolutions.

At yesterday's media briefing to announce the merger little attention was paid to last Friday's counter offer for Allied by First National Bank (FNB). However, there was an indirect recognition that FNB's approach remains in play as the merger terms include a partial cash underpin for Allied shares — an option not extended to shareholders of the other three merger participants.

FNB did not offically disclose the takeover terms it put to Allied's board last Friday, but reliable company sources valued the cash underpin of FNB's bid in the region of 250c an Allied share.

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

Allied shareholders have been told that their share earnings and net worth are expected to be improved by the merger. They have been offered 100 Absa shares for 320 Allied, and a consortium headed by the two mine pension funds has agreed to buy half of the Absa shares issued to Allied shareholders at 770c each in cash. That placed an effective cash value of 240c on each Allied share.

The same cash offer is not extended to Volkskas. Its shareholders are faced with the prospect of earnings and asset dilution as a result of the merger, though stockbrokers believe this might be a small immediate price to pay for improved growth prospects. SFS is to transfer 49% of its principal interests to the group at an effective price of R154m based on the 770c Absa cash underpin. UBS shareholders simply receive Absa shares for their UBS shares.

Some Allied minority shareholders yesterday expressed concern at the merger's

☐ To Page 2

mechanics. Peter Brown, the 19th largest Allied shareholder with over 500 000 shares, said: "It is immoral to push the merger through on a Section 228 ticket, using the vote of only three to four shareholders. UBS is obviously sidestepping a possible examination by the SRP which will be effective this Friday. A further iniquity is that Allied's board has a strong Sage link, which obviously loaded the decision in favour of the merger."

Norman Alborough, Allied's chairman said the board had taken the decision based on the facts on the table at the time. Analysts suggest Alborough could have been hinting that there was still time for a counter-bid by FNB.

Other Allied executives who were reluctant to be named believed that the company's staff as a whole preferred an association with FNB to one with UBS. This appeared to be borne out by a straw poll of randomly selected Allied branches they invited Business Day to carry out.

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

Hefer countered that UBS had chosen the "228 route" as it provided a greater chance for the merger to succeed. Section 228 requires only that a majority be achieved among the shareholders present at an ordinary general meeting. In terms of Section 311 of the Companies Act, 75% of shareholders present at an extraordinary meeting need to approve a special resolution when minorities contest plans for a company to dispose of major assets.

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

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

Piet Badenhorst will assume the position of CE, while Danie Cronje will become deputy CE. The vice chairmen will be Norman Alborough of Allied, Graham Boustred of UBS and Louis Shill of Sage. Additional board members have yet to be announced. However, brokers wondered yesterday if there was any significance in the exclusion of Allied MD Kevin de Villiers from the list.

Fedlife sets up new unit trust (58)

Finance Staff Star 29/1/91

Fedlife Assurance, the main operating subsidiary of Fedsure Holdings, is coming to the market with two new investment vehicles.

It has launched the Fedbond mortgage participation bond and it will announce details next month of a new general equity unit trust. The moves follow the successful introduction last year of a 100 per cent equity-linked retirement annuity.

Fedsure chief executive and Fedlife managing director, Arnold Basserabie says the current state of the stock market gives Fedlife an opportunity to start a new fund which will demonstrate the group's investment skills.

"We feel the time is opportune for a new unit trust and for the introduction of a mortgage participation fund", he said.

The moves follow another record-breaking year for new business by Fedlife, despite the downturn in the economy.

Fedlife which accounts for nearly 97 percent of Fedsure assets, increased total new recurring premium business last year by 33 percent to R157,8 million while single premium business increased 38 percent to R156 million.

The life division's performance was particularly strong with new recurring premium business up 55 percent.

French Bank helps form new group

Business Day Reporter

CIB Corporate Finance's management has formed a new financial services group with French Bank of SA, to be called FBSA Corporate Finance, the company said today.

FBSA Corporate Finance MD Inus Prinsloo said the association with French Bank was a vote of confidence in SA's future participation in international markets.

"(The link) will enable us to achieve our objective of expanding the client base significantly," Prinsloo said.

Prima Bank, which acquired the Cape Investment Bank Group in December, sold the corporate finance division to its management in January.

French Bank is part of an international group with strong connections with the EC and the Far East.

Major shareholders are Banque Indosuez with 54,6% and Barlows with 45,4%. BDay 29/1/91.

French Bank MD and FBSA Corporate Finance chairman Francis Klein said the association would expand the services the bank could offer its clients.

Syfrets offshore fund grows

B Day 29/1/91.

SEAN VAN ZYL

SYFRETS's specialised SG International Fund achieved a growth of 4,2% from its start in August 1989 to end-December 1990, portfolio management services senior manager Malcolm Farrell said yesterday.

The SG Fund, which was formed in conjunction with Cayman Islands-based Ermitage Management in May 1989, allows SA residents with foreign assets to put funds into an investment vehicle encompassing a "broadly-based spread of offshore funds, equities, bonds and currencies".

The SG Fund administered about US$10m on behalf of clients in SA, Farrell said. The fund's administrative costs were 1% of profits.

Investors are required to have a minimum of $10 000 to invest in the fund.

Farrell said the fund's success was highlighted when compared with the Financial Times Actuaries World Index, which dropped by about 10% over the same period.

In addition, the Ermitage benchmark, a hypothetical weighted average portfolio, which assumed a position of 60% of FTA World Index stocks and a 40% holding on a three-month euro-dollar deposit, disclosed a negative growth of 4%.

The Ermitage benchmark was regarded as a "fairer" comparative investment check, he said.

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Farrell said the SG Fund's relatively strong performance was a result of its "above average" exposure to cash during 1990. Furthermore, the GAM Ermitage Fund, in which the SG Fund was partly invested, enjoyed a 24% growth in earnings over the same period.

The SG Fund's asset split to end-December last year was: cash 44%; bonds 16%; equities 35%; and "other" 5%.

Farrel said it was expected that the fund's exposure to equities would be increased to about 60% over the next five years as world share prices picked up over the longer term.

While the SG Fund has performed adequately, Farrell said, Syfrets has also enjoyed a high level of demand for its Disa Income Fund which provides non-SA residents with the opportunity of investing in the country through the financial rand.

Interest rates could drop despite the war, says expert

(58)

LESLEY LAMBERT

CAPE TOWN — The Gulf war will not necessarily change economic forecasts of a three to four percentage point drop in interest rates by the end of the year, but it may delay the start of the decline, says the Board of Executor's Rob Lee.

The prime overdraft rate of 21% could start falling within a month, reaching 17% or 18% by the end of the year. But the financial authorities are likely to delay its decline if there is another sharp increase in the price of oil, Lee says in the BoE's latest economic report.

He believes that gradual progress will be made in reducing inflation and increasing the level of foreign exchange reserves this year. That would provide scope for lower interest rates.

Similarly, he says, it is likely that the authorities will continue to keep the rand relatively stable and will certainly resist any undue depreciation of the currency.

But, the prospects for other forms of economic relief are limited. World economic growth will continue to slow down.

B/Day 29/1/91.

The gold price, which has performed disappointingly, may fall back to the $350 level and will require a major financial crisis and the collapse of the US dollar to sustain any upward trend.

On balance, says Lee, 1991 is likely to be a year of little or no economic growth, but there are grounds for believing that the prospects for 1992 are more encouraging.

On the JSE, Lee says, good value is starting to emerge in areas of the industrial market and long-term buying opportunies may become evident this year. He says the market has discounted at least some of the future bad news, but is still vulnerable to further downside.

UBS, Allied detail plans for merger

CAPE TIMES 29/1/91 (58)

Own Correspondent

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

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

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

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

Masterbond negotiating merger with Pretoria Bank

By Maggie Rowley

CAPE TOWN — Financial services and development company Masterbond Trust is negotiating to merge with Pretoria Bank, says chairman Koos Jonker.

He says negotiations for the merger with Pretoria Bank, in which Masterbond Trust has a 30 percent stake, are well under way.

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

Pretoria Bank's assets stand at about R140 million.

Both Mr Jonker and Masterbond Trust MD Johan Brits sit on Pretoria Bank's board.

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

Masterbond is highly active in the leisure industry and these interests are consolidated under the Masterleisure subsidiary.

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

A total of 900 units are planned in the development, which is scheduled for completion over the next five years.

Merging institutions will learn fate today

58

Star 28/1/91.

By Derek Tommey

Speculation about whether a major takeover battle is impending between companies associated with two business giants — Rembrandt and Anglo American — for Allied Group should be settled later today.

The four financial companies which have been engaged for the past three months in merger talks — UBS Holdings, Volkskas Bank, the Allied Group and Sage Holdings — are holding a press conference today at which the terms of their merger plans should be announced.

Rembrandt's interest in the merger arises from its substantial stake in UBS Holdings and Volkskas.

The merger talks came to fruition 11 days ago.

They four companies announced they had reached agreement in principle to form a diversified financial group, which would control assets of R56 billion and be SA's largest financial institution.

However, the merger proposals ran into choppy water on Friday when First National Bank, which has close links with Anglo American, said it had made a proposal to the Allied board to acquire control of the group.

First National is expecting a reply to its proposals today.

Shareholders of all four organisations involved in the merger have been left completely in the dark about the form the proposals would take.

There is, therefore, a possibility that today's press conference might contain a few surprises.

It could have two possible outcomes. The companies could announce they are going ahead with the merger and outline the terms. Or they could say Allied's directors had accepted the First National proposals and that only three companies would be merged.

Shares of Allied were suspended on Friday and it is expected that the shares of UBS and Volkskas will be suspended prior to trading today.

Issy Goldberg . . . help for Allied's small shareholders

There is considerable concern in investment circles about the ultimate ownership of Allied and how much is paid for its shares.

Allied is a former mutual building society, which converted into a bank and secured a JSE listing three years ago.

Depositors were offered prefential rights to shares. This resulted in Allied gaining 50 000 small shareholders (now down to 48 000) with little knowledge of valuing bank shares, but no major or controlling shareholder able to lay down takeover terms and defend the interests of shareholders.

Issy Goldberg, chairman of the Shareholders' Association, said last night the association would inspect the merger and takeover proposals and try to help Allied's small shareholders.

He said there might be an impression that any plans accepted by Allied's directors were binding, but all proposals for the merger or acquisition of Allied would need to be ratified by its shareholders at the annual meeting.

His association would do its best to advise Allied shareholders on which proposal was in their best interests.

The valuation of Allied's shares could be a matter of considerable controversy.

Since it became a bank Allied has spent substantial sums developing its systems and introducing new products. Money spent had to come out of profits and has resulted in a lower sharemarket rating.

Now, however, Allied should start reaping the rewards of its investment.

An analyst said yesterday Allied's position was in some ways similar to that of a new gold mine, which had spent tens of millions on shaft sinking, plant construction and development and had reached the stage where the first gold was about to be poured.

The analyst said Allied had many valuable properties.

If, as seems likely, Allied had followed normal banking practice, these were probably on its books at well below their true worth.

This meant the figures for its net asset value, based on balance sheet figures, would be standing at a substantial discount.

Cape bank expects material write-offs

LESLEY LAMBERT

CAPE TOWN — Material write-offs from Cape Investment Bank Group's (CIBG) R350m loan book were expected and, if they materialised, would dilute the preference shares issued by Prima Bank Holdings for its 49% stake in the group, Prima MD Johan Bellingan said at CIBG's AGM on Friday.

Bellingan said the preference shares would be diluted between now and June 30 in the event of such write-offs. After June 30, Prima would be reversed into CIBG.

In reply to questions, Bellingan conceded the potential write-offs could significantly reduce the purchase price of CIBG, based on shareholders' funds of R38m. The auditors would take another six weeks to determine net asset value.

He said CIBG's advances and loans book had increased from R174m to about R410m since the June 1990 year-end. Exposure to individual clients had also increased with some being "too big and too risky".

"We feel there'll be material losses against some of them," Bellingan said.

Bellingan said large exposures of R84m in the gilts market and R90m in equity risk management had either been closed out profitably or hedged. But, there had been significant losses in other trading markets.

On the funding side, the R350m loan book was funded by deposits of about R420m which exposed the bank too heavily to individual clients. This was being addressed.

Prima was also trying to place portions of CIBG's R45m investment in preference shares although some had contracts which prevented this.

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Write-offs

□ From Page 1

Once the net asset value was determined, CIBG minority shareholders would be given the option of keeping their ordinary shares or converting them into preference shares.

Picardi Holdings director and former CIBG executive chairman Jan Pickard jnr confirmed that if there were substantial write-offs, the worst damage that could be inflicted on Picardi Holdings would be the loss of the R14m invested in CIBG.

Pickard said there had been a "material post-balance sheet item" which had been resolved. Provision had been made for potential losses.

Takeover watchdog is new factor (58)

Allied bid: scramble to beat deadline

B|Day 28|1|91.

GILLIAN HAYNE

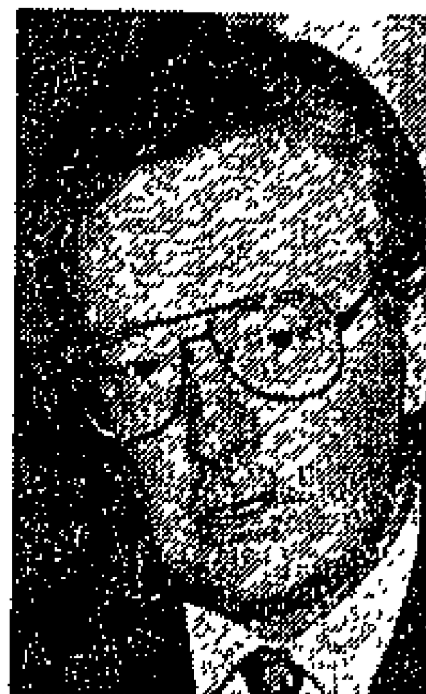
LAWYERS worked feverishly through the weekend to complete UBS's controversial proposals for the acquisition of Allied in the apparent hope of preempting a possible scrutiny of the merger by the new Takeover Code watchdog, the Financial Services Board (FSB), due to come into operation on February 1.

● DE VILLIERS

This followed the effective rejection by the Allied board on Friday of a counter offer from First National Bank (FNB).

On Sunday the UBS's Piet Badenhorst declined to comment as, largely, did Sage's Louis Shill. Allied MD Kevin de Villiers was also reluctant to discuss the competing bids. However, outsiders believe the UBS is under pressure to reach agreement on the merger of the assets of Allied, Volkskas, UBS and Sage Financial Services (SFS) in a new holding company for fear that use of Section 228 of the Companies Act could be overturned by the FSB.

● BADENHORST



● SWART

The UBS camp seems to hope that if terms can be agreed before February 1, the merger deal could avoid investigation by the FSB, which will then have more powers than there are now to protect shareholders. Without that protection it would be possible, FNB's Barry Swart argued yesterday, for a small minority of shareholders to force through a sale of Allied's assets to the detriment of the majority of the company's shareholders. He made that point on the basis that Section 228 requires only that a majority of shareholders present at an ordinary shareholders' meeting vote in favour.

On Friday, FNB announced its offer for absolute control of Allied. The offer's terms were not disclosed but they were reliably said to involve a share swap with a cash underpin amounting to almost 250c an Allied share. An earlier cash offer by Southern Life for 30% of Allied fell away.

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Allied

b|Day 28|1|91. (58)

☐ From Page 1

However, at a hurriedly convened board meeting on Friday, Allied's directors again chose to go along with the UBS and, by implication, rejected FNB's approach. FNB's offer differed materially from the merger proposals by the UBS in terms of which Allied's assets would be transferred to a new holding company whose shares would, in turn, be distributed to Allied shareholders in payment.

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

Analysts said the Allied board's decision appeared to have been taken on incomplete information as lawyers were still working on the UBS proposals. The intention is for Allied's shareholders to be compensated by means of a special dividend paid in the scrip of a new holding company to be formed to hold the assets of UBS, Volkskas, SFS and Allied.

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

At Friday's meeting of Allied's 10-man board, the UBS option was supported by Shill; Alan Tindall, a director of Sage Properties and a former chairman of Allied who initiated Allied's contentious marketing and computer agreement with Sage; Noel Mills, who is the managing director of Sage Properties; Jeff Bortz, one of Sage's attorneys; and stockbroker Hugh Boonzaaier. The vote was not taken on a show of hands but "consensus" was assured by Sage's associates commanding half the votes, company insiders said.

Some insurance company fund managers have also expressed concern about the UBS plan, saying a dividend payment would be taxable even if received in scrip.

Dealings in Allied shares on the JSE were suspended on Friday.

HAROLD FRIDJHON in the Money Markets

Assault on bond market rates well timed

GOSSIP makes markets, not governors. The more Chris Stals tells bankers, the Press, and almost anyone who is prepared to listen that Bank rate will remain frozen, possibly for the duration of the Gulf war, the more people in the financial markets lend ears to rumours and gossip.

Thursday's and Friday's markets vibrated on hot-line talk that a Bank rate move would be announced at the weekend. Sources were said to be impeccable: a Reserve Bank directors' meeting, no less.

The bond market's response was to send rates gyrating in an accelerating churnover, but the money market — which deals in real assets — reacted more staidly, actually showing signs of life.

In the earlier part of the week, bond market bulls were encouraged by modest institutional buying focused more on medium-dated stocks than on the longs.

In low-level trading rates on the Eskom 168 were brought down to the 15,90-80% range from the previous 16,00-15,90%, but on Friday, the Bank rate booby trap was set, and the 168s were brought down a further 10 basis points in hectic turnover.

The assault on bond market rates was well-timed. Market talk is that many of the players are short and want to cover, and next week will bring the close-out of the February options, with 15,75% said to be the key price. Some of the options written are "naked" — uncovered.

Turnover on Friday was said to have topped R1bn with the closing yield on the 168s at 15,7150%.

In the money market, dealers who had suffered the boredom of inactivity for the larger part of the week watched the bond market fireworks on their screens, somewhat jealously.

Their market was morgue-like because Stalsian frankness had put a cap on speculation by limiting expectations of change.

Rates were static last week. The BA (bankers' acceptances) rate for 90-day liquids have, except for a couple of hiccups, been rigid at 17,65% for most of the month. The Treasury bill (TB) rate remained unchanged at 17,33% on Friday in a tender which attracted R347m.

Fund managers have been buying assets in small quantities.

Earlier in the week some trading took place, largely in three-month paper, NCDs (negotiable certificates of deposit) at 18,35%, and non-liquid BAs at 17,60% to yield 18,40%. But dealing dried up when the non-liquids coming into the market were unacceptable, and banks stopped issuing short-term NCDs.

The banks are issuing in the six, nine and 12-month periods. They have raised their rates marginally — five basis points — to attract business, but without spectacular success. Rates for the three maturities are all at the same level, 17,65-55%, partly to give customers a choice, and partly to start adjusting to the requirements of new banking legislation.

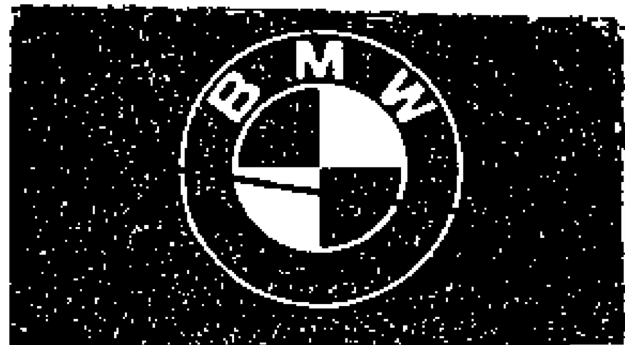
Only the overnight call rate is moving up to 18% in anticipation of the banks' end-of-month shortage reaching just over R3bn, a non-event as far as most banks are concerned.

UBS and Allied agree on merger

Cape Times 28/1/91 (58)

Own Correspondent

JOHANNESBURG. — Lawyers worked feverishly through the weekend to complete UBS's controversial proposals for the acquisition of Allied in the apparent hope of pre-empting a possible scrutiny of the merger by the new Takeover Code watchdog, the Financial Services Board (FSB), due to come into operation on February 1.



This followed the effective rejection by the Allied board on Friday of a counter offer from First National Bank (FNB).

On Sunday the UBS's Piet Badenhorst declined to comment as, largely, did Sage's Louis Shill. Allied MD Kevin de Villiers was also reluctant to discuss the competing bids.

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

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

Without that protection it would be possible, FNB's Barry Swart argued yesterday, for a small minority of shareholders to force through a sale of Allied's assets to the detriment of the majority of the company's shareholders.

He made that point on the basis that Section 228 requires only that a majority of shareholders present at an ordinary shareholders' meeting vote in favour.

On Friday, FNB announced its offer for absolute control of Allied.

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

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

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

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

In the past, Section 228 deals have frequently been disallowed by the courts protecting shareholders' interests.

Those rejections have been prompted by judges' views that Section 228 could be used to circumvent regulations designed to protect minority shareholders' rights.

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

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

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

At Friday's meeting of Allied's 10-man board, the UBS option was supported by Shill; Alan Tindall, a director of Sage Properties and a former chairman of Allied who initiated Allied's contentious marketing and computer agreement with Sage; Noel Mills, who is the managing director of Sage Properties; Jeff Bortz, one of Sage's attorneys; and stockbroker Hugh Boonzaaier. The vote was not taken on a show of hands but "consensus" was assured by Sage's associates commanding half the votes, company insiders said.

Three now in the chase for Allied

STimes 27/1/91. (58)

THE JSE suspended trading in Allied Group shares on Friday before the entry of a mystery third party into negotiations about its future.

By DIRK TIEMANN and JULIE WALKER

A last-minute hitch stalled the announcement of a share swop and cash offer from First National Bank (FNB) to acquire the Allied group after a day of high drama in boardrooms.

But FNB said proposals had gone to the Allied board.

"A response is now awaited." Allied has been the centre of intense speculation since moves were initiated four months ago by Rembrandt to form a R50-billion banking giant spanning its interest in UBS, Volkskas, Allied and Sage Holdings.

Analysts say there are now three proposals on the Allied table, including the UBS-led merger.

Two weeks ago Southern Life, in which FNB has a 29,9% stake, put surprise proposals to Allied, but the spotlight seems to have moved towards FNB

FNB and "parties acting in concert" already hold 8% of Allied, in which there is no dominant shareholder.

Banks may hold 100% of another bank's stock, but in terms of the Deposit-taking Institutions Act any other institution is limited to a 49% holding.

Shortly after the Southern Life move UBS, Volkskas, Sage and Allied announced that agreement had been reached "in principle".

Third

Analysts suggest the third bid may have come from Standard Bank Investment Corporation, which as the largest banking operation could wish to block the formation a another megagroup.

But Standard Bank sources discount the move.

Allied's main attractions are its huge home-loan book valued at R7-billion and good computer systems with about 20% excess capacity.

One analyst says: "Allied is a unique proposition with a respectable size."

He points out that FNB has sorted out its computer and image problems, but has lost market share in the past two years.

The acquisition of Allied could allow FNB to double the size of its home-loan book in one jump, something that would otherwise take years to achieve.

Rising

The improvement in FNB's share price — it has risen to R30 from R23 last March — makes a share-swop deal more attractive.

One view is that the Allied and FNB cultures blend more easily than they would with UBS and Volkskas

Allied shares reached an all-time high of 230c on Thursday, and the market capitalisation at suspension topped R665-million. During the week an average of more than 500 000 shares a day changed hands, at an ever-rising price

The shares were 113c last May, but have climbed steadily since then on talk of rationalisation in financial services Allied's net asset value is about 202c.

The fact that the market price is at a premium to this and was still rising at the time of suspension suggests that at least some of the negotiators are willing to pay a pretty penny

FNB shares also showed strength this week, adding 175c to R30.

Standard, the largest bank in terms of assets, would leave the pack way behind if it got its hands on Allied.

Its R30 share price — R10 above the net asset value — would allow it to issue paper and bid up the Allied price.

An analyst believes it would be worth bidding the price up to R2,70, if it meant gaining control of Allied

At least one well-placed analyst believes FNB would have little to gain from an association with Allied — a company with a wide spread of shareholders, the largest of which is Sage with 10%.

He says FNB could end up paying a lot of money for relatively few assets He has no doubt that the Rembrandt parties will link up through an issue of UBS paper to shareholders of the other three

Sage gained 35c to 785c, and UBS Holdings 5c to 770c this week. Volkskas was unchanged at R17

TED OSBORN: Forget about gold windfall Picture: GARTH LUMLEY

Over a hump, but still in the woods

STimes 27/1/91.

Business Times Reporter

THE LAST-MINUTE rally in SA's balance of trade which took the cumulative surplus for 1990 to R16,4-billion does not dispel clouds on the economic horizon.

The estimated current account surplus of R5,5-billion is much better than flattering. But their prospects for the rest of the year are not bright

At the same time SA's gold and foreign-currency reserves cover less than two months' imports encouraged economists.

But this year the drought means SA will turn from a net exporter of farm products to an importer, with a worst-scenario R2-billion effect on the trade balance

Gulf war cuts SA visitors

By DON ROBERTSON

THE decline in the number of international visitors to SA as a result of the Persian Gulf war could cripple hotels.

Fedhasa chief Fred Thermann says many tours from all over the world have been cancelled Cancellations began last October because of unrest, but were aggravated by the war.

An international technology conference planned by the SA Bureau of Standards was postponed this week A private dealer meeting was also postponed

Fear of terror attacks on airlines has forced many visitors to cancel their trips.

Those risking travel are advised to allow at least an extra hour for checking in at international airports to facilitate baggage searches. Most airlines refuse to accept luggage presented at the last minute

A spokesman for SAA says it is too early to establish whether bookings have declined because a full month's figures have not been completed Visitors are, however, booking at shorter notice.

Malcolm Freeman, general manager of British Airways, says bookings to SA have not been severely affected.

Fedsure unit trust on the way

58

St Times 27/1/91.

By Ian Smith

FEDSURE Holdings, the holding company for life assurer Fedlife, celebrates another year of strong growth with strategic moves into new investment areas.

The group will announce details next month of a Fedlife unit trust. It will follow an encouraging response to the launch of the Fedlife Mortgage Participation Bond, Fedbond.

"The time is opportune for both ventures," says Fedsure chief executive and Fedlife managing director Arnold Basserabie.

"Investors are continually seeking promising investment opportunities and our large client base provides access to a big market. The current state of the stock market offers scope for a well-managed unit trust, and participation mortgage bonds offer growth and security.

"The average rate of interest paid by partbonds in the past 10 years was 16,8%.

Strategic

"A strategic decision to concentrate on high premium endowment business appears to have been correct and has been an important element in our success."

Fedsure's confidence is fuelled by growth in Fedlife, which accounts for nearly 97% of group assets. Total new recurring premium business increased last year by 33% to R157,8-million. Single premium business rose by 38% to R156-million.

The life division's performance was particularly strong with new recurring premium business up 55%

The group is showing confidence in 1991 by opening five more branches this year. Fedsure, listed on the JSE in 1987, is due to report results for the year to December 31. Taxed profits increased 23% to R11,1-million in the first half.

Mr Basserabie says Fedlife's growth in assets to nearly R4-billion and annual cash flow of R500-million make it a large player.

Material write-offs expected at CIB

Star 26/1/91 (58)

BLAISE HOPKINSON

THERE could be material write-offs in Cape Investment Bank's R350 million loan book, new controller Prima Bank warned yestrday.

Prima Bank managing director Mr Johan Bellingan told the CIB annual meeting the intention was to reduce deposit exposure by shrinking the loan book.

He added it could take auditors another six weeks to determine the true net asset value and this would determine the final price Prima would pay for control of CIB.

Prima currently controls 49 percent of equity in CIB.

As of June 30 this year Prima will be reversed into CIB and acquire its Johannesburg Stock Exchange listing.

Replying to questions, Mr Bellingan warned there could be material write-offs in some loans.

He also pledged Prima had not entered the deal to perform "an asset strip".

Mr Bellingan had earlier said Prima's intention was to reduce CIB's book to about R50 million and admitted some individual loans had been "giving us uphill".

CIB chairman Mr Jan Pickard jun. said CIB's gilt exposure had been nothing like the rumoured R3 billion, and later added the company had employed some of the country's top traders.

Building societies hog the limelight

Star 26/1/91

Inside Out

ANN CROTTY

Building societies stole a lot of the limelight again this week. What a turn up for the books with First National moving in to make a bid for Allied and looking very much like being able to pull Allied out of the UBS/Volkskas/Allied/Sage deal.

Myles reckons that not too many people would be either disappointed or surprised about that mega deal not happening quite according to plan. Except perhaps the guys at Sage who may now be left all on their own.

There was also a lot of attention on Saambou with much talk of counter-offers. And, now that everybody had given up guessing who is behind the Trafalgar bid, there is much reference to "hidden agendas" — all of which is a bit too Stasi-like for Myles.

The Saambou share was quite heavily traded and most of the week it was above the 140c offered by Trafalgar. This means that unless something remarkable happens between now and Thursday, it's unlikely that Trafalgar will get the 30 percent it was aiming for.

But if it gets more than 10 percent and there is a higher counter-offer then the guys there should be able to make some turn on their efforts.

Interested

One party speculated to be interested is Board Of Executors but Myles couldn't get any gen on that front.

Then of course there may be no other offer and the share price may slump on Friday — after the Trafalgar offer closes.

But Myles reckons that while Saambou doesn't have much of an earnings track record, Trafalgar has stirred up the situation and things will not just settle back unchanged.

In addition the Saampro listing is likely to see Saambou revalue its property portfolio above the current price that's included in net asset value calculations.

Also much speculation on the Tradegro front about unbundling the group and getting a separate listing for Checkers. Myles reckons that Checkers would have to show some major improvements in operating performance before the public would be enticed to take a stake. Now if Brian Joffe was to move in...

However Mr Joffe denies reports that he is negotiating a Checkers deal.

It seems that there weren't quite the fireworks expected at CIB's annual meeting yesterday in Cape Town. Given all the rumours that had been doing the rounds, the meeting turned out to be something of a non-event.

But no clear picture emerged of what caused the bank's demise. One shareholder seemed a bit put out that as recently as last November he'd been encouraged (by management) to hold on to the shares at 80c.

Rumours continue about something happening at TML. Despite denials from the Argus, Myles hears that it is looking to reduce its stake in TML. But apart perhaps from TML management, it is difficult to see who would be a keen buyer.

Also on the newspaper front, the extraordinary general meeting of Argus shareholders passed the resolution regarding a 20 for one share split.

This of course means that on some day in the distant future, if JCI wanted to lighten its Argus holding the share could be afforded a much wider selection of investors — even journalists.

FNB joins the Allied battle

Star 26/1/91

(58)

Barry Swart . . . considering a link-up for some time.

MAGNUS HEYSTEK and DEREK TOMMEY

THE Allied Group's 48 000 shareholders are in line to make a handsome profit.

After weeks of speculation about the possible future of Allied a new suitor emerged yesterday when First National Bank presented proposals to acquire the group.

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

However, at the request of Allied the Johannesburg Stock Exchange suspended trading in the Allied's shares yesterday to protect shareholders.

This suggests that the offer by First National is above the current market price of 230c.

First National MD Barry Swart said yesterday he is awaiting a reply from Allied directors and further information will be made available as soon as possible.

A merged Allied-First National Bank would have assets totalling around R47 billion, making it the largest banking group in the country in terms of assets. It would be slightly bigger than the Standard and also slightly bigger than a merged Volkskas-UBS.

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

Potential

Mr Swart said last night that his group had been considering linking up with the Allied Group for some time. He believed that the Allied had tremendous potential and that the two banks could work well together for their joint benefit.

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

Mr Swart said that as a result of acquisition through the share market First National now held 8,3 percent of Allied's share capital.

The entry of First National into the ring as an Allied suitor was no surprise to the market.

For the past three months Allied has been engaged in what appears to have been desultory merger talks with UBS Holdings, Volkskas and Sage.

But little progress appears to have been made. And it seems that it was only a report two weeks ago that Southern Life had made a proposal to Allied's directors that pushed the four groups into announcing last week that agreement had been reached in principle to merge.

The share market will now be waiting to see what price First National proposes paying for Allied shares, and then whether there will be a counter offer from the Volkskas-UBS-Sage group.

Share price

Allied's share price has risen in the past 12 months from 130c to yesterday's 230c. However, in Allied's case one cannot say that the market price of Allied's shares realistically reflects their right value.

Allied has thousands of "weak" share holders — people with little knowledge of the share market and no knowledge at all of how to value a banking share. The result is that more often than not it is the need of these shareholders for money that determines the price they want for their shares rather than an evaluation of their present and future worth.

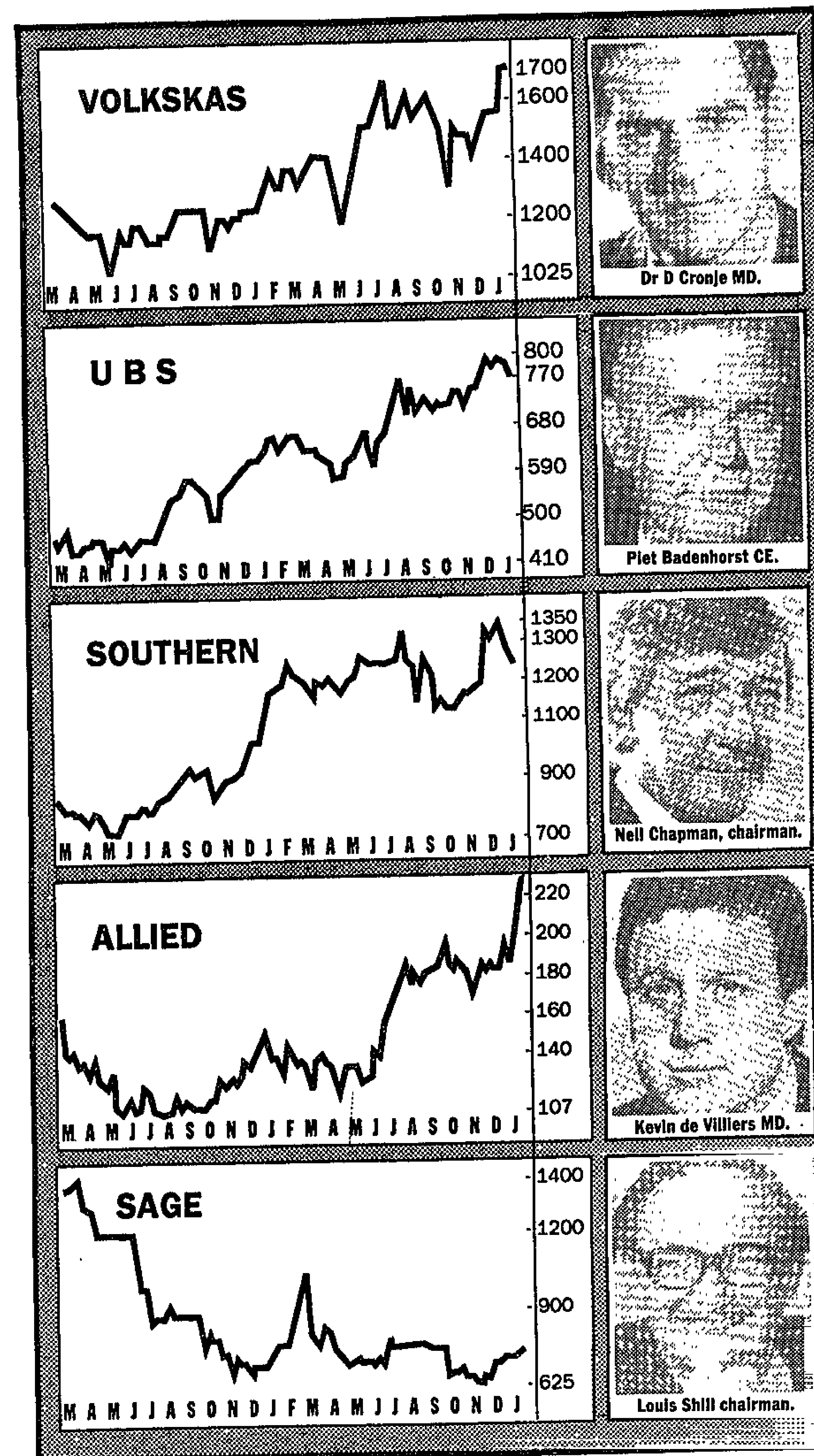
What will have to be taken into account in any proposal for the shares is Allied's future prospects. It has invested tens of millions of rands in the past few year in systems and launching new products. Allied is now about to reap the rewards from the developments.

Allied's shareholders have a right to expect this fact to be taken into account when First National determines what it should pay for Allied's shares in the event of a take-over.

Brokers believe that a counter offer by Volkskas, Sage and UBS is rather remote.

Those experienced in mergers say a marriage between Volkskas and UBS alone will create a host of problems for the two organisations.

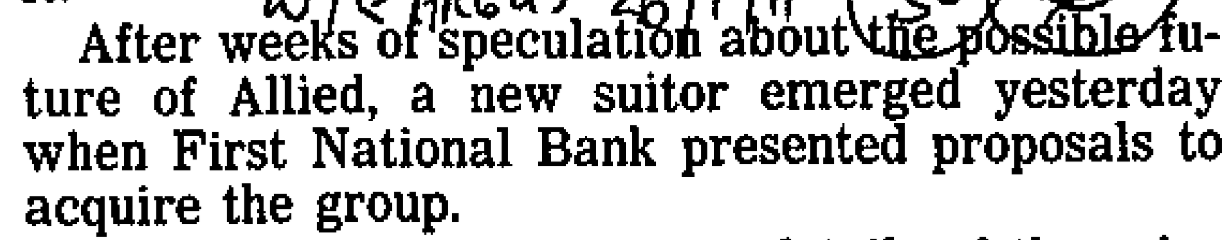
Including in this new grouping a possibly hostile Allied could cause real problems.



FNB in bid for Allied

Weekend Argus Correspondent

JOHANNESBURG. — The Allied Group's 48 000 shareholders are in line to make a handsome profit.



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Largest banking group

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SAAMBOU/TRAFALGAR (58) FM 25/1/91

PUT INTO PLAY?

A takeover of Saambou should surprise nobody — banking analysts believe it is bound to happen sooner or later. Yet the bid for 30% launched last week by Trafalgar Portfolio Managers (Pty) has certainly come as a surprise, given that it is an unfriendly bid (no approach was made to the board first) and it is being made by a company that hardly anyone has heard of.

All accept that the bid seems to have been carefully planned. Notably, it was announced only days before the new securities regulation code on takeovers and mergers takes effect in February.

The big question, of course, is whether Trafalgar is fronting for an organisation still to be identified, or is acting on its account, as the directors claim. Firstly, there is the question of funding. A stake that size, at 140c a share, would cost some R36m. And, if there is a serious effort to build up a 30% stake, then it is questionable whether the 140c offer price would succeed, as the share was trading this week at 150c.

Then there is the question of Trafalgar's intentions. Reasons why another bank or other major financial institution might want to acquire Saambou are clear enough. By gaining control of Saambou's portfolio, a bank or diversified financial services group may find it easier to comply with the tightening capital ratio requirements that will apply under the new Act, as mortgage loans carry a lower risk weighting than most other assets held by banks. For that matter, analysts feel Saambou might have difficulty meeting these requirements on its own.

Another potential benefit for a bank would be to improve returns through extensive rationalisation, though differences in corporate cultures may be a hindrance.

How Trafalgar would gain adequate returns on its investment is less clear. Pieter Hougaard, executive director of Trafalgar, says this is not a hostile bid, but an offer for a strategic stake. The next step would be to approach management to seek board representation. Once on the board, the Trafalgar directors will want to take steps to improve the financial performance.

Assuming investors believe they can do it, that may strike a responsive chord with many of Saambou's shareholders, who number more than 20 400. The group is generally seen as a stodgy organisation which has produced uninspiring returns. Return on equity last year was 12,5% and 9,6% in 1989.

"There is no question there are valuable assets," says Hougaard, "but they have got to be made to work. We would like to make our contribution towards making them sweat. For a long time the management has effectively been answerable to nobody. There must be a lot of fat in there."

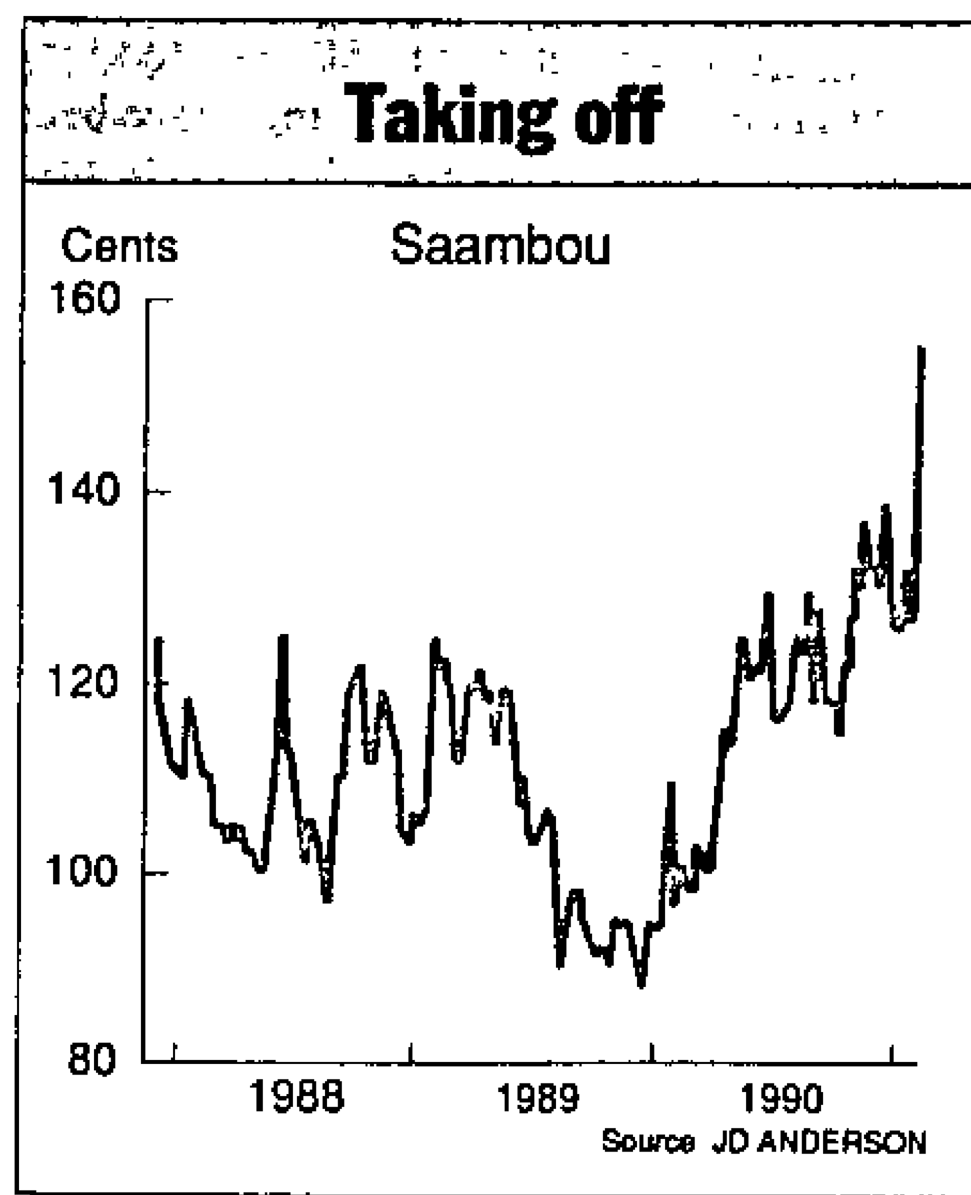
What Trafalgar could do to improve Saambou's efficiency remains to be seen. Its directors are not experienced at running a bank or building society. Hougaard simply says they have spent most of their working lives in the financial services sector, have done their homework and "know about the industry."

Hougaard says Trafalgar was formed about a year ago. It's a two-man organisation, comprising Hougaard and his co-director, Johan Redelinghuys, both of whom are former Finansbank merchant bankers — corporate finance specialists and deal-makers rather than operational managers.

They left Finansbank when CDS, a computer company which the bank had helped fund, ran into trouble. Hougaard was MD of CDS for some months and Redelinghuys was financial director. When the company was liquidated, they assisted the liquidators for a while and later established Trafalgar.

According to Hougaard they have handled numerous corporate deals, though he cites only one involving a listed company, the Tomkor/Octodec restructuring. He declines to quantify the funds managed by Trafalgar, nor will he name clients, but says the envisaged stake in Saambou would not represent a predominant portion of the portfolio. Sydney Frankel, MD of sponsoring broker Frankel, Max Pollak Vinderine says a guarantee has been obtained for the funds.

The offer is conditional on gaining a minimum acceptance of 10% of the shares. Approval will have to be obtained from the Registrar of Deposit-taking Institutions, who will be approached when it is known how many shareholders have accepted. An organisation such as Trafalgar would have to have the registrar's approval to hold more than 10% of a building society.



Trafalgar's Hougaard .. *wants to make the assets sweat*

If the acquiror was considered to be the control company in respect of the building society, there is no time limit on granting the approval. Should the acquiring company be deemed not to be acting on its own account, then the aspects to be considered by the registrar would include: whether it would be in the public interest; and whether any person has an interest in the company which is inconsistent with a provision of the Act.

Saambou chairman Hendrik Sloet says he knows nothing about Trafalgar or the people involved. He is unwilling to make any recommendations to shareholders, except to point out that the net asset value at March 31 last year was 235c, calculated with properties at book value. The board may decide to respond when the monthly board meeting is held on Friday.

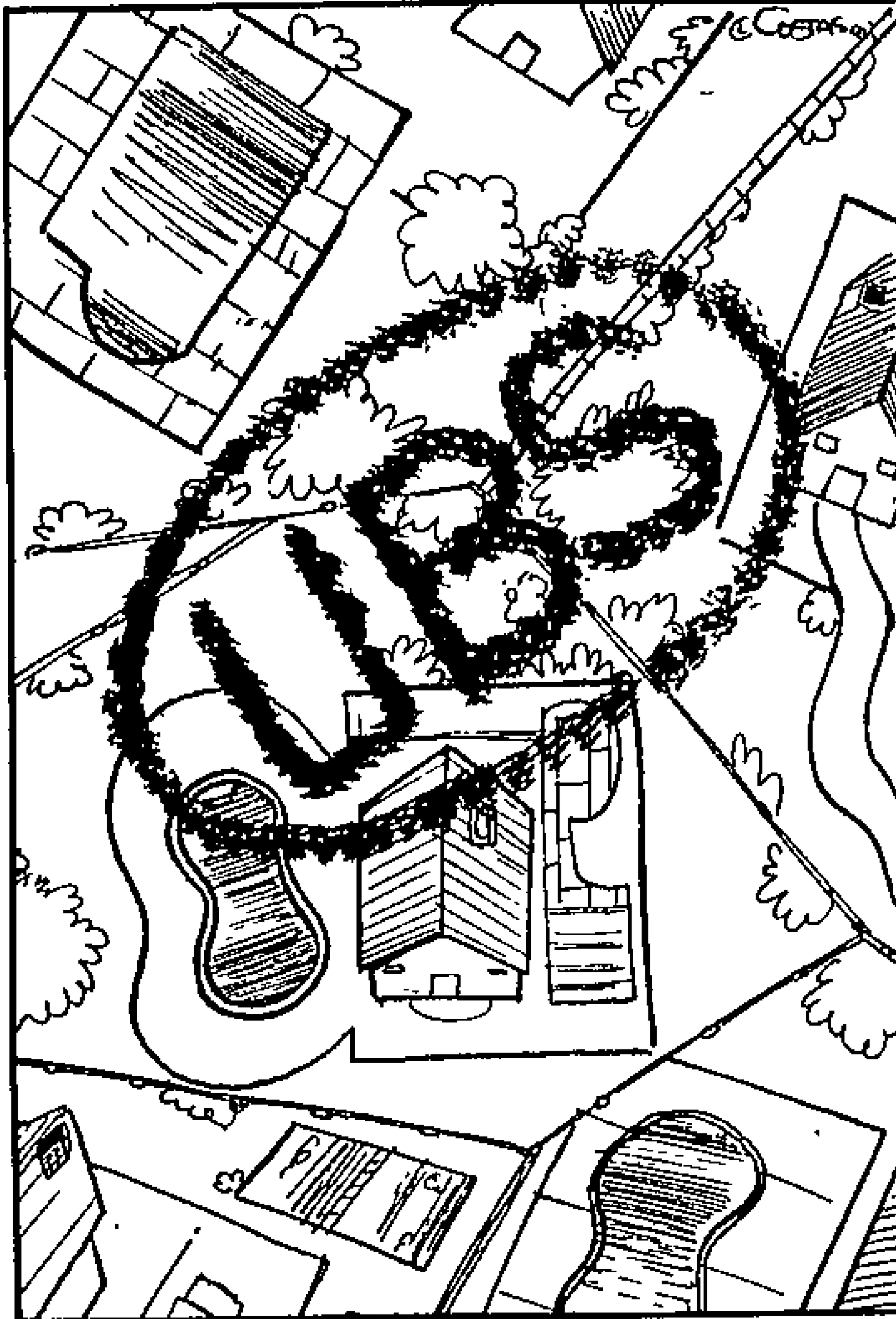
Though the offer — and market price — is well below stated NAV, a much higher price may be difficult to justify on yield considerations. For the past two years, the dividend was pegged at 11,5%, which yields 8,2% on the 140c price or 7,7% at 150c. The p:e on 1990 earnings at 140c is 4,7, but analysts are forecasting 1991 EPS could be 20% lower. A price of about 160c-180c may be the best to hope for, unless competitive bidding emerges — which may already have happened.

Based on the share performance or the yield, investors who have held shares since the listing have not done well. And, on the information so far available, it is difficult to see why Saambou should perform better if the Trafalgar offer is accepted. Perhaps those who are losing patience should accept the offer — or try to sell in the market at

Fears of monopoly in estate agents' market

WMail 25/1-31/1/91

Recent moves by the UBS have raised fears that building societies are stepping into real estate agents' territory, reports **MONDLI MAKHANYA**



INCREASINGLY strong links between building societies and estate agents threatens to diminish competition among estate agents and between the mortgage lenders.

Already, the United Building Society has acquired minority stakes in five major real estate brokers. It is reported that UBS is negotiating with other estate agents with a view to acquiring interests in them.

Though other financial institutions are reluctant to follow in United's footsteps, it is likely they will find themselves compelled to do so. Early this week UBS added De Huizemark and the Home Buyers Circle to the list of estate agents in which it has minority stakes. The others are Natal's main company, Wakefields, JH Isaacs, Aida and Multi Listing Services.

Other building societies however warned that the move into acquiring estate agents would backfire on building societies because "this is better left to people who have expertise in that field".

Association of Mortgage Lenders vice-president Norman Ackston believes ownership of estate agents by building societies will squeeze out smaller independent agents.

"Obviously, financial institutions will only buy into the big agents. Once owned by them these institutions will naturally give preference to clients of those agents in which they have a stake when they grant loans. This way the small independent agent will be squeezed out," said Ackston

He predicted that the minority stakes would increase and people who had these would end up owning the whole company.

Most building societies felt South Africa should learn from the British experience where building societies acquired majority shareholdings in companies and this turned out to be disastrous for the industry as building societies did not have the expertise to run estate agencies.

However, United senior general manager: finance Tienie van de Bergh said in many instances the acquisition of minority stakes was a mere formalisation of existing ties. These ties had existed under the Credit Agencies agreement whereby certain agencies referred bond seekers to particular institutions.

Although the agents will not be obliged to take bondseekers to UBS, the building society is bound to gain extra clientele from these agents

He added that UBS intended computerising the acquired agencies by installing technology which would grant a client the bond immediately. Regionally based agencies will also be made national."We want to provide a quicker and more efficient service," said Van de Berg.

Allied MD Kevin de Villiers said his organisation had at this stage not contemplated going into estate agencies as there was already a tendency among financiers to cultivate relationships with certain estate agents. This meant that these, like the Allied, need not buy into estate agents in order to secure a flow of bonds

"In reality the estate agent goes out and seeks the best deal for his client. But at the end of the day the home buyer will go to the institution which he trusts and knows will give him the best deal Therefore ownership of agents will not guarantee you bonds from that agent," said De Villiers.

Natal Building Society MD Brian Short echoed De Villiers' sentiments, saying it was "important for estate agents to retain their identity".

The NBS was doing well in the home loans market without owning any estate agents.

Short felt the new development need not necessarily be detrimental to competition and it would only harm it if a particular institution attempted to influence the estate agent to bring clients only to itself. Only such a scenario would prompt the NBS to reconsider its position.

"If this continues and progresses to become a lockout strategy and our lines of supply are cut off, we will definitely consider an alternative strategy," Short added.

Perm senior general manager: operations Hugh MaClaghan said the Perm was not contemplating following in UBS' footsteps. Stakes in estate agents need not necessarily impinge on competition, said Maclachlan, because "the purchaser is free to choose his own financier"

Scott McRae, MD of Camdons, one of the few remaining big independent agents, said formal ties between the industries were inevitable

"I think the move was prompted by banks moving into mortgage lending. The building societies had to save their market," he said.

He disclosed that his company, among others, was currently negotiating with the UBS about the possibility of the sale of a stake, "but we are keeping our options open".

Said McRae: "Inevitable as it is, I don't think it is good for the industry. It is detrimental for the consumer because the agent might recommend the building society with which it has ties and this may not be the one that offers the best deal "

Aida Geffen, MD of Aida, the only agent listed on the Johannesburg Stock Exchange, maintains Aida has kept its independence.

"We have never regretted being linked to UBS Firstly, we had too many shares on one board and we have now been able to spread them out. Secondly, we got a lot of money from United which helped us with our advertisements and conventions. Thirdly, they don't in any way interfere with our business. They do not require us to only send our clients to them. What we do, though, is refer people without bonds to the UBS."

Geffen added that Aida would not have allowed United or any other financial institutions to take a majority stake in it because "they wouldn't know how to run estate agents".

War may scupper Gatt talks

WASHINGTON: War in the Gulf could end four years of efforts to promote trade among more than 100 countries, including the United States, Senator Max Baucus said this week.

Baucus chairs the subcommittee dealing with international trade on the Senate Finance Committee.

The negotiations, called the Uruguay round, have been estimated as having a potential to increase trade by $4-trillion over 10 years. Their object is to dismantle barriers to trade, such as import quotas and other protectionary measures.

"The round is likely to have as much and probably greater impact on world and US prosperity than the conflict in the Gulf in the long term," Baucus said in a speech to the US Chamber of Commerce.

Baucus recalled that Congress has given the president authority to negotiate only until March 1. If his negotiators can reach agreements by that date, Congress will have to vote for or against them, with no opportunity to call for changes.

"Unless the (US) president is willing to step in soon, the... round may become a casualty of the conflict with Iraq... If the Uruguay round can not be completed by March 1, it is probably lost."

But Jeffrey Schott, who negotiated for the US at a round of trade talks in the 1970s, predicted that Congress would extend the power of President George Bush to negotiate. He foresaw a successful end to the round by the end of this year.

"They're closing ranks now and they're unlikely to go against the president just as the allies are promising to share more of the burden in the Gulf," Schott said. "Congress won't want to destroy the trading system."

The deadlock has come from disagreement over trade in farm products. —Sapa-AP

Masterbond merger on cards

SATURDAY JANUARY 26 1991

By MAGGIE ROWLEY
Business Staff

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

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

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

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

For the year ending February 1990, Masterbond's pretax profits doubled to R2 million while managed assets rose from R186 million to R532 million and funds under administration soared to R496 million.

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

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

Negotiations

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

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

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

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

Publicly held

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

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

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

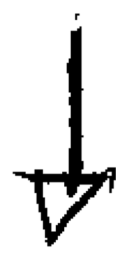
Timeshare sales

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

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

Timeshare sales were well ahead of budget and had passed the R8 million in November and R6 million in December.

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



F.M. 25/1/91 (58)

SAAMBOU/TRAFALGAR

PUT INTO PLAY?

A takeover of Saambou should surprise nobody — banking analysts believe it is bound to happen sooner or later. Yet the bid for 30% launched last week by Trafalgar Portfolio Managers (Pty) has certainly come as a surprise, given that it is an unfriendly bid (no approach was made to the board first) and it is being made by a company that hardly anyone has heard of.

All accept that the bid seems to have been carefully planned. Notably, it was announced only days before the new securities regulation code on takeovers and mergers takes effect in February.

The big question, of course, is whether Trafalgar is fronting for an organisation still to be identified, or is acting on its account, as the directors claim. Firstly, there is the question of funding. A stake that size, at 140c a share, would cost some R36m. And, if there is a serious effort to build up a 30% stake, then it is questionable whether the 140c offer price would succeed, as the share was trading this week at 150c.

Then there is the question of Trafalgar's intentions. Reasons why another bank or other major financial institution might want to acquire Saambou are clear enough. By gaining control of Saambou's portfolio, a bank or diversified financial services group may find it easier to comply with the tightening capital ratio requirements that will apply under the new Act, as mortgage loans carry a lower risk weighting than most other assets held by banks. For that matter, analysts feel Saambou might have difficulty meeting these requirements on its own.

Another potential benefit for a bank would be to improve returns through extensive rationalisation, though differences in corporate cultures may be a hindrance.

How Trafalgar would gain adequate returns on its investment is less clear. Pieter Hougaard, executive director of Trafalgar, says this is not a hostile bid, but an offer for a strategic stake. The next step would be to approach management to seek board representation. Once on the board, the Trafalgar directors will want to take steps to improve the financial performance.

Assuming investors believe they can do it, that may strike a responsive chord with many of Saambou's shareholders, who number more than 20 400. The group is generally seen as a stodgy organisation which has produced uninspiring returns. Return on equity last year was 12,5% and 9,6% in 1989.

"There is no question there are valuable assets," says Hougaard, "but they have got to be made to work. We would like to make our contribution towards making them sweat. For a long time the management has effectively been answerable to nobody. There must be a lot of fat in there."

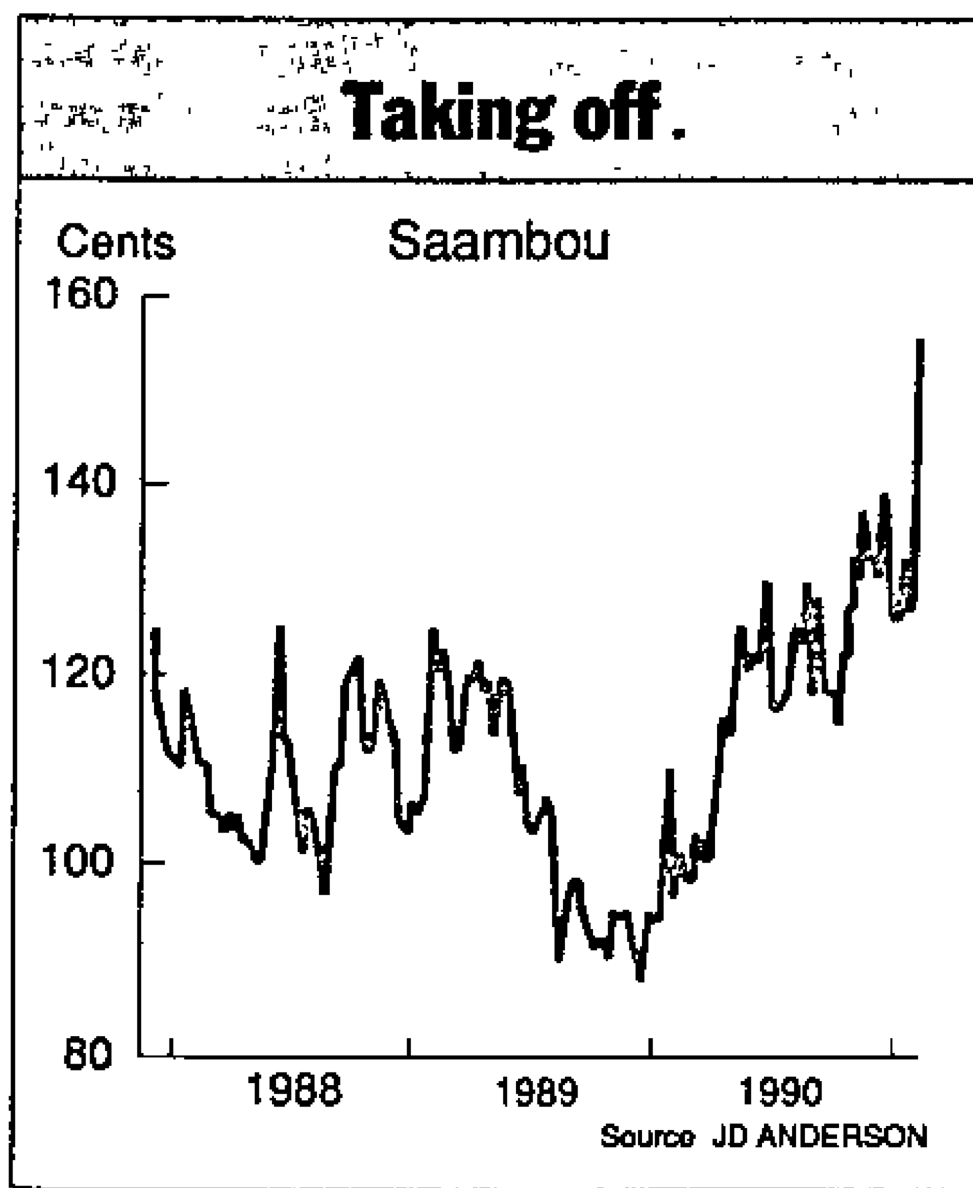
What Trafalgar could do to improve Saambou's efficiency remains to be seen. Its directors are not experienced at running a bank or building society. Hougaard simply says they have spent most of their working lives in the financial services sector, have done their homework and "know about the industry."

Hougaard says Trafalgar was formed about a year ago. It's a two-man organisation, comprising Hougaard and his co-director, Johan Redelinghuys, both of whom are former Finansbank merchant bankers — corporate finance specialists and deal-makers rather than operational managers.

They left Finansbank when CDS, a computer company which the bank had helped fund, ran into trouble. Hougaard was MD of CDS for some months and Redelinghuys was financial director. When the company was liquidated, they assisted the liquidators for a while and later established Trafalgar.

According to Hougaard they have handled numerous corporate deals, though he cites only one involving a listed company, the Tomkor/Octodec restructuring. He declines to quantify the funds managed by Trafalgar, nor will he name clients, but says the envisaged stake in Saambou would not represent a predominant portion of the portfolio. Sydney Frankel, MD of sponsoring broker Frankel, Max Pollak Vinderine says a guarantee has been obtained for the funds.

The offer is conditional on gaining a minimum acceptance of 10% of the shares. Approval will have to be obtained from the Registrar of Deposit-taking Institutions, who will be approached when it is known how many shareholders have accepted. An organisation such as Trafalgar would have to



Trafalgar's Hougaard ... *wants to make the assets sweat*

have the registrar's approval to hold more than 10% of a building society.

If the acquiror was considered to be the control company in respect of the building society, there is no time limit on granting the approval. Should the acquiring company be deemed not to be acting on its own account, then the aspects to be considered by the registrar would include: whether it would be in the public interest; and whether any person has an interest in the company which is inconsistent with a provision of the Act.

Saambou chairman Hendrik Sloet says he knows nothing about Trafalgar or the people involved. He is unwilling to make any recommendations to shareholders, except to point out that the net asset value at March 31 last year was 235c, calculated with properties at book value. The board may decide to respond when the monthly board meeting is held on Friday.

Though the offer — and market price — is well below stated NAV, a much higher price may be difficult to justify on yield considerations. For the past two years, the dividend was pegged at 11,5%, which yields 8,2% on the 140c price or 7,7% at 150c. The p:e on 1990 earnings at 140c is 4,7, but analysts are forecasting 1991 EPS could be 20% lower. A price of about 160c-180c may be the best to hope for, unless competitive bidding emerges — which may already have happened.

Based on the share performance or the yield, investors who have held shares since the listing have not done well. And, on the information so far available, it is difficult to see why Saambou should perform better if the Trafalgar offer is accepted. Perhaps those who are losing patience should accept the offer — or try to sell in the market at

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150c -- and deploy their funds elsewhere. But it may prove most fruitful to assume that Saambou is now "in play" and that somebody will make a better offer. *Andrew McNulty*

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INVESTEC/REICHMANS (58)

MAKING A KILLING?

Is Investec's offer to Reichmans a case of the vultures swooping in and making a killing? One of the *FM*'s readers thinks so; he also believes the *FM* was remiss in "lauding the big boys at the expense of the small shareholder" (*Fox* December 14, 1990).

On the other hand, Investec does not seem to have had too much difficulty convincing holders of more than 75% of Reichmans that its offer — 105c cash now, or a 13,5% pref share redeemable at 140c on December 31, 1995 — is in their best interests. If this was not so, these shareholders would not support it. And when one of the accepting shareholders is Jeff Liebesman's FSI Corp, arguments that the offer is too cheap lose credibility.

The crux of the matter is that all shareholders — big boys and little guys alike — are getting the same offer. And if the controlling shareholders — effectively FSI and the Reichmans directorate/management — see better value in the offer than in the shares they presently hold, there must be a reason. The idea that these people are out to benefit Investec just doesn't fly.

FM 25/1/91

Risk underlined

At the same time, the offer is hardly likely to please shareholders who bought when Reichmans was trading at 250c not too long ago. However, since then, earnings have been hit by two substantial bad debt write-offs. More important, these write-offs have underlined the risks inherent in the business and since there were apparently no provisions against which to offset these losses, they also raise the thorny question of the quality of reported earnings.

The market has not been blind to the risks. At its peak, Reichmans was yielding 8,4% on dividend, more than double the industrial market average at the time and significantly higher than the average for the banking sector. When all goes well, such shares can make useful income sweeteners for investors requiring a high dividend return. But when they go wrong . . .?

From Investec's standpoint, it obviously expects to benefit from this deal. If it didn't, there would be no point in buying Reichmans. It does not automatically follow that the terms are unfair to Reichmans shareholders; it could simply be that Investec is better able to maximise the value of Reichmans' activities within its much larger asset base.

Or, put differently, that the risks — remembering risk and reward are related — are more appropriately housed in an environment such as Investec where bad debts will have less of an effect on the bottom line.

Given that Reichmans, left on its own, would probably take a couple of years to recover fully from its 1990 setbacks, the terms of the offer do not look unfair. Investec clearly intends shareholders to take the pref shares which, taking into account dividends up to December 1995, have a present value of about 125c against the 105c cash offer. The PV for the prefs has been arrived at using a 15% a year discount rate: if inflation moderates, you can add about 5c for each percentage point the inflation rate drops so that, using a 13% discount rate, the value in current rand terms would increase to about 135c.

The real question is how long it would have taken Reichmans to exceed this level in the absence of a bid. Unless, for some reason, the offer fails, we will never know the answer. But the fact that, even with the offer, the share price is languishing at 110c, does not add weight to the view that shareholders are being "done". *Brian Thompson*

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capital requirement by 1995. This is based only on credit risk, according to Bank for International Settlements' proposals. International studies continue on requirements for other risk exposures. ■

"only in the last resort."
□ M1A grew 15,09% to R28,6bn in November, M1 7,96% to R50,3bn and M2 13,11% to R129,8bn. Total domestic credit extended rose 3,1%. ■

BANKING FM 25/1/91 (58)

BUILDING BUFFERS

Capital adequacy has become a major banking issue ahead of requirements of the new Deposit-taking Institutions Act. Undercapitalised small banks are merging or turning to shareholders for funds.

FM 25/1/91 (58)

Pretoria Bank, with R5,1m capital, is looking for a major shareholder to boost capital to R50m. Cape Investment Bank (R38m) has been swallowed by competitor Prima. Alpha Bank (R4m) has been put under Reserve Bank curatorship (not into liquidation, as wrongly reported last week.)

Unibank, formed in November 1989 by agreement between the eastern Cape BK Savings Bank and Pretoria financial services group E G Chapman Group, is raising additional capital by a rights issue. MD Gerrit van der Merwe says R5m raised in the first

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leg pushed capital to R15,2m by January 18.

First National Bank increased its ordinary shareholding to 18% (from 14%) with R2m, while life assurer Fedlife remains the largest ordinary shareholder with 20%. E G Chapman kept its 10%, BK Administrators 8%, the Foundation for African Business & Consumer Services (Fabcos) 10%, Unibank Trust (management and staff) 10% (8%).

Bophuthatswana National Development Corp was the only big shareholder not to follow its rights fully. Its holding was watered down to 5% (10%). Van der Merwe says it could regain 10% by following the second leg of the rights issue in March. He expects capital then to reach R20m, double the R10m needed by new banks at this stage in the phasing-in process, to bolster the risk-weighted capital:assets ratio to 7,5%.

He says the directors, in conjunction with the auditors, decided to provide fully against certain strategic investments. A R1m reserve was created for doubtful debts.

The bank is involved mainly in asset-based lending, with 95% of its business in instalment credit. It focuses on the small to medium corporate market and plans to increase its business with the black market by using its relationship with Fabcos as a stepping stone. Fabcos's possible merger with Nafcoc could provide an even larger potential black customer base.

Banks face a minimum 8% risk-weighted

SABLE FM 25/1/91 (58)

SWING TO INDUSTRY

Activities: *Property investment and trading, as well as washroom services and workwear garment manufacture.*

Control: *Netherlands-based Isdale Holdings 64%.*

Chairman: *J Nash; MD: P N Nash.*

Capital structure: *7,5m ords. Market capitalisation: R45,7m.*

Share market: *Price: 610c. Yields: 5,7% on dividend; 17,2% on earnings; p:e ratio, 5,8; cover, 3,0. 12-month high, 620c; low, 560c. Trading volume last quarter, 32 000 shares.*

Year to Jun 30	'87	'88	*'89	'90
ST debt (Rm)	6,4	1,2	11,0	9,7
LT debt (Rm)	4,8	4,0	12,3	12,2
Debt:equity ratio	0,49	0,22	0,42	0,38
Shareholders' interest	0,61	0,71	0,46	0,51
Int & leasing cover	2,65	8,79	4,3	6,8
Return on cap (%)	10,4	16,1	25,9	20,3
Turnover (Rm)	—	—	84,3	93,4
Pre-int profit (Rm)	2,4	4,7	20,1	18,9
Pre-int margin (%)	—	—	23,8	20,2
Earnings (c)	21,0	39,6	112,6	104,7
Dividends (c)	10	20	40	35
Net worth (c)	291	310	449	574

* 16-month period

Dutch-held property group Sable Holdings last year extended its diversification into industry by acquiring Berden Hotel Supplies, the towel and rental division of Associated Laundries and Rent-a-Towel, for R5,8m.

The step is part of an expansion of Steiner Services ahead of a future listing.

Sable acquired Steiner about three years ago for R34m when the American parent disinvested.

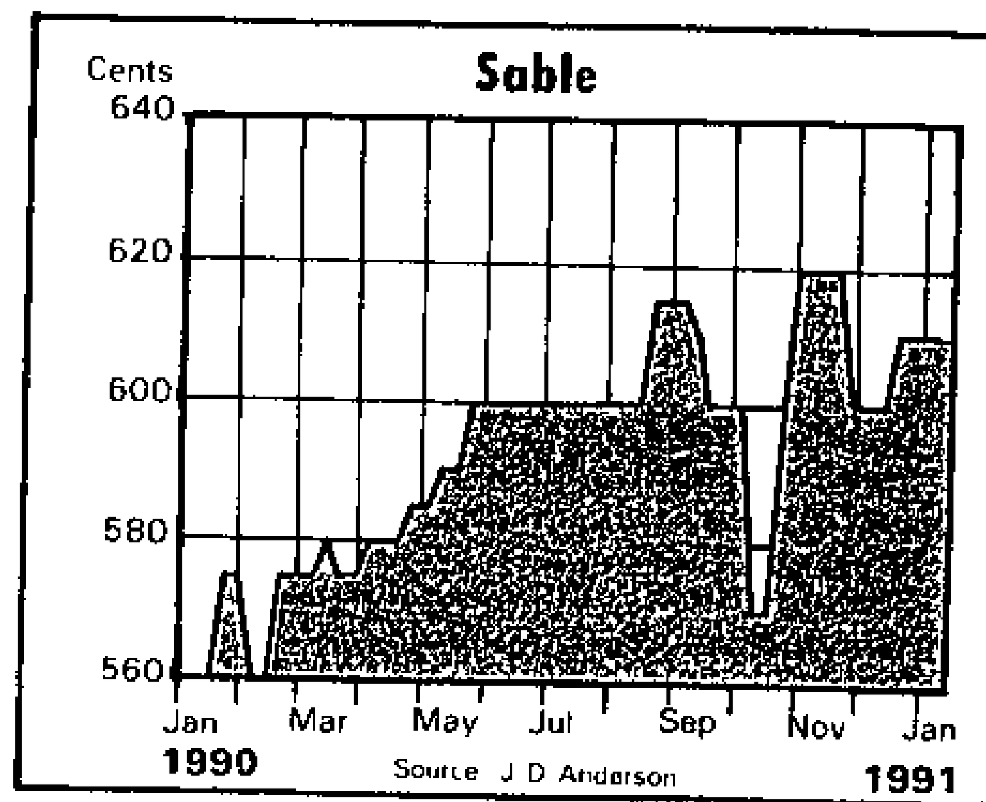
Since then, the company — involved in washroom services and linen and worker-wear rental — has boosted Sable's bottom line usefully. In the year to end-June, the industrial division's R4,3m contribution to group attributable earnings was slightly more than the contribution from the property division.

MD Paul Nash reckons property will pick up and both divisions should make equal contributions this year. However, recent fuel price increases will have a marked effect on the running cost of Steiner's 300-vehicle fleet; rising labour costs is another worrying aspect at Steiner.

Group earnings rose last year by 11%, enabling an increase in the pay-out. The Berden acquisition was done without straining the balance sheet; most of the R5,8m price was for inventory and the transaction was financed by bankers acceptances. These had the effect of increasing creditors at year-end from R12,6m to R15,5m. Both short- and long-term borrowings fell, but the cash position halved to R3,8m. Gearing remains comfortable and provides some scope for expansion.

Steiner's growth potential has been enhanced since it became part of the Sable group, as the American shareholders were not keen to fund additional capital investment.

Steiner has since moved into manufacture of workwear garments in Ciskei. Manufacturing activities are now contributing significantly to Steiner's bottom line.



Berden and last year's other acquisitions are performing to management's satisfaction.

Steiner is unlikely to be listed this year, as management says this will only happen when market conditions are favourable.

The share looks cheap for two reasons. First, the property portfolio on which the 574c net worth is calculated has been conservatively valued — an example is the Sable Centre, which is certainly worth more than the stated R3m. Management reckons net worth calculated on revalued assets would exceed R10.

Second, shares of many industrial companies trade at a premium to net worth. Sable is now as much an industrial operation as a property group and the market could eventually rerate the share accordingly.

Gerhard Slabber

NEDBANK FM 25/1/91 (58)

TOO SERIOUS

The bank for "people who are serious about money" plans to change the up-market image it gained from targeting "successful" people. Nedbank, major subsidiary of the Nedcor group, has launched a new corporate identity. It has been restructured into four operating divisions, repositioned itself in the market, is to revamp its branches and has changed the shade of green on its logo.

MD Richard Laubscher says: "We want to come across as warm, empathetic and responsive to client needs. We have a niche in all sectors of the community."

Nedbank rates among the top three banks.

Competitive figures are not readily available as they are not published separately in financial statements. Nedbank's estimate of other groups' commercial banking arms by assets (excluding acceptances and guarantees) is: First National Bank (FNB) highest at R27,4bn; Standard Bank R27,1bn; Nedbank (without Perm's R25bn) R14,2bn; and UBS (the bank and building society) R14,9bn. Comparing net income, Standard comes top with R201m; FNB R173m; Nedbank R144m; and UBS R111m, in the latest financial years.

Nedbank and FNB have the best return on average equity, 22%; Standard 21%; and UBS 15,3%. According to Nedbank, it also performs best on return on average assets on 1,11% against Standard's 0,85%; UBS's (excluding equity-accounted earnings from Volkskas) 0,81% and FNB's 0,63%.

Laubscher says the strategy is to increase assets selectively so balance sheet growth won't be excessive or margins hit. The bank will seek insurance and fee-earning business, neither of which is a balance sheet asset.

To help retain its place among the top banks, Nedbank will spend "a lot of money" on redesigning its logo, stationery, signage, branch revamps and advertising. Laubscher will not give a figure on the cost.

Each of the new divisions — corporate; international and treasury; commercial; and consumer — has "identified a particular niche in the market," Laubscher says. They have been restaffed accordingly.

Nedbank has been successful in the corporate market, where it aims at the *FM Top Companies* and other large enterprises including parastatals. It has helped to finance projects such as the Lesotho Highlands Water Scheme, various SA Breweries projects and the Richards Bay coal terminal. It has put significant emphasis on the trade finance and international division to prepare for the dropping of financial and trade sanctions.

Now it wants to extend its small percentage of the consumer market. It hopes to attract some of the black market which seems to have slipped through its fingers to others like FNB, which has links with organisations such as the SA Black Taxi Association and Foundation of African Business & Consumer Services. Nedbank recently opened a branch in Soweto.

Branch revamps will provide a different "service configuration," Laubscher says. "Everyone on view will interact with customers." Branches will be opened in specific areas, will be more attractive and the merchandising will be different.

Changes have been implemented over the past 18 months. Management has also changed dramatically since former Nedcor CE Piet Liebenberg left in March and namesake Chris took his place.

Laubscher, previously head of corporate banking and the international division, took over from Chris Liebenberg in May as MD of Nedbank. Commercial banking head Johan Westraat became deputy MD. Four new GMs were appointed from within. ■

Safcor gives boost to Curfin earnings

B/Day 25/1/91

MARC HASENFUSS

CURRIE Finance Corporation (Curfin) reported a solid increase in interim earnings on the back of a strong performance from its listed subsidiary SA Freight Corporation (Safcor).

Safcor, involved mainly in freight forwarding and clearing, contributed a hefty R13m (R10,7m) to Curfin's R15,5m operating income, which increased 24% compared with R12,5m for the corresponding period last year.

Curfin's earnings jumped 21% to R4,7m (R3,8m) or 33,5c (27,7c) a share. The group declared an interim dividend of 18c (15c) a share for the six months to end-June 1990.

Besides its 51,5% stake in Safcor, Curfin has finance, leasing and property interests. Operating income for these sectors rose 23% to R2,3m (R1,8m).

Safcor, listed three years ago, boosted earnings 25% to R6,6m (R5,3m) as international and domestic freight sectors continued to trade well despite prevailing recessionary conditions.

Earnings a share improved 22% on an increased number of shares in issue, while an interim dividend of 13c (12c) a share was declared.

Alex Cartage, in which Safcor has a 76% stake, sold its entire operating business (trading as Alex Carriers) to Super Rent in November last year.

Safcor's attributable portion of the sale

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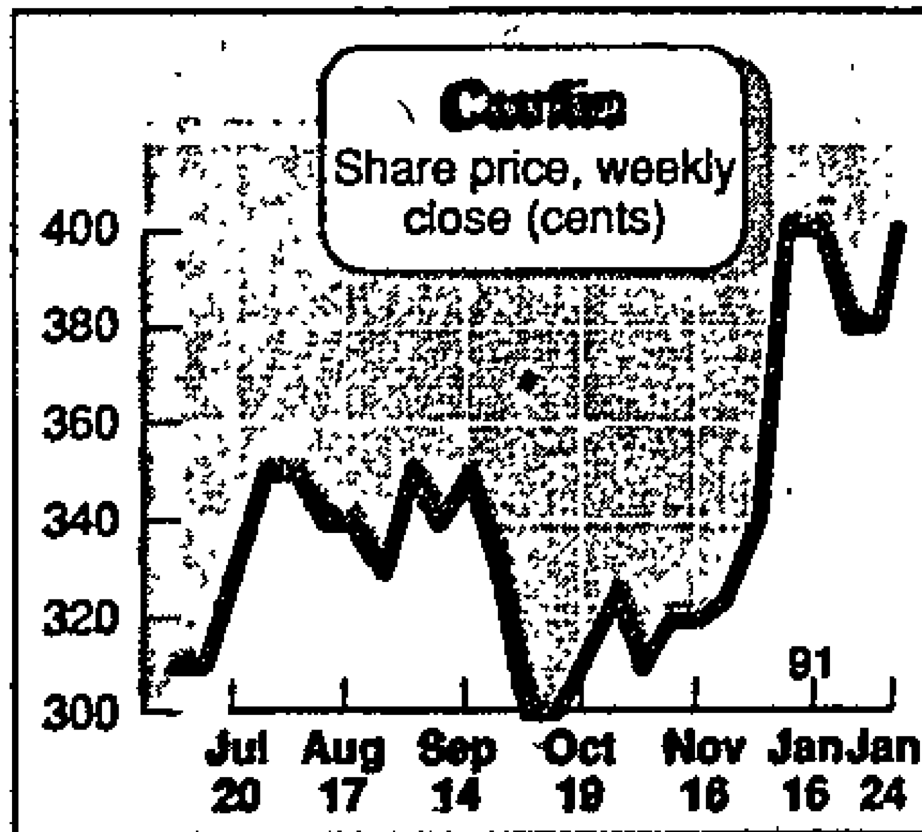


Graphic LEE EMERTON Source: JSE

Curfin

B/Day 25/1/91

☐ From Page 1

proceeds was R4,7m. Chairman Max Brodie said: "The effect of the sale on the group's net asset value was not material, nor would it be on the earnings per share."

Curfin sold the assets of its profitable motor operation Currie Motors to Barlow Motor Investments, and the listed cash shell to Bidcorp in early 1989.

In the light of the current economic climate, Safcor directors did not anticipate that either the international or the domestic divisions would increase the percentage improvement in profits further by the year end.

Brodie expects Curfin earnings for the year to June 1991 to match those of the previous financial year.

Curfin shares closed unchanged on the JSE yesterday at their 400c peak, while Safcor, also untraded, closed at 370c, near its 375c December high.

Fewer cancel insurance policies

SEAN VAN ZYL

DESPITE the higher cost of living in 1990, most insurers say the number of policy cancellations in their personal lines business fell when compared with 1989.

Because of bad claims in personal lines, resulting from greater motor theft and house burglaries, insurers were compelled to phase in premium increases of about 50% during 1990. BDay 24/1/91

Santam Insurance senior GM: operations and marketing Juri Geldenhuys says cancellations tend to climb when premium increases are brought in as people shopped around for cheaper rates.

However, the market as a whole strengthened its rates last year which meant policyholders could not get discounts on rates and had to accept higher insurance costs. (58)

As a percentage of gross premium income, Santam's individual cancellations for the last financial year dropped by 2%.

Auto & General's individual cancellations last year reflect a similar downward trend, financial director Nick Mew says.

Cancellations last year accounted for about 24% of total policies, but this figure can be misleading in that not all policies cancelled are lost business as replacement policies are continually written.

Auto & General brought in a 20% increase in premium rates from July to September last year, when Mew says cancellations were at their highest.

COMP

Old Mutual trusts' assets dip

BDay 24/1/91 (58)

Business Day Reporter

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

Assets at end-December totalled R2,44bn, down from the R2,52bn at end-June.

The liquidity levels of the unit trusts were lower than other funds, apart from that of the Old Mutual Income Fund which invests in the money market. Its liquid assets represented 80,31% of its portfolio at the end of the quarter.

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

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

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

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

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

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

The Mining Fund declared a quarterly distribution of 7,89c a unit, giving a total of 15,94c, while the Gold Fund declared a distribution of 3,70c, bringing its total for the year to 8,18c.

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

Chute said the Income Fund had not played the interest rate cycle.

"Although the returns could be higher in the shorter term, the risk also increases."

A common favourite for all funds was Iscor, in which the Investors's Fund, Industrial Fund and Mining Fund held a combined R71m at quarter-end.

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

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

The Mining Fund's top 10 holdings were Anamint/De Beers, Anglo American, Associated Ore and Metal Corporation (Assore), Sasol, JCI, Gencor, Samancor, Lonrho Plc, Anglo American Gold (Amgold) and Eastern Transvaal Consolidated (E T Cons).

The top 10 holdings of the Gold Fund were Anglo American, Winkelhaak, Zandpan, Gold Fields of SA, E T Cons, Driefontein Consolidated, Kloof, Southvaal, Kinross and Western Deep.

Tight monetary policy fails to hamper Sechold's results

BDay 24/1/91 (58)

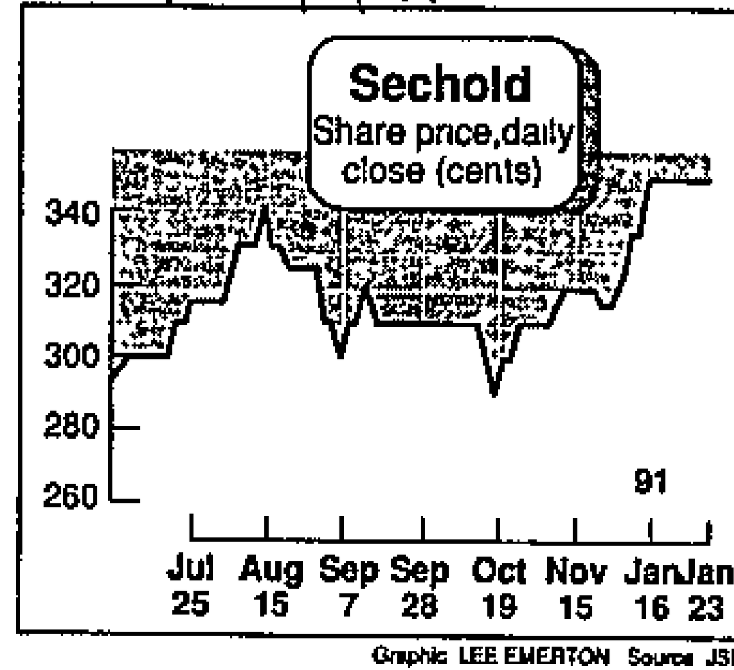
HAROLD FRIDJHON

SECHOLD (Securities Discount Holdings), holding company of three discount houses and a small bank has produced excellent earnings for the half year ended December 1990, raising the interim dividend by 20% to 12c a share.

Declared income, after tax and transfers to inner reserves, is R6,91m, a 23% gain on the R5,625m earned during the comparable period of 1990.

This is equivalent to 24,9c a share, covering the dividend 2,4 times unchanged from the previous halfway result.

MD Arthur Kelly said at a media conference yesterday he considered the outcome of the six months period very satisfactory



when viewed against the background of the Reserve Bank's tight monetary policy and the disciplined fiscal policy.

The subsidiary discount houses are involved in money market and bond market trading, more as intermediaries than as principals.

Kelly said margins throughout the period had been very finely shaved.

In spite of bond market volatility, the houses negotiated profitable business, providing a fair return on capital while continuing to build up inner reserves.

Liquidity

Looking ahead, Kelly welcomed the implementation of the Deposit-taking Institutions Act on February 1 which would enable discount houses to widen their business horizons by accepting deposits from sources other than the banks, mining houses and pension funds to which they had been limited under the old legislation.

Deposits with discount houses would continue to be regarded as liquid assets which would help provide liquidity to the markets.

Sinking fund policies may be revived

By GILLIAN HAYNE

NON-taxpaying institutions such as municipalities will again be free to invest in sinking fund policies issued by life offices in terms of the draft long-term insurance Bill.

Old Mutual legal services manager Abri Meiring confirmed that sinking fund policies, done away with in 1980, were likely to be sold again if the draft legislation was approved.

In the past, individuals and companies regularly used the policies to provide lump sums for future known liabilities.

Even before legislation prohibited the sale of sinking fund policies, their attractiveness had dwindled with the development of other sophisticated savings products, said assistant registrar: long-term insurance Oppie Opperman.

"However, the trend is once again turning to investment-type policies and I believe there will be a great demand for the product again," he added.

BDay 23/1/91.

Feature

Sinking funds are a fixed-term pure investment vehicle. Although the broad definition of the policy could change, they currently provide a pure investment opportunity — needing no life assured — on condition that the contract runs for at least five years and no benefits are paid during the period.

The insurer also may not grant a loan against a policy during its contract term and premium increases will be limited.

"One interesting feature is that, in its current state, the sinking fund policy is a non-standard policy giving rise to taxable gains. In effect then, it is only open to non-taxpaying institutions," Meiring said.

"Municipalities and other public institutions would no doubt see the policy as a very attractive long-term investment opportunity."

Kevin Ryder, Momentum Life's legal consultant, said the proposal was welcomed because life offices' markets had been steadily curtailed by legislative intervention.

Southern Life optimistic in its outlook for shares

Business Day Reporter (58)

THE outlook for share prices this year was optimistic, Southern Life portfolio manager Carel de Ridder said yesterday. B Day 22/1/91.

Although shares were not cheap, prices were good in relation to returns, he said. Dividend returns were still low, but dividend cover had improved considerably since 1985 and most industrial companies would not find it difficult to maintain their dividends.

"Unlike the 1984 scenario, companies generally have less debt and fewer foreign loans and have also reduced their inventories considerably during the past year. This will make it easier to maintain profitability and investors can expect substantially improved profits by 1992."

De Ridder said the balance of payments was also showing signs of improvement which would have a significant effect on the stock exchange. Lower interest rates would also help.

Liquidity in Southern Equity Fund for the quarter to end-December 1990 rose to 27,1% from 22,2%. Liquid assets of the Southern Mining Fund increased to 18,2% from 16,5%.

The equity fund held 7% of its assets in direct golds at the end of the quarter (down from 10%) and 19% in mining financials. Other mining related holdings decreased to 12% from 13,5%, while industrials made up 34,9% of the portfolio. The mining fund decreased holdings in direct golds to 21,1%, with mining financials being increased to 32,2% (30,7%).

The top five counters in the equity fund were Richemont (5% of the portfolio), De Beers (4,5%), Anamint (4,5%), Gencor (4,2%) and Stanbic (3,8%). Major holdings in the mining fund were Anamint (5,5%), De Beers (5,4%), Gencor (4,6%), Rusplat (4,5%) and Sasol (4,4%).

United spreads wings

Star 21/1/91

By Frank Jeans (58)

The United — the country's biggest building society — has widened its interest in the real estate business still further by securing a 25,1 percent stake in the De Huizemark group.

Other agencies, which make up the Home Buyers Circle formed by De Huizemark, also come under the big deal, the financial arrangements of which have not been disclosed.

The move brings to five the number of estate agencies in which the United has acquired minority investments.

The others are Multi Listing Services, the countrywide agent network (33,3 percent), Aida Holdings (25,3 percent), JH Isaacs (29,2 percent) and the Durban-based Wakefields group (25,4 percent).

The De Huizemark group of Randburg has franchise agencies in Cape Town, the Garden Route, Pretoria, Rustenburg and the East Rand.

Chairman and managing director Piet Hamman says: "The formal association with the United will provide the impetus for further expansion for the group in its existing markets."

Tienie van der Berg, senior general manager of United, says the society's purpose in the acquisition of shares in estate agencies is based on a definite marketing strategy.

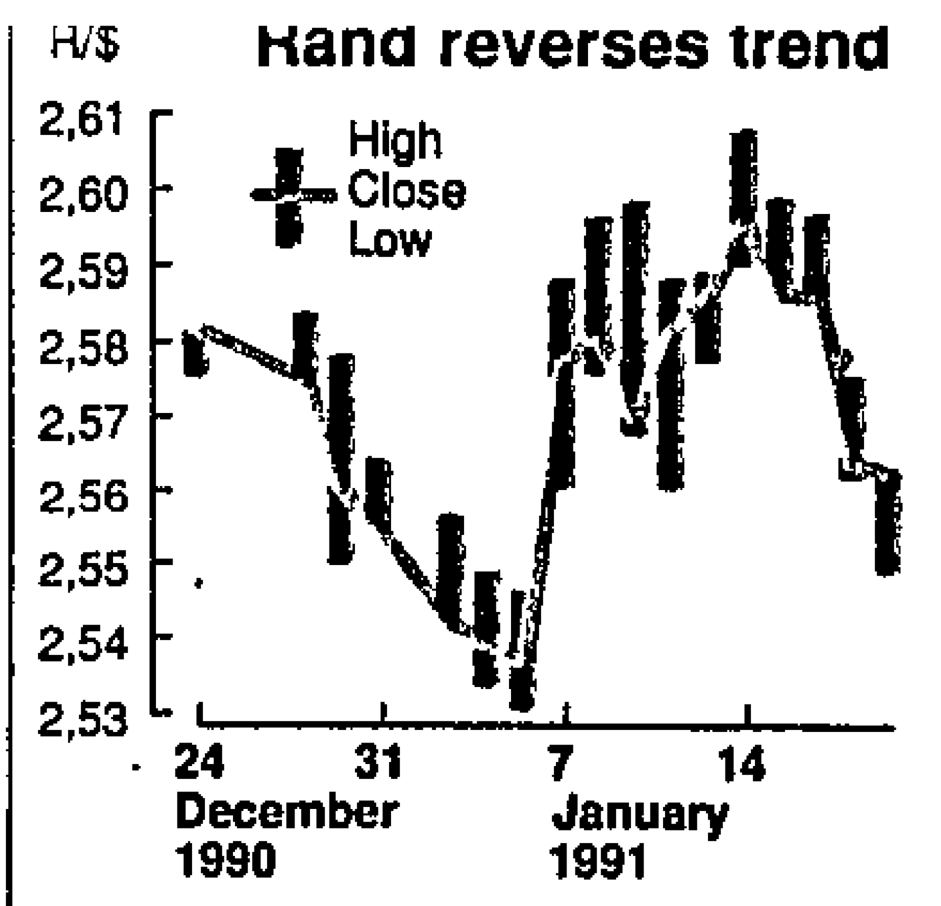
"From this point of view, we are not unduly worried about reaction from other financial institutions," he says.

While the De Huizemark move gives the giant United added strength in the South African real estate industry, it must be re-emphasised that its investments are in no way designed to take over the operations of agencies.

Mike de Blanche, managing director of United, said recently when the Wakefields stake was announced that the move was to formalise an already sound relationship between the United and that company.

Commenting on the De Huizemark investment, Mr De Blanche says: "As in the case of all other estate agency investments, management will remain in the hands of the working directors.

"This is consistent with our policy in all similar investments we have made to date."



Graphic FIONA KRISCH Source REUTER

The rand held a relatively steady course last week when the dollar first gained strength against the Deutsche Mark, and then was stripped of three pfennigs as the bombs fell on Iraq. Probable Reserve Bank intervention allowed the rand to harden slightly against the stronger dollar but Pretoria did not permit gold price euphoria to influence the rand to unsustainable levels.

Four quit Colhold to form new group

CHARLOTTE MATHEWS

BANKS and financial services listed group Colfin Holdings (Colhold) will no longer provide corporate financial services after four of its six executives resigned to form a financial services group.

Colhold's former financial director Dennis Zietsman said in a statement the new firm, Vector Financial Services, had obtained financial backing and would be operational at the beginning of February.

Vector will provide corporate finance services to Colhold's client base.

The other Colhold executives who have joined Vector are director Chris Shone, Fernando Patrizi and Mary-Ann Tennant. Chairman Harry Spain and MD Jeff Wiggill will continue to run Colhold.

In interim results to October released today Colhold showed a 6% improvement in earnings to 7,1c a share from 6,7c in the previous interim period.

Colhold achieved a 12% rise in operating profit to R3,3m but a R239 000 increase in interest paid to R700 000 reduced the rise in attributable profits to 5%, to R1,1m from R1m.

In October Colhold announced it had acquired 52% of cash shell Furntech. The results have taken into account Furntech's acquisition in April and May respectively of Logistic Technologies (Logtek) and the business operations of Colhold.

IDC plan for major changes in industry

KEVIN DAVIE

SWEEPING changes to make South African industry more competitive have been recommended by the Industrial Development Corporation (IDC) in a report being considered by government.

The report on revamping protectionist policy has already been handed to the President's Economic Advisory Council and is expected to be reviewed by the Cabinet soon.

Key recommendations are that there should be a co-ordinated scaling down of import tariff protection and that a tariff policy should be developed which can be applied on a sector and industry basis, a business source has said.

The present system is based largely on ad hoc rulings, meaning that individual rules tend to apply to almost all SA's 11 300 imported items.

"We've reached a watershed and can't go on like this if we are to achieve economic growth through boosting exports," the source said.

The report recommends setting tariff targets for industries and sectors, and the phasing in of such tariff changes.

Another important recommendation is that import tariff protection should accord with the General Export Incentive Scheme (GEIS). The higher the value added in the manufacturing process, the higher the tariff protection the exporter can expect.

The IDC report also singles out the surcharge on capital goods as an evil which must be eradicated. The surcharge was introduced in 1988 to dampen demand and ease pressure on the balance of payments.

But it has become an enormous revenue earner for government, budgeted to rake in R1,8bn this year. While senior officials are known to want to get rid of the surcharge, they are reluctant to lose the revenue. The IDC report apparently warns that the surcharge on capital goods is harmful as it raises input costs, so making SA industry less competitive.

Another recommendation is that high protection which is granted during the start-up phase of an industry should be phased out within a reasonable period of time. The present system has allowed the high rates to continue indefinitely.

Should the new streamlined system be adopted, it will mean that government will be able to publish a list of imported goods which are not maufactured in SA, with advice on what protection it is prepared to offer. The new system would also be much simpler and cheaper to administer.

The re-evaluation of protectionism is

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Privatisation a theme of session

LESLEY LAMBERT

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

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

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

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

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

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

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

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

☐ To Page 2

GDM Finance takes over Repfin Holdings

MARCIA KLEIN

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

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

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

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

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

"As we collect Repfin's debts, the funds will be paid to the banks and utilised to reduce the company's loan account," he said.

Cowper did not expect the acquisition to have any effect on GDM Finance's earnings for the year to April 1991, but he said the additional business should benefit the group in the long term.

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

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

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

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

COMPANIES

Banks 'forced to review pricing'

Business Day Reporter

BANKS will be reviewing their pricing of products and services in 1991 as a result of the introduction of the new Deposit-taking Institutions Act as well as VAT and the withholding tax on interest.

Nedfin MD Ron Rundle said in the group's 1990 annual report that the Act would increase the need for capital, and cause bankers to review their pricing of products and services to generate the profits necessary for future capital requirements.

The introduction of VAT and the withholding tax on interest would make it necessary for banks to change their computer systems. The removal of tax benefits in the form of Section 24 allowances would also prompt repricing, as the banks would no longer benefit from large deferred tax balances.

Nedfin increased net income to R16,7m in the year to September from R16,6m the previous year. Rundle said although this was below forecast it was satisfactory as Nedfin was almost entirely dependent on margin lending for profit and the Reserve Bank had restrained credit granting in the past year. BDay 21/1/91 (58)

He said high interest rates, double-digit inflation and low economic activity with continuing unemployment would continue this year. He did not see banks expanding their activities, but he believed the sector was better equipped now to handle "corporate casualties".

Chairman Chris Liebenberg said Nedfin was pursuing cost control, rationalisation, productivity increases and credit control to meet inflationary pressures, high real interest rates and tight margins.

UBS acquires stake in a fifth estate agency

B/Day 27/11/91

Business Day Reporter (58)

UBS HOLDINGS has acquired 25,1% of estate agency De Huizemark and the Home Buyers Circle (HBC) with effect from January 1, according to an announcement from the company last week.

This is UBS's fifth estate agency investment. It already owns a part of Multi-Listing Services, Aida, J H Isaacs and Wakefields.

De Huizemark is based in Johannesburg and has franchised agencies in Cape Town, the Garden Route, Pretoria, Rustenburg and the East Rand.

The link with De Huizemark had been rumoured for about 15 months. De Huizemark chairman and MD Piet Hamman said he had hesitated to tie in with UBS

"I have got where I am by paddling my own canoe," he said.

He had changed his mind because of the UBS's recent initiatives in tying up with other estate agents and with the Allied, Volkskas and Sage Financial Services.

Saampro discounts single-tenant fears

S Times 20/1/91 (58)

SAAMBOU offshoot Saampro comes to the JSE when the possibility of interest-rate cuts has led to increased interest in property investment.

Saampro's R85,6-million portfolio, independently valued by Alastair Barclay & Associates, is made up of 17 prime CBD buildings and three property investments.

Saambou, SA's fifth-largest building society, is the main tenant in almost all the buildings.

Saambou and Saampro chairman Hendrik Sloet dismisses fears that the heavy reliance on one tenant could leave the property company vulnerable to branch rationalisation after a takeover or merger.

By IAN SMITH

"Even if someone buys Saambou or there is a merger the lease contracts still stand," says Mr Sloet.

Long leases of just under 10 years will produce more than half of Saampro's rental income.

Retailers

The leases with anchor tenant Saambou escalate at 12% a year. They are subject to review of rental and escalation percentage in five years.

The rental base is 61,7% from Saambou, 14,4% from professional firms, 10% from State departments and large corporations and 7,1% from national retailers.

Office rentals account for 79,2% of the portfolio, 12,4% comes from banking halls in metropolitan areas and 8,4% from retail premises.

The main geographic spread, on acquisition cost, is Pretoria with 46,9%, Cape Town 18,3% and Johannesburg 10,6%.

Mr Sloet says: "This provides an excellent base for Saampro and will enable it to take advantage of other property investments in the future."

Saampro will be able to make property investments irrespective of Saambou involvement.

Saambou's major tenancy is a guarantee that the buildings will be maintained in the best possible condition.

"If you are a financial institution you cannot do business with the public in rundown premises. The fact that a financial institution is the main tenant is a plus factor."

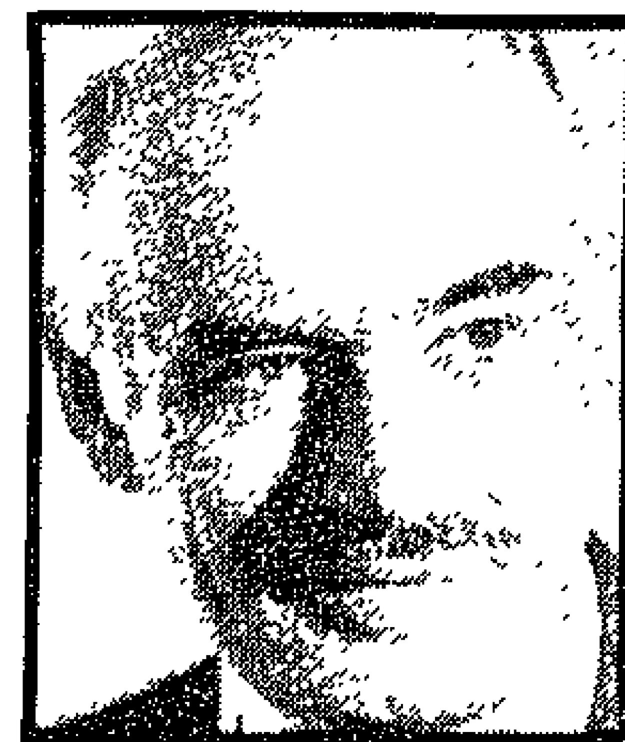
All of the properties are well let. The flagship is Saambou's headquarters in Pretoria. If it had to be sold today, it would yield between 9,5% and 10%.

"This is in comparison with Saampro's pro forma yield of 12,5% for the year to March and the forecast of 13,5% in the following year," says Mr Sloet.

Saampro will be capitalised at R89,4-million on the listing on January 31 through a renounceable rights offer of 4,3-million ordinary shares at 100c each and 17,4-million variable rate debentures at 465c apiece.

The listing unlocks R68-million of Saambou capital, including about R22-million of net capital profit. This will come in handy as Saambou gears up to meet new capital demands imposed by the Deposit-taking Institutions Act, says Mr Sloet.

Cash from the issue will be used to repay R81,3-million to Saambou group and the Saambou Pension Fund for properties which have been bought and to build a R7,6-million cash base for expansion and upgrading of the portfolio.



HENDRIK SLOET: Leases provide security for the future

Saambou shareholders will be entitled to five Saampro shares and 20 variable rate debentures for every 100 Saambou shares held.

Saampro forecasts annualised dividend yields of 7,5% an ordinary share and 12,5% in debentures at the issue price.

Link

The dividend forecast for the year to March 31 is 1,07c a share and 8,28c a debenture, rising to 8,2c and 63,9c a debenture in the year to March 31, 1992.

Interest on the debentures will be directly linked to the dividend paid on the Saampro ordinary shares, with a minimum annual 46,5c a debenture. New debentures may be issued to finance property acquisitions.

Saambou will hold at least 50% plus one share of the ordinary share capital of Saampro after the rights offer, ensuring that it has control of the company.

The effect of the deal on Saambou, assuming all renounced rights are taken up by other parties, is that earnings will increase from 29,6c a share to 33,7c and the dividend from 11,5c to 12,75c. Net asset value will increase 11,9% from 235c to 263c a share.

Allied deal heads for damp-squib climax

(58)

S Times 20/1/91

By IAN SMITH

THE LONG-RUNNING banking saga — the proposed merger between UBS, Volkskas, Allied and Sage Financial Services — has all but run its course.

But there are fears in investment circles that the result of the protracted negotiations, which at least one of the parties says will be announced soon, will be an anticlimax.

The danger is that the negotiations, initiated to form a R50-billion banking giant encompassing Rembrandt's main financial services investments, will after 4½ months of hard bargaining produce a watered-down deal accomplishing little.

"All the signs point to deep differences in the companies which have diverse cultures," says a stockbroker.

This week's announcement said agreement had been reached "in principle", suggesting that details still have to be settled.

Executives of the companies are still honouring a secrecy pledge which has bound them since the talks started.

Analysts have, however, speculated about the outcome. Volkskas Merchant Bank could merge happily with Rand Merchant Bank, and the Sage group could be broken up, the insurance operations going to Momentum Life and Sage Fund and the property trusts fitting comfortably with UBS.

But there would be bigger problems with Allied and UBS. Allied chairman Norman Alborough says the company's separate identity is not negotiable.

Allied managing director Kevin de Villiers says experience elsewhere proves that there are no major economies to be had by merely combining branches.

Other mergers have shown that it can take years to get different computer systems to work together.

Pressure

Another problem is that the merger moves take place in an economic environment not particularly kind to banks.

Margins are under pressure in an increasingly competitive field and bad-debt provisions are being increased as fears about the effects of a longer recession grow.

● **UBS Holdings has increased its penetration of the property sales business by buying a 25,1% stake in De Huizemark and the Home Buyers Circle group of estate agencies.**

UBS made its strategic move into estate agencies to maintain access to the bond market.

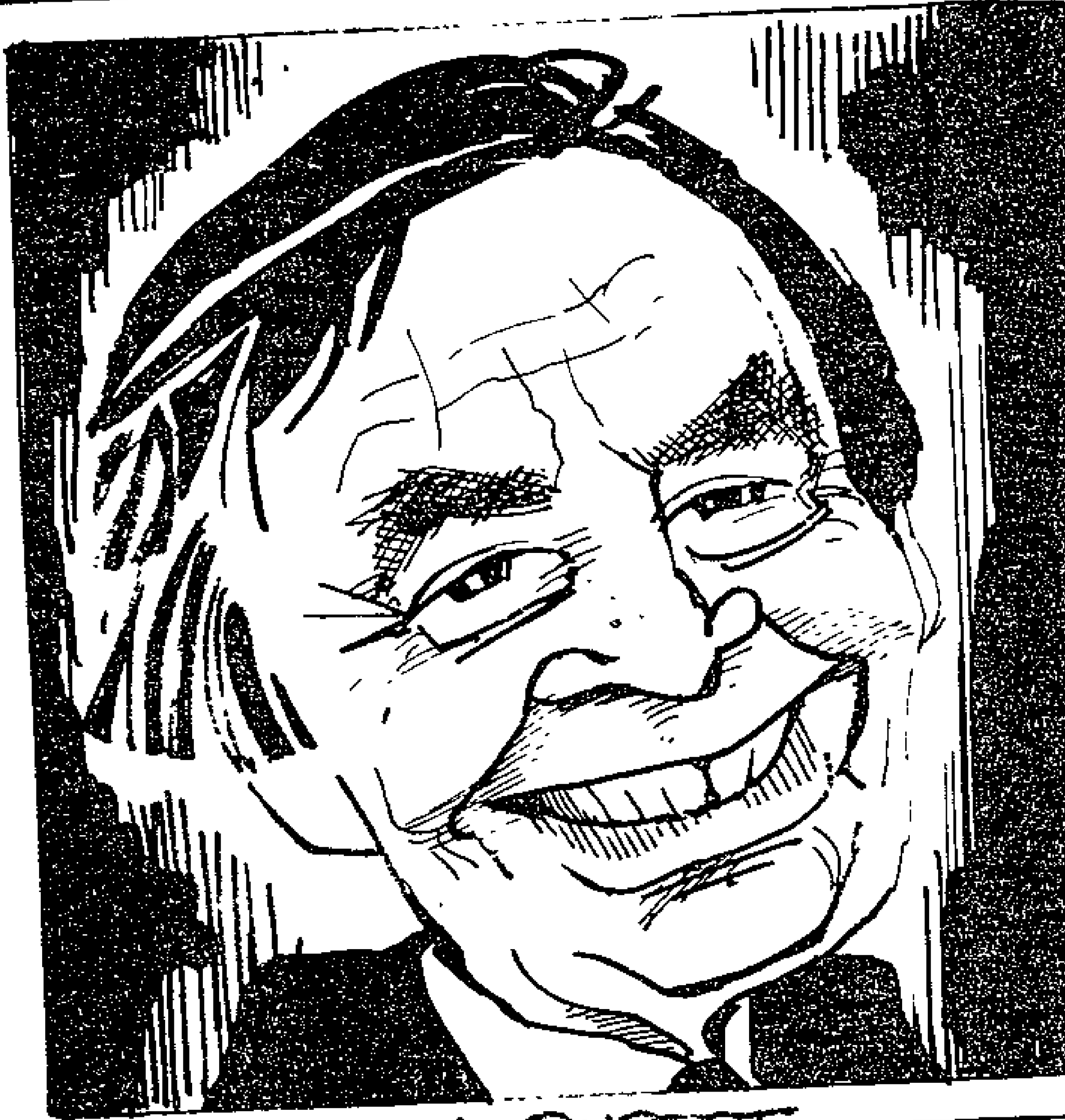
It has minority holdings in Multi Listing Services (33,3%), Aida (25,3%), JH Isaacs (29,2%) and Wakefields (25,4%).

Midwife to a financial giant

Star 19/1/91 (58)

MICHAEL CHESTER

Anton Rupert, power behind the birth of a conglomerate taking banking beyond 2000



THE entire South African financial galaxy will alter shape with the proposed launch of a massive new satellite that dwarfs even the biggest of its rivals.

The director behind the programme is Dr Anton Rupert, whose vast Rembrandt tobacco empire now plans to move deeper into the whole gamut of financial services — from banking and home loans to insurance and unit trusts.

Carried aboard the satellite will be four of the giants of the financial world — UBS, Volkskas, Sage and the Allied.

Even taken one by one, the total assets of each company look formidable — UBS Holdings at R16,9 billion, Volkskas at a still higher R25,8 billion, the Allied Group at R10,9 billion, and Sage quoted at about R2 billion in recent counts.

Combined into a single new colossus, which Dr Rupert is encouraging behind the scenes in a complex web of merger proposals that puts a price tag on the exercise at a phenomenal R55 billion or more — as yet unequalled by the titans of the financial sector.

A better perspective can be provided by comparisons with the total assets held by even the biggest current banking rivals — Standard, so far leading the pack with R47 billion; First National Bank with R37 billion; Nedcor, which links Nedbank and the Perm building society, with R34 billion and Bankorp with about R36 billion.

The Anton Rupert influence on the proposed deals to create a new leader in the sector can easily be traced by the large chunks of shares he owns in candidate companies and the web of links that already exist.

For example, Rembrandt already holds a 30 percent stake in Volkskas as well as 10 percent of UBS — with the cement setting still harder by cross holdings that mean UBS owns 30 percent of all Volkskas shares and Volkskas in turn owns 10 percent of UBS.

It also holds a 27 percent stake in Sage and a 15 percent stake in Allied.

So far, everyone involved has drawn a curtain of secrecy about the details of the merger masterplan — with a security that has amazed close and seasoned observers of the banking sector.

"Everyone has been aware of discussions going on," said one stockbroker analyst yesterday. "But the tightness of security is virtually without precedent.

"No one has been able to find a chink in the curtain on this one. All that's been said to date is that the outline of the mergers has been agreed in principle.

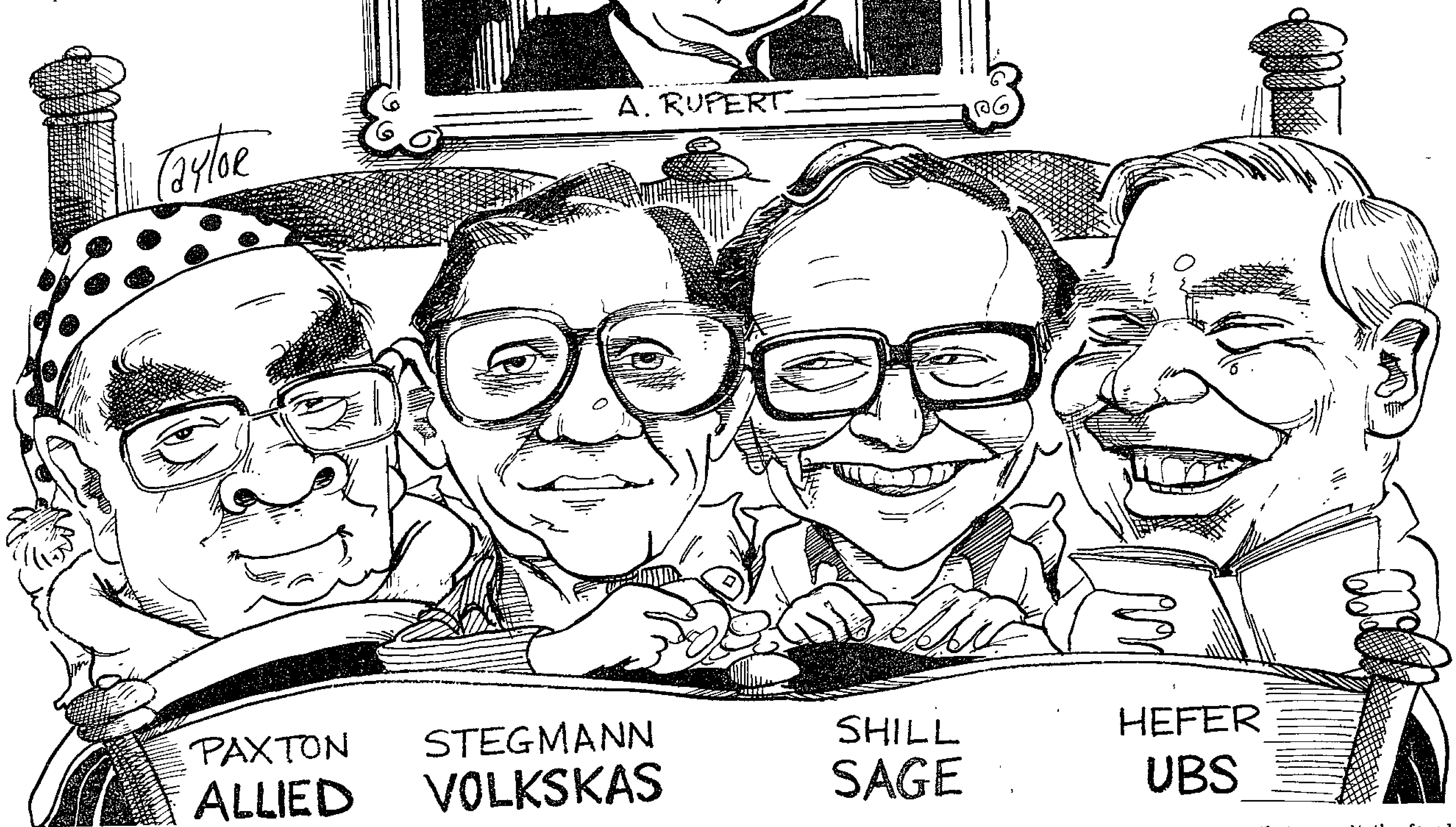
"Everyone's in the dark at the moment."

Even as prospective partners discuss how to tie the knots on the new package, there is still the chance of a complete outsider coming in to rock the boat — or else trying to climb aboard.

An example is the bid by Southern Life to buy a 30 percent chunk of the Allied Group. And there is still the chance of counter-bids arriving out of the blue.

For the moment, however, the market bookies are laying odds on the Rembrandt plan going ahead.

The ultimate influence of the Rembrandt empire on the whole



what appear to be increasing trends of power concentrations in the whole business world.

But in banking, as elsewhere, there are already plenty of big brothers, or else huge alliances, at play.

A recapitulation has been provided by Dr Azar Jammine, head of the Econometrix think-tank, in the new publication [illegible]

There's the First National Bank alliance with Anglo American and the Southern Life insurance company; the Standard Bank alliance with Donny Gordon's Liberty Life insurance group; the Old Mutual influence at Nedcor; the Sanlam control of Bankorp, which runs Trust Bank and Santambank and Senbank.

Dr Jammine is by no means the only economist made ner- [illegible]

But the new R55 billion merger scheme makes a lot of sense to several leading investment analysts at the Johannesburg Stock Exchange.

In fact, one of them remarked, it may even be seen as a stroke of genius that provides all four merger candidates with more muscle to cope with new legislation that the Government has trundled forward in readiness to put into operation on [illegible]

It is a package that scraps most if not all out-moded banking laws and aims at bringing South Africa into line with global patterns in the rules laid down by legislation for financial institutions in general.

The new regulations have been bundled into a 150-page rule book called the Deposit-Taking Institutions Act.

The essential element is a new set of laws about the size [illegible]

serves that cement the foundations of both banks and building societies.

The cornerstone is a set of tables that lay down the sizes of minimum share capital and what the experts call "unimpaired reserves" that must be held.

There's a gradual slope that starts at 4,5 percent for 1991 and gradually climbs to 8 percent by 1995.

[illegible] capi-tal ratio formula for each business operation — from credit cards and mortgage loans to preference shares and government securities — becomes a complex maze that will confound the layman.

But what it means at the end of the day, according to one top-drawer analyst, is that many commercial banks face a hard slog in meeting the deadlines for increases in reserve requirements while most building societies will coast over the line with a surplus because of the nature of their operations.

And that is where he can spot the logic in the new round of mergers to form a single entity that can pool all the pro's and con's on the banking or home loan sides of the business in a way that not only deals with the rule book, but also flexes a lot of new business muscles.

The joy for building societies is that while that 8 percent minimum reserve requirement is the ultimate guideline, the formula allows the figure to drop as low as only 4 percent for home loans — often leaving them awash with spare cash.

That of course brings in the strengths of the UBS and Allied in particular.

Though setting everyone's house in order in readiness to cope with the new rules is one of the main objectives of the merger exercise, said one broker, the UBS/Volkskas/Allied/Sage deal also promises a range of far wider benefits.

It would pool not only banking and home loan resources, it would also give the proposed new group a stronger stake in such operations as insurance, financial advisory services and unit trusts.

"Each of the four candidates has a contribution to make to specialised services," he said, "and equally important is the enormously wider base opening up to each one as they pool their lists of current clients.

'And still in the pipeline will be the promise of vast savings from a sharing of many basic services — such as in computer systems — in longer-term rationalisation planning.

"They all line up to a logic that may look more and more attractive as merger details are revealed.

"And that is why one can never rule out the possibility of counter-bids that may swing in from outsiders at the last moment.

"The new legislation coming in next month is causing a lot of midnight oil to be burning inside quite a few financial institutions.

"There's a huge queue of investors — and competitors — trying to find a chink in the curtain to see exactly what's going [illegible]

You-know-who puffs pipe through JSE

W/E Argus 19/1/91

From JOHN SPIRA

JOHANNESBURG. — Anton Rupert's mammoth Rembrandt group has bumped up its sphere of influence in the JSE by a quantum margin following a spate of feverish acquisition activity.

In the past several weeks alone, the tobacco giant has:

- Bought a major stake in newspaper group Perskor.
- Seen the value of its interests in the financial services sector rise strongly as a result of the United-Volkskas-Allied-Sage merger.
- Boosted the value of indirectly-controlled Rainbow Chickens via that company's acquisition of Premier Group's interests in its Bonny Bird broiler operations to give it more than 50 percent of South Africa's white meat market.

See page 3

Rupert boosts JSE status

W/E Argus 19/1/91

From page 1

Robin McGregor, chairman of McGregor's On Line Information, calculates that Rembrandt's sphere of influence on the JSE has soared from 7,6 percent 18 months ago to a current 14,3 percent as a result of its forays into the food, mining, printing and finance industries.

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

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

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

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

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

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

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

He urges that steps be taken to increase competition and thereby reduce inflation.

- REMBRANDT occupies a key position in the R50 billion United-Volkskas-Allied-Sage mega-merger, which will result in South Africa's largest financial services group.

Its holdings in the parties to the deal comprise 26 percent of Sage Holdings, 30 percent of Volkskas and 9,9 percent of UBS Holdings. Sage has a 10 percent stake in Allied, giving Rembrandt an indirect interest here.

Adding interest to the way in which the merger might eventually unfold is Rembrandt's 28,7 percent stake in Momentum Life (into which Sage Life could be slotted) and its indirect holding in Boland Bank via Momentum and Volkskas.

Also coming into the picture could be Rand Merchant Bank, 26 percent owned by Sage Holdings.

Perplexed Saambou prepared to listen

Star 18/1/91 (58)

There was considerable speculation in the market yesterday as to who was supplying the funds to back the offer by Trafalgar Portfolio Managers (TPM) to buy 30 percent of Saambou shares at 140c a share.

The offer is conditional on TPM receiving at least 10 percent. If this amount is received TPM will then need approval from the Registrar of Deposit-taking Institutions. The offer is open until January 31.

The unusual nature of the offer has certainly caught the market's attention but the fact that it comes from a relatively unknown party has prompted speculation that TPM may be fronting for another party.

TPM's Peter Hougaard is emphatic that the company is acting as a principal in this deal and points out that it manages "substantial funds" and is keen to invest some of these funds in Saambou at 140c a share.

Asked if there was any particularly large client backing the Saambou deal Mr Hougaard stated: "We are operating like any normal portfolio management business which has a variety of clients."

He believes that the discrepancy between the market price and the net asset value makes Saambou a good investment. "We see this as an undervalued situation and are keen to acquire a strategic stake. We are investors and are not looking for control."

According to Mr Hougaard there was a very positive response to the offer yesterday and,

Diagonal Street

ANN CROTTY

on the basis of the acceptances that have been received so far, he believes TPF should be able to reach its targeted stake.

(TPF has deposited a bank guarantee of R36 million with the brokers to the deal — Frankel, Max, Pollack, Vinderine. This is sufficient to pay for a 30 percent stake at 140c a share.)

At present Saambou has no major shareholder. It has 20 000 shareholders — Sanlam with around 10 percent is the largest. Just before Christmas, Volkskas sold its 9,8 percent stake. There is some speculation that this stake may have gone to insurance broker, Prestasi.

Given the widespread shareholding analysts believe that executive chairman Mr Hendrik Sloet will play a critical role in any battle for control.

Asked to comment on the TPF offer, Mr Sloet stated:"I do not know what to think of it. They have not contacted me and I do not know for whom they operate or what their intentions are."

Mr Sloet pointed out that Saambou was not looking for a partner but stated that if anyone wanted to talk: "We'll listen."

He would not give advice to shareholders on whether or not to sell.

30% bid surprises Saambou

BDay 18/1/91 (58)

SEAN VAN ZYL

SAAMBOU Holdings's board of directors was taken by surprise yesterday when a bid, rumoured to be backed by the Bankorp group, for 30% of the building society's share capital was announced.

Market rumours suggest that everyone from Nedbank to Mannie Simchowitz is behind the Trafalgar bid. But the strongest suggestions surround the Bankorp group. Bankorp's executive chairman Piet Liebenberg was unavailable for comment last night.

Saambou's chairman Hendrik Sloet says that the first time he heard of the bid was when he opened yesterday's paper. "We have not been approached by any of Trafalgar's directors and I haven't a clue as to what they intend doing should they gain a 30% interest."

Despite the rumours, Trafalgar MD Pieter Hougaard says the offer is being financed solely by his company.

"The bid is not an attempt to gain control, but to build up a strategic stake in Saambou," he says.

Saambou's share price is trading at a discount of about 59% to its net asset value of approximately 220c, Hougaard says.

"The difference in net asset value and the share price of 130c made Saambou a good buy."

Volumes traded in Saambou climbed to 136c yesterday from the 130c close in response to Trafalgar Portfolio Manager's

☐ To Page 2

Saambou

BDay 18/1/91 (58)

☐ From Page 1

conditional offer to purchase the building society's shares at 140c a share.

The number of shares traded jumped to 164 959 (40 215) shares in 39 deals worth R223 084.

Trafalgar is pushing for a 30% stake in a bid which if successful will cost just under R36m. It has reserved the right to retract the offer should less than 10% of the ordinary shares in issue be made available. A 30% stake will make Trafalgar the single majority shareholder of Saambou.

Sloet says that under the new Deposit Taking Institutions Act, Trafalgar will have to get clearance from the authorities before going ahead with its bid.

"I don't believe that the authorities will allow control of Saambou to shift into the hands of people without the adequate experience in running a building society."

It would seem that Trafalgar has not as yet gained permission from the Registrar to take up a 30% stake, although Hougaard is confident this will be given.

ALLIED/SOUTHERN/UBS/VOLKSKAS/SAGE (58)

STILL IN PLAY

FM 18/1/91.

Talks involving the UBS, Volkskas, Allied and Sage have held out the prospect of a mega-deal that could radically alter the balance of power in the financial services sector. That much seemed reasonably predictable, assuming a deal between these parties goes through as expected.

Southern Life's surprise proposal to the Allied board last week has showed how fluid the play still is.

Southern directors have declined to comment, except to indicate that the timing of the next step will depend on the Allied. Norman Alborough, chairman of the Allied, says only that there was a proposal and not an offer, but adds no further details.

The distinction is important, given that a formal offer would have to be dealt with according to set procedures and that shareholders would have to be informed. But it is by no means implausible that an offer will be made.

Shareholding arrangements finally reached for the Allied will have major implications not only for the UBS/Volkskas camp — in which Rembrandt is more than an interested party — but also for the other leading players in the industry, including First National — whose controlling shareholders are Anglo American Corp and Southern — as well as SBIC and Nedcor.

In principle, a deal with Allied could mean a great deal for either the UBS or First National, though there seems limited value in a final shareholding arrangement that does not include a full merger. Attractions in a deal with Allied include gaining access to its assets, as well as the ability to rationalise operations sufficiently to improve profitability.

That can't be done effectively simply by acquiring a stake which is treated as an investment. Some things might be achieved, such as the sharing of certain facilities, but a contractual agreement would be enough for that, without shuffling shares around.

On that basis an offer from the Southern for 30% of Allied, as mooted last week, seems difficult to understand but in fact a stake of that size should be enough to enable a full takeover. The Securities Regulation Panel's new code on takeovers and mergers takes effect on February 1 and an offer submitted now would almost certainly have to follow its requirements.

Under the new code, acquisition of a 30% stake must automatically be extended to an offer for all the shares. At the least, says Securities Regulation Panel executive director Doug Gair, any parties making such an offer should refer it to the panel first. Allied has a highly fragmented shareholding structure, so an attractively priced offer may well succeed, particularly if the board gives its backing.

Should Southern simply make an offer for less than 30% of Allied's shares, then for the present that may rule out rationalisation between Allied and another banking group and may also ensure its independence —

UBS's Badenhorst ... *won't want to overpay*

which certain of the directors evidently value highly. MD Kevin de Villiers, for one, has in the past expressed reservations about the ostensible benefits of mergers between banking groups. Jobs presumably would also be at stake once rationalisation got under way.

Implementation of the Deposit-taking Institutions Act from this month makes Allied attractive, if only because all banks must meet more stringent capital ratio requirements. Commercial banks will have to maintain share capital and unimpaired reserves at a minimum 4,5% of risk-weighted assets this year and the ratio rises to 8% in 1995. Mortgage loans carry a lower risk weighting than most other assets held by banks, so for First National an acquisition of a building society would simplify the task of meeting these requirements.

On the other hand, an Allied/UBS/Volkskas merger would not be welcomed by competitors. In the March 1990 year, UBS derived only half its attributable income from its building society, partly because the traditional building societies have lost market share in the mortgage loan business to aggressive commercial banks.

By merging with Allied, UBS could regain ground in the bond market, further strengthen its capital position and, hopefully, improve returns through rationalisation. UBS, at this stage, is not short of capital, but analysts reckon Volkskas will need to find additional capital as requirements tighten.

While UBS now holds 30% of Volkskas which in turn has 9,9% of UBS, a closer arrangement or merger would give each direct access to the other's markets while resolving any capital problems for Volkskas.

That, at least, is how it could work on paper. In practice, mergers and similar arrangements between financial services companies often fail to produce the expected benefits. According to *The Economist*, in a study of 400 of the biggest bank mergers in the Eighties, FMCG Capital Strategies, a New York consultancy, found that four out of five deals failed miserably.

FMCG cites four preconditions that enhance a merger's chance of success: three of these are that the acquiring bank has a proven record of controlling non-interest expenses; that it will be getting a mix of businesses which, combined with their own, will add up to more than the sum of its parts; and that the two banks are physically close together. In a deal involving UBS or First National, these conditions may be present — though it emphasises the need for a determined attack on costs, especially non-interest costs, after a deal.

FMCG's fourth precondition is that too much should not be paid. And, notwithstanding the supposed synergies, the price struck will obviously be crucial if the UBS/Volkskas/Allied/Sage mega-deal reaches fruition. Leaving aside the question of any partnership or otherwise between First National and Allied, the Southern proposal may have muddied the waters for the UBS, whose CE Piet Badenhorst will not want to get involved in competitive bidding that results in an excessive price being shelled out by UBS.

If a higher price than otherwise does get paid, or Allied is simply excluded from the mega-deal, then that should leave First National feeling more comfortable about the competitive outlook. *Andrew McNulty*

PERSKOR/NASIONALE

RETURNS STILL NEEDED

Developments over the past week have answered a number of questions raised when Perskor first announced that Rembrandt had acquired a major stake in holding company Persbel. But the remaining question to be answered is the big one — are all the pieces necessary to bring about the long-overdue transformation of Perskor into a profit-driven business now in place?

With the entry of Nasionale Pers (NP), they might be. FM 18/1/91

A glimpse of the future can perhaps be provided by examining the comfort levels of

CIB FM 18|1|91 (58)

UNCOVERING THE SKELETONS

Limited banking disclosure requirements allowed Cape Town's Cape Investment Bank (CIB) to hide large potential bad debts, huge risk exposures and an overtraded gilts book. These were not reflected in the financial statements for the year ended June 30.

The true picture emerged when joint auditors Deloitte Pim Goldby and Theron du Toit reported on the year-end figures to Registrar of Banks Hennie van Greuning. Van Greuning promptly requested a meeting with CIB executives to discuss "management of certain risks." The outcome was a second audit, which partly explains why the report was released only in December.

The auditors' report, dated October 31, reads: "These financial statements are the responsibility of the company's directors. Our responsibility is to report on (them)."

Neither auditor would comment, citing client confidentiality. According to auditing standards, directors are responsible for the annual financial statements; the auditors express only an opinion on them.

Chairman Jan Pickard says CIB failed "when commercial banks refused to clear gilts for us; the core of our business was hurt. CIB was built around trading and had 25% of the market. We tried to diversify into project and corporate finance but loss of market credibility hit our deposit base."

The size of the gilt book led to Nedbank's withdrawal in October as CIB's gilts clearer. CIB was reportedly settling between R1bn and R3bn a week. Ninety per cent of its gilts positions has been eliminated and the remaining 10% will probably be closed out by new owner Prima Bank.

Now auditors are trying to establish CIB's net asset value (NAV) so a price can be set for Prima, which took over CIB on December 18 — some say reluctantly. Pickard points out at that stage the R38m capital base was intact.

Prima will keep some areas of the bank, such as some dealing and risk management activities, and sell off the rest. Of 150 CIB staff, Prima has retained 38.

The takeover gives Prima a Cape-based office, some skilled people and an increased capital base. Negatives are a significant number of bad debts. These will, however, be written off against the purchase price, so Prima could end up with a bargain.

Prima MD Johan Bellingan says the takeover won't be completed until December 31 1991, once CIB's bad debts are determined. Prima will pay by issuing preference shares, whose value will be set when final NAV is determined. Auditors are trying to establish what can be written off against bad debts, some of which are secured.

Banks are exempted by Part 5 of Schedule 4 of the Companies Act from the disclosure required of other listed companies. This will change once accounting guidelines for new reporting requirements issued last year for public comment are put into practice — probably in 1992. Banks will find it more difficult to hide poor risk management and trading practices as they will have to disclose risks and describe how they are managed.

Jan Pickard ... *tried to diversify*

More detailed information supplied monthly to the Reserve Bank will also provide an early warning of potential problems.

The Reserve Bank is said to have helped the ailing CIB, in an effort to avoid the collapse of yet another bank, following the liquidation of Alpha Bank. It backed CIB's gilts cheques when Nedbank withdrew as clearer. It also bought gilt securities from CIB "on a market-related basis."

CIB was granted final registration on September 7, in the midst of its troubles. Deputy Registrar of Banks Christo Wiese says registration was based on its statutory returns to the Reserve Bank. The old Banks Act mainly required statistical information, with little on risk management. This will change on March 21 when bank returns will be based on the Deposit-taking Institutions Act, which focuses on risk management.

Heather Formby

Counter-bid for Allied still possible in merger

BDay 18/1/91 (58)

GILLIAN HAYNE

INSIDERS close to the negotiations over the merger between UBS, Volkskas, Allied and Sage Financial Services (SFS) have not ruled out a counter-bid by Southern Life for Allied.

Agreement in principle on a merger was announced yesterday.

Southern apparently entered the fray last week with an unconfirmed offer of 225c a share for about 30% of Allied.

It was believed the attraction for Allied was that it offered safer paper than the unknown UBS paper, open to dilution by a merger with Volkskas and SFS.

Approval

Company insiders stressed that agreement between the original four had only been achieved in the broad sense with details yet to be finalised.

Similarly, approval still had to be obtained from shareholders and the authorities.

Assuming the original talks took the form of a share swap, there could still be other attractive offers which could turn the tables, they said.

Whatever the outcome, a final announcement could be expected in the very near future.

Allied MD Kevin de Villiers and Southern Life executive director Adrian Arnott would not comment on the developments.

Registrar of Banks Hennie van Greuning said his office would have no objection to the proposed merger between UBS, Volkskas, Allied and SFS.

"It is in line with both existing legislation as well as the Deposit Taking Institutions Act. Approval has been given in principle but formal approval must still be obtained," he added.

News of the grouping of interests between the four companies came as no surprise to the banking industry which appeared unperturbed by the formation of a giant financial services group worth R50bn.

First National Bank's MD Barry Swart said although it was early to comment, the merger seemed prompted by business considerations — such as internal rationalisation opportunities — rather than from a wish to become SA's largest banking institution.

Another major competitor said the merger would only influence the banking industry if the rationalisations and steps to curb costs proved successful enough to make them a more competitive entity.

"It all depends on how the merger comes together, what synergies are created and costs saved," he explained.

Pessimists note that the negotiations could still go off the rails if the widely divergent management styles do not "gel", which would result in the four losing their market share to others.

If the merger does go ahead, most speculators maintain the group will be pulled into one unit with UBS chairman Piet Badenhorst as the financial leader, under the aegis of Rembrandt.

Rembrandt's interest includes a 30% share of Volkskas, a 10% stake in UBS, 27% of Sage of which SFS is a subsidiary, and an effective 15% in Allied through SFS and Sage unit trusts.

Sage holds a 26% stake in unlisted Rand Merchant Bank in which Allied has a 14% stake. UBS also has a 30% hold in Volkskas and Volkskas a 10% cross-holding in UBS.

Unrealistic

Martin & Co director Richard Jesse emphasised the enormous difficulties of combining people-intensive operations into one unit.

"Glib suggestions that UBS will pull the others into its fold and create a single technological and administrative base are unrealistic," he added.

Allied shares continued to dominate trade yesterday in the wake of the announcement of the agreement.

Allied held at 220c, while UBS rose 25c to 775c. Volkskas was unchanged at 1700c and Sage Ltd was unchanged at 750c.

Surprise offer for Saambou shares

(58)

By Ann Crotty STAR 17/1/91

Saambou shareholders are being made a conditional offer for 30 percent of their shares at 140c a share.

The offer to buy, which is being advertised in newspapers today, comes from a low-profile portfolio management company called Trafalgar Portfolio Management (TPM).

The offer is conditional on at least 10 percent acceptance and approval from the Registrar of Financial Institutions.

TPM's Pieter Hougaard feels TPM (which has been operational for about 12 months) is in a position to satisfy the Registrar's requirements, pointing out that TPM "is a financial company, has suitable knowledge of the industry and has the right standing".

Mr Hougaard notes that TPM is not making an offer for control, but merely wishes to build up a strategic stake in Saambou, which he feels is currently undervalued.

Ahead of today's offer, the share was trading at 130c. For much of 1990 it was around 110c, which is significantly below its net asset value — estimated at about 240c a share.

Mr Hougaard says that it was on the basis of this discrepancy that TPM identified Saambou as a good buy at 140c a share.

In 1990, speculation that Saambou would be an appropriate takeover target for one of the major financial institutions provided good support for the share price at around 120c.

The combination of the massive discount to NAV and the fact that Saambou could be an attractive buy for one of the larger institutions would certainly justify Mr Hougaard's bullish view of the share.

But it should also make shareholders wary of off-loading at 140c on the basis that if it is a good buy for TPM, it's a good hold for them.

And if Saambou is subsequently involved in a control battle, shareholders might then be able to get something closer to 240c a share.

In the cold

However, shareholders run the risk of Saambou being left out in the cold and the share price slumping below 140c.

But, as one analyst says, if a financial institution could get control of Saambou at 140c a share, it would get a R200 million injection of free capital.

This consideration and Saambou's exposure to the Afrikaans home loan market does make it an attractive buy.

Gold shares plunge by 12% on JSE

CAPE TIMES 18/1/91 (58)

By PIETER COETZEE
Financial Editor

GOLD shares plummeted yesterday with the gold index losing no less than 12% or 165 points as the gold price plunged more than $30 from its high of $411 earlier in the day. It closed at $376/377 in London.

In New York gold closed at $372,60/374,90.

The rest of the market generally held firm and the industrial index firmed 1,6% following the strong performance of international stock markets. The overall index was pulled down by the drop in gold shares closing the day 17 points lower.

Brokers said the two reasons for the mood swing were the indications that the war will be short and the removal of the uncertainty factor as to what was going to happen and when.

Rob Gillan, gold analyst at Frankel, Max Pollak, Vinderine, said gold had its run with the build up of tension in the Gulf before war broke out. The price of $411 recorder just after war erupted can be seen as the spike everybody was talking about, he said.

It has lost much of its safe haven status and is currently seen as just another commodity. Many producers are selling their gold at the higher prices and are also making use of the higher gold price to sell forward.

"If gold moves up to the $400 level many producers are expected to enter the market with forward sales and that would depress the gold market. Supply and demand is the overriding factor at the moment and with the present oversupply of gold I do not see a major improvement in the gold price before 1993," he said.

Gillan said it is possible that there was an overreaction in gold shares but he does not think that the gold index would pick up by more than 20 to 30 points on the present gold price.

Economist Leon Steenkamp of stock brokers Senekal, Mouton and Kitshoff said fundamentally gold is weak. Gold had its run with the pre-war build up.

Much will depend on how the war develops and how long it lasts, but overall prospects for the gold price are not too exiting. The rest of the market could, however, firm slightly but there are still many uncertainties.

Dealers on the JSE said there was no sign of panic selling on the JSE yesterday with volumes being thin.

The JSE gold index closed at 1 179 down from Wednesday's 1 343 close, but the industrial index rose to 2 875 from 2 829 after recent steady declines. The overall index eased slightly to 2 600 from 2 617.

Heavyweight gold share Vaal Reefs ended the day R35 lower while Randfontein lost R3 at R13,75 but diamond share De Beers rallied to R64,75 from Wednesday's R61,50 close.

Industrial leader Barlows gained R1,50 at R35.

● **In London precious metals** were very subdued.

Silver closed at 405/406c an ounce, against its fix earlier at 409,75c and last night's close at 420/421c.

Platinum closed at $411/412 an ounce, little changed from its afternoon fix at $413,25 but $9 lower than the close yesterday at $420/421. — Reuter

New banking giant created

Star 17/1/91.

(58)

By Derek Tommey

Three of the country's second-tier banks have agreed in principle to merge to create the country's biggest banking group with total assets of R56 billion.

The Allied Group (worth R10,9 billion), UBS Holdings (R16,9 billion), Volkskas Group (R25,8 billion) and Sage Holdings (about R2 billion) have announced that "agreement in principle has been reached regarding the grouping of interests into a new diversified financial services group."

Terms of the transaction will be announced shortly.

In the meantime they advise their shareholders "to continue exercising caution in their share dealings" — in other words they should not sell their shares until they have seen the terms of the transaction.

Leader

The new banking group will be significantly larger than the Standard group, currently the biggest bank with assets of R47 billion.

It will also be half as big again as the First National which has assets of R37 billion.

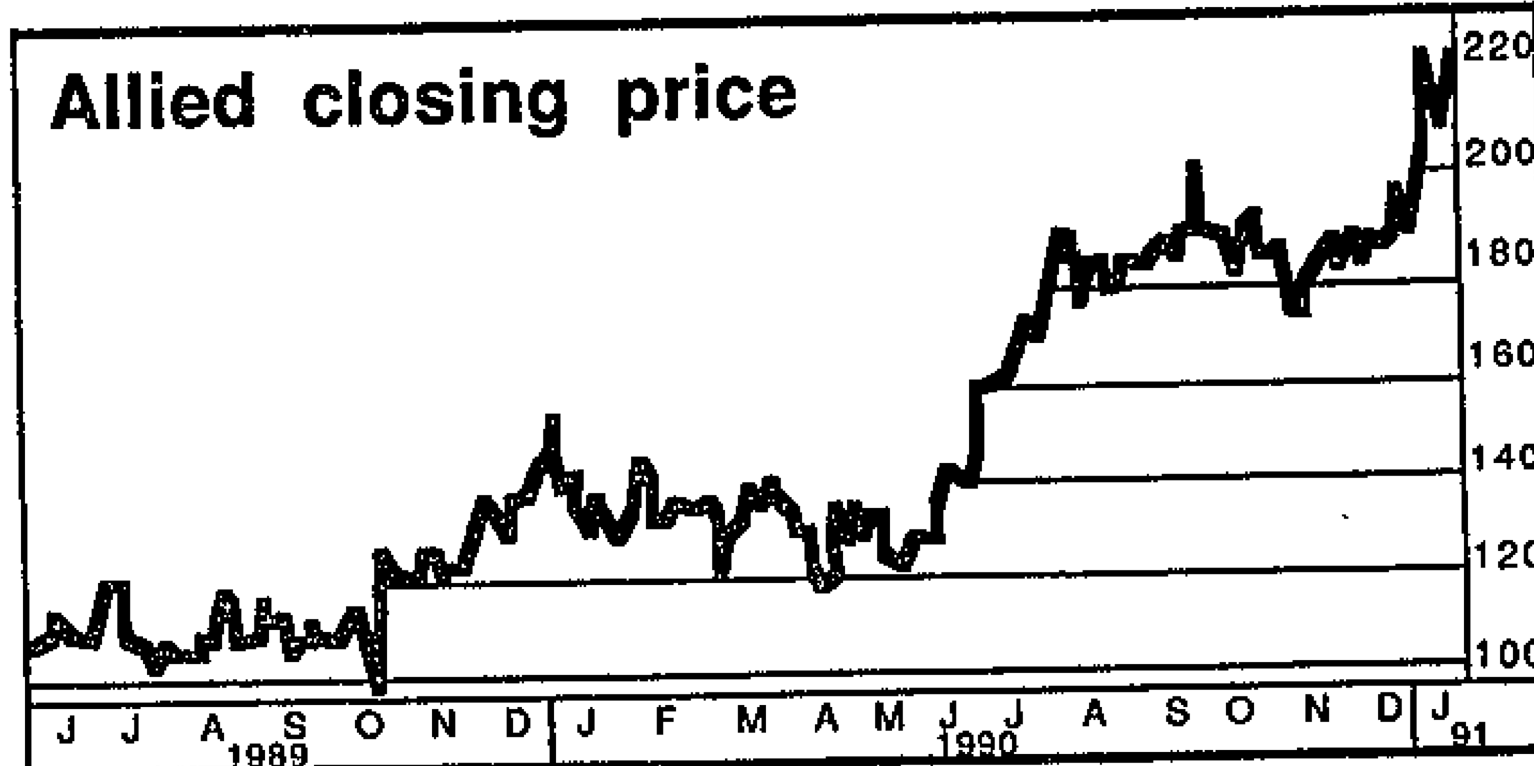
Nedcor has assets of around R34 billion and Bankorp about R36 billion.

The announcement follows a proposal last week by the Southern Life to acquire 30 percent percent of the Allied's shares.

It is not known whether today's announcement will result in the Southern Life giving up it's intention of acquiring a stake in the Allied.

Allied shareholders should therefore hold on to their shares until such time as the Southern's intentions are known.

The Allied has no controlling shareholder able to do a deal on its behalf. Instead it has 48 000 mostly small shareholders whose support will be necessary for any merger or any other form of change of control.



Trading on the Johannesburg Stock Exchange in Allied shares yesterday was fairly heavy for this stock with some 2 million changing hands at 220c a share.

But this is only a small fraction of Allied's total issued capital of 295,3 million shares. Yesterday's buying therefore would not seem to be the result of any attempt to build up a strategic interest in the share by a possible bidder.

The news of the proposed merger will not please everybody. Many thousands of people who work for the four institutions could be apprehensive about their future job security.

The aim of such mergers is not just to combine assets but to cut costs. This means that many operations are likely to be rationalised — which could lead to a number of retrenchments.

Volkskas looks like being a major beneficiary from the merger. Its image of being a strictly Afrikaans bank (although it has tried to change this) has acted against it in the South Africa of today where most institutions have shed any racial links.

Becoming part of what could well be the "United Bank" will open many doors for it. The merged operation will also result in a more balance business portfolio for the UBS.

Mortgages

At present it is heavily into mortgage finance. But while this is safe long-term business, it does not provide the profits which general banking can do.

The Allied is also heavily into mortgage finance but is actively developing its general banking division. Its link-up with Volkskas and UBS will give it access to a more solid source of finance.

Sage, the doyen in this country of the financial services industry, should find a large market opening up for its products and services.

Let banks go bust, say bankers

BDay 17/1/91. (58)

ROBERT GENTLE

SA BANKERS believe banks should be allowed to fail just like any other business enterprise, a snap poll conducted by Business Day shows.

Reacting to the recent fall and subsequent takeover of the ailing Cape Investment Bank (CIB) by its specialist rival Prima Bank, their consensus is that though there are certain "justifiable exceptions", banks should generally be allowed to go under.

"That is how the free market works," says Viv Bartlett, senior GM at First National Bank. On the view that banks are special because they hold public money, Bartlett says other entities like insurance companies and unit trusts do the same.

Bartlett is against a government-backed deposit insurance scheme, which in the US has allowed certain banks to invest money in risky ventures safe in the knowledge that the US government would protect deposit holders.

This lies at the heart of the Savings and Loan crisis which has left US taxpayers sitting with a likely bill of around $500bn.

Bartlett says he would rather see a few well-run banks operating under strict prudential guidelines, adequate information disclosure and market forces than many questionably run banks protected by an insurance scheme.

Rand Merchant Bank MD Laurie Dippenaar says: "Banks should be allowed to go to the wall unless the Reserve Bank can identify one or other contributing factor which was beyond the control of management."

Stricter

While SA does not have deposit insurance, it has a Reserve Bank that is "helpful" in getting problem banks out of trouble.

Consequently, depositors are generally protected, though not necessarily shareholders.

Unlike in the US, where banking licences are easy to come by, SA lays down much stricter membership conditions: "It is right that people be properly scrutinised before being let into the banking arena. However, once they are in, they must be allowed to succeed or fail."

Standard Bank deputy MD Denzil Busse says allowing badly managed banks to go under is "a salutary warning to the market that banks are businesses". He says that while a bank failure is always painful, it is a good thing in the long term because it strengthens the system. He opposes deposit insurance.

Allowing banks to fail raises the issue of how to alert the investing public as to which banks are being properly run and, consequently, less likely to fail than others.

Dippenaar and Busse support in principle the concept of ratings. A well-run bank might be triple-A plus. A badly run one would get a high-risk rating. But there are problems. "Rating banks is difficult and will depend on what they are willing to disclose," says Dippenaar. "Ratings must, therefore, be treated with circumspection."

Says Busse: "While the sophisticated investor would find it useful from a risk point of view, I think the man in the street would probably not even be aware of it." The average depositor, it is argued, would invariably invest his savings at Bank A at, say, 16% rather than Bank B at 12%, without even stopping to wonder about the reasons for the difference.

Worried

The shaky, under-capitalised US thrifts recklessly offered investors better interest rates than their more stable competitors. Closer to home, examples like Alpha Bank and CIB spring to mind.

Prima Bank MD Johan Bellingan welcomes ratings but is worried about which banks will want to put their heads on the block first. "How many will accept ratings?" he asks. "Maybe ratings should be an industry norm."

Ratings are all very well, points out another merchant banker, but if shaky banks are always rescued — either by their major shareholder (as with Bankorp and Sanlam) or the Reserve Bank — investors will attach little value to the ratings.

Which brings one full circle to the central issue of whether banks should be allowed to fail. The Reserve Bank's view, as put recently by Registrar of Banks Hennie van Greuning, is that while official policy is not to shore up ailing banks, there is the desire for a strong, efficient financial market. Consequently, likely failures are looked at on a "case-by-case" basis.

A senior treasury representative from one of the big five banks says thinking high up in the Reserve Bank is not necessarily against letting a bank go under, but the impact on the financial markets of such a failure would have to be minimal.

Could the next small bank that runs into trouble be offered as a sacrificial lamb? The stricter capital, risk management and information disclosure requirements of the impending Deposit Taking Institutions legislation makes a banking failure much less likely this year.

But, industry sources say, not impossible.

High rates on debt pose problems for banks — Nedbank

B/Day 17/1/91 (58)

ANDREW GILL

IF INTEREST rates remained at their current levels for too long, bad debts could become a serious problem for many banks, Nedbank MD Richard Laubscher said in an interview yesterday.

Although current monetary and fiscal policy was understandable, he said the biggest sufferers from high interest rates would be small debt-intensive companies.

Speaking on the release of the bank's annual report yesterday, he said Nedbank was well positioned for dealing with a scenario of both stable and declining interest rates.

Pre-tax profit showed a strong 22% increase to R253m although higher provision for tax equalisation saw net income rise 14% to R144m.

Bad debt provision was increased 47% to R47m, reflecting the bank's concern for economic conditions now and in the new financial year.

In the future, he said, exciting opportunities would appear in the exports markets particularly in the Southern African region, Eastern and Central Europe and the East.

● LAUBSCHER

Post sanctions re-entry into Canada and the US also held considerable promise, Laubscher said.

This was already evident in the enhanced profitability of offshore branches and subsidiaries.

"However, better earnings are anticipated from these sources in the future, as our trade finance thrust is specifically orientated towards a post-sanctions environment," he said.

The bank was to embark on a marketing programme, and a new corporate identity would start to emerge in the coming months, he said.

Merger to create banking colossus

CAPE TIMES 17/1/91

(58)

Own Correspondent

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

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

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

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

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

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

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

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

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

Reserve Bank Governer Dr Chris Stals gave tacit approval to the creation of a super bank last September saying: "We have no objection, this is in line with our thinking on rationalisation in the sector."

Strong showing for Prima Bank in six-month period

Bl Day 16/1/91

MARC HASENFUSS

UNLISTED niche finance group Prima Bank continued to perform strongly in the six months to end-December 1990, posting a net income of R850 000 or 425c a share representing an annualised return on shareholders' funds of 44%.

MD Johan Bellingan said earnings should at least be maintained during the second half of the year, thus pointing to a full year's net income of about R1,7m or more. The group earned R1,2m or 600c a share for the year to end June 1990.

No comparative interim figures are available as this is Prima's first interim report.

Prima Bank operates in niche markets, providing specialised wholesale banking and other financial services to corporate clients, and has activities spanning the money and capital markets, futures and options, risk management, corporate and asset-based finance and property development.

All departments of the bank performed well, said Bellingan.

Total shareholders' funds stood at R4,7m for the interim period compared with R3,85m at the end of the previous financial year. Total assets were R111,1m, compared with R142,5m six months earlier.

Bellingan said the results of JSE-listed Cape Investment Bank Group (CIBG), acquired by Prima at the end of last year, were not included in the half-year figures since its net asset value had still to be established.

The new management of CIBG has instituted controls and taken other steps to ensure CIBG operates effectively. Only when CIBG was operating on a sound basis was the incorporation of Prima's operations into CIBG envisaged, at which time CIBG's name would be changed to Prima, he said.

Prima's directors believed the operations of CIBG were highly compatible with those of Prima.

The combination of strong Prima management and CIBG's advanced computer systems would ensure sufficient information and management controls for a growing bank, he said.

"The enhanced base would place Prima on a sound footing to comply with the requirements of the new Deposit Taking Institutions Act and would enable the bank to grow from a higher capital base."

Uncertain market fails to halt unit trust growth

Bday 16.1.91 (58)

GILLIAN HAYNE

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

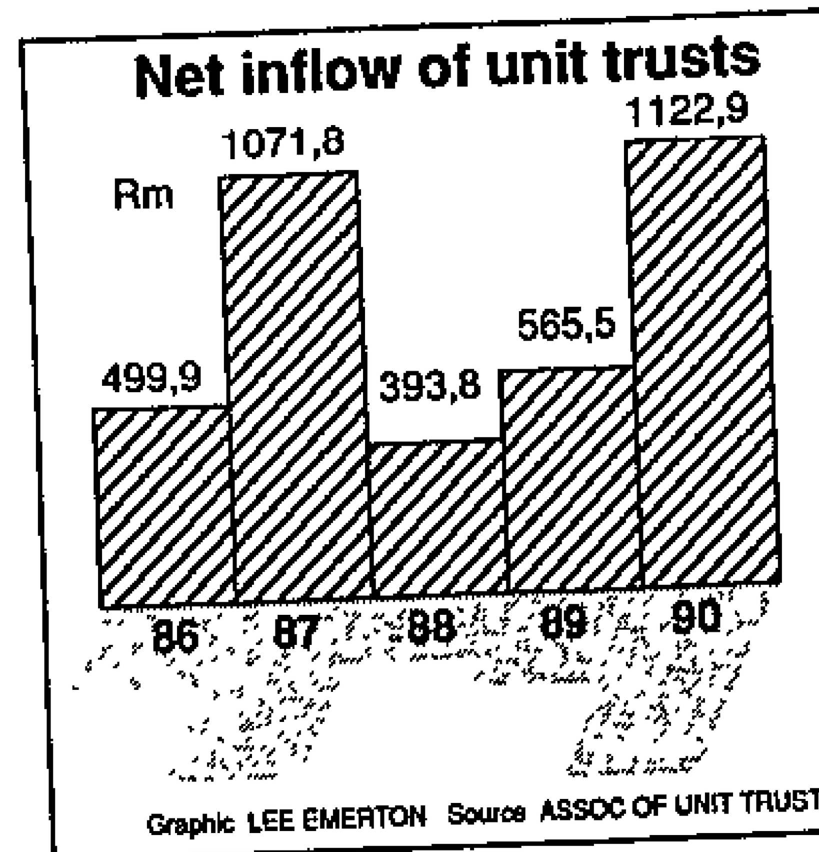
Figures released by the association showed that in the past 12 months sales of unit trusts rose 53% to R2,11bn compared with R1,38bn for the same period in 1989, while repurchases amounted to R985m, 21% up from R811m. This resulted in a net inflow of business of R1,12bn, 98% up from the previous year's R565m.

These figures were achieved on the back of 168 000 new accounts, which brought the total number of unitholder accounts to 736 000. The industry ended 1990 with 36 trusts having total assets of R7,6bn, 15% up from the R6,6bn recorded at the end of 1989 distributed between 31 trusts.

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

"With the JSE All-Share Index declining by 8,6% over the year, the general equity funds did well to achieve an average total return (that is capital appreciation plus income distributed) of 7,5%," he added.

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



Graphic LEE EMERTON Source ASSOC OF UNIT TRUSTS

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

The eight income trusts achieved a total return of 16,7% over the year.

By contrast the specialist equity trusts recorded a negative 3% return for the year although for the five year period they achieved an average total return of 15,2%.

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

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

'UBS bought Allied shares'

58

GILLIAN HAYNE

CHALKTON Nominees, a nominee firm owned by stockbroker Davis Borkum Hare (DBH), acquired 2,9-million Allied shares for R6,2m in a bookover deal on Friday — a transaction believed to have been undertaken on behalf of UBS Holdings.

UBS CE Piet Badenhorst would not comment yesterday.

Yesterday Allied was the JSE's most heavily traded share with a volume of 430 241 changing hands in many small deals. The share closed at 212c, up from 210c. BDay 15/11/91.

The shares of the other parties involved in merger negotiations moved as follows: UBS lost 5c closing at 785c; Volkskas rose 25c to R17,25 on a volume of 17 160 shares, and Sage remained unchanged at 735c.

Dealers and analysts admitted they were bemused by the rumoured UBS purchase and many speculated that the Chalkton bookover might have been done on behalf of Southern Life, which last week emerged as a potential bidder for 30% of Allied's equity.

However, others said UBS's buying was logical if the UBS hoped to spike Southern's guns.

Edey Rogers banking analyst David Southey said he could not understand why UBS, Allied, Volkskas and Sage Financial Services seemed so determined to merge their interests into a single financial services giant.

"SA is in a state of political flux and the financial services industry is in a very vulnerable position. Size counts for nothing while the industry is weak. The players should be concentrating on quality," he stressed.

Individual policy surrenders may show growth of 30%

BDay 15/1/91 SEAN VAN ZYL (58)

THE total value of individual life policies surrendered for the 1990 calendar year could have risen by up to 30% on the previous year, rough estimates suggest.

This contrasts with figures compiled by the Life Office's Association (LOA) which show that, on average, the industry's individual policy surrenders for the first six months of 1990 dropped by about 26% in value on the previous six-month period to R544m.

Although the figure for the total value of surrenders for the last six months of 1990 has not yet been released, assurers said that higher interest rates did have a noticeable affect on policy surrenders and lapses in the second half of the year.

LOA statistics also revealed that individual surrenders from June 1989 to June 1990 totalled R1,09bn.

LOA spokesman Juri Wessels said the number of surrenders for the first six months of 1990 were dramatically down on 1989.

AVF Group MD Rob Williams said the value of the group's individual surrenders rose in excess of 25% in 1990 on the previous calendar year. He ascribed the increase to the higher level of interest rates and inflation.

Although the economy last year was "very poor for the assurance industry", Sanlam's assistant GM Izak van Rensburg said premium income grew steadily.

Liberty Life joint MD Mark Winterton said Liberty's surrenders dropped significantly in the third quarter of 1990 as opposed to the first half of the year.

Old Mutual individual surrenders as a proportion of premium income increased 27% between the 1989 and 1990 financial years, said assistant GM: marketing David Hudson.

Subsidiary is shed in CIBG restructuring

ROBERT GENTLE

58

SPECIALIST merchant bank Prima Bank yesterday continued the restructuring of the troubled Cape Investment Bank Group (CIBG), which it acquired last month, with the disposal of the latter's corporate finance subsidiary.

The sale of CIB Corporate Finance was engineered via a management buyout in which the management acquired the entire issued share capital for an undisclosed sum.

Prima MD Johan Bellingan said the sale was motivated by the fact that Prima already had its own corporate finance department and did not need a second one. BDay 15/11/91.

However, the deal included an "arm's length agreement" in which Prima would continue to make use of the corporate finance subsidiary on a fee basis for certain CIB transactions.

Bellingan said Prima had already sold off CIBG's software subsidiary Digitrax and had closed down a Namibian subsidiary.

Epol included on Rainbow's shopping list

MARCIA KLEIN

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

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

Rainbow is to acquire Premier's 50% interest in Bonny Bird Farms, Bokomo and Sacca. Premier was left with a 50% holding in Bonny Bird in 1989 when it merged its broiler activities with those of Bokomo and Sacca.

The acquisition, for an undisclosed amount, would mean Rainbow would have "a significant influence on the price of chicken", analysts said at the weekend.

The combined market share of Rainbow (about 35%) and Bonny Bird (about 18,6%) would leave Rainbow with more than 50% of the chicken industry.

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

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

Premier will continue to hold the remaining 50% in Epol "and will participate in Rainbow's feed mill expansion to the same extent", the announcement says.

The acquisitions are subject to the conclusion of formal agreements, certain other conditions and the approvals of the boards of Rainbow and Premier.

Today's announcement follows cautionary announcements issued by Rainbow on December 17 and Janary 3 that negotiations were in progress.

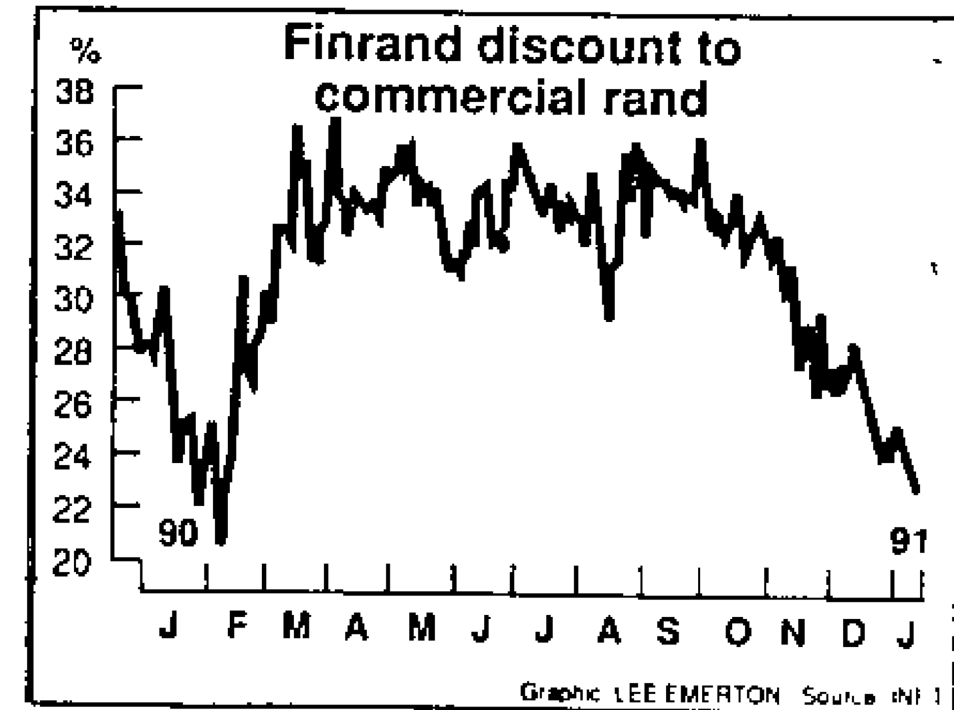
Sources said the acquisition would have to be funded through a rights issue, and Rainbow might use the opportunity to take up more of the Methven family's share if they did not follow their rights — Methven Holdings has a big holding in Rainbow.

Rainbow, SA's biggest chicken producer,

☐ To Page 2

Foreign interest boosts the finrand

ANDREW GILL



FURTHER signs of resurgent foreign investor interest in SA emerged last week as the financial rand climbed to its highest level since just after President F W de Klerk's February 2 speech last year.

It closed on Friday at R3,33 to the dollar, a discount of 22,3% to the commercial rand, which finished at R2,5877.

This compares with a financial rand at R3,88 and commercial rand at R2,56 on October 1, when the discount was 34%.

As a barometer of foreign sentiment towards SA, the finrand has fared well, despite continued investor apprehension over unrest in the country.

A Finance Department spokesman said last week from Zurich that there was no lack of interest from foreign banks, financiers and industrialists. Violence, and not apartheid, had become the major hindrance to investment.

The Lesotho Highlands Water Project had been a major attraction with companies "falling over themselves" to take part in the venture.

Italy, one of SA's major trading partners, was particularly interested after taking heart from the successful Fiat Uno campaign, he said. A group of 12 to 15 bankers from the Italian Bankers Association would be visiting SA towards the end of January.

Standard Bank treasury assistant GM: forex Willie Potgieter said overseas demand had surfaced late last week and the discount would probably narrow further.

Investments were probably going into gold shares, as investors took a view on the gold price while the Gulf crisis threatened to develop into all-out war, he said.

Another factor could be that money had been coming in on the short side of the money market, but he believed gilts were unlikely to have attracted major interest.

The narrowing of the discount was in line with Finance Minister Barend du Plessis' wish to see the gap close.

Also encouraging was that when the discount fell below 25% at the beginning of the week, it did not rebound, as was its normal reaction. Instead it continued appreciating. The rand weakening in the face of a stronger safe-haven dollar had also contributed to the shrinking discount.

R6,2m Allied deal bewilders analysts

GILLIAN HAYNE

A BOOKOVER deal worth R6,2m in Allied shares on Friday provided a dramatic end to a week of intense speculation on the future of merger negotiations between UBS, Allied, Volkskas and Sage Financial Services (SFS).

The deal involved 2,9-million shares at 215c a share and left analysts — divided in their reaction to the rumours — bewildered over who did the deal and why.

Earlier in the week the merger talks took a new turn with Southern Life named as the company behind a counter-bid for Allied. It was reported Southern was prepared to bid 225c or so for 30% of Allied.

Allied closed on Friday at 210c, 13,5% up on a week's volume of 4,5-million shares, UBS closed at 790c on a week's volume of 292 465, Sage closed at 735c and Volkskas, "a surprise mover", moved up 9,7% to R17 on a small volume of 13 794.

Southern Life's entry into negotiations followed rumours that the negotiations were faltering. Those nvolved in talks are keeping mum, but analysts believe it is too early to write off the negotiations.

Unit trusts hoping to do better than in 1990

By Derek Tommey

Latest unit trust growth figures show that most of the managers of SA's 16 public general equity funds reacted fairly quickly and flexibly to the dramatic changes in investment conditions last year.

As a result, many funds were able to overcome their negative perfomances earlier in the year and finish with reasonable performance figures.

Nonetheless, compared with their performances in 1988 and 1989, when they were showing compound rates of growth of 20 percent to 25 percent, the performances of all funds in 1990 can be termed disappointing.

However, investors should be cheered by the fact that several trust management teams are expecting better times towards the end of this year.

According to figures compiled by the Graduate School of Business of the University of Pretoria, 11 of the 16 general funds were able to show growth of five to eight percent in the December quarter, while another two managed four to five percent.

These figures measure capital appreciation (or depreciation) and dividend income.

The December quarter growth figures can be regarded as most satisfactory, particularly as the JSE's all-share index grew by only 0,17 percent in this period.

However, the changes in portfolio management came too late for some funds to enable them to recover the ground lost earlier in the year.

As a result, only eight of the 13 funds showed growth over the year of five percent or more.

Sanlam Trust, which rewarded its unitholders with a 16,19 percent return in 1990, Syfrets Growth (15,74 percent) and Sanlam Index (11,56 percent) put up the best performances.

But Sage, GuardBank and Standard managed a growth rate of more than nine percent and deserve an honourable mention.

Will 1991 be any better? The management of the GuardBank funds tend to think so.

But they expect poor results in the first half. "In the short term, the overall outlook is clouded by uncertainty," the team says.

"Internationally, the Gulf crisis, with its potentially disruptive oil price implications, is yet to be resolved, the East Europe political and economic transformation is facing significant strains, the large English-speaking First World economies are in recession and problems in international financial markets remain."

Company profits in SA are likely to continue to be squeezed and share market sentiment is likely to reflect the ever-changing fortunes in the political negotiations

However, GuardBank's management sees some sign of improvement later.

"In the medium term, one may take a more positive stance," it says.

"It is likely that 1990 will have seen the bottom in the gold bullion market, international financial and trade sanctions against SA may ease and short-term interest rates should moderate from current levels."

The equity market is likely to start discounting these developments, buying ahead of them, it says.

So the question of timing for the next upcycle will be of paramount importance.

The management of the Sage Fund also sees better times ahead. "Encouraging success has been achieved in controlling the money supply," it says

"The current account has been remarkably strong and the third quarter of 1990 saw a welcome inflow of capital for the first time for many years.

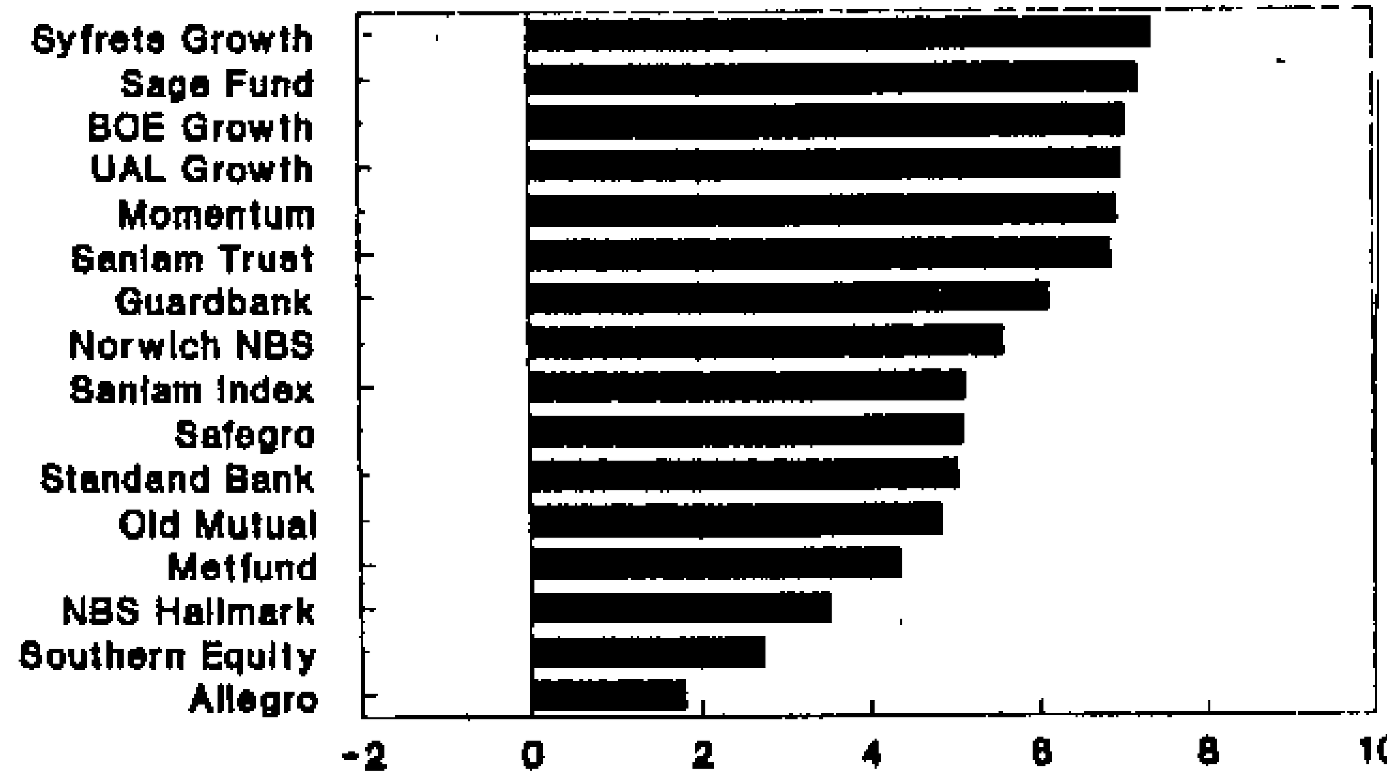
"The decision of the EC to lift the ban on investment should increasingly reduce the need to maintain large surpluses on current account at the expense of domestic growth.

"The recent reductions in the petrol price should help reduce both inflation and pressures on the balance of payments.

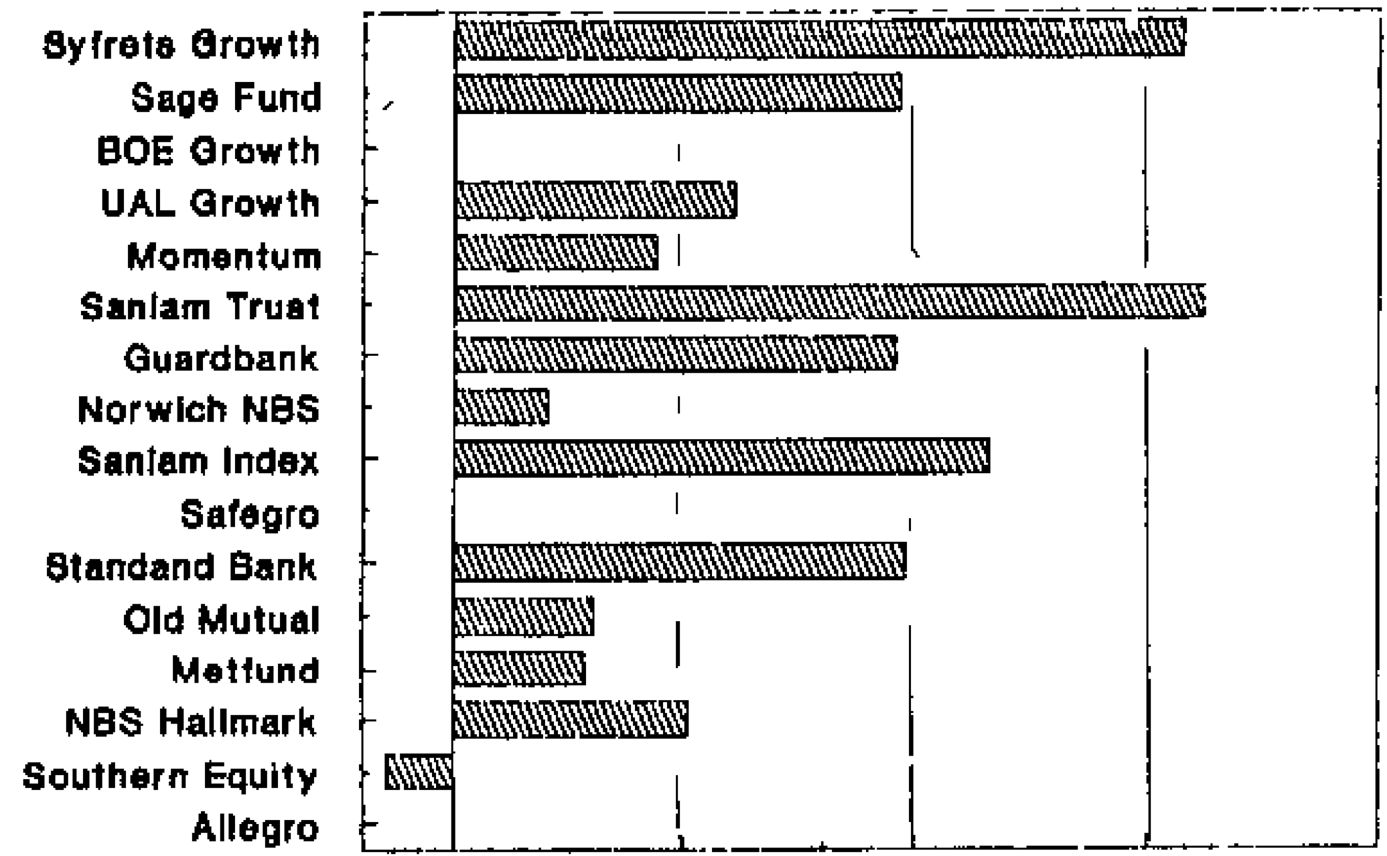
"Thus, domestically, the stage seems set for an easier monetary policy, which may induce the next upswing phase of the business cycle towards the second half of this year."

Sage's management team makes the same point as GuardBank's: "The industrial sector of the JSE is likely to start anticipating better growth prospects as the year progresses," it says.

It is worth noting that between them these two teams control almost R2 billion in assets. With such responsibilities, their forecasts deserve respect.



Unit trust growth — December quarter percentage



1990 — twelve-month growth

A sound performance from CFM for lump sum investors

B Day 14/1/91

GILLIAN HAYNE

CONSOLIDATED Fund Managers' (CFM) decision to keep clients relatively liquid during 1990 has paid off with a recorded performance of 8,16% from March to December 1990 for lump sum investors, MD Clive Fox reported in the latest issue of CFM's Hotline.

This compares with the JSE Actuaries Overall Index which showed a negative return of 15,0% over the same period.

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

Inflation

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

In the 10 years to end September 1990 general equity unit trusts produced a compounded annual growth income of 15,02% a year, against the official average inflation rate of 14,6%.

"Where income growth is non-existent or does not match up to inflation, 'income-reliant' investors will soon find that radical adjustments have to be made to their standard of living," Fox explained.

Old Mutual Investors Fund recorded the largest compound growth in income over the 10 years to end September 1990 of 18,7% a year.

For the five years ended September 1990 the Standard Bank Mutual Fund topped the charts with an income growth at 21,29%.

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

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

"At present, both institutional and private investors have accumulated vast amounts of cash for deployment into the equity market.

"It is estimated that as much as R40bn could be held awaiting investment opportunites. With the shortage of quality scrip the aspect of too much money chasing too few shares will support share price advances even though fundamental wisdom could dictate to the contrary."

'Big brother' offers Allied a way out

(58)

Star 12/11/91.

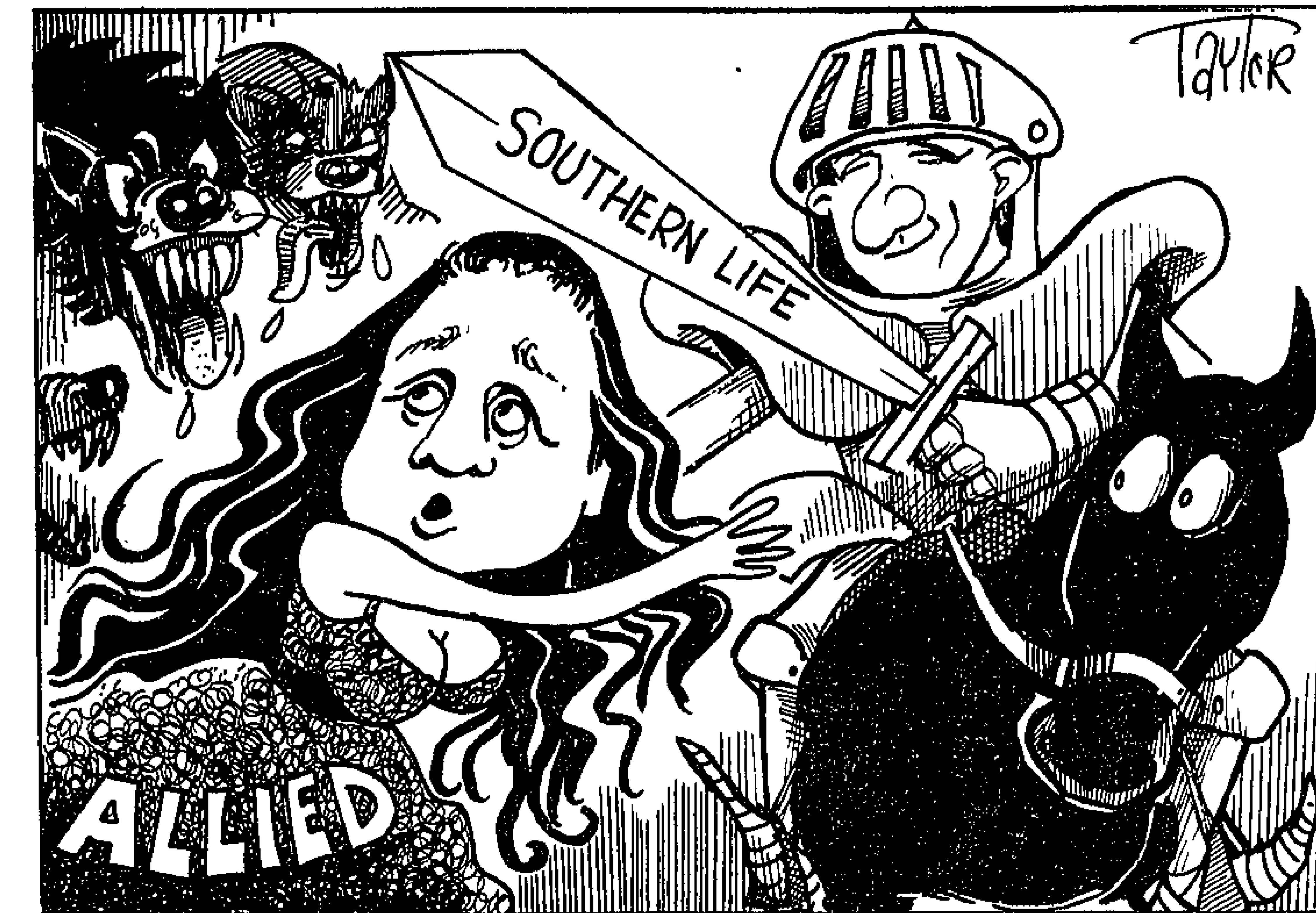
DEREK TOMMEY

A HAPPY ending to the story of the Allied Group seems at last in sight. The giant Southern Life Association has approached the Allied's directors with a proposal which it is believed could result in the group getting the backing it so badly needs.

No details have been issued about the proposal, but it is believed to envisage Southern acquiring a third of the Allied's issued share capital.

If Allied's directors accept this proposal and it is approved by Allied's shareholders, most of the Allied's current problems will fall away.

Allied will acquire the "big brother" it so badly needs to help keep away the predators.



Independence

It will also be put in a much better position to raise new capital should this be necessary. But at the same time the proposal is expected to enable the Allied to retain the independence of action which it so rightly cherishes.

One presumably can assume that Allied's directors are considering Southern's offer and could possibly give their views on the proposal in the next few days.

Southern's proposal has come at a most appropriate time. The Allied has been engaged in merger talks with Volkskas, UBS Holdings and Sage Holdings for the past three months.

However, these apparently have not got anywhere. Indeed, while a merger between Volkskas and UBS could have a lot going for it it is hard to see how Allied could link up with these two without being squashed out of existence.

Both Allied and UBS are direct competitors in certain market sectors. With both companies in the same group one would have to expect that sooner or later there would be a call for rationalisation — with the smaller partner Allied — being the one to suffer the most.

A link-up of the Allied and Sage Holdings also does not seem viable. Market conditions have been moving against Sage, greatly reducing its attraction as a wedding partner.

Sage Holdings grew and prospered by being one of the first companies in South Africa to concentrate on the sale of financial services to the public. But in recent years all the banks have jumped on this bandwagon.

As a result Sage has found the competition becoming more intense and the going more difficult particularly as the banks, being the major sources of credit, have much more leverage than Sage.

Since 1987 when Allied was listed on the Johannesburg Stock Exchange following a huge offer of shares to its depositors, it has suffered from constant rumours of takeovers or merges by or with another banking group.

Behind these rumours is the hard fact that the Allied is an extremely tempting target to any take-over operator and also an extremely vulnerable one.

Tempting because it has almost R11 billion in assets and great potential; vulnerable because a large number of its shares are in "weak hands".

One of Allied's problems is that most of its shareholders are depositors who received preferential shares when the company obtained its JSE listing.

They have little knowledge of the share market and one of the consequences is that Allied's share price is determined by what price the weakest of these shareholders is willing to accept. With no strong shareholders able to make a market in the shares Allied's tend to be undervalued, especially when compared with those of the major and long-established banks.

The result is that a bidder for Allied could probably not only pick up the shares relatively cheaply but also in fairly large quantities without much difficulty. Until now the Allied has been protected to some extent from take-over attempts by the banking regulations. But these have been changed recently and increased its vulnerability.

The under-valuation of Allied's shares could also increase the cost of raising new capital. It would have to pay more for new money raised by a rights issue than would its rivals, thereby lessening the Allied's competitive position.

But a deal with Southern would overcome these problems. The knowledge that a substantial portion of Allied's shares were in strong hands would encourage other financial institutions to invest in the shares.

This would ultimately make it easier for the Allied to raise fresh capital and improve its competitive position which would all be to the good.

What would be in the deal for Southern? An investment in the Allied would complement the Southern's investment in First National Bank.

One reason is that the Allied is much better placed than First National to pick up business in the country's growing working and middle classes. First National is basically a commercial bank).

●In a report yesterday it was wrongly stated that Allied chairman Mr Norman Alborough had confirmed that Southern had made an offer to Allied to purchase a third of its shares. In fact Southern has only made a proposal to Allied.

SATURDAY JANUARY 12 1991

Anatomy of a killing on the JSE

From JOHN SPIRA

JOHANNESBURG. — Investment adviser Bill Barclay smiled broadly as he deposited his R1,92-million cheque — his final reward for 13 years of foresight and patience.

It was back in 1977 that Mr Barclay spotted the enormous inherent value that vested in the Persbel/Perskor publishing group.

That was when he started buying shares in Persbel, Perskor's holding company, his first purchase having taken place at 16c, at which time the net asset value was 200c a share.

He continued accumulating the stock until 1986 for an average price of around 150c a share over his entire holding of 480 000 shares.

When he sold three weeks ago, he had realised a profit of R1,2million, thanks to his ability to pinpoint an undervalued situation and to stay with it for more than a decade.

"It wasn't all plain sailing," he muses. When the group was found guilty of publishing fictitious circulation figures about 10 years ago, the share price halved to 35c.

"I'd bought a lot of shares at 70c and I don't mind telling you I was very worried."

He nevertheless persisted and although it took the shares years to recover from the scandal, he never wavered in his belief that the company's value would eventually be unlocked.

So he just kept on buying — not only for himself but for his clients, all of whom have, like Mr Barclay himself, been grinning happily all the way to the bank.

Among his clients was former South African whiz-kid entrepreneur Mannie Simchowtz who, it was revealed earlier in the week, had built up a sizeable 28-percent stake in Persbel — in the process sending the ostensible controlling shareholders scurrying around for more shares in an attempt to entrench their control.

Mr Barclay: "Mannie has been a client for many years, so when some big lines came to the market — lines which I couldn't afford to take for myself or my clients — I offered them to him.

Buying programme

"He found the situation attractive, so he, too, embarked on a buying programme, purchasing the large lines while I and my clients took the smaller lines."

Thus, in 1980 Mr Simchowitz acquired 100 000 Perskor shares from Sanlam and, more recently, in the region of 120 000 Perskor and 700 000 Persbel from Old Mutual, along with some 130 000 Perskor from Liberty.

Mr Barclay now reckons that Perskor's net asset value has risen to 3118c a share (current price 1250c), making Persbel worth 1006c (current price 640c).

Why, then, was he prepared to sell his Persbel shares at 400c?

● See page 3

A cool R1,9 million return

● From page 1

"Even Job eventually ran out of stamina. I'd been attending the group's annual meetings for the past 12 years.

"Every year I'd tell the directors that their market image wasn't up to scratch that they had to do away with the seven-times dividend cover that had deterred investors from buying the shares for so long. On 12 occasions the response was negative.

"So when Mannie Simchowitz negotiated an offer for my shares at 400c a share, I caved in and sold.

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

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

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

Mr Barclay believes that the Persbel/Perskor control battle is far from over.

"The Dagbreek Trust/Rembrandt alliance is clearly concerned — else they wouldn't be buying all the shares on which they can lay their hands.

"They're not prepared to put Dagbreek's special voting rights to the test — which is why the Rembrandt share exchange deal was scaled down on Friday."

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

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

What will Mr Simchowitz do with his shares?

Mr Barclay won't speak for him. "But if he gets a good offer, he might well be prepared to sell."

African Bank makes good comeback after crises

By MONDLI MAKHANYA

AFRICAN BANK, recently plagued by crises, appears to be finally getting its act together and showing signs of growth. The bank has set 1991 as a year of expansion.

According to its annual report, the bank's assets grew 28 percent to R213,8-million in the year ended September. Another notable growth sign was that net taxed income exceeded R1-million for the first time in its 15-year history. The year also saw the acquisition of African Bank Centre in Johannesburg and the opening of branches in Durban and Tzaneen. These branches have shown a marked increases in deposits and loans.

Four years ago the bank was shaken by a foreign exchange scandal involving $117-million. The R63-million profits were later forfeited to the State and the bank had to sell some non-liquid assets to pay the balance. The employees involved were fired.

In 1989 the bank faced a leadership crisis when chief executive Gaby Magomola was fired by the board for "personalising" the bank by overselling himself in the media. This, the board said, was detrimental to the bank's image. Magomola claimed his firing was a result of fears raised when he requested the board be reconstituted with "more financially literate members".

Two days after Magomola's firing,the bank's treasury officer, Joe Modibane, was fired after asking the Reserve Bank to investigate certain activities in the bank, which it did. The nature of the investigation has never been made public.

Announcing the annual results, chairman Sam Motsuenyane said the board had decided to move away from its policy of issuing shares to blacks only and had opened its doors to other races. CE Jack Theron said this was done to raise capital to meet the requirements of the new Deposit Taking Institutions Act, due to become law next month.

"We need to get more capital and therefore we have to get other races involved in the bank. We will invite companies to take up shares and already there are several who have shown interest," he said.

In addition to the desire to acquire capital the bank wanted to alter its image so it did not enter the "new South Africa" as an "apartheid bank". Theron added, however, that the board would ensure that control remained in black hands.

Savings increased markedly in the past year and housing loans now constituted 10 percent of the business.

Plans for expansion will include opening of new branches in the Venda capital of Thohoyandou and the Gazankulu capital if Giyani as well as Bisho in the Ciskei. The bank is currently negotiating with the Venda and Lebowa Development Corporations with a view to acquiring their savings accounts outlets. This will increase the bank's savings/loan accounts by R18-million and add 10 mini-branches to its network.

An integrated computer system is also in the pipeline but the bank does not as yet envisage installing automated teller machines since it does not have the necessary capital.

Theron said the bank intended expanding into rural towns as "there is an increasing demand for demand for banking facilities" in these areas. While other institutions have reported an increased degree of loan repayment defaulting as the recession continues to bite, Theron said African Bank had thus far remained almost unscathed.

"We have not have been as affected as other financial institutions. This is because we are servicing a small section of the African population and as a result our risk is more spread," he explained.

While the bank's small specialised clientele was advantageous in terms of risk avoidance, it was also detrimental in that the bank is largely unknown in the black community. Theron conceded that there was a "tremendous lack of knowledge of the bank among blacks".

While the bank was advertising itself, it was constrained by the fact the fact that "you can advertise as much as you can afford and you can only market the products you offer". With growth, however, the bank would be able to offer more products and money would be available for advertising.

FIRST NATIONAL BANK FM 11/1/91 (58)

TAKING CHARGE OF COSTS

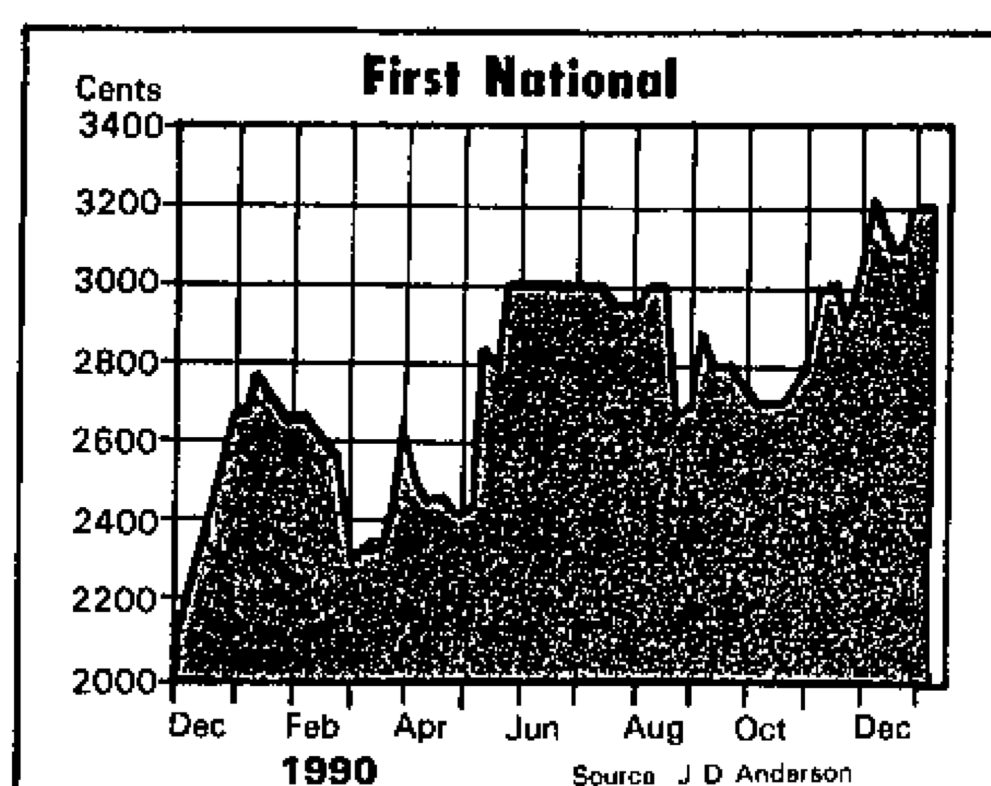
Activities: *Banking and financial services.*
Control: *Anglo American 29,9%; Southern Life 24,9%.*
Chairman: *B E Hersov; MD: B J Swart.*
Capital structure: *58,2m ords; 14,5m preferred ords. Market capitalisation: R2,29bn.*
Share market: *Price: 3 150c. Yields: 4,8% on dividend; 14,3% on earnings; p:e ratio, 7,0; cover, 3,0. 12-month high, 3 200c; low, 2 300c. Trading volume last quarter, 336 000 shares.*

Year to Sep	'87	'88	'89	'90
Advanced (Rbn)	16,4	21,1	23,1	23,2
Deposits (Rbn)	18,4	25,1	27,1	26,6
Total assets (Rbn)	20,7	28,2	30,6	30,3
Return on assets (%)	0,89	0,73	0,90	1,09
Return on equity (%)	20,5	20,3	22,7	23
Cap & res: Ass (%)	4,8	4,5	4,8	5,6
Net profit (Rm)	184,6	206,8	274,3	329,8
Earnings (c)	255	285	377	453
Dividends (c)	105	112,5	130	150
Net worth (c)	1 241	1 401	1 659	1 967

Normally, when one thinks of consolidation and rationalisation, it is in the context of the manufacturing sector, where concepts such as asset management and operational efficiency are relatively easy to measure. First National Bank (FNB) under MD Barry Swart has, however, shown emphatically that the same principles can be applied just as effectively to a financial institution.

This has been one of the cornerstones of the group's performance over the past two years. The pattern was starting to unfold in 1989, with the initial benefits of a more streamlined group structure and the progressive improvement in operational stability of upgraded (and initially troublesome) information technology systems, including the Hogan banking package. These benefits became more marked in 1990, as shown by the fact that the group was able to squeeze 31% more profit (pre-tax) out of a static asset base.

Interestingly, the 1990 pre-tax growth rate bettered 1989's 27,3% — achieved on an 8% increase in assets — despite steadily worsening business conditions and the resulting need for a further substantial rise in bad-debt provisions.



FNB's Swart ... *managing the assets*

Improved efficiencies were, of course, reflected in the minuscule 7,5% rise in operating costs over the year; one of the main thrusts behind the 1990 profit advance. The real significance of this, however, was the extent to which it offset the impact of higher bad-debt provisions. Taken together, the increase in operating costs plus provisions, at 13,7%, was still below the inflation rate and, more important, it was well below the 17% gain in income (before provisions).

But the relative lowering of its cost structure was not the only way in which the group gained from improved efficiencies.

Enhanced operating efficiencies are apparently making an impact in the marketplace. As an example the annual report cites the substantial increase in usage of the group's ATMs by non-FNB customers. This yielded a 272% gain in revenue from this source, to an average of R750 000 a month, said to be four times the income of Saswitch's second-highest earner.

To be fair, the improvements achieved are measured off a pretty low base. For instance, two years ago the net return on total assets (excluding contingencies) had declined to 0,73% and the return on equity was only 17,5%. These ratios have recovered to 1,09% and 18,4% (calculated with investments in associates at market or directors' valuation) respectively, which is good as far as it goes. But FNB, like any other deposit-taking institution, will have to continue finding ways to cut costs and improve efficiencies if it is to maintain a respectable return to shareholders as the more stringent capital to asset ratios are phased in.

Fortunately, the group seems to be relatively well placed here. As far as information technology is concerned, benefits so far derived from the substantial capex on this are pretty much the tip of the iceberg. Further material advances can be expected when automation of the branch network is completed.

Administrative efficiency will undoubtedly improve when head office activities are consolidated in BankCity, instead of being scattered piecemeal around the Johannesburg CBD as they are now.

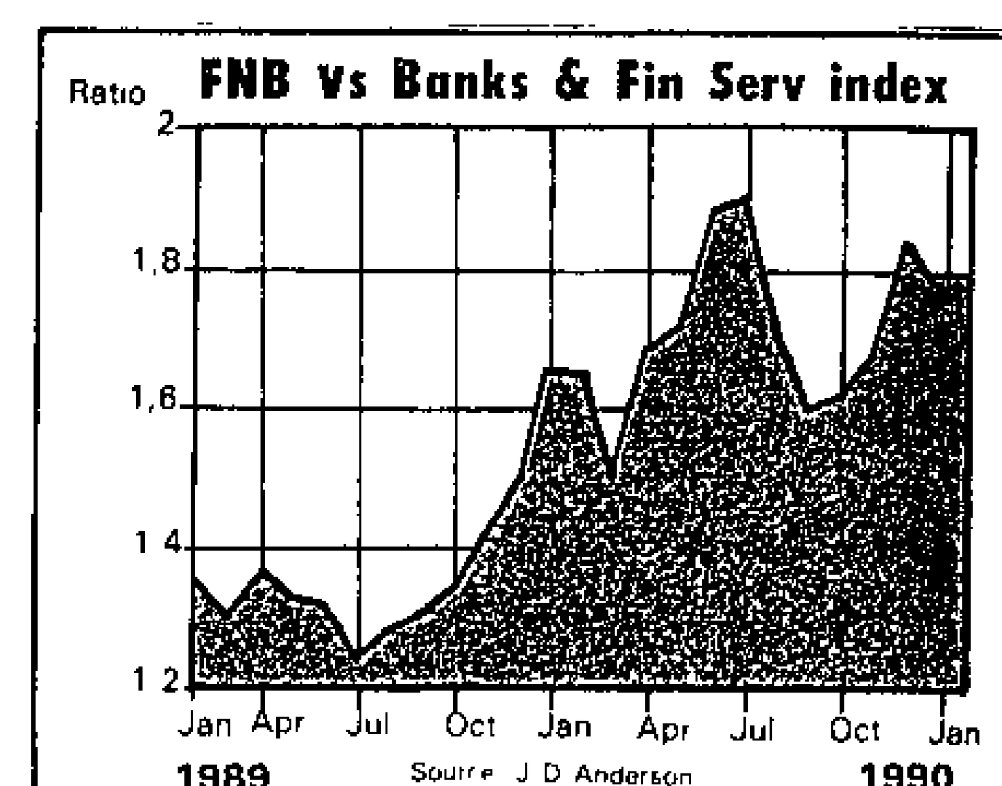
Something more pertinent to the current financial year is that, having already borne the brunt of a revised method by which bad-debt provisions are identified, the group expects a reduction in this charge against income.

Against this, it is probably too much to hope that the rise in operating costs will again be limited to only 7,5%, but, given the outlook for bad-debt provisions, it can be expected that costs and provisions together will continue to be contained well within the inflation rate and could, therefore, provide a positive gearing effect on profit.

Another positive aspect is that, after a strict restraint on asset growth over the past two years, the group is set to adopt a more aggressive stance in the acquisition of new business. This should also assist in generation of additional profit.

Accepting that the general business environment is likely to remain difficult, it looks as if FNB should be able to grow EPS by 15%-20%. Even allowing for a possible further increase in dividend cover, it is virtually certain that this year's distribution will top the 157,5c now paid on the preferred ords which will accordingly become "ordinary ords" as from the start of the 1992 financial year — an event already discounted in the respective share prices.

Though the share has enjoyed a good upward rerating over the year, it has some way to go to catch SBIC, now on a 3,7% historical yield compared with FNB's 4,8%. This gap could narrow if the group is able to show



continued efficiency improvements, with a corresponding impact on the bottom line.

Brian Thompson

NEDCOR

BEING CONSERVATIVE

Activities: *Banking and financial services.*
Control: *Old Mutual 51,2%.*
Chairman: *J B Maree; MD: C F Liebenberg.*
Capital structure: *185,9m ords. Market capitalisation: R2bn.*
Share market: *Price: 1 075c. Yields: 4,7% on dividend; 14,3% on earnings; p:e ratio, 7,0; cover, 3,0. 12-month high, 1 250c; low, 875c. Trading volume last quarter, 774 000 shares.*

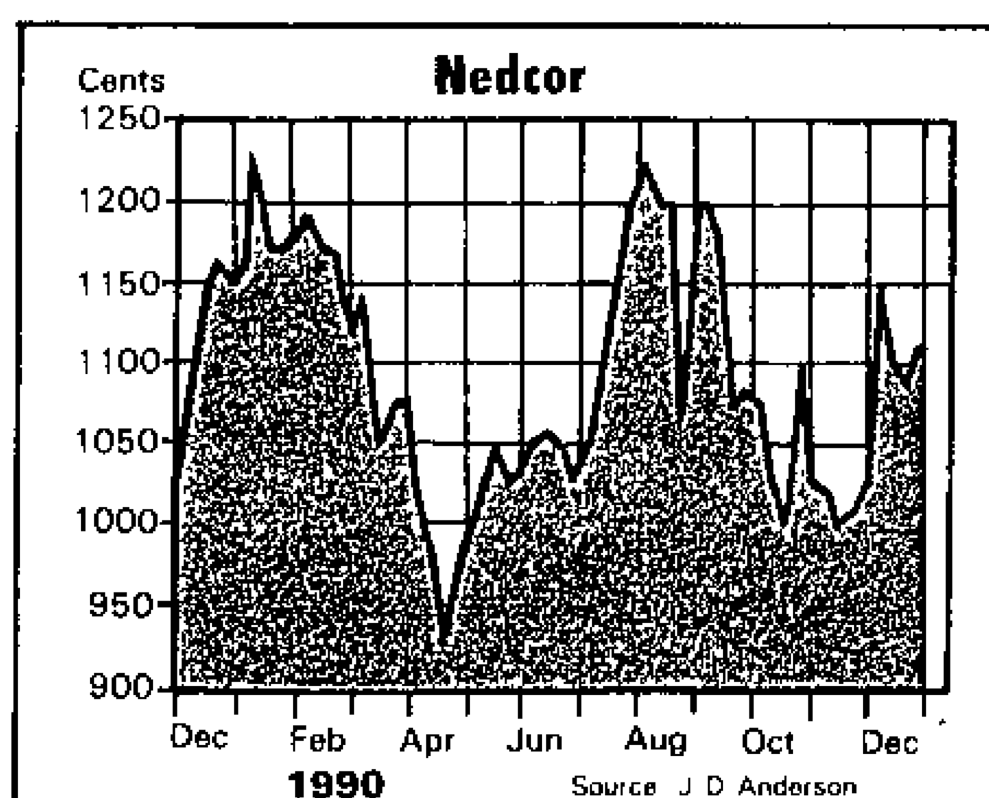
Year to Sep	'87	'88	'89	'90
Advances (Rbn)	9,9	11,1	20,2	24,4
Deposits (Rbn)	12,3	14,2	24,4	28,9
Total assets (Rbn)	14,9	17,9	29,7	35,1
Return on assets (%)	0,89	0,97	0,86	0,82
Return on equity (%)	18,2	19,8	19,1	18,1
Capital & Reserves: assets (%)	4,9	4,9	5,0	5,2
Net profit (Rm)	133	174	257	287
Earnings (c)	85	111	138	154
Dividends (c)	33	40	46	51
Net worth (c)	466	562	722	851

Nedcor's 1990 financial year was dominated by two totally unrelated factors — the marked deterioration in business sentiment after February 2 and a management upheaval when Piet Liebenberg resigned to go to Bankorp. He was suceeded as CEO by namesake Chris.

That both these events affected performance is clear from a number of conflicting signals in the financial statements. Which one was dominant, and how future results are likely to be affected, are questions that only time will answer.

Complicating analysis of the results was a situation at UAL where a loss on a forex contract, first thought to be R9m after tax and provided for at the interim stage, turned out to be R15m when the Reserve Bank insisted on the loss being absorbed through the finrand. Also, the loss was originally written off against operating income; later, however, Liebenberg says it became apparent that it was more in the nature of a bad debt and treated as such in the year-end

Nedcor's Liebenberg ... *still unlocking value*



financial statements — again distorting any comparisons between the first and second halves, based purely on published results.

While the amounts involved are relatively small in a group context, they do some quite strange things to the half-yearly income statements.

To deal with the interim results first, if these are adjusted to take account of the full loss, it has the desirable effect (in the context of what happened later in the year) of flattening the earnings growth rate for this period from the originally indicated 19% to 13,7%. Correspondingly, the second-half growth rate is enhanced from 5,6% to a more respectable 10%.

But treatment of the loss as a bad debt has the effect of enhancing the first-half operating income growth rate from 60% to 69%, while the bad debt provision for this period then shows a fourfold increase (instead of threefold) on the corresponding year-ago figure.

That highlights something else one would not have expected to find. Bad debt provisions in the second half were actually lower than in the corresponding period of 1989 — R55,6m against R60,7m. Liebenberg explains this simply by saying that assessment of bad debt risk at the interim stage had been conservative. It could also be, however, that new management had gone through the portfolio like a dose of salts, in which case there will have been a commensurate improvement in the quality of earnings.

In any event, the lower second-half bad debt provision was fortuitous to the extent that it coincided with a period when profit was under pressure — Perm, in particular, found the going tough — the lower charge against income accounted for about a third of the 15,5% growth in pre-tax profit for this period.

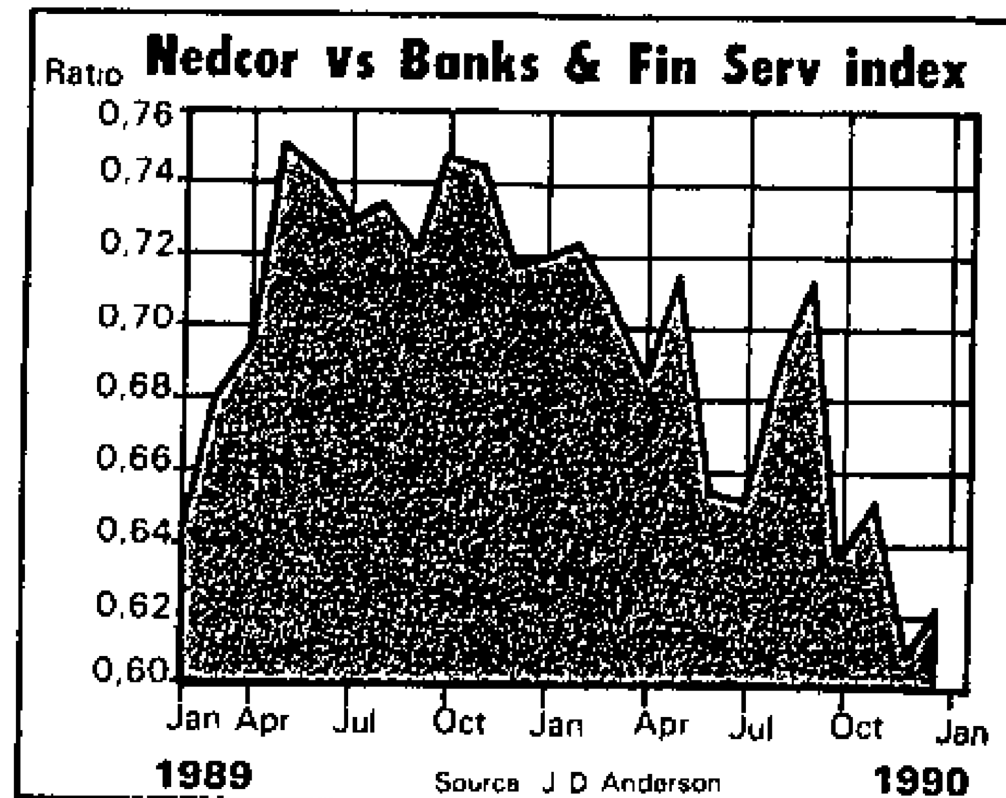
Similarly, adjustment of the effective tax rate through transfer of profit to the tax equalisation reserve proved less onerous in the second half than in the first, with the effective rate moving up only from 40% to 42%. In the first six months a jump from 34% to 44% was a major depressant on the bottom line.

Indirectly, the pattern of bad debt provisions and the tax charge provide a few clues as to likely performance this year. There is little reason to hope that general business conditions are going to be much better than during the second half of last year. Against this, Nedcor has already built into its income statement a substantial base for bad debt provisions, and the lower charge deemed to be necessary in respect of the second half could in fact be a pointer to the trend this year.

Much the same can be said as regards the tax policy. The tax holiday enjoyed in recent years has been largely neutralised in terms of bottom-line earnings by the transfer of income to an equalisation reserve. In practical terms, this had the effect of raising the effective tax charge progressively from 25% in 1986 to 43% in the 1990 year, with a corresponding dampening effect on the net disclosed earnings on which dividends are based.

Reversion to a normal tax situation this year should have no further negative gearing effect on results, as the effective charge against profit is already as high as it is likely to get. There will, however, be a negative effect on cash flow and capital formation. But as regards the latter it can be noted that (unlike First National) Nedcor calculates its capital:asset ratio based on total assets, including contingencies. Excluding these, the ratio rises from the stated 5,2% to 6% — indicating the group is favourably placed to meet increasingly stringent capital requirements without having to worry too much about asset growth.

A wild card, but a longer-term one, is that there is still considerable value to be unlocked within the group through the eventual full integration of the Perm with Nedbank. Liebenberg is not prepared to put a time schedule on this and, in any event, the effects on profit are unquantifiable now. It is obvi-



ous that cost savings could be considerable, as could the impact on Nedcor as a whole given that Nedbank and Perm are by far its two biggest divisions.

This potential has undoubtedly contributed to the share's relatively high rating within the sector — behind Stanbic, but on a par with First National and way ahead of the rest of the pack.

Brian Thompson

RAND MINES

PAINFUL YEAR

For Rand Mines' staff and shareholders the 1990 year was a nightmare and there's more trouble to come in 1991 as the group faces

BARPROP FM 11/1/91

PORTFOLIO SHUFFLED

Activities: *Invests in industrial and commercial properties.* (S8)
Control: *Barlow Rand 83%.*
Chairman: *E M Groeneweg; MD: C G Steyn.*
Capital structure: *85,9m ords; 30m loan stock units. Market capitalisation: R103m.*
Share market: *Price: 120c. Yields: 8,9% on dividend; 10,8% on earnings; p:e ratio, 9,2; cover, 1,2. 12-month high, 150c; low, 100c. Trading volume last quarter, 41 000 shares.*

Year to Sep	'87	'88	'89	'90
ST debt (Rm)	—	—	—	—
LT debt (Rm)	210	210	210	210
Debt:equity ratio	1,86	1,93	2,03	1,57
Shareholders' interest	0,27	0,27	0,27	0,28
Int & leasing cover	1,54	1,55	1,6	1,79
Return on cap (%)	10,8	11,6	12,5	13
Turnover (Rm)	35	39	44	48
Pre-int profit (Rm)	34	37,3	41	43,8
Pre-int margin (%)	96	95	92,9	90,2
Earnings (c)	9,7	10,3	11,5	13
Dividends (c)	8,19	8,75	9,65	10,71
Net worth (c)	112	113	115	122

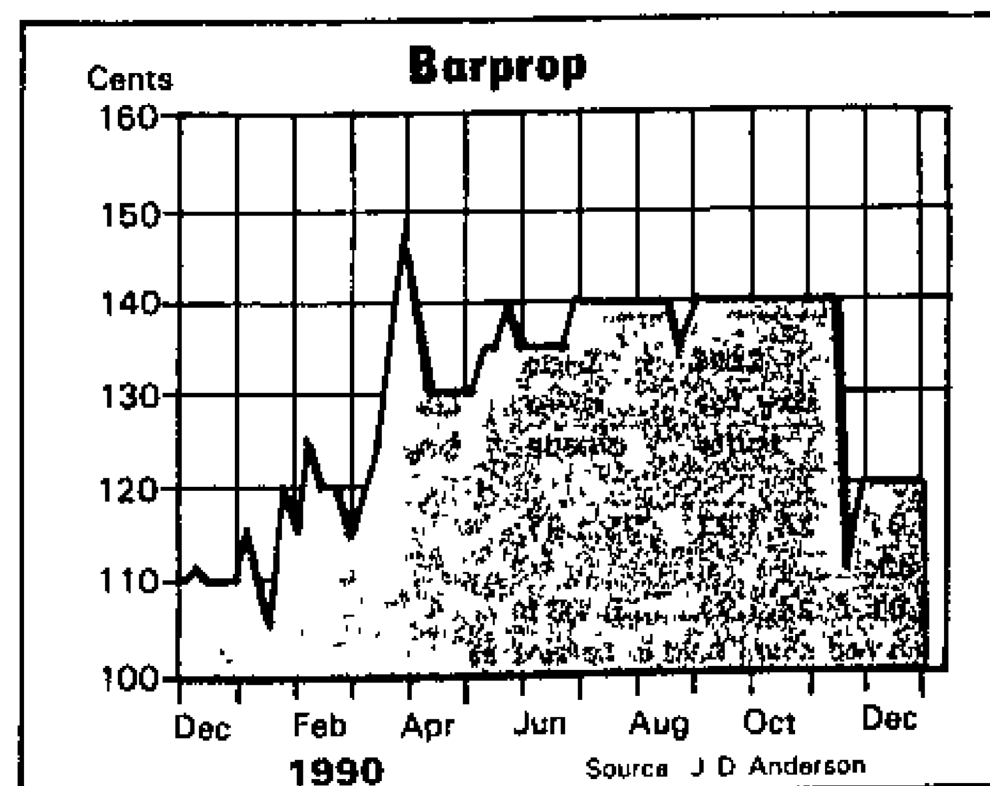
Shareholders can expect to benefit this year from moves by Barlow Rand Properties (Barprop) to concentrate its portfolio on major urban centres and sell investments in outlying areas.

In the 1990 year, Barprop shed 30 of its properties for R58,4m and netted a surplus on book value of R5,3m. Further properties, valued at R30m, and vacant land, worth R10m, are expected to be disposed of this year. Already negotiations to sell six of these properties for R3,7m have been concluded.

Once all these sales are through, Barprop's portfolio will mainly consist of properties in large metropolitan centres. These are expected to offer much higher growth and income potential. Cash raised from the disposals will be invested in acquisition and development of further urban properties.

Disposal of properties reduced the book value of Barprop's portfolio from R292,9m to R271,8m at end-September and limited growth in operating income to 10,6%. However, cash on hand almost doubled to R61m, with interest income rising by R4,4m to R8,5m. Earnings (before extraordinary income) grew 13,5% compared with 11,9% in a more buoyant market in 1989. The dividend was increased by 11%.

The company's debt consists only of 30m listed loan stock units, issued at R7 each in 1985. With interest of 15,71% paid on these



FM 11/1/91

units, currently trading at R9,25, their yield remains three percentage points higher than that on the share. (S8)

Chairman Evert Groeneweg forecasts loan stock interest of 16,9% for the current year. He believes the company may benefit from the higher interest rates that some of its competitors may have to endure and could snap up properties at favourable prices.

Groeneweg expects the property market will remain flat this year. Growth, he says, will come from increased income from existing leases, additional rental from acquisitions, new developments and interest on cash holdings.

Barprop expects little change this year in its 99% occupancy level. Most of its tenants are fellow Barlow Rand companies and 96% of the rental income is from leases that have at least four years to run.

These factors, together with Barprop's efforts to improve the profitability of its portfolio, should ensure that Groeneweg's forecast of a 7,4% increase in dividend this year is met.

However, the share is tightly held and its poor marketability may influence any price movements.

Simon Cashmore

DATES TO REMEMBER

Meetings:
Monday Jan 14: Adcock (Midrand); MCC (Wynberg); Tig Oats (Sandton).
Tuesday Jan 15: Lydex (Ord & S); PGA (S); Rand Mines; RIH (Sandton).
Wednesday Jan 16: CGS Foods (Sandton); CG Smith (Sandton); Mynkar (S); Nampak (Sandton); Oakfields (Wellington); PPC.
Thursday Jan 17: Abercom (Sandton); Cemenco.
Friday Jan 18: RhoEx (Bedfordview).
All meetings are in Johannesburg unless otherwise stated.
S = Special meeting.

FM 11/1/91 (58)

BANKING (58)

MATCHSEEKER

FM 11/1/91

Pretoria Bank wants to link up with a large financial institution. Masterbond Trust, which has a 10% shareholding in the bank, 15 000 clients and a tie-up with Incentive Planning Consultants (IPC), is the lure. Pretoria Bank director and Masterbond MD Johan Brits says Masterbond and IPC together have an attractive insurance-related marketing base. Masterbond is into financial services, property and resort development and investment; IPC offers insurance, retirement and tax planning services.

Pretoria Bank wants to increase its capital base from R5,1m excluding hidden reserves (at end-September, according to quarterly returns) to R50m. This will be way above the R10m requirement for new banks in the Deposit-taking Institutions Act and vastly increase the capital:asset ratio from 2% in September (which converts to around 4,5% once the new risk-weighted capital:asset ratios come into effect).

The bank hopes to enter into partnership with a major financial institution, which will introduce capital, as well as raising capital privately. Brits says negotiations are "at this stage sensitive." An announcement is expected early next month. "Pretoria Bank is the vehicle for the negotiations," Brits says. The end result will probably be a financial services group offering banking, insurance and property development.

The bank aims to concentrate on personal financing in the low-risk AB income groups. "We are spreading our risks and will avoid large borrowings and high-risk markets," Brits says.

Pretoria Bank is just the latest small bank to undergo changes. Banks which are thought to threaten the credibility of the system have been warned by the Reserve Bank about under-capitalisation, low capital:asset ratios and poor banking practices. ■

HOME LOANS

SPECIAL OFFERS

FM 11/1/91.

Prices and products offered in the home loan market used to differ little, with rates staying close to the standard — now 20,75%. But soon, people will be able to negotiate discounts on interest rate paid of more than 1%. Like supermarkets competing for custom, institutions looking to increase their home loan books will present a range of special offers.

"The era of negotiated interest rates is just around the corner," says Allied GM Geoff Bowker. He believes rates for triple-A clients will be negotiated to 1% or more below the standard. Allied has experimented with differentiated rating deals, offering fixed-rate bonds for three years at 19,5% and one year at 20%, which Bowker says have been "extremely successful." He predicts the introduction of various types of differentiated rating arrangements.

So does Volkskas. "We see special offers being stepped up this year," says GM Dolf Wright. Volkskas offers a 0,25 percentage point discount to prime clients on its standard 20,75% and Wright says further "attractive products" will be developed.

Other institutions which already make special offers, mostly to prime clients, are gearing up to offer discounts to a wider spread of clients.

United, the largest building society and, despite inroads by banks, still the biggest provider of home loans with a R12bn portfolio, is prepared to defend its home loan book, says senior GM Tienie van der Berg. United offers higher income clients who qualify for its Unique package a rate 0,5 percentage points lower than the standard 20,75%.

Van der Berg says lack of new housing stock is causing tremendous competition for business related to existing stock.

United has decided to acquire minority

FM 11/1/91

stakes in estate agents and has developed computer systems to take an immediate loan grant decision in the agency office.

First National Bank's R4bn home loan book did not grow last year. It is now renewing efforts to improve its book, by a stronger marketing drive. FNB already offers a customer who has a cheque account plus two other products a 0,25 percentage point interest rate rebate on home loans. Assistant GM Pat Lamont says it could introduce other offers to make FNB loans more attractive.

Some have reservations about the wisdom of cut-price offers.

Standard Bank is concentrating on improving its delivery system rather than making special offers — though it did have one late last year to the medical profession. "It's not always the cheapest who are the best, but those who offer superior service," says home loans GM Terry Power. "The margin on home loans is not as wide as it was and the cut in profits is, therefore, that much bigger." It does, however, offer Prestige account holders a 0,5 percentage point discount.

But Power says short-term special offers will be introduced if they bring business.

Nedbank deputy MD Johan Westraat also questions the extent to which interest rates can be cut. But: "We have flexible options such as holding payment for a few months, interest-only payments for a period as well as negotiated fixed rates over periods," he says. "The facility can be used to access liquidity when needed, provided the value of the property is more than the bond."

Banks are keen to increase their home loan

FM 11/1/91 (58) (123)

books mainly because of spin-offs in other business. Once the Deposit-taking Institutions Act is introduced in February, banks with a large home loan book will also benefit by having to hold capital of only 4% of total assets compared to a risk-weighted 8% for other advances. ■

AIDS INSURANCE (58)

THIRD OPTION

FM 11/1/91.

Life assurers are still debating how to deal with Aids. So far the discussion has been on exclusion of Aids-related deaths from life cover benefits; or testing life proposers to establish if they are HIV negative.

Neither step solves the moral dilemma posed in a life assurance contract — that a life policy is supposed to be for life. Now a third solution is being discussed.

This would involve proposers who are convinced they will never contract Aids signing a declaration to this effect, in which case they will be accepted at "normal" premiums if they agree to regular tests. Should they later contract the virus — and 2,5m in SA are expected to be HIV-positive by the year 2005 — or if they refuse to submit to tests at any stage, their policies would revert to pure investment policies. Because Aids deaths would not impact on the mortality experience of this class of policy, the premiums would remain constant.

Southern Life actuary Paul Truyens describes this concept as a variation on the exclusion route which has the advantage that death does not have to occur before exclusion is implemented.

Truyens says if this method is agreed by the industry, it could mean the end of policies which contain exclusion clauses. He agrees it will not solve the moral dilemma.

Almost any solution which does not exclude Aids from benefits will lead to a rapid increase in premiums. Different offices will have different mortality experiences. Those with higher mortality will have to charge premiums above the market average. A life office actuary comments: "The moral dilemma is acute, but no underwriter can afford to be left with just the walking wounded."

One argument is that if Aids is excluded — by whatever formula — so should other lifestyle diseases. Yet no office aborts a contract when a client later contracts a life-

FM 11/1/91 (58)

threatening disease from tobacco or alcohol. Therefore the industry should simply ride out the Aids storm and let the new mortality experience determine premium levels.

That misses the point, insists Mutual corporate actuary Graham Prentice. "It is not simply another life-threatening disease and it is not a small incremental risk. By the end of the century, more people could be dying of Aids than of all other causes combined."

No major insurer is happy with exclusion. Liberty Life joint MD Dorian Wharton-Hood says the industry should offer unconditional cover wherever possible. His preference is for HIV tests and to allow full cover when these are negative. "Exclusion clauses could give the industry a bad name because claims could be repudiated and widows and orphans left destitute."

Sanlam, like most offices, insists on HIV tests — or an exclusion clause — where large sums are assured. Sanlam has identified a further moral problem, because life assurers administer large employee benefit funds. More employers are insisting on HIV tests before engaging new staff.

Its chief medical officer, Altus van der Merwe, argues it would be less discriminatory and make more sense for employers to call for full medical reports, covering vision, hearing, blood sugar and blood pressure. The question, he says, is not whether an employee is HIV positive, but whether he or she is medically fit to do the task and justifies a long-term investment in training and an employee benefit programme.

While ethical arguments continue, Prentice is pragmatic: "Insurance is essentially a sharing of risk. Survivors pay for the benefits of those who die. The extent to which Aids can become an insurable risk depends very much on how soon it reaches a stable endemic level, with the rate of HIV spread in equilibrium with population growth, and the price people are prepared to pay." ■

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SPECIAL OFFERS

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Banks are keen to increase their home loan

ECONOMY & FINANCE

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Analysts at loggerheads in views on Allied deal

58

GILLIAN HAYNE

ANALYSTS expressed surprise yesterday at media speculation that Allied had received a counter-proposal from Southern Life, although heavy trading in Allied shares on Wednesday suggested something new was in the air.

The Allied share price dropped 6% yesterday to 207c, Volkskas rose 10c to R15,85, Sage fell 15c to 735c and UBS remained unchanged at 790c.

One analyst said a deal between Allied and Southern Life made a lot of business sense, because Allied would fit nicely into First National. Southern and First National are in the same camp.

"Banks are in a better position to attract capital and I believe building societies that remain independent in the future will show slower growth than those linked to banks," he said.

B Day 21/1/91

Fall through

Another analyst noted that with Sage reported as the difficult party in the original negotiations between UBS, Volkskas, Allied and Sage Financial Services (SFS), it was not surprising Allied was receptive to other offers.

"My bet, which is the general feeling in the market, is that the original talks will fall through, with UBS and Volkskas continuing negotiations, Allied and Southern getting together and Sage being left out in the cold."

However, Ed Hern Rudolph director Alan McConnochie said the deal made no sense. "What good will a 30% share in Allied do Southern?"

He said it was too early to write off the deal between the original four, or any counter-deals.

"It's a fluid situation and no one knows what will come next."

High liquidity maintained as Sanlam boosts fund payouts

B Day 11/1/91.

Business Day Reporter

(58)

LIFE assurer Sanlam has raised the income distributions of three of its unit trusts for the six months ending December 1990 compared with the corresponding period the previous year.

The income distribution — the money paid out to unit holders — increased 71,6% to 30,2c a unit for the Index Trust.

The Industrial Trust raised its income distribution by 61,5% to 21c a unit while the Mining Trust raised its income distribution by 7,2% to 8,9c a unit.

The income distributions for the three trusts will be distributed among unit holders next month.

The total distribution for the year for the Index Trust amounts to 54c a unit compared with the 35,6c a unit declared in 1989.

The Industrial Trust's total distribution for the year is 37,1c a unit compared with the 1989 figure of 28c a unit.

The Mining Trust's total distribution is 16,6c a unit, marginally lower than 1989's 16,8c a unit.

The other two trusts — Sanlam Trust and Sanlam Dividend Trust — will declare their next income distributions at the end of March.

With uncertain market conditions prevailing in the past quarter, high liquidity levels were maintained, said Sanlam's senior portfolio manager of unit trusts Stafford Thomas.

There was little change in these levels from the previous quarter with Sanlam Trust holding 28%, Sanlam Index Trust 26%, Sanlam Industrial Trust 24%, Sanlam Mining Trust 27% and Sanlam Dividend Trust 28% at the end of December 1990.

Developments in the Middle East in the coming weeks would determine to a large extent how rapidly the trusts' liquidity would be reinvested in the market or maintained at these levels, said Thomas.

COMPANIES

Sage unit trusts show ups and downs

(58) BDay 11/1/91

LIZ ROUSE

SAGE Fund's total return over the past year was 9,9% while Sage Resources Fund showed a negative return of 10,6%.

The JSE all share index showed a negative return of 4,9% over 1990 — it was a particularly poor year for the mining sector with returns of -18,7% from mining producers, -15,3% from mining financials,- -38,6% from gold and -26,8% from the platinum sector.

Investment strategy in the December quarter saw the maintenance of relatively high liquidity levels, particularly by Sage Resources Fund.

At year-end, liquid assets represented 23,9% of Sage Fund's portfolio and 32,4% of Sage Resources Fund's portfolio. At the end of 1989 the funds' respective liquidity levels were 19,5% and 17,6%. Liquid assets are now 76,6% of the foreign portfolio.

Sage Fund established a new holding in Pepkor in the past quarter. The Murray & Roberts convertible debentures were switched into ordinary shares. Lebowa Platinum and ICS were sold. Holdings were increased in Kinross, Impala, Allied, Nedcor, Lonrho and Engen. Reductions were made to Southvaal and Richemont.

Sage Fund's largest holdings at the end of December included Richemont, Anglo American, Allied, Rembrandt, Rembrandt Beherende, De Beers, Tiger Oats, Wooltru A and SA Breweries.

Sage Fund's income distribution for the six months to December was 51,6c a unit (up 25,6% on the previous half-year). Total distribution of 99c a unit was 30,3% more than the 76,6c the previous year.

Sage Resources Fund's income for the six months to end-December of 4,4c a unit represents an increase of 25,7% on the comparable distribution of the previous year. Total distribution for 1990 of 8c increased 27% on 1989's 6,3c a unit.

Three-year return is 20% — unit trust

BDay 11/1/91

Business Day Reporter

MOMENTUM Unit Trust had returned a compounded net yield of 20,53% a year to investors in the past three years, Momentum Asset Trust MD Peter du Toit said yesterday. (58)

That calculation was made on the basis of a level monthly investment and the reinvestment of income.

'While 1990 was a particularly difficult year for SA investors, with the JSE overall index declining by more than 12%, Momentum Unit Trust investors achieved a net gain over the year," he said in a statement.

"The changing scene on the social, economic and political fronts will open substantial investment opportunities for investors.

"Short-term predictions remain difficult, but there are many new investment opportunities beginning to emerge.

"Momentum Asset Trust Scheme will focus on these new investments to maximise returns for unit holders," Du Toit said.

Chaos breaks out in world markets

ANDREW GILL

MAYHEM broke out in world markets yesterday as peace prospects soared and then plummeted, sending them on a hectic rollercoaster ride.

Gold fell $12 in New York to $377,25/oz and then rocketed more than $10 to close at $391,05 after US Secretary of State James Baker said talks with Iraqi Foreign Minister Tariq Aziz had failed.

Trading virtually stopped as dealers awaited news of Baker's media conference and found themselves hastily reversing positions as the news broke.

February Brent crude gained almost $2 to above $28 after losing more than $3 a barrel to $22,40 in New York when markets took heart from what they perceived to be a fruitful meeting.

News that Aziz had agreed to meet EC ministers in Algiers and a rumour that Iraq had proposed a conditional phased withdrawal from Kuwait sparked heavy selling of gold and dollars.

The dollar regained the day's heavy losses after falling three pfennigs against the mark to DM1,51 and climbing back to DM1,5345.

The Dow Jones Industrial average, which climbed 1,5% before Baker's comments, fell eight points to 2 501, while European markets gained, with London's FTSE-100 index ending 1,5% up.

Frankfurt's DAX index finished 1,6% up. A trader told Reuter: "This is nothing but speculation. Prices are being pushed up by traders whose view of time is about three minutes and whose view of long term is three days."

Analysts said earlier war was likely to push gold up for a short period, but that the resulting slackening in world growth would take its toll with decreased jewellery demand.

Middle Eastern buying has apparently diminished. On Tuesday the Jedda Bank was rumoured to have sold large amounts of gold at the higher prices. Soviet forward selling was also said to be a factor.

On the JSE the overall index ended six points off at 2 689 after a 22-point fall in the all gold index to 1 317 and a 10-point gain in the industrial index to 2 924.

Mega-merger talks take new direction

(58)

GILLIAN HAYNE

MERGER talks between UBS, Volkskas, Allied and Sage Financial Services (SFS) appeared to have taken a new direction yesterday after a special board meeting of the Allied. BDay 10/1/91

Company insiders said the meeting was held specifically to discuss an offer from Southern Life, countering the merger negotiations.

Southern Life chairman Neal Chapman was not available for comment yesterday

Allied chairman Norman Alborough, MD Kevin de Villiers and co-director Louis Shill, chairman of the Sage group, declined to comment on the business of the meeting.

However, it appeared that Southern had approached Allied's board seeking support for a 225c a share bid for 30% of Allied's equity.

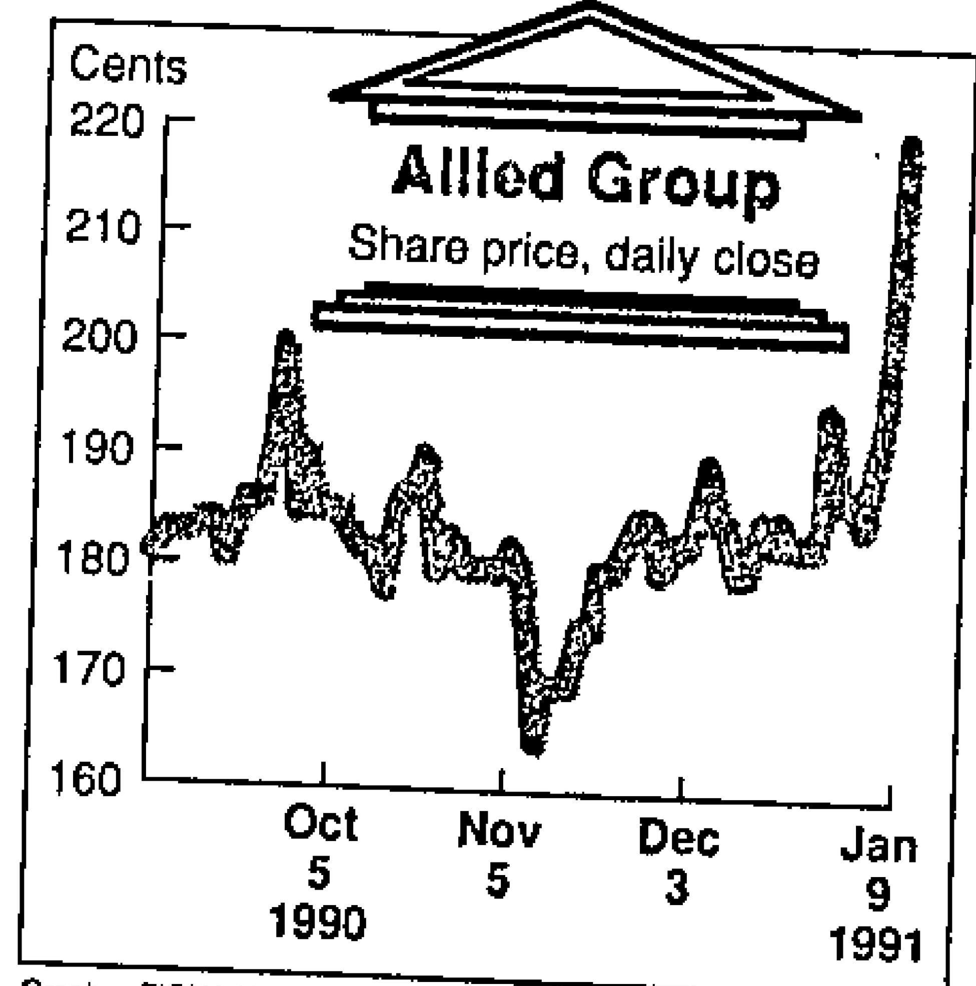
For the present Allied would continue talking to UBS and the others, said company insiders, who also suggested Shill would recuse himself over the Southern offer.

SFS owns 10% of Allied and, in its turn, Allied owns preference shares which will convert in stages into 20% of Sage Holdings' equity by 1994.

Allied had been negotiating a merger with UBS, Volkskas and SFS since September last year and the four companies' negotiators were sworn to secrecy on pain of financial penalties. The merger negotiations were expected to have been concluded by Christmas, but ran into snags.

Yesterday Allied's shares soared from 195c to 220c as 346 000 shares changed hands on the JSE. The shares had weakened slightly at the start of the year after a window-dressing rise in the dying days of 1990. As trading ended hopeful buyers were bidding 230c for the shares.

● See Page 6



Graphic FIONA KRISCH Source JSE

15% rise in doctors' fees recommended

GERALD REILLY

PRETORIA — The Medical Association of SA (Masa) has recommended a 15% across-the-board increase in doctors' consulting fees, the organisation's secretary-general Hendrik Hanekom announced yesterday.

Justifying the increase, Hanekom said doctors' practice costs had increased sharply by at least 25% above inflation.

Doctors' financial positions were becoming so critical that a breakaway from medical schemes by more of them was inevitable, he warned.

BDay 10/1/91

About 80% of doctors charge according to the Representative Association of Medical Schemes (Rams) scale of benefits

Medical aid schemes this year will pay R24,90 for a GP consultation compared with R21,10 last year. Masa felt R36 a consultation was more reasonable.

Rams executive director Rob Speedie declined to comment until he had seen the full Masa statement.

Dairy Board receives no money from govt

Business Day Reporter

THE Dairy Board, which exports surplus dairy products, does not receive any money whatsoever from government, its agent, the Dairy Services Organisation (DSO), said in a statement yesterday.

It was commenting on a Business Day report on Tuesday that the taxpayer would have to pay about R288m this year and next to subsidise surplus dairy products, which would be exported at a massive loss.

The statement said the Dairy Board's total income was derived from levies collected from milk purchasers, producer-distributors and farm cheesemakers.

BDay 10/1/91

The DSO also contested the amount mentioned in the report. Giving details of how the figure should have been calculated, it projected a total export deficit of R108m to February 1992.

Government had never undertaken to become involved in disposing of surpluses. Its only involvement was in the fact that the Minister of Agriculture had to approve any expenses incurred by the Dairy Board.

Commenting on figures in the report, the statement said the lowest price at which butter or skim-milk powder was exported last year was R1,65/kg. The floor price fixed by the Dairy Board in February 1987 was approximately 40c/l, and not 36c/l. The floor price had not been scrapped, and was currently 45,06c/l.

The average producer price for the country reached 56c/l in about March 1989. This had not happened "overnight" when NCD began to buy milk directly from farmers in 1987

The recommendation to scrap the floor price was received from the National Dairy Committee of the SA Agricultural Union, and not the NCD (National Co-operative Dairies).

□ Business Day regrets the errors.

Standard's Mutual Fund maintains cash holdings

Star 10/1/91.

By Derek Tommey

The Standard Bank **Mutual Fund** maintained its cash holdings at about 40 percent of its portfolio in the December quarter, even though the continued cash inflow and the rise in share prices increased the value of the fund by R22 million to R339 million, it reports.

Investors received a return from income and capital appreciation of 10,0 percent. They received a payment of 38,87c for the six months ended December. This brought the total payment for the year to 71,87c, an increase of 34,24 percent on the 53,54c paid last year.

The only market activity by the fund in the December quarter was the sale of a small quantity of Richemont, its second biggest investment.

The Standard Bank **Gold Fund** was hit by the 25 percent drop in gold share prices and the value of its portfolio dropped from R275 million to R234 million.

The Fund is paying 7,16c a unit for the six months ended December, making a total of 13,99c for the year — an increase of 3,25 percent on last year's 13,55c.

Gold sector

The Fund's managers say that the gold sector still does not offer particularly good investment value. Unless there is an increase in the gold price the yields of even the high grade, low working cost operations could be under pressure.

The Standard Bank **Extra Income Fund** enjoyed buoyant cash inflows and its assets rose R12 million during 1990 to above R90 million.

The fund is paying 3,63c a unit for the December quarter making a total of 14,55c for the year which is an increase of 12,79 percent on last year's payment.

The yield on the repurchase price of 87,60c on December 31 was 16,61 percent.

UBS gets stake in Wakefield

Star 10/1/91 (58)

UBS Holdings has acquired an effective 25,4 percent interest in JH Wakefield and Sons, a Natal-based estate estate agency for an undisclosed sum of money, it was announced yesterday.

The interest has been acquired via the formation of a new holding company, Wakefield Group (Pty) Ltd, which owns the entire share equity of JH Wakefield and Sons.

The remaining shares in the holding company are owned by the working directors of JH Wakefield, the announcement said. — Sapa.

Syfrets funds do well

Income distribution by Syfrets Growth Fund in the past quarter was 3,37c, boosting total income distribution for the 12 months to 11,98c.

This represents growth of 95 percent over the previous year.

It was achieved from an improved investment performance of 16,54 percent over 1990. By comparison, the JSE overall index declined by 8,8 percent in the same period.

Syfrets Income Fund met investment objectives, says Syfrets Managed Assets quarterly report.

Believing the interest rate cycle has peaked, and that a gradual decline will continue in 1991, manager Anthony Gibson says the maturity profile of the income fund has gradually been increased by investing in gilt and semi-gilt stock, and by selecting deposits ranging from six months to three years.

This led to an income distribution of 4,20c for the past quarter, pushing total distribution for the year to 18,49c, representing an income yield of 15,84 percent on the unit price a year ago.

Total return (capital plus income) was 16,44 percent for the year.

Mr Gibson says few changes were made to the Growth Fund's portfolio mix over the past three months, and that very little activity can be expected in the near future. — Sapa.

Sage Fund ends year very liquid

(58)

Star 10/1/91

Finance Staff

The Sage Fund showed a total return to its unit holders of 9,9 percent in the 12 months ended December, its quarterly report shows.

The fund paid 51,6c for the six months ended December, an increase of 25,6 percent on a year ago. Total payment for the year was 99,0c, an increase of 30,3 percent.

Sage Fund closed the year with 23,9 percent of its assets in cash or near cash.

In the December quarter it acquired Pep shares for the first time. It increased its holdings in Kinross, Impala, Allied, Nedcor, Lonrho and Engen.

It sold all its holdings in Lebowa Platinum and ICS, and reduced its stake in Southvaal and Richemont. It also sold Inspiration Resources and Rio Tinto Zinc from its international portfolio and reduced its holdings in Archer Daniels, Dow Chemicals and General Electric. The international portfolio ended the year 76,6 percent liquid.

The Sage Fund's top 10 holdings at December 31 were: Richemont, Anglo American, Allied, Rembro, Rembeheer, De Beers, Tiger Oats, Wooltru A, JCI and SA Breweries.

Sage Resources sold its investments in Elsburg and Ofsil during the September quarter but added to its holdings of Anamint, Vogels and Sasol.

Top 10 at December 31 were Engen, Gencor, De Beers, Anglo American, JCI, Mid Wits, Genbeheer, Anamint, Kinross and Sasol.

The fund paid 4,4c for the six months ended December, which was 25,7 percent higher than last year. For the whole of 1990 it paid 8,0c, an increase of 27,0 percent on the 6,3c paid in 1989.

New United move to tap flow of loans

58

B/Day 10/1/91.

CHARLOTTE MATHEWS

THE announcement of its fourth estate agency tie-up today has further entrenched the United's ability to secure a flow of home loan applications.

The United has bought a 25,4% stake in Natal-based J H Wakefield and Sons for an undisclosed sum, it said in a statement.

A new holding company, Wakefield Group, has been formed, which owns all J H Wakefield's shares.

Wakefield Group is jointly owned by the United and J H Wakefield's working directors.

This follows United's purchase in the last year of 29% of Aida, 33% of Multi-listing Services (MLS) and 29% of J H Isaacs.

United senior GM Tienie van der Berg, who represents United on the Wakefield Group board, said the motivation behind the acquisitions was that mortgage lending was very important to the group.

"Our agreements are going to be coupled with a computerised system, where we will put a computer in the offices of the estate agent so he can computerise his properties for sale and get immediate permission for a home loan.

"We like to think that our services will be such that nobody will be able to say no. The client will be able to find out immediately how large a loan he has been granted and how much his monthly repayments will be.

"It will be a firm yes, not like the present system where a loan is granted in principle.

"Obviously we know we cannot get all loan applications. Clients may have their own preferences and we are quite comfortable with that. But the large majority of clients are not too worried as long as they get finance."

He said the estate agency played a vital role in the channelling of home loan applications.

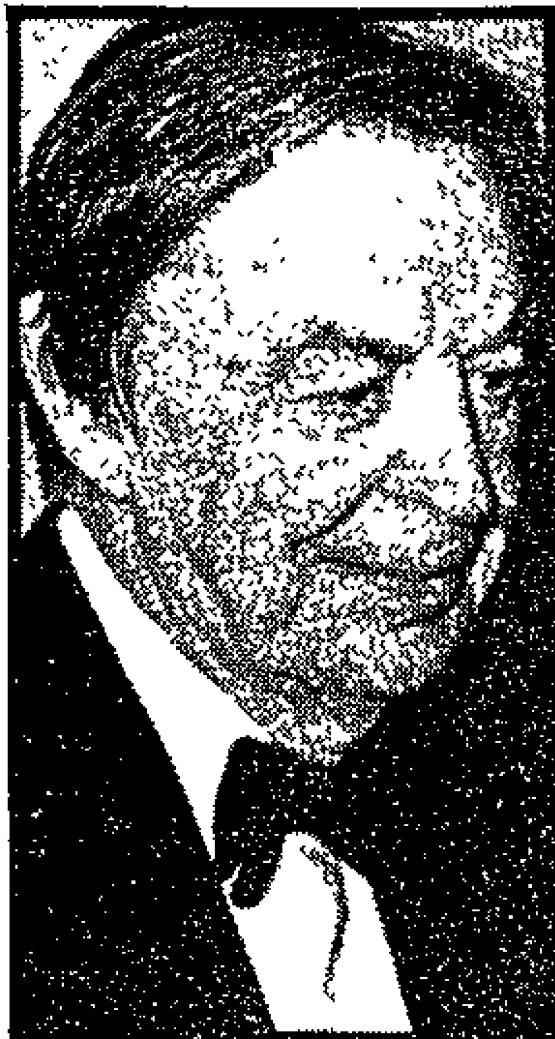
Asked if he had considered that this move would cause ripples among home lending institutions, Van den Berg said the United was not worried about the reaction from other institutions.

"We still think the rules of the game will change, so some of the other institutions will have to react in some way or another."

In the statement United MD Mike de Blanche said the interest acquired was a minority one which left majority ownership and daily management in the hands of the company's working directors.

"This is consistent with our policy in all similar investments we have made to date," he said.

Anatomy of a merger

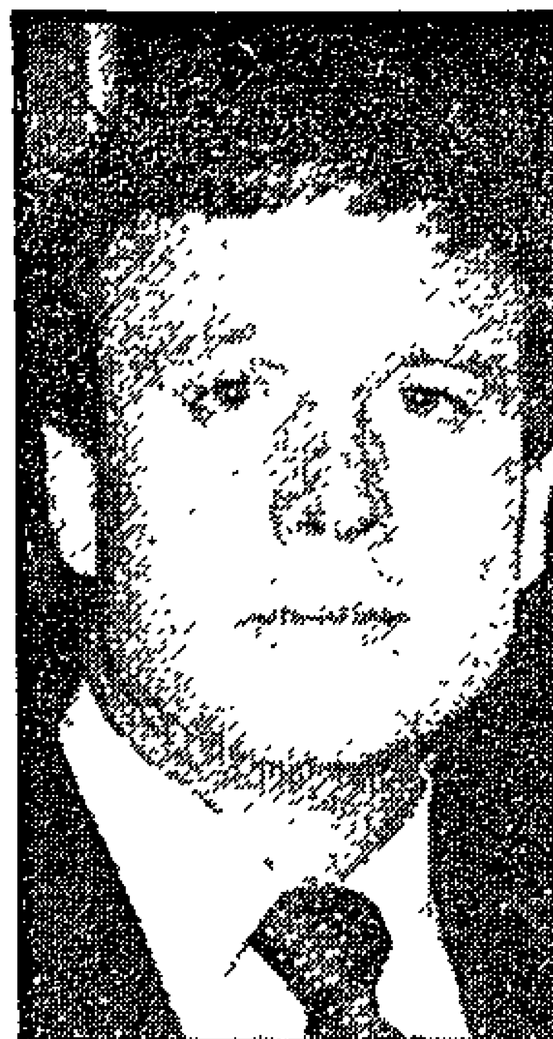

Anton Rupert may have tried to help talks ...

... between Piet Badenhorst of UBS, ...

... Volkskas Group MD Danie Cronje, ...

... Sage chairman Louis Shill and ...

... Norman Alborough of Allied. But Alborough ...


... and MD Kevin de Villiers are looking at ...

... a deal with Southern Life's Neal Chapman.

BDay 10/1/91 (58)

FINANCIAL circles are abuzz with talk that shortly before Christmas Anton Rupert intervened to put back on track faltering negotiations on a merger of UBS, Allied, Volkskas and Sage Financial Services (SFS). And though Rupert has said firmly that he did not meet the four principal negotiators — Piet Badenhorst of UBS, Danie Cronje of Volkskas, Louis Shill of Sage Financial Services (SFS) and Allied's Norman Alborough — others involved in the merger talks believe he tried to help when negotiations seemed to be coming off the rails.

In any event, the planned merger seems to be no more. Talks will probably continue. But chances are that Allied could head off in another direction, SFS would be left out in the cold and UBS and Volkskas would simply talk to each other. The proposed merger was one of the Rembrandt patriarch's favoured projects and would have confirmed Rembrandt's control of about a quarter of South Africa's banking and financial services sector. And though Rupert had meticulously avoided public participation in the negotiations, the merger's importance was such that his intervention would have been warranted.

Badenhorst, Alborough, Cronje and Shill had been involved in negotiating a merger of their companies into a single, giant financial services holding company in which Rembrandt would be the largest individual shareholder.

Everyone involved had been sworn to secrecy under pain of a R250 000 personal penalty for any leak. And though the secrecy constraints terminated at the end of last year, none of the participants is willing to confirm or deny officially the progress of negotiations. Some went as far as to deny emphatically unofficial statements by others. Inevitably, then, some of the detail of the deal remains woolly.

By the week before Christmas, when most of South Africa had shifted into holiday mode, enough was enough for at least one of the participants. The terms of the merger were to be determined by outside valuers, and the imputed values of the various components would not necessarily have been related to prices quoted on the JSE. Nor were shareholders to be offered an alternative to a straight merger — there was to be no cash underpin for the shares to be tossed into the merger pot. Agreement on imputed and relative values could not be reached, and an announcement was to have been put in the newspapers on the Friday before Christmas saying the merger was off, but that talks would continue between UBS and Volkskas.

Merger talks had faltered largely because Shill was demanding too much for SFS. It is quoted on the JSE, but so little of the equity is held by the public outside the Sage group that the quoted price is not always a good measure of the company's worth. Shill reckoned SFS to be worth about R300m; independent valuers put its worth at fractionally more than R150m. Badenhorst, Cronje and particularly Alborough simply could not accept Shill's valuation for the purposes of the merger.

Badenhorst, Shill and Cronje apparently listened attentively to proposals which could have resolved the problem. The proposed merger — even an attenuated one — suited them. UBS, the largest building society, had been one of the main losers in the mortgage bond market according to BA9 and BSA11 returns. Competition from the banks had cut its market share to about 22% by mid-1990 from over 30% in March 1987 and fractionally less than 35% back in 1982. Volkskas has been a stodgy performer for years. It had increased its penetration of the mortgage bond market, but its share of the banking sector's total assets had registered little change in the past decade.

Behind the strategies of UBS and Volkskas lay the idea that a merger would enhance competitiveness. Other bankers were less certain. In private, competitors welcomed the mega-merger in the belief that an enlarged banking group would willy-nilly shed market share to the benefit of other banks.

Rupert had been closely associated with Shill for many years, but in recent years had grown concerned about the problems Shill's management style had generated for the greater Sage group. Shill has been very much a hands-on manager, and not always happy to delegate authority. But as Sage has developed, Shill has become stretched — and that has showed up in the group's performance and the board's ability to control the group's nether parts.

Last year Allied MD Kevin de Villiers, who appears to have been distancing himself from the UBS/Volkskas/Allied/SFS merger talks, had thrown a spanner in Shill's plans for Sage to gain control and be merged with Allied. If that plan of Shill's had succeeded, many of Sage's problems might not have been exposed to public scrutiny last year, and Sage's poor mid-year performance might well have been hidden by the Allied's much larger size. At the time of the public row between Shill and De Villiers it was generally believed that Allied chairman Alborough was Shill's man on the Allied board.

If he was then, he certainly was not in the week before Christmas. When Alborough was told of proposals for salvaging the faltering merger — to cut the imputed value of Allied and to agree to Shill's valuation of SFS for the purposes of the merger — he could not agree. At the back of his mind was the view that these new terms being offered to Allied were less than completely fair.

As it was, Allied's share price had been rising towards the end of the year — largely because of the normal year-end window dressing by fund managers. So any arrangement which reduced the value of Allied in relation to SFS was simply not on as far as Alborough was concerned.

Alborough had an ace up his sleeve, though he had not played it when merger talks faltered in the week before Christmas. In December Allied's executives had received a separate and better-priced offer from Southern Life, and other suitors were in the wings. Southern's approach had come out of the blue and would have left Allied as a truly independently managed banking and financial services group. Southern was prepared to bid 225c or so for 30% of Allied, shares or a cash underpin, against Allied's end-November 185c share price. In the last few days, as word of the state of play has emerged, Allied's shares have moved to 220c on comparatively high trading volumes.

Southern was prepared to guarantee Allied's independence — it had no plans for a later merger of Allied with First National, in which it is also a major shareholder. Personalities came in here. Southern's chief executive Neal Chapman remains a banker at heart — he had come to Southern from First National and at one stage had been on the short list to succeed Chris Ball as First National's chief executive. Despite this, and the fact that he is First National's vice-chairman, he does not intend that Allied will be put together with First National. If he had, it is unlikely he would have persuaded Allied's board to go along with Southern.

Allied's board met yesterday to consider Southern's offer formally. Shill was at the meeting and the offer came as a surprise to him. But it is an offer Allied's board cannot reject out of hand — particularly if its terms are better than those of the proposed merger. But Allied's board decision need not be the final act of the drama.

Rupert might be disappointed if the greater merger fell through, but he would clearly support a merger between UBS and Volkskas which improved those two companies' performances. If he and others are determined the greater deal is a better option, the battle for control could be taken directly to Allied's shareholders.

JIM JONES

LETTERS

Standard's unit trusts cash in on high liquidity

B|Day 10/1/91

LIZ ROUSE

HIGH liquidity levels maintained by Standard Bank's three unit trusts have produced returns to unitholders in the December quarter ahead of the relevant indices.

The major fund, Standard Bank Mutual Fund, had a liquidity of 44,37% (R157,6m), with 55,63% (R197,6m) invested in equities at the end of December.

58

Portfolio

The Standard Gold Fund had 70,15% invested in equities (R170,8m) while its liquid assets accounted for 25,8% (R62,8m), bolstered further by 8,1% invested in other securities and SATS 12,5% 1991 stock.

The Extra Income Fund, which keeps a high cash portfolio, had 25,5% (nearly R24m) invested in fixed interest stock with 74,5% (R70,1m) held in liquid assets.

Portfolio managers say the negative return of 26% (income less capital depreciation) of the Gold Fund was not as crippling as the 37% loss suffered on the index.

The 25% decline in the level of the all gold index during the December quarter acted to take total assets in the Gold Fund down from R275m in September to R234m in December.

In a year in which the capital value of the all gold index fell by over 40%, investment policy was focused in capital risk reduction through the accumulation of cash. Fund managers say the gold sector still does not offer good investment value.

The fund added to its holdings in Winkelhaak, Zandpan and East Daggafontein and followed its rights in the Amgold 10-for-100 rights issue in October.

The fund has declared an income distribution of 7,16c a unit for the six months to December, bringing the total for the year to 13,99c a unit, only 3,25% higher than the 13,55c distributed in 1989. Yield on the closing repurchase price of 182,4c was 7,67%.

Total assets of the Standard Bank Mutual Fund rose R22m to R339m on the back of rising share prices and continued positive cash flows into the fund from new investors. Portfolio activity was confined to the take-up of Amgold rights and a lightening of the Richemont holding.

The fund reduced its exposure to equities from just under 70% in December 1989 to 56% in December 1990. It increased its exposure to the better performing industrial and financial sectors whcih represented 48% (1989:42%) and 19% (1989: 15%) respectively of the fund's equity holdings.

The mining board content of the equity portfolio was reduced from 43% in 1989 to 33% in 1990. The return to investors for the year increased by 10%.

The fund has declared an income distribution of 38,87c a unit for the six months to December, bringing total distribution for 1990 to 71,87c a unit, an increase of 34,24% over the 53,54c a unit distributed in 1989. Yield on the closing repurchase price of 825,43c was 8,71%.

Repurchase

The Extra Income Fund's portfolio continued to show a high exposure to the short end of the money market. The total return for the year was 17,9% while total assets increased R12m over the year to R90m.

An income distribution of 3,63c a unit for the three months to December brings the total distribution for the year to 14,55c a unit, up 12,79% on 1989's 12,90c distribution. Yield on the repurchase price of 87,60c was 16,61%.

Syfrets manages a strong boost in unitholders' income

LIZ ROUSE

A RELATIVELY high liquidity of 33% was maintained by Syfrets Growth Fund in the December quarter, enabling it to generate a strong rate of growth in unitholder income.

(58)

Syfrets Growth Fund's income distribution for the December quarter amounted to 3,37c a unit, boosting the total income distribution for the past 12 months to 11,98c a unit. This represents a growth of 95% over the previous year.

This was achieved from an improved investment performance (capital plus income) of 16,54% over 1990. By comparison, the JSE overall index declined by 8,6% over 1990.

B/Day 10/1/91.

The emphasis on liquidity was intended as a hedge against the short-term uncertainty posed by equity markets.

Syfrets Managed Assets fund manager Anthony Gibson reported that few changes were made in the Growth Fund's portfolio mix over the quarter and indicated that little activity could be expected now.

Gibson remained pessimistic over the short-term outlook for equity investments, saying investment fundamentals did not look sufficiently attractive to stimulate a rising level of share prices.

He expressed concern that the rise in share prices domestically was not based an any improvement in economic fundamentals, but rather pressure from institutions to invest their massive cash flows.

Gibson saw no justification in investing in gold shares until there was a decisive improvement in the gold price and he was sceptical about the ability of industrial companies to produce much in the way of profit growth over the next 18 months.

Gibson predicted a fundamental rerating of fixed interest investments relative to equities largely due to the advent of real rates of interest and to the possible return to a form of prescribed asset requirement.

Syfrets Income Fund also more than met investment objectives, the Syfrets Managed Assets quarterly report said.

Gibson said the maturity profile of the Income Fund had been increased gradually by investing in gilt and semi-gilt stocks and by selecting deposits ranging from six months to three years.

The fund achieved an income distribution of 4,20c a unit for the December quarter, pushing total distribution for the year to 16,49c a unit. This represented an income yield of 15,84% on the unit price a year ago.

The Income Fund's total return (capital plus income) amounted to 16,44% in 1990.

African Bank assets are satisfactory says report

Sowetan 10/1/91.

DESPITE grave economic conditions during 1990, the African Bank still achieved satisfactory operating results, the bank's annual report for the financial year ending September 30 1990 shows.

Significantly, the bank's assets increased by 28,30 percent to R213 831 761 but the authorised share capital remained unchanged at R10 750 000, comprising 6 250 000 ordinary shares of R1 each.

During the year under review, profitability also improved, thereby enabling the bank to service the preference shares as well as to declare a higher ordinary dividend than that of the 1989 financial year.

The board of directors has recommended a dividend of 6 cents (in 1989 it was 5 cents) per ordinary share of R1. Dividends amounting to R420 000 (the same as in 1989) were paid to holders of accumulative redeemable preference shares.

Advances

At the end of the year under review, advances of R1 716 730 (inclusive of earned finance charges) to directors and/or concerns or companies in which they are interested were outstanding.

A report of the directors say all those advances have been undertaken on commercial terms and conditions in the normal course of business.

At the close of business on September 30, directors held 72 815 ordinary shares of R1 each or 1,75 percent of the issued ordinary capital. In 1989 directors held 56 519 shares or 1,42 percent of the issued ordinary capital.

The issued share capital at the end of the financial year was:

* R4 165 302 - ordinary shares.

* R3 750 000 - eight percent "A" cumulative redeemable preference shares.

R750 000 - 16 percent cumulative redeemable preference shares.

By ALI MPHAKI

The bank continued to offer retail banking services, trust services and small business development and advisory services.

In the Corporate Division, money market and industrial leasing services were offered. The bank's subsidiary, the African Bank Insurance Brokers (Pty) Limited, continued to provide short-term and life insurance broking services.

Income

The group had a taxed income of R1 004 934 after internal reserve transfers.

In 1989 the figure was R718 705.

In his chairman's report, Dr Sam Motsuenyane said during 1990 the economy slowed down more rapidly than had been previously anticipated and probably much faster than was desired.

"The implications for the black community were severe. In a recessionary economic climate middle to lower income black people, the bank's major customers, must be recognised as among the hardest hit sectors of the economy, even without considering the devastating effects of unemployment," Motsuenyane said.

He said making predictions in South Africa's currently unstable socio-politico climate is a difficult task.

"Nevertheless, taking into account the strategies that are being implemented, management is confident of continued growth and improved profitability in the new financial year," he said.

* The African Bank has extended its branch network by opening branches in Tzaneen and in the Durban city centre.

* The bank will hold its fifteenth annual general meeting on January 30 at Burgerspark Hotel in Pretoria, corner Van der Walt and Minaar streets.

Dr Sam Motsuenyane.

Unit trusts picking up gold bargains

By Derek Tommey

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

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

GuardBank added to its portfolio 65 000 Western Deep Levels, 50 000 Winkelhaaks and, in the mining-financial line, 15 000 Anglos, 30 000 Anglovaal N, 550 000 Charter Consolidated, 250 000 Gencor, and 25 000 GFSA. However, GuardBank's new liking for gold shares did not stop it selling its entire holding of 30 000 Vaal Reefs.

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

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

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

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

GuardBank reports that the ex-distribution value of its units rose by 3,57 percent in the 12 months ended December. This contrasts with a 8,6 percent decline in the same period in the All Share index.

On December 31 it distributed 56,29c a unit, an increase of 33,0 percent on the year ago figure of 42,31c. This brought the total payment to unit holders for the year ended December to 100,58c, which is an increase of 29,3 percent on the 77,78c paid in 1988. This gave unit holders a total return of 9,63 percent for the year.

Besides adding mining shares to its portfolio in the December quarter, GuardBank also acquired extra shares in UBS Holdings, Liberty Life and FIT. On the other side of the coin it sold 200 000 Minorco, 250 000 Richemont, 250 000 Sappi and 5,6 million Iscor.

However, in spite of the sale of its shares, Richemont was still the biggest of GuardBank's investments at the end of December. The other "top 10" were Wooltru A, SA Breweries, Liberty Holdings, De Beers/Centenary, Anglo American, Anamint, Adcock, Gencor and Remgro. At December 31 its portfolio was 22,7 percent liquid.

GuardBank Resources, in contrast to the 38,75 percent drop in the JSE gold index and the 15,76 percent drop in the mining financial index (after both have been adjusted for re-investment of dividends) experienced a decline of only 13,36 percent in the value of its units in 1989. The fund distributed 9,3c (8,41c) a unit during 1989, reducing the loss to investors to 6,88 percent.

Shares sold during the quarter were Amcoal, Witbank Colls, Samancor, Anglovaal and JCI. The fund's "top 10" at December 31 were De Beers/Centenary, Sasol, Anamint, Kinross, Anglovaal N, Gencor, East Daggafontein, Anglo American, Northam Platinum and Witbank Colliery.

GuardBank Income Fund is paying out 9,74c a unit for the six months ended December, against 8,87c a unit a year ago, making a total of 19,19c (16,96c) for the year. The total return to unit holders, including both income reinvestment and capital appreciation for the 12 months ended December was 20,4 percent.

Safegro Unit Trust achieved a 5,13 percent rise in its unit price in the three months ended December. At December 31, its "top 10" were De Beers, Anglo American, UBS, Duros, HLH, Richemont, SA Breweries, Consol, Wooltru and Remgro. Mr Cockcroft said the fund's substantial investment in Duros and HLH reflected its view that these were potential blue chips.

Norwich-NBS Unit Trust increased its liquidity to 38,6 percent in the Decmember quarter, and had a further 8,3 percent of its portfolio in Eskom stock. This increased the historic yield on the fund's units to 9,07 percent.

The total return on the units, including income, equalled 5,4 percent in the December quarter, says Mr John Bowman, MD of Norwich Management Company.

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

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

African Bank planning to increase its share capital

Star 9/1/91 (58)

By Jabulani Sikhakhane

Investors who bought African Bank shares at 100c each 15 years ago have had seen the value of their capital shaved by 25 percent in nominal terms over the period.

Chief executive, Jack Theron estimates their current value at 75c each but taking inflation into account, their value in real terms is down about 90 percent.

The African Bank has about 67,5 percent of its shareholders holding up to 500 shares each, and the five major commercial banks holding about 15,2 percent of the bank's issued share capital.

Mr Theron hopes that the value of African Bank shares will improve within the next few years.

Mr Theron says he has at least 10 companies waiting to take up to 10 percent of the bank's issued ordinary share capital.

To position the bank for future growth and ensure sound capitalisation ahead of the new Deposit-taking Institutions Act, subject to shareholder approval the African Bank will significantly increase its ordinary share capital.

In the year ending September 1990, African Bank's net income after tax topped the R1 million mark for the first time at R1 004 934 — an increase of 39,8 percent on the previous year.

The bank's liquidity also rose sharply with cash and short-term funds up to R50 926 million from R9 701 million.

Mr Theron said yesterday that the Bank would be able to meet the requirements of the DTIA for the capital/asset ratio of 4,5 early next year.

At the end of financial 1990, the African Bank had a capital/asset ratio of four if preference shares are excluded. But this increases to 4,2 including prefs.

Safegro banks on a Gulf war

GILLIAN HAYNE (58)

GENERAL equity fund Safegro Unit Trust showed a 5,13% increase in its unit price in the quarter to end December 1990.

Under administration the fund, formed in June 1990, increased its assets 10,5% to R23,2m, with R10,7m held in mining equities and R7,5m in cash resources and liquid assets.

Explaining the high exposure to mining equities, Safegro Institutional Fund Management MD Kevin Cockroft said that with a Gulf war almost a certainty, climbing inflation could create negative real interest rates. "With this background, the medium term outlook for gold is very exciting." BDay 9/1/91.

Liquidity decreased from 35% to 32% but the fund maintained a defensive policy, with portfolio activity low. Kloof was the only new investment counter.

"Performance including income for the six months to December 31, 1990 yielded a total return of 1,33%, which is very satisfactory."

Medium outlook good in uncertain equity market

(58)

B/Day 9/1/91

LIZ ROUSE

THE overall outlook for equity markets is uncertain, but in the medium term investors can be more positive, say GuardBank unit trust portfolio managers in their December quarter report.

It is likely that 1990 will have seen the bottom in the gold bullion market, international financial and trade sanctions against SA may ease and short-term interest rates should moderate from current levels.

The portfolio managers say equity markets are likely to discount these future prospects and the question of timing for the next up cycle will be of paramount importance.

Squeezed

In the short term, they warn that the Gulf crisis — with its potentially disruptive oil price implications — is yet to be resolved, eastern Europe's political and economic transformation is facing significant strains, the large English-speaking First World economies are now in recession and the problems in the international financial system of imbalances, falling asset values and over-borrrowing will have to be addressed.

In SA, corporate profitability is likely to continue being squeezed and market sentiment may be captive to the ever-changing fortunes in the political negotiation process.

GuardBank's two non-fixed interest trusts have been cautious in their market dealings and kept their liquidity levels reasonably high. The Income Fund is almost fully invested.

The major fund, Guardbank Growth Fund, maintained its liquidity level at 22,74% (22,93% in the September quarter), amounting to R220,2m (R214,3m) out of total assets of R968,3m (R934,6m).

During the quarter new counter Charter Consolidated was added, and the fund's holding in Sappi and Iscor was sold. Holdings in Western Deep Levels, Winkelhaak, Anglo American, Angovaal N, Gencor, Gold Fields of SA, UBS, Liberty Life and First International Trust were increased while Vaal Reefs, Minorco and Richemont holdings were reduced.

The Growth Fund's income distributions totalled 100,58c a unit for the year to end-December. The total return of income reinvestment and capital appreciation for the year amounted to 9,63%, compared with the JSE all share index which, adjusted for dividend reinvestment, reflected a return of -5,09%.

Over a three-, five- and ten-year period to end-December, GuardBank Growth Fund has shown a total compound return per annum of 25,25%, 23,04% and 23,27% respectively.

The market value of GuardBank Resources Fund declined to R35,1m (R39,6m) in the December quarter. Liquid assets were little changed at nearly R14m (R13,5m) but the percentage increased to 28,47% (25,43%).

During the quarter Middle Witwatersrand was added, while the small Anglovaal holding was sold. The fund added to its holdings of Amcoal and Gencor and reduced holdings in Western Areas, Witbank Colliery, Samancor and JCI.

The Resources Fund's income distributions for 1990 totalled 19,19c a unit, representing an increase of 13,15% over 1989. The total return, including both income re-investment and capital appreciation, for the 12 months amounted to 20,4%.

GuardBank Income Fund had a satisfactory year, achieving a total return of 20,4%. It out-performed all the JSE bond indices — which index showed a return of 16,01%.

Fundamentals

During the December quarter, the capital market component of the portfolio was increased from 75,33% at the end of September to 90,99% at the end of December. The fund's total assets amounted to R17,9m, with only R1,6m in cash. Income distribution for the six months to December was 9,74c a unit (8,87c a unit in 1989).

However, as far as the long end of the capital market is concerned, the fund continued to be defensive as on a risk reward basis the fundamentals are considered to be unfavourable in this area of the yield curve.

Norwich NBS opts for extra liquidity

B Day 9/1/91 (58)

LIZ ROUSE

NORWICH NBS Unit Trust increased its liquidity further to 38,6% in the December quarter with an additional 8,3% increase in its investment in marketable Eskom stock.

Norwich Management Company MD John Bowman says this cautious approach has been vindicated substantially by the trust's total return of 5,4% during the quarter, compared with the all share index performance of 0,2%.

The fund enjoyed a good net cash inflow during the quarter, equivalent to a growth of 19%, and taking the fund's size to R13m.

The cautious approach was also reflected in transactions, which were confined to sales of Impala Platinum and Anglo American Gold Investment Co, matched by the purchase of Driefontein, and resulting in no net buying of shares. Additional Eskom stock was also purchased.

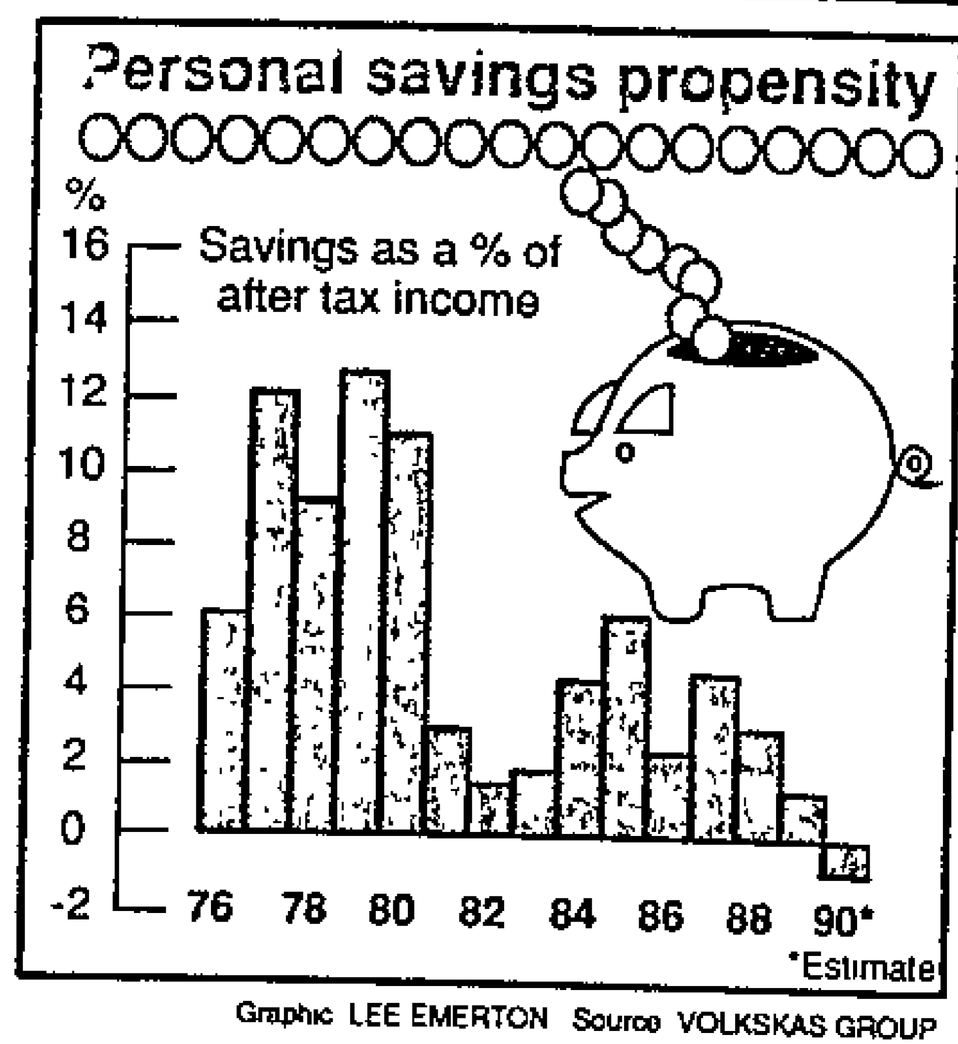
Norwich NBS's top five shareholdings at the end of the quarter were Barlows, Driefontein, Liberty Life, NBS and SA Manganese.

Bowman says the fund's managers are adhering to their cautious, high liquidity approcah for the present, because of the extraordinary number of uncertainties facing the SA equity market.

On the other hand, they believe the market is probably close to bottom territory and is providing the long-term serious unit trust investor with a valuable opportunity to augment holdings at subdued price levels, benefiting from the rand cost averaging principle.

With its high liquidity level, the fund is well positioned to benefit from opportunities which will inevitably materialise in the market during the months ahead. It will utilise flexibility to move aggressively into any sectors which appear oversold — as was recently done with gold shares.

A further consequence of existing high liquidity levels is the historic income yield on the fund, which at 9,07% is exceptionally high by general unit trust norms.



Graphic LEE EMERTON Source VOLKSKAS GROUP

SA splashes out — into red

GRETA STEYN

SOUTH Africans are collectively in the red — they borrowed more than they saved last year for the first time since 1953.

That is according to a projection by Volkskas economist Adam Jacobs, based on an analysis of Reserve Bank figures for the first three quarters of 1990.

Individuals spent more than their after-tax incomes last year for the first time since such figures began to be collected in 1953.

Reserve Bank data show that individuals spent R1,63bn more than their after-tax income in the first nine months of last year South Africans were thriftier in 1989, saving R2,1bn over the comparable period.

Although contractual savings — for example pension fund contributions and life assurance premiums — amounted to about R31bn in 1990, this was wiped out by credit spending.

"These low, and now even negative, personal savings have far-reaching consequences.

"Without the support of sufficient savings, investment cannot be financed in a non-inflationary manner and interest rates will remain relatively high unless investment drops sharply," Jacobs says.

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SA in red

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Savings can rise only at the cost of lower real expenditure, unless after-tax incomes increase Jacobs believes it is unlikely that disposable incomes will rise this year, hence there is little scope for further significant increases in consumer spending next year

"Should the high tendency to consume continue in 1991, there is little hope of getting the economy back onto a sound footing"

The weak savings performance could be ascribed to a number of factors, including a greater increase in direct personal taxation than in current income, a shift in buying power to lower income groups with a higher propensity to consume and continued high inflationary expectations

R35bn needs an investment home

Bloem 7/1/91 (58)

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

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

Based on the compounded annual growth of 15% in assurers' and pension funds' 1988 cash flow of R21,95bn, 1991 is estimated to yield a flow of R33,4bn.

Some analysts say the 15% growth estimate is conservative and the figure could well be more than R40bn.

About R11bn will be paid out to policyholders, leaving R22,4bn which has to be invested somewhere.

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

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

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

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

ANDREW GILL

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

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

The index is at 2 710 points, 9,3% down from last January, and could mark a turnaround in fortunes for the struggling stock exchange.

Nedbank economist Edward Osborn says a lot of money is likely to find its way into equities and push share prices up "for no good reason".

Investors will be climbing into a market which is "really very dull" and offers poor growth prospects.

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

The result would be "tremendous pressure" on money market rates, Osborn says. The 90-day liquid BA rate has already fallen to 17,65% — 35 points below Bank rate.

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

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Sharp rates hike in short-term insurance expected this year

(58) BDay 7/1/91

SEAN VAN ZYL

SHORT-TERM insurers will probably increase their rates by up to 30% across the board this year, says Mutual & Federal MD Ken Saggers. This would follow an overall rise of the same percentage in 1990.

Escalating crime had made 1990 one of the worst years in the insurance industry's history.

Most insurance companies have indicated that rates increases ranging from 15% to 30% in motor and personal insurance could be expected in March and April.

Saggers said at the weekend that personal lines of business, such as motor and household insurance, took "quite a beating" last year.

"For instance, motor theft climbed by more than 25% and insurance companies will have to make the necessary adjustments to premiums, above the normal inflationary corrections, to meet the higher risk of rampant crime."

Furthermore, although the number of car accidents did not rise noticeably during 1990, inflation pushed up the cost of repairs by more than 30%.

This would also have to be taken into account when future rates were calculated.

Saggers said 1990 must have been one of the worst years for the industry, resulting in underwriting losses in nearly every sector of the market.

"I believe insurers will have to phase in premium increases of at least 15% to 20%, in real terms, during 1991," Saggers said.

The Sunday Times reported yesterday that some short-term insurers were being forced to recover their losses through premium increases of up to 80%.

It reported that General Accident's rates for personal cars rose by between 40% and 50% in 1990 and that if losses were not cut, another 20% to 30% increase could be expected.

Saggers said underwriting losses for the first six months of 1990 rose by 25% on the previous year. Although the commmercial vehicle and personal lines business were worst hit, the fire insurance and corporate market also recorded a significant number of claims.

Priceforbes Federale Volkskas' (PFV) group broking services MD Don Gallimore said the market in personal lines would definitely harden this year because of the greater crime factor.

He added that rate increases of at least 15% could be expected by the beginning of March. The commercial and industrial markets would be subject to increases for the same reasons. But the extent of premium increases would be determined by each insurance company's own claims experience.

General Accident assistant GM Ian Bain said premium increases were most likely to be inflation driven, "although the greater number of vehicle thefts and hijackings will make insurers take a careful look at their risk profile".

However, Bain said that in evaluating 1991 rates based on the past year's claims experience, insurers were not likely to subject "good risk" business to any harsh hikes in premiums.

Deposit insurance rejected

ROBERT GENTLE

FIRST National Bank (FNB) and Bankorp spokesmen have come out strongly against the introduction of deposit insurance as a means of protecting the savings of the public against bank failures.

They were responding to remarks by Registrar of Banks Hennie van Greuning on the need for a debate on the issue in the wake of the fall and subsequent takeover of Cape Investment Bank (CIB).

Deposit insurance is a system whereby government guarantees depositors' savings up to a certain limit in the event of a bank going bust.

The system is widely considered to be the key reason for the Savings & Loan crisis in the US because it is said to have encouraged irresponsible investment and excessive risk-taking by certain banks.

Bankorp senior GM treasury Jurie Bester said that deposit insurance encouraged a reduction in risk management. "Good banking legislation with prudent capital requirements and adequate information disclosure is the right method of controlling risk."

He called the new Deposit-Taking Institution legislation, due to come into effect this year, "excellent", and said it went a long way towards meeting this goal.

"A CIB-type situation would be a lot less

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Insurance

☐ From Page 1

likely under the new legislation because of the stricter information and disclosure requirements," Bester said.

FNB senior GM Viv Bartlett said deposit insurance would be "a retrogressive step" in the context of the impending legislation.

"It is an unnecessary expense which the public would have to meet. It smacks of an admission that the regulatory bodies and the system have failed."

He said that even though the US insurance scheme covered deposits to a limit of only about $100 000, many huge US investors simply spread their money around as many banks as possible so the investments were always covered.

This created an inefficient allocation of capital in the economy — something capital-starved SA could ill afford.

Andersen Consulting associate partner Ken Robinson said he favoured a restrictive form of deposit insurance — for deposits of up to perhaps R5 000 — aimed exclusively at the small, unsophisticated investor. Larger investors could fend for themselves, he said.

A merchant banker said there was already a lot of protection because of the Reserve Bank's sympathetic approach to helping out faltering banks, and suggested that deposit insurance could amount to overkill.

But Aiken & Peat partner John Louw said that if, as the Reserve Bank has said, its policy was not to shore up ailing banks, then deposit insurance was worth investigating.

Experts debate use of pension fund surpluses

GILLIAN HAYNE

COMPANIES have a moral obligation to use pension fund surpluses to improve employee benefits, some insurance experts believe.

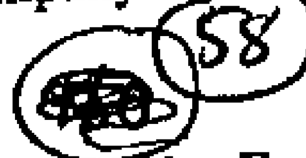
Other experts dispute this. The question of ownership of pension fund surpluses is the subject of debate, with companies facing the dilemma of who has the right to the overfunding.

In two recent cases, Times Media Limited (TML) used an excess of R7m to improve employee and pensioner benefits, while engineering giant Dorbyl chose to take a contribution holiday with part of its surplus.

TML group secretary Barrie Harris says companies have a moral obligation to improve the fund.

"Although I understand the view that since companies are responsible for any shortfall in the fund they have some entitlement to the surplus, I do not agree with contribution holidays."

Dorbyl financial director Tony Welton says: "It was only after we had improved pensioners' benefits beyond all expectations and found we still had a surplus that the company decided to stop contributing for a while."



Combination

Alexander Forbes senior director Peter Milburn-Pyle and Southern Life GM Roy Lennox say pension fund surpluses "belong to the fund, not to the members, the employer or any other party". The two actuaries have compiled a paper investigating the ownership of fund surpluses for Wynand Mouton, the chairman of the Mouton committee inquiring into the pensions industry.

"Fund managers could use the surplus to improve benefits, reduce the employer's contribution, reduce the members' contributions, carry the distributable surplus forward unappropriated, or a combination of these."

Their report looks at the options open to companies with overfunded schemes, whether they are pension, provident, defined contribution or defined benefit funds.

In most, defined benefit pension funds are more susceptible to surpluses because actuarial assumptions are inclined to be conservative.

Insurance expert Richard Wharton-Hood says that in general, contribution holidays are wrong because the company withholds benefits from staff and pensioners. However, the decision depends on the size of the surplus in relation to the scheme, he says.

"The members should be the first concern, and the company the last. Companies have a moral obligation to pass pension fund surpluses on to their employees.

"However, to overcome what is always a debatable point, I believe companies should move to fixed contribution schemes, where both the company and member pay in a fixed amount, and rely on investment performance to provide the return."

African Bank issues shares to other races

LIZ ROUSE

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

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

The bank's total issued share capital consisted of 4 165 302 ordinary shares, 750 000 16% and 3,37-million 8% cumulative redeemable preference shares at the end of September 1990. The 16% redeemable preference shares will be redeemed in the 1990/1991 financial year.

The bank's authorised ordinary share capital is 6,25-million shares. There were 3 757 shareholders at end-September.

African Bank performed well in the year to end-September, with assets up 28,3% to more than R213,8m (R166,67m). Taxed income increased 39,8% to more than R1m (R718 705), while retained income climbed to R510 186 from the previous year's R175 170. The dividend rose to 6c (5c).

Having surpassed the R1m net income mark for the first time since its humble beginning in 1975, and having had to contend with a R67m forex scandal in 1986, the bank has cleared the desks for expansion this year.

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

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

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

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

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

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

Insuring the low-income market

GILLIAN HAYNE

THE high cost of insurance premiums, largely dictated by administration costs, is the main factor inhibiting companies' involvement in the low-income market, industry spokesmen say.

It also accounts for many companies forming subsidiaries to specialise in the low-income sector, where monthly premiums are below R40.

A Liberty Life spokesman says few low-income families have policies with Liberty Life because it has a minimum R75-a-month premium restriction. But subsidiary Charter Life concentrates on servicing the low-income market.

Charter Life national broker manager John Hyde says the company's minimum premium is R35 a month. He says low-income families are most concerned about education policies, funeral benefits, injury and hospital cover.

"Premium collection is also a problem. We deal with a market where there is often no money in the bank, so we insist on taking the money at source, through a stop order on the client's salary," he says.

Bill Jack, the MD of Southern Life's subsidiary African Life, says the high lapse rate, which pushes up administration costs, can be overcome by a system which processes volume cheaply.

"The secret of African Life's success is that we are a supermarket, not a boutique," he says.

Aflife's average premium is about R40 a month, but there are many lower than that. It has 140 000 premium-paying clients and estimates that the field and broker division — without direct mail — has written 45 000 policies in 1990. November was a record month with 5 000 policies sold.

Momentum Life MD Niel Krige says his company has chosen not to go "the separate company route". Instead it works on a category system where restrictions are placed on policies and premium levels, depending on the client's employment category, educational qualification and earning level.

"However, in our lowest category there are no restrictions except a minimum premium of R40 a month. This system is a great success as seen by our statistics in 1990 — 25% of new business is emanating from the black population."

Pretoria Bank turns off taps to clients

BDay 7/1/90.

MELANIE SERGEANT

PRETORIA Bank, with a capitalisation of about R6m, has stopped taking on certain business and has turned the taps off for a few of its clients.

Apart from private shareholders, institutions with interests in the bank include Nedbank, Sanlam and Rentmeester.

MD Laurence Perrin explained Pretoria Bank's decision.

"As a small bank, it's important for us to spread our profile of business across clients and industries, not being too dependent on any single clients or market segments," he said.

Clients have voiced concern over the decision, with one client saying there had been rumours that the bank was close to exceeding its capital base. But Perrin denied this.

Director Johan Brits said that at a recent special shareholders' meeting it had been decided to increase the bank's capital base to about R30m over the next year.

Homestar MD Ian Jones said his company relied on Pretoria Bank for financing its direct response sales of PCs.

"With the taps being turned off, we're looking at restructuring our entire package deal for buyers," he says.

Perrin said it made sense for Homestar to have its deals handled by more than one financial institution.

Another company, which deals in office automation product sales and used the bank to finance its rental agreements, said it had taken about two months to get final payouts of about R1m from the bank.

"We heard the bank was lending money out too liberally and has put a freeze on many of its major clients."

Perrin said the delayed payout was caused by bottlenecks in administration.

"We took on a number of new clients and business flooded in too quickly for our systems to cope. But this situation is now under control. We have set budgets for all our projects and our systems can handle the volume of business we now have."

A large instalment finance house was told that its business was no longer wanted and that Pretoria Bank would be dealing directly with the public rather than through third party financing companies.

Perrin explained that his bank was honest with this client, explaining that it could not offer the quality of service needed because of the amount of business. A larger bank would be able to cope better.

Brits said smaller banks have restraints on their capital and must meet certain criteria laid down in banking legislation.

"Such prudent business criteria must apply to any bank and we are looking into restructuring our operations, with more emphasis, perhaps, on dealing directly with buyers rather than through other leasing companies.

"It's our prerogative to choose the clients and business which we feel is best suited to our profitability.

"Our core staff of about 50 is still in place and we're honouring any finance agreements which are already in place."

Perrin said the bank looked at client risk profiles and eliminated some clients and brokers. It was aiming for a better level of support and client contact in niche markets.

Institutions stuck for investment opportunities

CAPE TIMES 7/1/91

From ANDREW GILL

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

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

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

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

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

The index is at 2 710 points, 9,3% down from last January, and could mark a turnaround in fortunes for the struggling stock exchange.

Nedbank economist Edward Osborn says a lot of money is likely to find its way into equities and push share prices up "for no good reason".

Investors will be climbing into a market which is "really very dull" and offers poor growth prospects.

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

The result would be "tremendous pressure" on money market rates, Osborn says. The 90-day liquid BA rate has already fallen to 17,65% — 35 points below Bank rate.

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

☐ From Page 21

Insurers hit

over the years, the policy-holder needs only catastrophe insurance against major disaster, such as fire, earthquake or tornado.

Insurance Times editor Nigel Vardy says: "The insurance business is cyclical. Insurers with good reserves intensify competition, putting pressure on rates. Then the economy goes into recession, crime increases and premiums have to be increased."

He says the style of personal insurance has to change because claims are exceeding costs and premiums in many cases.

Insurers hit wall after tariff war

(58) S/Times 6/1/91

SHORT-TERM insurers are reeling under the blows of increased claims — caused by the high crime rate — which followed a rate-cutting war in 1989 when criminals were temporarily curbed.

Insurers are being forced to recover their losses through premium increases of up to 80%. But this could chase business away in a shrinking market.

One of the reasons for the decline in business is the rocketing price of imported goods caused by the rand's weakening against the mark and yen.

By CHARMAIN NAIDOO

Replacement values are rocketing and so is the cost of insuring household possessions and cars Many individuals now think twice before renewing policies

SA Eagle managing director Peter Martin says the inflation rate in the motor sector is much higher than the consumer-price index

"As the rand depreciated against the yen or the mark, costs of cars and spares rose by more than 40%."

The cost of panel beating and repairs has risen by 40% in a year

Mr Martin says fleet rates are often cut to keep the rest of a company's insurance account

"These loss leaders result in devastating losses for us In some cases, we are taking a 100% loss — before even paying administrative costs or agents' commission."

Worst

Costs take about 22,5% of a premium

Mr Martin says that police action, after the crime surge in 1986, was effective in 1987. In 1988, insurers made large profits because crime dropped Rates were stable for nearly two years.

In addition, insurers are being battered by competition from foreigners who are concentrating on more lucrative commercial and industrial business

Insurers also have themselves to blame, says Prestasi Brokers executive chairman Jan Erasmus

"There are signs that companies are talking to one another about rates and their action is to the detriment of policyholders because it discourages competition.

Annoyed

"A contributory factor is that people are annoyed by bad management at some insurance firms Administration costs, for example, at one company went up 29% last year when inflation was between 14% and 15%"

General Accident general manager Ian Bain says 1990 was the worst year ever for SA insurers, largely because of exceptionally bad motor underwriting results

Commercial fleets and large trucks have been hit by hijackers using new ways to by-pass vehicle alarm systems

Insurance Times reports that one fleet client is costing an insurance company more than R50 000 a month in claims

Claims involving motor theft, housebreaking, fidelity cover and commercial fraud last year were more than 40% higher than in 1989.

Shortage

Police report that on average six loaded trucks are hijacked in the Pretoria-Witwatersrand-Vereeniging area every day. They estimate that hijacking in the Transvaal has increased by between 100% and 300% year on year

General Accident personal car rates rose by between 40% and 50% in 1990, and if losses are not cut another 20% to 30% increase can be expected

Household rates will rise by between 10% and 15% after increases of up to 40% last year

Fortunately, no change in premiums for corporate commercial business is expected This is partly because businesses tend to insure as a matter of course, unlike individuals who are prepared to take a risk in times of cash shortage Competition from abroad also helps to keep premiums down

Most insurance companies have suffered underwriting losses — claims they have met exceed premium income This has forced them to finance payouts from dividends, rent and interest on investments

Insurers are placing great store by the proposed Operation Sentry which promises to put 10 000 policemen on the beat

Mr Erasmus fears that the ordinary person will not be able to afford insurance if premiums continue to rise

"In 1972 the average premium paid by a working man was 2,8% of his yearly salary. In 1989 it was 6,8%."

Excess

Prestasi launched a self-insurance scheme last November It involves people putting their own capital at risk to become co-insurers

Prestasi offers the policyholder a 35% discount if he agrees to an excess of R5 000 on any claim. The client pays a market-related premium and the 35% is put in a savings account, endowment policy or unit trust.

Mr Erasmus says: "If he has a claim, he can use money from the kitty to help with the R5 000 excess, or get a pre-arranged loan, payable in two years"

Because the kitty builds up

□ To Page 22

SA loses out on R750m cable order

By CURT VON KEYSERLINCK

SOUTH AFRICAN manufacturers will be left out of the R750-million project to lay an undersea telecommunications cable between this country and Europe by 1993.

It is a disappointment to the SA industry which supplied much of the terminal equipment for the existing undersea cable which is near the end of its operational lifespan.

"SA suppliers are a little more expensive," admits an executive in a SA firm, "but our capabilities will be lost and jobs will disappear if we are not given work This will put the country at the mercy of foreign suppliers"

He says the Reunert fibreoptic plant near Brits could supply glass fibre to the foreign factory that makes the cable The Altron group could supply some of the terminal equipment

Prompted

But the Cabinet decided that the entire job of making the equipment and laying the cable be put out to international tender It is almost certain to be won by the British STC and the French Alcatel Submarcom which submitted a joint bid

The decision was prompted partly by recommendations of Minister of Administration and Economic Co-ordination Wim de Villiers that protection of SA industry be phased out to cut costs.

There have also been accusations that some companies took advantage of the protection they enjoyed in supplying Post Office requirements.

Another reason for the decision is that SA's 12 foreign partners in the undertaking have no wish to carry higher costs merely to benefit SA suppliers

Able to carry 7 680 simultaneous telephone conversations, the new cable will have much surplus capacity and will start paying for itself only some years after it enters service The existing cable can carry only 280 simultaneous conversations

SA is contributing more than two-thirds of the cost because, in the short term, the facility is a vital communications link while being of only minor importance to its partners.

But in the longer term it could become more important to them as part of an alternative link between the West and the East that goes via SA and Australia.

The project has apparently done much to help improve relations between SA and some of its more important partners. Britain and France are pleased because they get the supply contract Spain and Portugal are pleased because the cable will travel between SA and Portugal via the Canary Islands, a Spanish possession, and Madeira, a Portuguese one

This will enhance the importance of both as international undersea cable hubs and as gateways to Europe. Both are linked to North Africa and the Canaries will soon be the terminal of a cable to India and Indonesia via North Africa.

Record

With work starting next month and completion scheduled for May 1993, the cable will be brought into operation in record time for a project of this size.

It will incorporate the most advanced technology. In deep waters it will be no thicker than a pencil, but in shallower depths it will be considerably thicker because it must be armoured to avoid being damaged

It will be jointly owned by the 13 partners By contrast the existing cable is owned by a company, South Atlantic Cable Company. It is wholly owned by the SA Post Office It was originally a joint venture between the Industrial Development Corporation and STC, but was fully nationalised after STC disinvested as part of a worldwide restructuring

UBS banks on advertising

Business Times Reporter

THE UBS group believes its coup in buying all the display advertising in last week's Sunday Times will yield long-term benefits.

Senior general manager, marketing, Tienie van den Berg, says reaction from business associates, competitors and competing newspapers was favourable.

"The spin-off benefits for the group and individual products will be felt for a long time to come."

United Bank and UBS placed 15 display and seven full-page advertisements in the December 30 issue — one of the biggest advertising deals in terms of exposure in SA publishing history, says TML general manager, marketing, Peter McKenzie.

Mr Van den Berg says: "We wanted to make a statement in a way which signified leadership and our confidence in a new SA."

FRED THERMANN. Hoping for foreign flood Picture: SUE KRAMER

Hotels feel the pinch of recession

S/Times 6/1/91

By CHARMAIN NAIDOO

HOTELS suffered a 5% to 10% drop in real terms when compared with last year's Christmas and New Year holidays

And things are not expected to improve in 1991

Hoteliers hope for an influx of foreign visitors That is the only way they can fill beds

Bookings for February and March, traditionally the time when foreign tourists arrive, are looking good

Fedhasa executive director Fred Thermann says the recession has hammered hotels. "Statistics will be available only in the next two to three months But countrywide, the hotel industry has suffered"

Mr Thermann says the peak season was short — from December 20 to January 6.

Tight

"Money was tight this Christmas and shorter, cheaper holidays seem to have been the rule In a capital- and labour-intensive industry like ours, this bodes ill"

Equally worrying is the fact that big corporations — the lifeblood of hotels which are used for seminars, conventions and product launches — could slash their spending

pancy should not be used to judge the season's success

"The trend is away from the formal accommodation sector to bed-and-breakfast places, self-catering or hired cottages, flats or houses

"We had the same number of visitors to Cape Town as we did in the previous year — about 850 000 We also had the most visitors ever on one day to our information office — 2 700 of them"

Miss Kelder says the season proper began on December 16

"It was impossible to get up Table Mountain in the cable car without a long wait if you hadn't booked The beaches were full and the wine route reported good business"

Durban Publicity Association managing director Frank Vincent says that year on year, 1990 was better than 1989

"There was no beach overcrowding on the five busiest days and no incidents were reported"

Bank explains its role in CIB deal

Bloom . 4/1/91. (58)

ROBERT GENTLE

THE Reserve Bank yesterday denied market talk that it had handed the troubled Cape Investment Bank (CIB) to Prima Bank on a platter in order to avoid the panic an outright collapse might have had on the financial markets.

Registrar of Banks Hennie van Greuning, speaking on Prima's acquisition of a controlling interest in CIB last month, said it had been a purely market driven decision of which the Reserve Bank had been merely the arbiter.

Van Greuning disclosed that a handful of banks, including Prima and Fidelity Bank, had approached the Reserve Bank towards the end of 1990 to express an interest in CIB.

He said the Bank had left the subsequent negotiations to the market and at no time had it dictated who the particular suitor should be.

"We were merely kept informed of what was ultimately a market decision."

While the Bank approved the tie-up with Prima — which Van Greuning described as a credible player with a respectable track record in risk management — there was no truth in talk of Prima being financially induced to take over CIB.

Asked what the Bank's policy was on bank failures, Van Greuning said: "The Reserve Bank is not in the business of propping up ailing banks nor does it give people money to take over other banks."

It was guided by the desire to maintain a "healthy and efficient financial system" and considered failures case by case.

He said that loss of confidence by the financial markets in CIB at the end of 1990 was a key reason for its takeover.

CIB had been exposed to the default of its futures broking member Davis Ralph Sadleir (DRS) and was overtraded in the bond markets, but its capital base had "never really been seriously threatened".

Van Greuning said CIB's demise highlighted the need for a debate on the issue of deposit insurance, a system whereby government guaranteed depositors against a bank collapse via insurance paid by banks.

Such a debate would centre around the dilemma of how to get the best out of deposit insurance — the safeguarding of public money — without its key drawback, which is the tendency by banks to take unnecessary risks safe in the knowledge that government would pay for any mistakes.

"This last factor is widely considered to be the main reason for the savings and loan crisis in the US," Van Greuning said.

BANKING FM 4/1/91.

PHASING IN (58)

The Deposit-taking Institutions Act, which replaces bank and building society legislation, is to be introduced on February 1. In terms of the Act, liquid asset requirements that banks must hold against medium- and long-term funding will be phased out in equal tranches over four months, starting mid-March. The effect will be marginally offset by the introduction of requirements against foreign funding.

It is estimated that R5bn in liquid assets will be released but it could be more as banks take advantage of the new requirements and restructure books, taking proportionately more money for over 31 days.

Technically, this could counter the downward trend in interest rates. The fall in demand for liquid paper will depress the price, consequently pushing up the yield. But the effect is not expected to be significant. ■

INSURANCE CLAIMS FM 4/1/91.

LIVING ROUGH (58)

Violence in our way of life is underlined by figures from life assurer Sanlam. Violent death claims — which *exclude* most township deaths — rose much faster last year.

With 1 000-plus death claims a month (30% of the total) the Bellville office paid out R585,8m in 1989-1990. Of this, R157,3m was for violent deaths, 19,2% up on the previous year.

Violent causes include road accidents, which accounted for R91,8m. Suicides and murders cost R30,5m. On individual life claims alone suicides resulted in paying out R9,9m and murders R5,1m.

The good news in Sanlam's analysis is that there may be some progress thanks to education about lifestyle diseases. Sanlam had a rise of only 9,9% in death benefit pay-outs related to heart disease — the biggest single killer. Deaths from cancer and tumours rose by 28,6% with pay-outs reaching R81,4m. ■

Banks pour cash into bad debt budgets

ROBERT WICKS

BANKS lifted their bad debt provisions by massive amounts in 1990, reflecting a prolonged period of high interest rates preceded by an explosion in bank credit.

UBS Holdings' provisions more than tripled from R4,4m (1989) to R14,8m (1990). Volkskas's provisions rose by 35,4%, while the NBS disclosed a 127% increase. First National Bank set aside 62% more to cover doubtful loans — an increase from R181,6m to R294,3m. BDay 4/1/90

Credit managers say bad debts can be controlled only if care is taken to ensure quality assets are put on the books.

FNB group credit manager Neil Garden predicted tough times for credit managers in the new year.

"Although a drop in interest rates is anticipated, bankers remain concerned about the impact of both the political conditions in the country and the dilemma facing the global economy at present."

The large increases in bad debt provisions reflect a trend towards extreme caution in a recession. (58)

In some cases, the caution follows a period of unrestrained lending that managements now openly admit was not "quality assets".

After two years of unrestrained lending, Bankorp's new management has had massive write-offs, resulting in the biggest loss shown by a banking group in SA.

Not all banks were equally badly affected by the charge against profits, and FNB and NBS posted impressive results.

Privatisation plans under fire

Outcry over govt welfare proposals

BIDay 3/1/91

MATTHEW CURTIN

WELFARE organisations have rejected government proposals for an overhaul of SA's welfare system, saying they are out of step with new developments in the country.

The National Health and Population Department's restructuring plan emphasises the need for a market-based welfare system, and outlines a privatisation strategy.

The proposals were submitted to interested parties for comment in October.

Welfare groups yesterday identified the move to privatise welfare structures as the main weakness in the government proposals. Some said the proposals would reinforce racial divisions and inequalities.

The Durban-based Centre for Health and Social Studies (CHSS) and the Durban Welfare Policy Committee, in a joint comment on the draft report, urged the welfare movement to ignore the proposals.

The organisations said the report recommended that services be further handed over to the private sector, yet the proposals would mean the state increased its control over the welfare system.

Government recognised the financial crisis facing welfare, but recommended its financial contribution be reduced and the burden shifted to the private sector — in which church, voluntary, business and private welfare groups were included.

Health Ministry officials were unavailable for comment yesterday, but Health Department director-general Dr Con Slabber said on Monday that a "task team" of department officials and welfare representatives met on December 17 to finalise the report, which would be sent to Health Minister Rina Venter later this month.

The final report, including the feedback from welfare groups, would either recommend new legislation or a policy change. The inquiry was commissioned by former Health Minister Willie van Niekerk.

The welfare organisations said yesterday the report had recycled proposals first raised in 1985 which were rejected outright by the welfare movement.

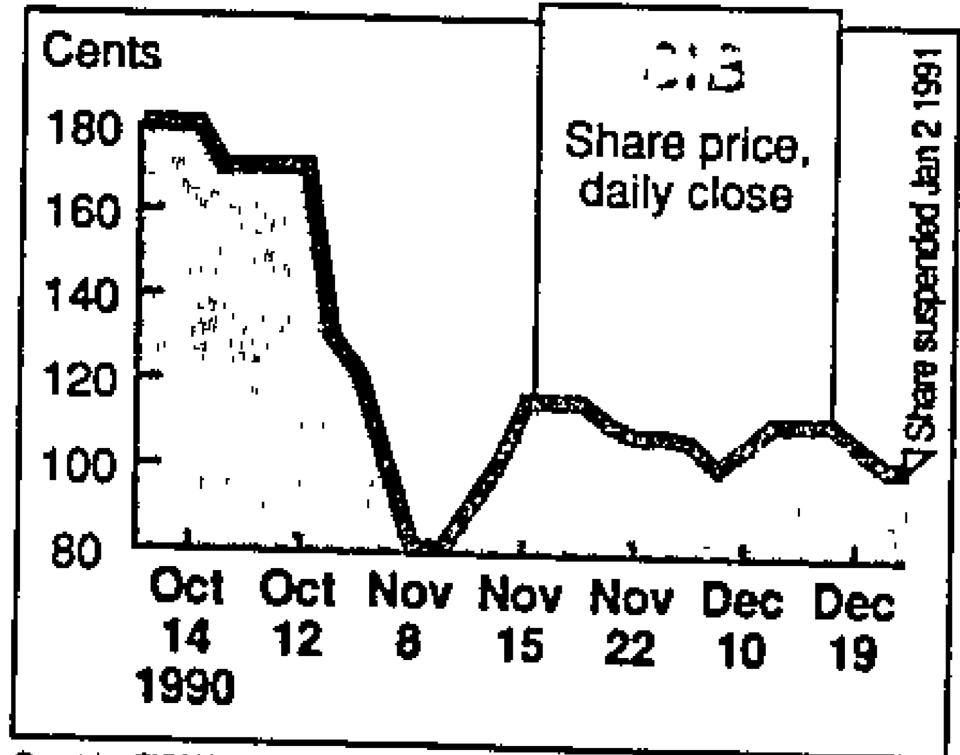
Leila Patel — a member of the Transvaal co-ordinating committee for the campaign against the welfare policy, made up of representatives from the Transvaal Society for Social Workers, Concerned Social Workers and the Association of Black Social Workers — said the welfare proposals were as "irrelevant" as they had been in 1985.

Whereas the 1985 report called for privatisation and the entrenchment of "racial differentiation", the new proposals reiterated the call for privatisation but included no overt commitment to non-racial welfare provision.

Patel said privatisation would reinforce inequality. Welfare clients were the most vulnerable and least powerful members of the community, and welfare was not a saleable commodity like health care.

The SA National Council for Child and Family Welfare and other social workers' groups complained the report was published only in Afrikaans, and said the three weeks given to consider the recommenda-

☐ To Page 2



Graphic: FIONA KRISCH Source: JSE

BIDay 3/1/90

Bad debts prompt CIBG suspension

ROBERT GENTLE

SHARES in Cape Investment Bank Group (CIBG), acquired last month by specialist merchant bank Prima Bank, were suspended from trade on the JSE yesterday.

The suspension, confirmed by the JSE listings department, was aimed at preventing speculation in CIBG shares after Prima's disclosure that CIBG was exposed to bad, possibly irrecoverable debts.

The disclosure, contained in a circular to Prima shareholders published today, coincided with sustained market talk that CIBG had been the victim of an R800m gilts position that went sour.

Prima MD Johan Bellingan declined to comment on the rumoured gilts loss, but acknowledged that CIBG's exposure in the capital markets had been "too high".

CIBG's auditors Deloitte Pim Goldby and Coopers Theron du Toit are conducting an investigation into the company's financial records in order to establish the tangible net asset value.

Bellingan said the preliminary investigation had shown that the net asset value — the key factor influencing CIBG's acquisition value — would not be able to be determined "in the short term".

He disclosed that the acquisition of the controlling interest in CIBG had been via the issue of preference shares to the controlling shareholders, which would be accompanied by an offer to minorities.

The bad debts arising from CIBG's lending book will be written off against these preference shares until the end of 1991.

Bellingan said Prima would not lose any money on the acquisition and CIBG would be absorbed into the stable only when all problems had been resolved.

Waiting for the word on big merger

58

GILLIAN HAYNE

A FINAL announcement on the negotiations between UBS, Sage Financial Services (SFS), Allied and Volkskas could be made next week although no official date has been given.

Allied Group MD Kevin de Villiers hinted that more information could be forthcoming early next week.

Share prices have failed to respond to the two recent cautionary announcements and dealers believe the warnings are "just another round in the seemingly endless negotiations" which could form SA's largest financial services group.

Analysts are also strongly divided on the likely outcome of the negotiations.

One leading banking analyst believes the four will amalgamate into one unit with each player stripped down to its primary business. "If they maintain their own identities, why merge?" he asked.

BDay 3/1/91.

Confusion

He attributed the delay in the announcement, which was expected in December, to the complexity of determining which route each of the players should take. For example, Allied could drop its fledgling cheque account business and Volkskas could concentrate solely on corporate business which contributed 25% of Volkskas Bank's business to end March 1990.

Company representatives had no official comment to make.

Other analysts argued the four would keep their own identities because of the difficulty in "mixing the different cultures and to avoid confusion among the very diverse client bases".

All analysts agreed that UBS CE Piet Badenhorst was the most likely candidate for the hot seat.

Although there are fears that the link could be more of a "swallowing-up" than a merger — UBS's market capitalisation is R1,93bn compared to Volkskas's R666m, Allied's R573m and SFS's R108m — many agree it would make sense to combine the four.

BoE fund cuts liquidity in shift to industrials

(58)

LIZ ROUSE

THE Board of Executors BoE Growth Fund reduced its liquidity to 19% at the end of the December quarter from 30% at the end of the September quarter.

The fund was launched in June last year.

Board of Executors senior GM John Winship said the fund's portfolio managers viewed the market weakness in October and November as a great opportunity, and reduced the liquidity substantially by increasing exposure to industrial shares.

Large investments were made in Anglo American Industrial Corporation, Anglovaal Industries, Barlows, Nampak, Sappi, Rembrandt, Safren and Sun International (Bophuthatswana). The entire holding in Samancor was sold, while exposure to Sasol was reduced significantly.

The fund's holdings in the top 10 are Anglo American, De Beers, Richemont, Rembrandt and Sappi. The trust holds no gold shares.

About 38% of the unit trust is invested in industrial shares while mining shares account for 21% of the portfolio. Additional exposure to equity is through Transnet Elfi Bull stock.

Winship said Elfi Bull stock was directly linked to the all share index, and exposure to the stock consequently gave exposure to the overall market. BoE Growth Fund purchased the stock when it stood an an effective discount of 10% to 13% against the all share index. Currently the discount is about 3%.

B/Day 3/1/91.

Convinced

Winship said some indicators suggested the market bottomed in October last year. Portfolio managers were, however, not totally convinced and expected further pull-backs over the next two to three months — mainly on the crisis in the Middle East.

It was apparent the cutoff date of January 15 for the withdrawal of the Iraqis from Kuwait would be crucial — not only for the oil market, but for commodities in general as well as international and local share market sentiment.

Prospects for the gold price and gold shares remained weak, although a technical rally might take place soon. An expected drop in the bank rate early in 1991 should have a strong supportive effect on the market, said Winship.

The fund achieved excellent results for the December quarter and experienced a net inflow of R3,5m, which increased the total market value to more than R14m.

The fund yielded a total return of 7,2% for the quarter which was significantly better than the 0,3% yielded by the all share index. Since its launch by the Board of Executors in June last year, the fund has yielded a total return of 3%. Over the same time, the all share index gave a negative return of 5%.

CIBG shares suspended on JSE

Cape Times 3/1/91

58

By ROBERT GENTLE

JOHANNESBURG. — Shares in Cape Investment Bank Group (CIBG), acquired last month by specialist merchant bank Prima Bank, were suspended from trade on the JSE yesterday.

The suspension, confirmed by the JSE's listings department, was aimed at preventing speculation in CIBG shares following the disclosure by Prima that CIBG was exposed to bad and possibly irrecoverable debts.

'Victim'

The disclosure, contained in a circular to Prima shareholders published today, coincided with sustained market talk that CIBG had been the victim of an R800m gilts position that went sour.

Prima MD Johan Bellingan declined to comment on the rumoured gilts loss, but acknowledged that CIBG's exposure in the capital markets had been "too high".

He said it was public knowledge that the company had lent money to a number of commercially unsound enterprises.

One of these was a Transvaal game farm now in liquidation. He declined to name the others.

CIBG's auditors Deloitte Pim Goldby and Coopers Theron du Toit were now conducting an investigation into the company's financial records in order to establish the tangible net asset value.

This would would not be able to be determined "in the short term" mainly as a result of CIBG's exposure on its lending book.

Bellingan disclosed that the acquisition of the controlling interest in CIBG had been via the issue of preference shares to the former controlling shareholders, which would be accompanied by an offer to minorities.

The bad debts arising from CIBG's lending book will be written off against these preference shares until the end of 1991.

Bellingam said that Prima Bank would not lose any money on the acquisition and emphasised that CIBG would only be absorbed into the Prima stable once all problems had been fully sorted out.

Bellingan added that Prima would be releasing its interim results shortly and said they would be "excellent".

BoE's Growth Fund favours industrials

By Jabulani Sikhakhane

The Board of Executors Growth Fund has posted a total yield of 7,2 percent for the December quarter, far outperforming the JSE all share index return of 0,3 percent.

The BOE Growth Fund, which was launched in June last year, had a net inflow of R3,5 million in the three months ending December, taking its total market value to R14 million.

BOE senior general manager, John Winship says the unit trust has lowered its liquidity levels from more than 30 percent at end September to just over 19 percent at the end of December.

About 38 percent of BOE Growth Fund's investments are in industrial shares, 21 percent in mining and additional exposure to equity is through Transnet Elfi Bull stock.

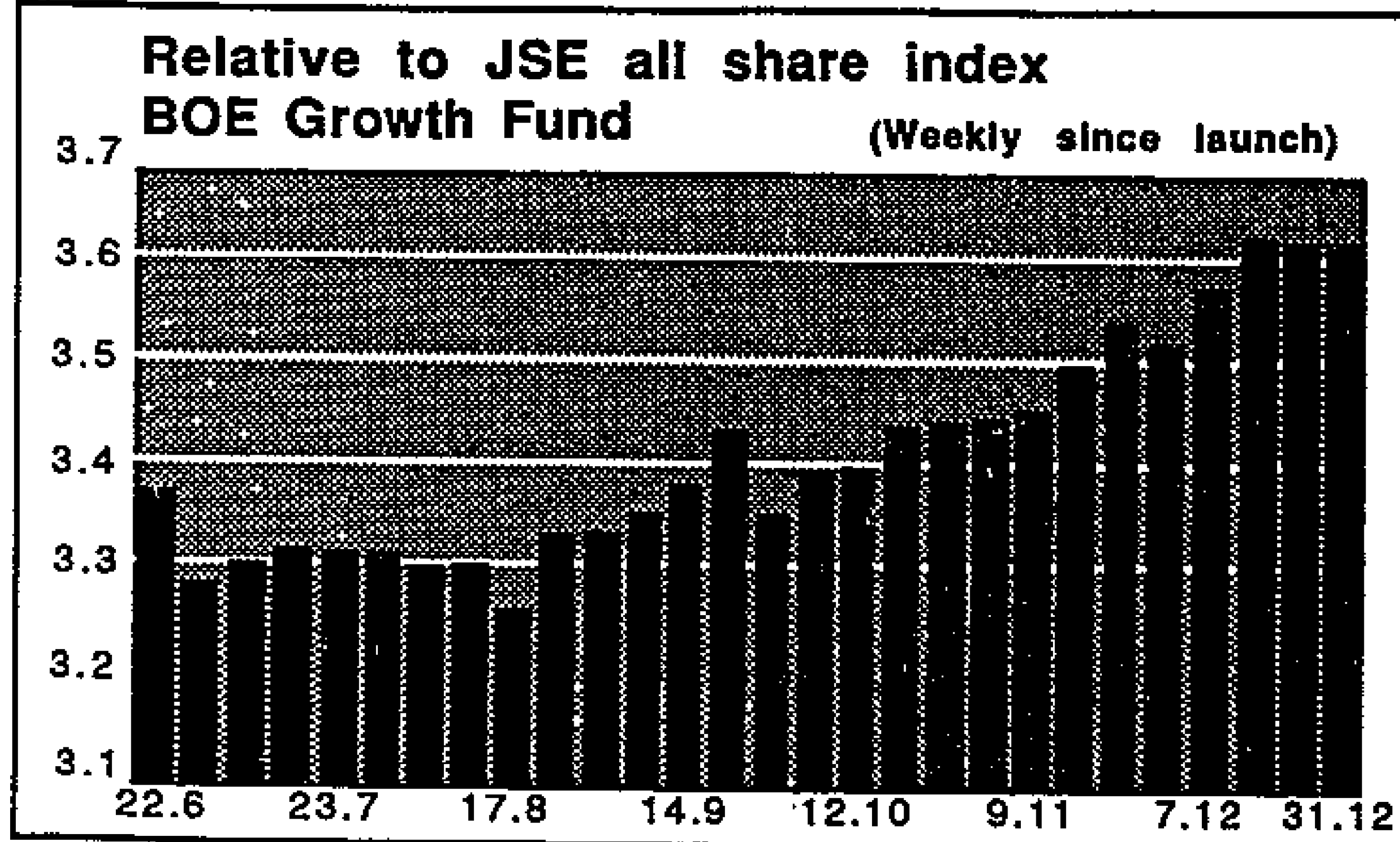
The unit trust does not hold gold shares. Its top five holdings are Anglos, De Beers, Richemont, Remgro and Sappi.

"We viewed the market weakness in October amd November as a great opportunity and reduced liquidity substantially by increasing our exposure to industrial shares. Large investments were made in Amic, AVI, Barlows, Nampak, Sappi, Remgro, Safren and Sunbop."

The entire holding in manganese group, Samancor was sold and exposure to Sasol reduced significantly.

Mr Winship says while some indicators suggest that the market bottomed in October, further pull-backs are expected over the next two to three months mainly on the back of the crisis in the Middle East.

"It is apparent that the cut-off date of January 15 for the withdrawal of the Iraqi's from Kuwait will be crucial, not only for the oil market, but for commodities in general as well as international and local share market sentiment."



Star 3/1/91.

FINANCE - GENERAL - 1991

FEBRUARY -

THE BANK MEGAMERGER (58) FM 1|2|91

WHOSE INTERESTS FIRST?

To the extent that it may make banking cheaper (and one can only hope that cost savings will be passed on to the consumer, in what will remain a highly competitive business), the planned merger of United, Volkskas and Allied (see *Leaders*) can only be welcomed. Less obviously beneficial is the way the deal is being pushed through.

There are two areas for concern, both related to possible prejudice to outside shareholders (to term them "minorities" is not justified, as the merger documents suggest they will hold about 70% of the equity of the enlarged group).

The first concerns the way in which the proposal has apparently been pushed through in haste so as to avoid coming under the beady eye of the new Securities Regulation Panel, whose powers started this month.

The second is that, at the time of going to press, outside (and it's worth repeating, majority) shareholders have been given no opportunity of assessing — let alone accepting — two prospective rival bids for Allied, from Southern Life and First National Bank. To give Allied shareholders, and Allied shareholders only, a cash alternative to an otherwise all-paper deal is little compensation.

If the deal is so patently the best available, it will surely stand on its own merits both in the marketplace and against closer regulatory scrutiny. It is difficult to avoid the conclusion that shareholders' interests have been subordinated to industrial logic and the arbitrary preferences (possibly even personal egos and ambitions) of incumbent managements — and not necessarily in that order.

Ignoring shareholder rights is a sport with a long tradition. The ever-increasing proportion of listed shares held by institutions, which are reluctant to adopt an adversarial attitude in the cosy club-like world of Big Business, has added to the complacency — all the more reason why any signs of dissent that do appear should not be stifled at birth.

Of course, a full-scale bid battle can't be ruled out just yet. If one should materialise, it is by no means clear that managements control enough shares to push through the present proposal. A battle would not only bring some much-needed excitement to our moribund stock market, it might also remind managements that shareholders do matter. ■

Dividends for four in the AVF fold

LIZ ROUSE (58)

THE four companies in the AVF Group have declared interim dividends and given notice of a change in their individual year-ends to June in order to match that of Anglovaal, of which they are to become subsidiaries.

AVF Group's interim dividend for the eight months ended December is 9,8c. B/Day 1/2/91

Anglovaal Insurance Holdings (Avins) has declared an interim of 5,5c for the 12 months to end-December. Its current financial period will cover 18 months to June.

AA Life Assurance Association (AA Life) has declared an interim dividend of 85c for the eight months to December.

Opportunity

Crusader Life Assurance Association (Crulife) has declared an interim of 17,25c for the 12 months to December. The next shareholders' report will cover 18 months to June.

Anglovaal is offering AVF Group shareholders registered on February 15 the opportunity to purchase from Anglovaal — on a pro rata basis to their existing shareholding and at a price of 225c a share — such AVF Group share entitlements as Anglovaal may have taken up in AVF's offer.

This follows the AVF Group's offer to acquire 35% of Board of Executor's (BoE) equity by way of five AVF Group shares for every BoE ordinary share or loan stock unit, combined with Anglovaal's provision of a cash alternative equivalent to 225c an AVF Group share to those shareholders wishing to renounce their AVF Group share entitlements.

New code could restrict Allied merger proposals

BIDay 1/2/91

GILLIAN HAYNE

THE Securities Regulation Code, which comes into effect today, could apply to the two merger proposals announced earlier in the week — the Amalgamated Banks of SA (Absa) proposal which would merge Allied, UBS, Volkskas and Sage Financial Services (SFS), and the counter-bid by First National Bank (FNB) for Allied.

Stockbrokers say close scrutiny of the proposed deals could restrict strategies to those which fall within the ambit of the code.

The objectives of the Securities Regulation Panel, which applies the code, include regulating takeovers and mergers of R5m and more and ensuring fair and equal treatment of all shareholders.

Subject

(58)

SRP executive director Doug Gair said it was not the function of the panel to judge the commercial advantages and disadvantages of such transactions. And he could not say yesterday whether the two Allied proposals would fall within the ambit of the new code. Nonetheless, he did say he had been examining documentation submitted by both parties.

This suggests that the competing bidders for Allied believe they are subject to the new laws even though the deals were initiated before February 1.

One stockbroker pointed out that the competing plans for Allied could produce some "interesting" results, if examined under the new rulings.

As the offers included a share swap it is clear that if share prices of either of the offerers are pushed up, it would make their offers more attractive. However, the code specifies that all parties to a bid must prevent a false market developing in any of the shares involved.

One analyst added that under Section C (2.9) of the code the directors must "act only in their capacity as directors and not have regard to their personal or family shareholdings or to their personal relationships with the companies".

Indications are that the Allied board backed the UBS proposals despite negative reaction from Allied executive management. As the Allied board has directors linked to Sage they are in a delicate situation in terms of the new code.

Conversely, critics have accused Allied MD Kevin de Villiers of being more "obsessed" with his own interests as an employee and shareholder of Allied, saying his open preference for an Allied/FNB alliance stems from greater career prospects for him within an FNB camp and greater short-term returns on his Allied shareholdings if Allied were to merge with FNB.

However, it is generally agreed that the Allied, UBS, Volkskas merger could create corporate compatibility problems.

Davis Borkum Hare was bidding 265c for Allied shares on the JSE yesterday through its nominee company Chalkton Nominees. Analysts speculate the purchases were made on behalf of UBS.

Another broker drew attention to Rule 5.2 of the code which states: "If, after the commencement of the offer period and before the offer closes for acceptance, an offerer or any person acting in concert with it purchases relevant securities in the offeree company at above the offer price (being the then current offer price), it shall increase its offer to not less than the highest price paid for the shares so acquired."

In this case, by way of example, if the Borkum purchases were for the UBS and the new code was in effect, the UBS would be obliged to raise its offer to Allied shareholders to 265c. This would severely challenge the prospects of the FNB offer.

From today, all purchases by Allied's competing bidders in the market have to be reported immediately to the SRP, the JSE and the public through a Press announcement.

Crime knocks SA Eagle's profits

B/Day 1/2/91.

LIZ ROUSE

GIANT short-term insurer SA Eagle Insurance experienced a R36,8m underwriting loss for the year to end-December compared with a profit of R20,6m in 1989.

The results highlight serious difficulties facing the short-term insurance market.

The company's underwriting losses were offset by a stable investment income of R52,4m (R52,5m).

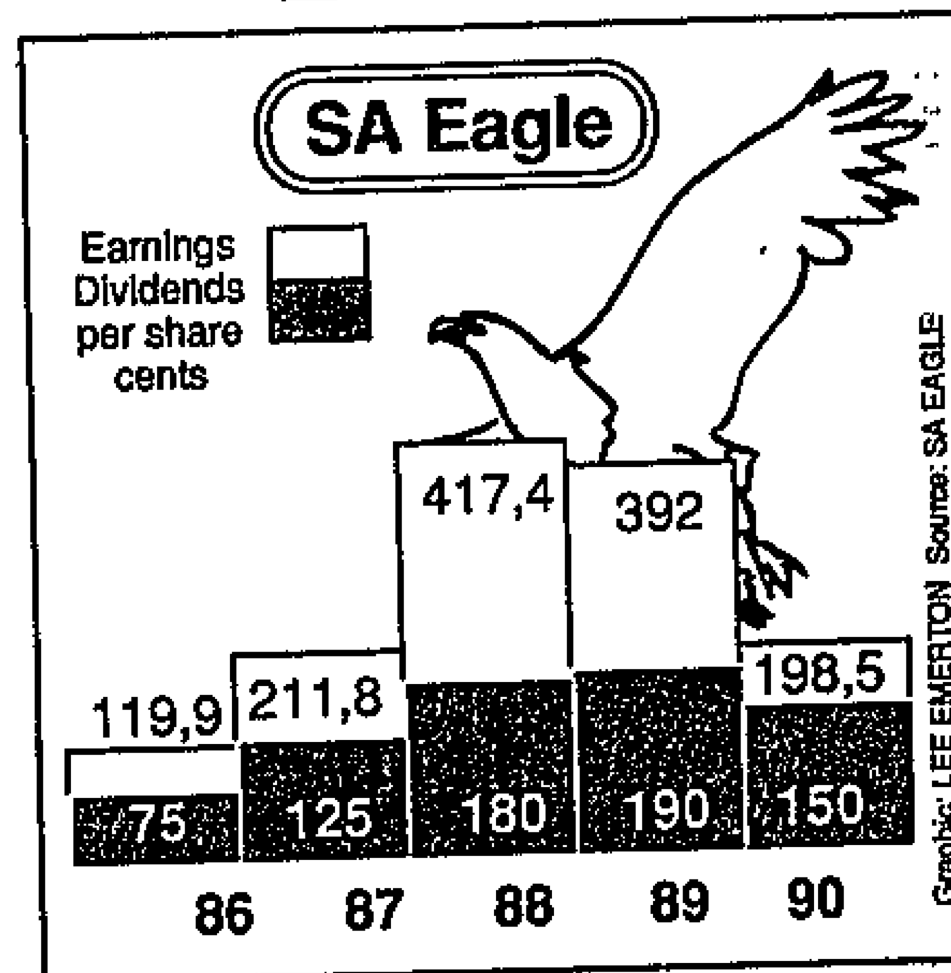
But there is speculation that some short-term insurers' underwriting losses are outstripping investment income.

SA Eagle MD Peter Martin blames the loss on escalating incidents of housebreaking, robbery, hijacking of vehicles, car theft, arson and fraud.

He says in today's preliminary report that the results testify to the "gangster nation" label which Law and Order Minister Adriaan Vlok referred to when releasing crime figures last week.

Inadequate premium rates, due to competition and the rapid rise in crime and costs of claims, caught the industry offside.

He warns that the scenario ahead is not comforting. Inflation and a continuing rise in crime will force further increases in premiums of between 15% and 25% during the next six months.



He assures shareholders the company is financially strong. The techincal reserves are adequate and the quality of the assets is good, with the result that the solvency

☐ To Page 2

SA Eagle

B/Day 1/2/91

☐ From Page 1

margin at 82% is in high territory.

The report shows gross premiums written higher at R728,5m (R652,5m) and net profit propped up at R23,97m (R42m), thanks to a R12,8m reversal of deferred tax no longer required.

Earnings a share fell sharply to 198,5c (392c) but SA Eagle's financial strength and its high solvency margin has allowed it to drop dividend cover to 1,3 times and declare a final dividend of 90c (130c) bringing total distribution to 150c (190c).

Increases in premium rates were made twice in the past year on the domestic account to counter the rising claims costs. On the commercial account rate increases have been sought but have often been restricted due to the competition and the threat of moving the account overseas.

The fire account also turned in a loss as premium rates have been inadequate to meet the claims and other related costs, including the major fire losses and the Welkom and Barberton storm claims.

Martin says the industry will have to move away from the very competitive rates it is offering and ensure that sound principles are applied.

He concludes that the industry cannot afford to see a company go into liquidation. "Rationalisation of the industry by mergers and takeovers, as is happening in the banking sector, may well be part of the answer to provide adequate insurance cover at affordable premiums."

Sege moves in to counter bid for Saambou

GRETA STEYN and SEAN VAN ZYL

IN AN effort to counter a hostile takeover bid for Saambou, personal financial services group Sege-Alliance has built up what it calls a "strategic stake" in the building society group. (58)

Sege has declined to divulge what percentage of Saambou's shares it holds, but the stake cannot be more than 10% — the level that requires Reserve Bank approval. The Bank said yesterday no applications had been received from anyone.

The announcement of Sege's strategic stake was timed to coincide with the closing date of Trafalgar Portfolio Managers' bid for 30% of the building society group.

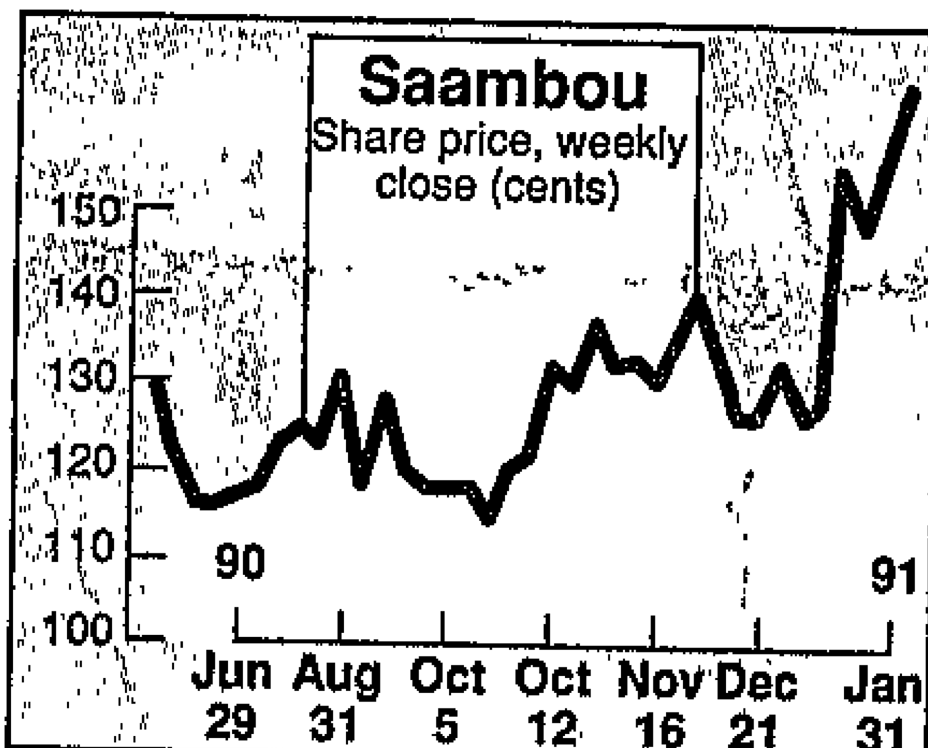
Subsequent to Trafalgar's offer at 140c, Saambou's share price has surged, reaching a new high of 165c yesterday.

Trafalgar MD Pieter Hougaard was confident of success yesterday, saying a final result would be known next week as many shareholders were responding by mail.

Speculation continues that Trafalgar is a front for a big player. B/Day 1/2/91

Informed sources said Sege's move was an attempt to counter the power Trafalgar could wield over the group. While the relationship between Sege and Saambou has been close for some time, Trafalgar and Saambou management have had no contact. Saambou MD Hendrik Sloet said yesterday Saambou management would "talk

□ To Page 2



Graphic: LEE EMERTON Source: JSE

Sege move B/Day 1/2/91

□ From Page 1

(58)

to whoever wants to talk to us".

In a Press release, Sege described its investment in Saambou as a strategy to make "long-term investments in independent companies".

MD Jan Erasmus, emphasising the need for independence, said financial services organisations should "resist more and more the temptation of oligopolistic and even cartel-type behaviour. There remains a niche for smaller, independent players."

Analysts interpreted this as a signal that Sege and Saambou would try to avert a hostile takeover.

Sege's stake in Saambou cannot be pinned down by scrutiny of the share register. Much is hidden behind nominee companies. The share register reveals, however, that the majority shareholding in Saambou has changed dramatically over recent months. The Nedcor group has purchased an 8,8% interest — but denies being behind the Trafalgar bid.

Nominee company Marled, owned by stockbroker Martin Irish, has an even more substantial 10%. Irish declined to comment on who the client was. Another nominee company, CC Exchange, has 4,1%. Stockbroking sources have indicated that CC Exchange's purchases of Saambou shares could be linked to Sege.

Another name being mentioned is that of businessman Mannie Simchowitz, who is said to be the capital behind Trafalgar. Hougaard declined to comment.

● Picture: Page 3

Item	Price
WASPOEIER (OMO)	2.61
WASPOEIER (BINGO)	2.92
CIGARETTES	
COURTLEIGH	1.50
COURTLEIGH SLIM	1.50
CRAVEN A	1.50
DUNHILL	1.50
PETER STUYVESANT	1.50
PETER STUYVESANT MILD	1.50
PAUL REVERE	1.50
JOHN PLAYER SPECIAL	1.50
ROTHMANS	1.50
ROTHMANS MILD	1.50
LEXINGTON	1.47
RANSOM	1.50
VOGUE	1.50
MATCHES	0.56

Big share fight

By JOSHUA RABOROKO

The First National Bank is optimistic that its strong 100 percent share offer of 250 cents to all Allied shareholders will be acceptable.

FNB is posting its offer to all Allied shareholders this week and an outcome is expected within three weeks, amid speculations that the United Building Society might come with an improved offer.

The announcement follows merger plans between UBS, Volkskas, Allied and Sage Financial Services to form the proposed Amalgamated Banks of SA (Absa).

Hopeful

At a press conference this week, the managing director of FNB, Mr Barry Swart, said the outcome of the fight to get control of the Allied Group would be decided by the small shareholders who will vote by proxies.

Already, it looks as though the FNB has a better chance of winning. It is likely to be supported by the Allied board because of the closer business cultural ties.

Swart said if all Allied shareholders accepted the offer, they would each achieve an increase of 34,4 percent.

At the same time, if a shareholder reinvested the cash from the sale of his shares, he would achieve an increase in income of 212,5 percent against UBS's 94,3 percent, Swart said.

Swart was hopeful that if the deal succeeded, the Allied staff would be absorbed into the FNB.

Who wins in the big bank merger?

WMail 1/2-7/2/91 (58)

The first big merger in a country with too many banks is on the point of being concluded. The R1,720-billion deal was inevitable, but to whose good? asks **REG RUMNEY**

THE wave of rationalisation in the banking industry will not necessarily prejudice the ordinary bank or building society customer.

That, at any rate, is the thinking of the Competition Board. It has not found it necessary to launch a formal investigation into the new mega-banking group which has grabbed headlines this week and which may presage other mergers in the sector.

Competition Board head Pierre Brooks points out matters have by no means been finalised. With a new bid for Allied by First National Bank, announced after the merger move, the ball is still up in the air.

The board obviously did not believe that the cutting down of the Big Nine to the Big Five banking groups would decrease competition among them, and in South Africa's heavily concentrated private sector often all the board can do with the powers at its disposal is try to ensure competition at least remains among the giant conglomerates.

A tie-up between Volkskas and the UBS was probably the least worrying for the board in view of already strong ties. Volkskas has 10 percent of UBS Holdings and 50 percent of United Bank. The UBS holds 30 percent of Volkskas.

What the board would also have looked at is the competitive situation in other countries. In Germany, for instance, only a few large banks dominate.

The announcement of a merger of the interests of UBS Holdings and Volkskas, and possibly the Allied Group, to form a mega-banking group worth R50-billion came as no surprise to the board or to the business world in general. The new group, to be called Amalgamated Banks of SA, will also acquire a 49 percent interest in Sage Insurance Holdings.

Then there were five ... the mega-bank announced this week could presage more mergers in the sector

South Africa, it has long been argued, is "overbanked" and deregulation and the promulgation of the Deposit Taking Institutions Act which, in the famous phrase, "levelled the playing fields" between banks and building societies made rationalisation inevitable.

Banks have suffered competitive pains. Bank margins are so fine and earnings so poor the banking sector on the JSE has lagged behind the industrial average.

Chasing a limited number of customers has meant money wasted in duplication of branch networks, computer systems and head office staff.

It's arguable that there has been over-investment in banking technology, particularly computerisation. South Africa, for instance, has more automatic teller machines than West Germany. The Reserve Bank is thought to frown on this as a squandering of foreign exchange. But while this has been bad for the country, it hasn't been bad for the banking customer.

A debatable boon was the easy credit of the mid-Eighties. Competition for market share after banking was deregulated meant banks lowered their risk rating procedures and granted money to too many people who were bad credit risks. The surge in credit which fuelled the credit boom in 1988 also spurred inflation. WMail 1/2-7/2/91.

Certainly, it was possible to shop around for a better interest rate on hire purchase and leasing transactions — not that too many consumers in South Africa are sophisticated enough to do so. Most hire purchase lending on car purchases, for instance, is arranged through motor dealers, at the higher end of interest rates permissible in terms of the Usury Act.

Less choice cannot be a desirable development for consumers, although the "brand names" of companies within the group, such as Volkskas, will be preserved for at least five years and there will be separate operating subsidiary boards.

Rand Merchant Bank economist Rudolf Gouws stresses the remaining players will compete as fiercely among themselves if not more so. Sanlam economist Johan Louw believes the consumer could end up paying less for certain services.

Stephen Gelb, of the Economic Trends Group, on the other hand, believes rationalisation may push up the cost of services to the consumer, but could be good from a macro-economic point of view. Evidence of instability in the banking system has emerged with the collapse of Alpha Bank and the difficulties other small banks have run into.

It remains to be seen whether the savings achieved are passed on to the customer.

But a sounder and less wasteful banking system must benefit the man in the street, Gouws believes. "A better use of resources is to the benefit of all in the long run." He reckons the man in the street is paying through higher inflation or through higher taxes for the bail-outs of banks that have failed.

Cost savings of the merger have been put at 11 percent, though Piet Badenhorts, chief executive of the Amalgamated Banks, has not detailed how this is to be done, though rationalisation of "support functions" is one area mentioned. Badenhorst has said it will take 12 to 24 months for benefits to flow through, and the biggest synergy will be in executive management. He believes there is not enough top management for four separate groups.

If the deal improves profits of the financial institutions involved, the shareholders of the enlarged group must benefit.

But there has been a suggestion that an attempt has been made to rush the deal through to avoid scrutiny by the new Securities Regulation Panel (SRP), whose brief starts today.

Badenhorst has publicly dismissed the idea, noting that negotiations first began 18 months ago for the Allied Group. Surely then he would be happy to see the details of the deal be scrutinised by the panel?

SRP executive director Doug Gair says it's hard to say whether the deal would fall foul of the regulations without seeing the paperwork.

Gair says: "If the agreement has no suspensive conditions it would not have to go to the panel but would be subject to scrutiny by the JSE." The panel would not be happy with an agreement done before February 1 that was not definite.

Politically, more concentration in an already overconcentrated private sector may not make the African National Congress happy, and developments in the banking sector are also notable for what they don't do.

What is missing is an institution which provides adequate finance for the many potential black customers who for one reason or another are still outside the banking system, a bank which might give emergent black businessmen easier access to capital. This might need the formation of a new sort of bank entirely, and give those in the ANC who desire intervention in the economy an opportunity to get involved without nationalisation.

FRENCH BANK FM 1/2/91

NEW LINK

Cape Investment Bank's (CIB's) corporate finance team is now part of an international network. It has tied up with French Bank of SA (FBSA), which is 55% owned by Paris-based international banking group, Banque Indosuez. The deal was completed on Sunday.

FBSA has invested R2,25m in FBSA Corporate Finance, giving it a 74,9% controlling shareholding. The 10-man corporate finance management team subscribed R750 000 and has 25,1%, capitalising the company at R3m.

This follows a management buy-out of CIB Corporate Finance early in January from Prima Bank, which took over CIB in December. FBSA Corporate Finance MD Inus Prinsloo won't disclose a price but says it "was a premium to net asset value."

Prima decided not to keep the division, as corporate finance doesn't fit into its niche strategy. Management of the division is believed to have thought of buying out last year as rumours surrounding CIB began to harm business activities.

The new company will continue its corporate, project finance and investment banking activities and use its international links to gain overseas business. It will use its parentage to benefit local deals which need foreign access. "We are the only corporate finance operation with international parentage,"

ECONOMY & FINANCE

says Prinsloo.

The operation will have the benefit of FBSA's client base as well as its R50m capital base. "We do some large deals and needed the backing of a major shareholder," Prinsloo says. He says FBSA was chosen because it doesn't have links with large SA institutions, other than Barlow's 30% stake in the bank and can, therefore, operate relatively independently when structuring deals.

FBSA corporate banking GM Eric Maurin says the bank expects strong synergies from its new subsidiary. FBSA is involved in trade finance, foreign exchange and commercial banking. "We will be able to offer clients a wider range of services." It will also gain access to FBSA Corporate Finance's own client base. ■

FM 1/2/91

PARLIAMENT

IN THE TIME WARP

THE THREE HOUSES ARE BECOMING INCREASINGLY LESS IMPORTANT

President F W de Klerk is likely to use this Friday's opening of parliament to usher in a new wave of reform but he will do so in a forum he has relegated to a sideshow in national politics. The very basis on which it is constituted is in question — to the extent that the tricameral House lacks the legitimacy to play any role other than a rubber stamp for technical measures needed to run the country and as the constitutional mechanism necessary to scrap the apartheid laws — including the constitution.

De Klerk conceded as much at last year's opening when he committed himself to a more just and democratic future. While parliament remains a useful forum for making important announcements, even that role may wane. As negotiations — meaning negotiations for a new constitution — develop, progress will increasingly depend on participants who want nothing to do with the tricameral system.

De Klerk's ability to maintain momentum could then be better served if future announcements are made in some forum acceptable to all — perhaps a multiparty conference. He could well involve parliament as little as possible in issues with direct bearing on the negotiations.

The white House will continue to function as a soapbox — particularly for Nat politicians to rail against opposition parties and to reassure white voters that they're not being sold down the river. It will also be required to sign the legislation that will enable reform in the next year. To assist NP MPs, De Klerk or his agents will brief them confidentially in caucus — and their contributions to parliamentary debate will be carefully planned not to upset government's extraparliamentary strategies. Inevitably, the focus of debate will be on sterile, interparty squabbling.

Even the legislative procedures are likely to be truncated: of the apartheid laws only two or three are likely to go this year — the Group Areas Act and the Land Acts. The Population Registration Act, the pillar of apartheid, may be dealt with in another way (*Current Affairs* January 25).

Racial measures in a number of laws — such as child adoption and access to State-controlled cultural institutions — will be scrapped. But these are measures that have either not been enforced for some time or are necessary to give legislative force to previous announcements.

F W de Klerk ... *main attraction*

There is no doubt they will be approved. P W Botha, perhaps unwittingly, ensured the NP's total domination of the system. This means that whatever De Klerk and other negotiators decide in forums outside parliament will pass as a matter of course. MPs will give legislative force to reform but have little say in changes.

This is not to suggest that parliament had real power before De Klerk's presidency. Under Botha the Cabinet and State Security Council made the important decisions and parliament — or more correctly the NP — gave them constitutional legitimacy.

What has changed is that instead of fine-tuning apartheid, as did P W, De Klerk is seeking ways to dismantle it. Barring an unlikely cataclysm -- such as a majority of Nat MPs defecting to the CP — the NP will continue to run the show.

DP leader Zach de Beer agrees that it's impossible to pretend the main political action is not outside parliament — and because of this the coming session will be shrouded in unreality. Nevertheless, he believes parliament remains an important forum for debate on certain issues. "Apart from rather trivial legislation necessary to run the country, our time will be taken up with testing one another on our attitudes to what is happening outside parliament."

He says many Nats seem to regard the ANC as an election foe instead of a potential ally in a broad-based centralist coalition that is probably essential if SA is to survive politically and prosper economically over the next few years. Parliament presents an opportunity to talk them out of that attitude.

It is also a forum for raising and debating issues of national crisis. High on the DP's agenda is the rapidly waning credibility of the SAP, particularly following the Neethling defamation judgment. And there is the multifaceted crisis in black townships.

De Beer says the economy needs intensive debate: "Everyone simply says it will come right once our politics come right. This is partly true, but for how long can we adopt this relaxed attitude while the average South African is being impoverished at a rate of 3,5% a year, given a 2,5% population growth rate and a minus 1% economic growth rate?"

The DP will also use the session to urge De Klerk forward, particularly towards a multiparty conference which all but extremists now accept as the next step forward.

Robert Schrire, director of the Institute for Policy Studies at Cape Town University, says De Klerk's effective acknowledgement that parliament lacks legitimacy means it can't fill its traditional role of legitimising actions of the Executive. This function is now taking place outside parliament in the negotiating process and through the informal relationship that has developed between government and the ANC.

Schrire adds that, because parliament lacks legitimacy, it is also no longer an appropriate forum for important announcements. He also believes government may decide to bypass it in future to avoid jeopardising progress in negotiations.

Many parliamentary debates will be almost ignored by the media and opposition MPs will become increasingly frustrated. In a public sense they will be largely irrelevant. But activity on the periphery of parliament — lobbying, briefings and the release of information by bureaucrats and ministers — will be the best barometer of reform.

Parliament is caught in a time warp between the apartheid system that spawned it and the transition to democracy. Until that transition is complete it will remain a monument to 40 years of Nat blunder, and a costly one, paid for by the taxpayers it no longer exactly represents. ■

OILING THE WHEELS

According to parliament's provisional programme, the Budget will be presented by Finance Minister Barend du Plessis on March 20. The Joint Committee on Finance will sit to consider the Budget from March 21-28 and on April 8; and it will be debated in parliament from April 9-12 and on April 15, 16 and 18. The debates on the Budget votes of individual State departments will begin on April 18 and probably last until early June.

The additional appropriation will be on February 18 and the part appropriation (mini-Budget) on February 19. The Post Office additional appropriation will be on February 14 and the Post Office main budget on February 25. The three "own affairs" budgets will be on March 22.

tigate rationalisation of their insurance interests in due course. That would probably be the time to bring into the picture Momentum, and may presage broader rationalisation for Sage. Notably, the dominant shareholders in Absa are Rembrandt and Mine Pension Funds, which are also major shareholders in Sage.

Swart

Badenhorst

Sage, in particular, appears to be doing well out of the arrangement. Absa acquires the 49% of Sage Insurance by issuing to SFS just over 20m shares at 770c each, worth R154,2m, the transaction taking effect from January 1 1991. Financial effects are that SFS's EPS would rise by 24,2%, its dividend by 5,6% and net worth by 25% — so Sage Holdings' balance sheet should be bolstered, though the cash flow benefit would be less.

Terms for Volkskas and Allied shareholders seem reasonable, particularly if compared with share prices ruling when the talks were announced in September. Allied shareholders are offered 100 Absa for every 320 shares held, based on an Absa price of 770c and an Allied price of 240c (about 6,6% above Allied's pre-suspension price of 225c, though at United's current 780c all these paper offers are worth marginally more than the official figures). This involves issuing 92,4m Absa shares worth R771,8m. Allied shareholders are offered a cash alternative for half their shares.

Volkskas shareholders are offered 240 Absa, at an Absa price of 770c and a Volkskas price of 1 848c, a premium of about 8,7% to Friday's 1 700c. This entails issuing 103,2m Absa shares, worth R794,6m.

Initial effects are least favourable for Volkskas, where EPS would drop by 20,9%, the dividend by 9,3% and net worth by 20%. Against that, the share price has already gained 298c from its September 26 level of 1 550c, and shareholders may be getting a stake in a better performer.

For Allied there would be a 19% earnings improvement with a 7,7% dividend fall, but the 240c price is 29% higher than September's 186c. Among those who should be pleased with the capital appreciation is MD Kevin de Villiers, who by his own admission owns just over 2,5m shares, now worth R6m.

Whether De Villiers will stay on as MD under a UBS-led board is an open question; he has patently put a lot of noses out of joint in that camp. Asked how he will respond to the Absa deal, De Villiers says he will not "act precipitously." De Villiers adds that benefits may emerge from the merger but feels Allied's culture would fit more comfortably with FNB. He evidently continues to hope for a successful bid from FNB.

FNB Senior GM Vivian Bartlett tells the *FM* that a decision on a new bid would probably be made by Wednesday. Should a materially better offer be made, the Allied board would have a duty to consider it.

Shareholders of the groups involved will be asked to approve the deal by simple majority vote at a general meeting — a route which will make things more difficult for a competitive bidder. Bartlett, who contends it is "iniquitous" that a deal this size should be approved under Section 228 of the Companies Act, says shareholders should be asked to vote individually.

In any event, there seems no point in Allied shareholders rushing to support any offer until it is clear whether there will be another bid. If the Absa plan goes through, shareholders probably will not see fireworks soon — with competitors doubtless hoping to take advantage of any teething problems — but in the long run there may be real benefits, in view of UBS's track record.

Andrew McNulty

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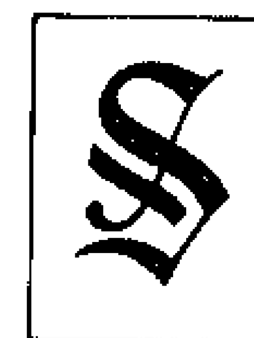

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Marshall Aid-type plan for the regeneration of southern Africa — and lately to this scheme he has added a centralised airways system which would link SA and its neighbouring countries. At the end of this road would lie a united southern African region with enormous potential for wealth-creation, a model for Africa as a whole.

Botha is not too blithe about the prospect. He cautions against the kind of over-optimism, virtual euphoria, which gripped the nation after February 2 1990: "I believe we must now cultivate and tend to the lands already ploughed — and not try to plough the whole world overnight. I think we must consolidate . . . open the seven or eight new missions and get them started."

The next, vital step is in a sense out of Foreign Affairs' hands — the need to achieve successful negotiations on a constitutional framework for SA. "We honestly feel we have crossed the threshold of isolation," he says. "Now things must happen here."

So what is holding things up? Botha is careful not to blame the ANC: "I do not think (they do it) intentionally. It is a party that must adjust itself, it must get its structures into place — and I believe we ought to understand that and show understanding for that dilemma."

Meanwhile, the re-orientation of Foreign Affairs gains pace by the day. The new diplomacy needs new perspectives — and the department has enlisted various outside consultants to instruct officials on the theme of "management under conditions of change," as Van Heerden puts it. "We devote a lot of attention to the psychology of this transition," he adds.

Van Heerden has a young team in comparison with career diplomats from countries such as the United Kingdom and France. There is Botha's personal spokesman, Pieter Swanepoel (41), who is taking up the ambassadorial post in Portugal. Van Heerden's own public affairs official, Alayne Reesberg (33), who became a familiar face on US TV in the late Eighties, fending off difficult questions, is to go to London.

There is no lack of talent: "All our posts are filled at the moment," Van Heerden says. "We also have more English-speaking officials than any other government department."

Van Heerden and the minister are keen to appoint blacks to the diplomatic corps — but recruitment has been slow. Botha recalls that he obtained Cabinet permission 11 years ago to appoint blacks, but at that time they wouldn't serve. While some at least are now "prepared to do so," one offered ambassadorship to a black was declined. (The *FM* thinks it was Oscar Dhlomo.)

The department also has a dilemma. As Van Heerden puts it: "We have a double-edged problem. On the one hand, the polarisation of our community has resulted in a reluctance among blacks to join the department . . . On the other, we have the interesting situation that the upwardly mobile black candidate is a prime target for the private sector — and we simply cannot compete with them. Our starting annual salary of R18 700 gets laughed at."

However, Van Heerden has hopes that future differentiation in the civil service could improve matters. He has appointed a task group which has been investigating the financial position of Foreign Affairs' officials in relation to other government departments. He is also convinced that a career in diplomacy will ultimately be attractive to blacks: "It is intellectually stimulating, and most South Africans have an inborn yearning to travel. In all modesty I think that Foreign Affairs has a good image."

The department, once beleaguered by the international community, quite suddenly has a new product to offer and market — to blacks. Botha adds: "We are now in line, I believe, with all the basic fundamental values and principles applicable in all civilised countries. And because we are in step we can appeal to them, not only to accept the irreversibility of the process of change — the dismantling and complete withdrawal of apartheid — but we can appeal to them for help if and when proposals are made at the negotiations which deviate from principles the West adheres to."

Will the new diplomat necessarily have a different style to his predecessors? "No," suggests Botha. "Exactly the same personality. It requires judgment — a calm, inoffensive style — but the man must know when to be fair. However, a person with a greater capability to sell will now do better than the quiet one."

The appointments of the Democratic Party's Harry Schwarz to Washington and Trade & Industry Minister Kent Durr to London seem to indicate that Botha has opted for politicians rather than the career diplomats waiting in the east wing of the Union Buildings. He modifies this: "We already have that core of career diplomats serving overseas. They have held office under the most trying circumstances, stood alone, had to bear the brunt of the fire . . ."

So there is no trend to appointing "outsiders." Botha says: "We have always done that. Washington often had an outsider, London virtually always. But we must retain a balance too — young men join this department to become ambassadors."

Still, Durr's appointment did come as a surprise. There had long been rumours of a rift between Botha and Durr relating to Trade & Industry's often innovative forays into foreign markets — trade preceding the flag, as it were. Botha does admit that "you must always expect a little bit of rivalry between departments. I think it is healthy if it is only competition — but it must never get out of hand and to the point where it harms the interest of the country as a whole."

Durr's appointment, which the *FM* understands to have been at his own request, fuelled speculation that it was an early move to subsume Trade & Industry under Foreign Affairs. Van Heerden comments: "In many countries, for example Canada, Germany and Australia, in all export-driven countries, trade & industry has been integrated with foreign affairs. One can look at that model — but I do not want to create the impression that we want to swallow other departments."

Van Heerden . . . *interesting signals from Africa*

Botha leaves no doubt as to who is in charge abroad: "Our task is to handle all relations with governments. That is the foreign affairs function of everyone — the US State department, the foreign office in Britain — everywhere. You cannot have three departments dealing with governments.

"In our isolation days it was often difficult because we had no contact with governments. Now we have in my opinion normal relations with all the central and eastern European states. However, if on occasion it is necessary for a man from Trade & Industry to go into a country, I'll support it."

But if Foreign Affairs is being a little assertive over its turf vis-à-vis Trade & Industry, this is nothing compared to its feelings about the various cloak-and-dagger operations of the past conducted by securocrats abroad under the cover of the department. The attempted sale of missiles in Paris — which led to the expulsion of a so-called diplomat — was one recent example. "We have learnt valuable lessons from these incidents," asserts Van Heerden. "We have now laid down rules to people who are attached to our missions under the roof of Foreign Affairs. These rules are nothing more or less than the normal diplomatic practices."

But these shadows from the past have the effect of compromising Foreign Affairs' legitimate — and proud — activities in the era of reform. Botha and Van Heerden in time will overcome the problem. Botha, certainly, has been around so long that such unexpected obstacles cannot withstand his long-term professionalism — and he is at last secure in agreeing with overall policy at home. He is finally a salesman with something to sell. ■

UBS/VOLKSKAS/ALLIED/SFS

NO FAIT ACCOMPLI

NOW WAIT FOR THE OTHER SHOE — A NEW FNB BID — TO DROP

Even assuming that the proposed merger of UBS/Volkskas/Allied operations goes through as planned — and that is no certainty — it will be only the first step in a rationalisation process that will take years to unfold. Talks were initiated more than 18 months ago. They have been protracted, difficult and complex — and the result is obviously a compromise reached between shrewd and prickly negotiators.

Agreement was announced on Monday, after days of boardroom drama, especially at Allied. On Friday, First National Bank (FNB), which had long expressed an interest in Allied group, but strangely did nothing overt about it, submitted an 11th-hour bid to the Allied board to acquire the group.

The board chose to support the UBS proposition — and to add Allied's weight to the creation of a powerful financial services entity that should resolve some problem areas for major shareholders and create large challenges for the executives involved.

FNB MD Barry Swart said after the announcement: "Obviously we are reconsidering our options. But people would be wrong to see this as a *fait accompli*." He has a point: shareholder approval has yet to be attained.

Meanwhile the market has been confronted with a R1,72bn deal that would create a financial services group with total assets of more than R50bn. That would, for example, be two-thirds larger than FNB's total assets of R30,3bn at September 30. Provided investors accept that profitability will reach targeted levels, the share could become a favoured institutional stock. Market capitalisation would be about R3,5bn, well above SBIC's R2,9bn, and tradeability will not be a problem.

It would have a strong capital base, allowing the operating companies to comfortably meet the capital requirements of the new Deposit-taking Institutions Act. There is bound to be an overhang of the new shares in the market but a rights issue should not be needed for some time.

The intention is for UBS Holdings to become a new holding company, Amalgamated Banks of SA (Absa), owning 100% of the UBS's operating companies, 100% of Allied and 100% of Volkskas. From Sage Financial Services (SFS) it acquires 49% of Sage Insurance Holdings. Just over 30% of Absa's issued shares are placed in a pool, to be held 39,4% each by Rembrandt and the Mine Pension Funds and 21,2% by SFS.

Prime players in the negotiations were UBS CE Piet Badenhorst, Volkskas CE Danie Cronje, Sage chairman Louis Shill and Allied chairman Norman Alborough. One of the more interesting aspects of this deal is the role of these and other key executives, representing major shareholders.

Absa's chairman will be Herc Hefer, who is now chairman of UBS Holdings, Mines Pension Funds and Momentum, the Rembrandt-controlled insurer. Joe Stegmann, now chairman of Volkskas (of which Rembrandt holds 30%) and a former Rembrandt director, will be deputy chairman.

There will be three vice-chairmen of Absa: Shill, Alborough and Anglo American deputy chairman Graham Boustred, a UBS director. Boustred has long had links with UBS — his father, William Boustred, was chairman from 1955 to 1969. Given Anglo's interests in FNB, he would presumably recuse himself from discussions if FNB makes a new offer.

Direct shareholdings aside, the presence of some of these personalities will help entrench the control structure. Rembrandt will likely be pleased, as the deal brings together most of its financial interests — but Badenhorst is emphatic that the plan was initiated in the UBS and Volkskas boardrooms. Of these, UBS sounds the more likely point of origin.

Badenhorst, who did much to shake up UBS during his 30-year career there, will have the job of making Absa work at operational level — which is where the real test lies. For Badenhorst, bringing this deal to fruition will be a personal triumph. In the past, he moved UBS closer towards both Barclays (now FNB) and SBIC, but withdrew when it seemed a partnership would not develop as hoped. Now UBS emerges effectively at the top of a far larger grouping.

Both Volkskas (with 0,73%) and Allied (0,75%) have significantly poorer returns on assets (ROA) than UBS, whose 1,36% at March 31 last was the industry's best. Badenhorst reckons Absa will generate ROA of at least 1% in two years. A hard-nosed attitude will be needed if UBS shareholders are to benefit — a process complicated by what looks a compromise structure.

A full merger of operating companies is not planned now. Individual corporate identities and the respective brand names of the operating subsidiaries will be preserved for at least five years, and three separate operating boards will represent the interests of Allied, UBS and Volkskas. Rather pointedly, Badenhorst omitted to name the intended CEs of the operating companies.

Understandably, he declines to offer details of how rationalisation will be achieved, except to forecast — conservatively, he believes — that costs will be cut by 11% across the board in the first year. Officially, it's stated that savings are expected through the "grouping of various support areas."

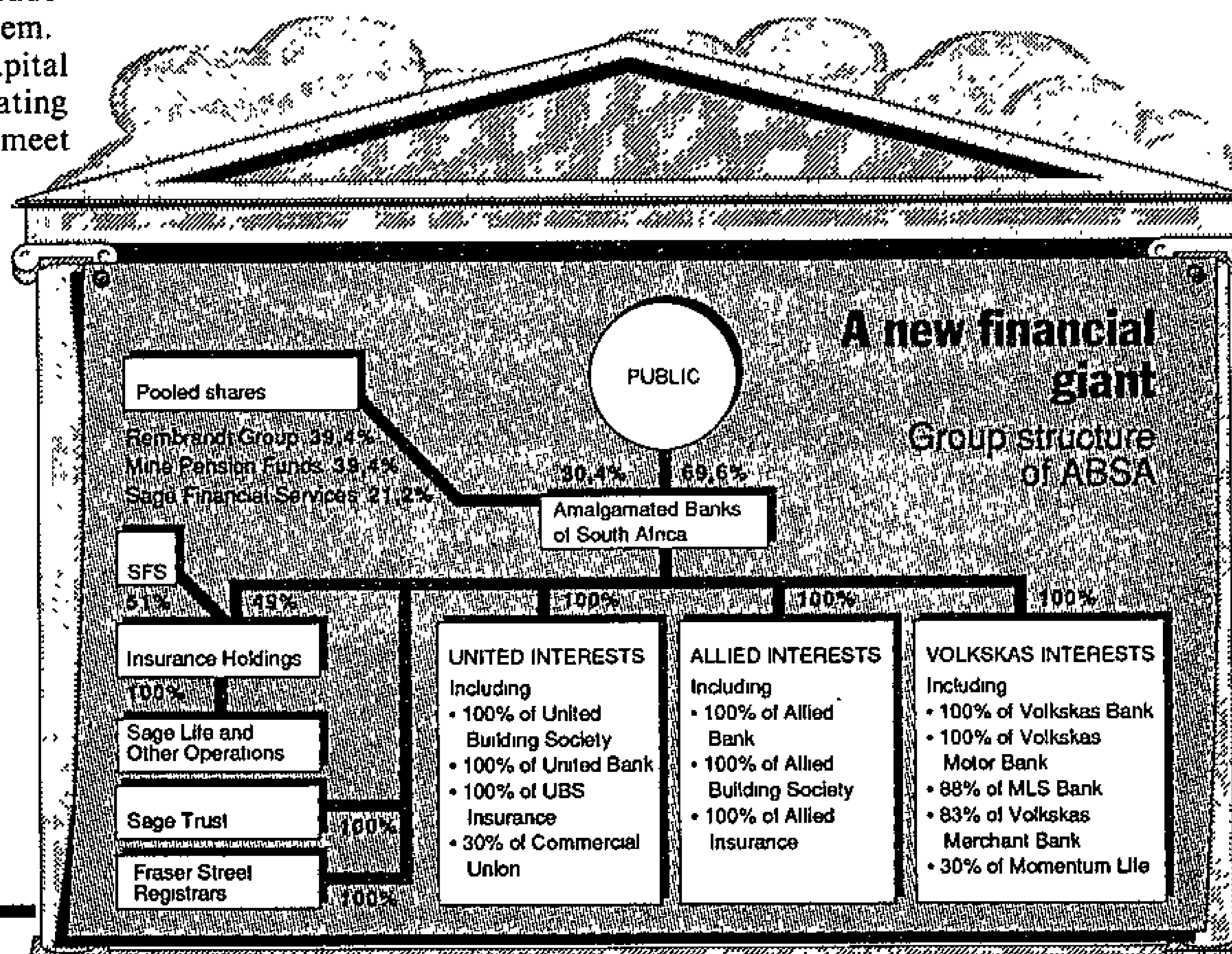
Even though corporate identities and marketing functions are to remain intact, it's apparent that much could be done with common cost areas. For example, each group has two computer centres; each has head office functions such as personnel; and there are properties which may not be producing adequate returns. Further ahead, the three large branch networks — the biggest single cost centres — would have to be given the same attention. That would take longer.

Cost controls are one side of the profitability equation. It is also hoped that volumes would benefit from the merger of banking, home loans and insurance activities.

This is seen as one reason why Absa will hold 49% of Sage Insurance Holdings. Another factor was that Sage holds a substantial block of Allied shares and has a co-operation agreement with Allied.

Also, it is intended that Absa and SFS will inves-

Continued on page 27



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Battle for Saambou remains unresolved

STAR 1/2/96 (58)

Diagonal Street

ANN CROTTY

At the close of business yesterday the control position at Saambou remained unresolved.

The heavy trading that has been a feature since Trafalgar stirred up the situation on January 17 was again evident, with 1,1 million shares changing hands — many of them at 165c.

There was unconfirmed speculation that an offer by Fedsure had been rejected by the Saambou board.

The offer by Trafalgar (for 30 percent of Saambou at 140c a share) closed at 4:30 pm yesterday.

Peter Hougaard of Trafalgar said after the close of trade yesterday that he was happy with the response he had been getting and with the number of shares he held.

Mr Hougaard would not say whether this holding was in the region of three percent or 30 percent.

He said that because he had allowed a period for receipt of postal acceptances he would not know the full picture until late next week when he would make an announcement.

Whatever happens from here on, it seems unlikely that life at Saambou will revert back to the quiet times enjoyed ahead of the Trafalgar bid.

This means that unless a deal is struck between the Saambou board and a friendly acquirer, the shareholders of Saambou could enjoy the benefits of a battle for control.

It will be some time before investors are able to establish the indentity of the significant shareholders and the size of the shareholdings.

But at this stage the major players appear to be Prestasi through associate NSA Investments, Investec, Sanlam, Trafalgar and Fedsure. (The Registrar of Financial Institutions should also be included).

It is likely that one of these parties was behind the recent weeks' massive trading in Saambou shares, although much of the trading could also have been jobbing activity ahead of an expected battle.

Including Investec in the list might be double counting as it is unclear whether the Investec-associated nominee company that holds around 10 percent of Saambou is acting for itself or (more likely) is holding the shares for NSA.

NSA is believed to have built up a stake last year in an attempt to exert some influence on management.

In total, NSA is understood to have access to about 16 percent of the shares.

Sanlam holds around nine percent and so will have a critical role in determining how events unfold.

A compromise could be reached by the players — if Trafalgar did not want to stay on board it could sell its stake at a profit and allow Prestasi, Fedsure and Sanlam to take effective control.

Bottom line is that Saambou is currently an undervalued, undermanaged asset and that any change in control should see an improvement in earnings performance.

The net asset value is around 260c a share, compared with an early January market price of 100c.

The market price reflects the group's weak earnings track record. If this got a boost from new management, the share price and shareholders will benefit.

SA Eagle earnings slashed

By Ann Crotty

58

The escalation of crime around the country has resulted in SA Eagle reporting an underwriting loss of R36,8 million in the 12 months to end-December.

This accounted for the almost halving of earnings — to 198,5c (392c) a share.

Star 1/2/91

A final dividend of 90c (130c) a share has been declared making a total of 150c (190c).

This relatively generous dividend payment (reflecting the group's financial strength) has resulted in a drop in dividend cover to 1,3 times from 2,1.

According to the directors, the excessive increase in repair costs and thefts of motor vehicles had the greatest impact on the results. Large fires and storm related claims further aggravated the position.

SANTAM FM 1/2/91 (58)

NOT SO RISKY

Activities: *Short-term insurance.*
Control: *Sanlam and associates.*
Chairman: *C H J van Aswegen; MD: C J Oosthuizen.*
Capital structure: *71,1m ords. Market capitalisation: R153m.*
Share market: *Price: 215c. Yields: 12,6% on dividend; 27,9% on earnings; p:e ratio, 3,6; cover, 2,2. 12-month high, 305c; low, 200c. Trading volume last quarter, 343 000 shares.*

Year to Sept	'87	'88	'89	'90
Total assets (Rm)	416	515	667	709
Solvency margin (%) .	23,9	25,8	33,3	34,9
Net prem inc (Rm) ..	577	600	657	771
Underwriting profit (Rm)	20,3	23,3	26,1	2,1
Investment inc (Rm)	26,9	38,1	60,5	67,3
Taxed profit (Rm)	29,1	38,8	51,3	42,7
Earnings (c)	41,5	55,4	73,3	60,0
Dividends (c)	15	18	23	27
Net worth (c)	197	221	312	379

The company had a 92% reduction in underwriting profit last year so it is hardly suprising that comment in Santam's annual report is dominated by the risks inherent in the short-term insurance industry.

As the *FM* has pointed out before, true risk — taking a long-term view — is indicated more accurately in the massive fortunes these companies have been able to accumulate. In Santam's case this is reflected in a total asset base of R709m at the end of the 1990 financial year, plus the fact that assets have been growing at an average annual compound rate of 23% over the past four years.

While last year's asset growth was little more than a quarter of this average — attributable to the underwriting results and a tricky investment climate — this in itself is no reason to assume that growth will not remain comfortably ahead of the inflation rate.

From an investment viewpoint risk assessment as such has little to do with year-to-year changes in underwriting experience. Put simply, if a bit bluntly, for the shareholders the insurance business is little more than a means of producing cash to be added to the investment portfolio. It is the income from this portfolio that produces the dividends paid to reward shareholders.

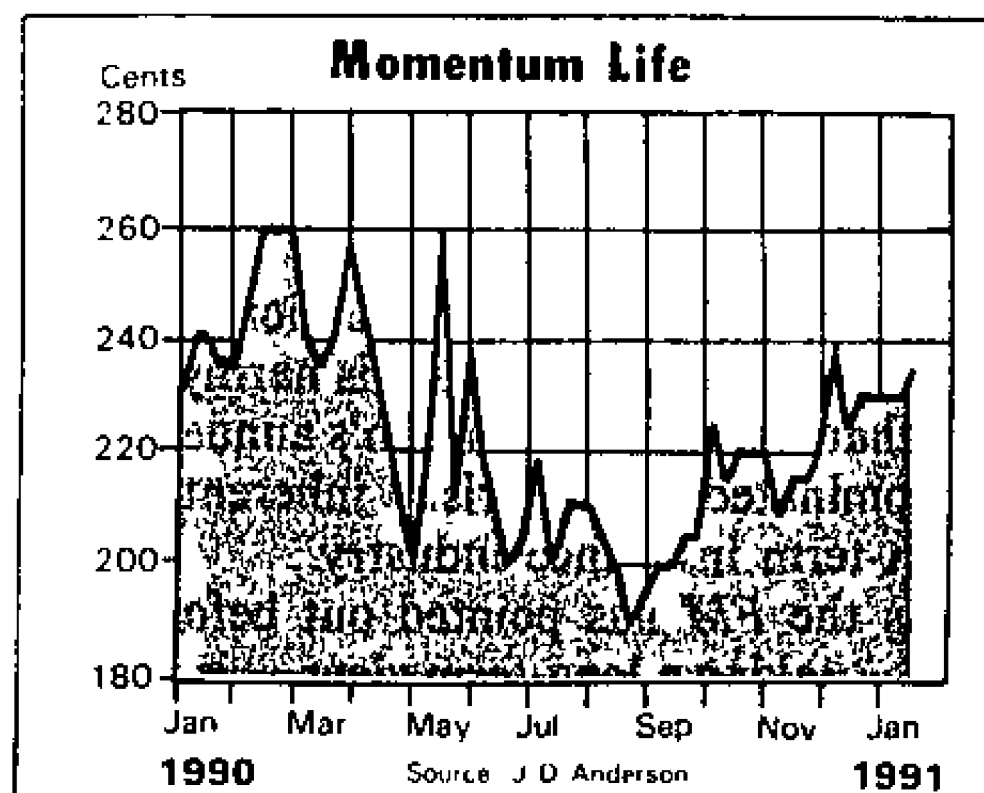
This is why Santam was able last year to increase its distribution by more than 17%, with complete safety, despite the reduction in underwriting profit and, ultimately, earnings. Investment income (before tax) rose from R60,5m to R67,3m, covering the increased cost of the pay-out 3,5 times (1989: 3,7), which means there was still a substantial ploughback of investment income to produce a future growth in income from this source.

That is the good news. The bad news is that in terms of maximising shareholder wealth, one is confronted throughout the industry with the obstacle of inappropriate accounting policies which do not allow proper assessment of the returns that shareholders can reasonably expect.

Income statements would be much easier to comprehend if there was a clear split between the after-tax contributions to net income of underwriting profit and investment income. Since investment income is such a major factor in determining dividends, the source of this income — in other words, the investment portfolio — needs to be ... as ... the ...

If this were done, one could probably expect to see short-term insurers rerated on much the same basis as investment trusts. If that happened, aggregate share prices of the seven listed companies would double, reducing the current average dividend yield of 7,5% to about 3,7% (against the 3,5% average of the investment trust sector.)

However, even within the sector, rated as it is, Santam is way out of line on a 12,6% historical yield — three percentage points more than SA Eagle, the next highest. The reason is obscure, as the company's solvency



as much as anything else that allows companies like Liberty to go on declaring annual profit increases of around 20% almost regardless of what's happening in the economy.

Long-term, it is unlikely that Momentum will deviate much from the growth pattern established by its competitors. But on a one-to-two-year view it could outperform the industry as the full benefits of integrating Lifegro take effect.

Something else that needs to be taken into account is that Momentum is controlled by Rembrandt and Volkskas, both heavily involved in the banking behemoth being created out of UBS, Volkskas, Allied and SFS. Don't forget, either, that the original plans for restructuring Lifegro and Momentum included the insurance interests of UBS. This was dropped, probably due to the complexity of putting the ailing Lifegro together with Momentum, but is unlikely to have been altogether discarded.

What this brew will ultimately produce is unpredictable. Whatever has happened up to now is unlikely to be the end of the story — again making it difficult to make any firm assumptions about future earnings.

Even with these uncertainties, it is nevertheless interesting to track some of the changes over the past year.

Probably the most important is that rationalisation chopped normal management expenses in relation to premium income from a high 10,6% in 1989 to 8,7%. Note also that the 1989 comparative excludes a further 2,6% attributed to rationalisation costs, which are not separately disclosed this time. So there is no question that progress is being made on this front.

Something else that materially benefited the life fund surplus was that claims in relation to premium income fell from 84,6% to 73,3%. These two factors — management expenses and claims — were dominant in the decline in total outgoings (which includes, in addition, commissions and taxes) to 93,4% (1989: 113,1%), which in turn means that the net addition to the life fund last year exceeded investment income whereas in 1989 it amounted to only 73,2%.

Following from that, management obviously had greater flexibility in determining the transfer to the equity income statement which, in the event, moved up to 3,2% of the total surplus from 2,9% previously. The difference may not sound material but it added 2c to equity earnings and contributed to strengthening the capital base. At the same time, it should be noted that the transfer of income to equity is still disproportionately high in relation to equity funding — equity

FM 1/2/91 (58)

in relation to the total life fund is still only 1,8%, up from 1,4% previously.

The capital position was further strengthened by the transfer of R20m from what the company calls "a contingency reserve created in prior years out of distributable profits for the benefit of shareholders." This covered almost half a R41,7m goodwill write-off. After retained earnings of R6,9m and R5,4m raised through the issue of shares, total shareholders' funds declined only from R111,6m to R102,2m despite the write-off.

It is unlikely that Momentum will raise its dividend for 1991 less than 20%, and it could be more. If it pays 16c (up 3c, or 23%), the forward yield at 230c is close to 7%. Because of their normally steady growth pattern, life assurers make good defensive investments in times like now. For those who believe Momentum will achieve the rationalisation benefits forecast, the share could be a good choice.

Brian Thompson

FM 1/2/91 (58)

MOMENTUM FM 1/2/91

STILL CONFUSED (58)

Activities: *Life assurance and related financial services.*

Control: *Rembrandt and Volkskas jointly own 57,4%.*

Chairman: *H V Hefer; MD: J D Krige.*

Capital structure: *70m ords. Market capitalisation: R161m.*

Share market: *Price: 230c. Yields: 5,7% on dividend; 10,0% on earnings; p:e ratio, 10,0; cover, 1,8. 12-month high, 270c, low, 185c. Trading volume last quarter, 1,3m shares*

Year to June	'88	'89	'90
Total assets (Rbn)	0,50	5,06	6,02
Net premium income (Rm)	80	452	946
Investment income (Rm)	52	239	442
Other (Rm)	68	511	884
Taxed surplus (Rm)	1,6	5,3	16,0
Earnings (c)	7,0	11,6	23,0
Dividends (c)	7	7,5	13
Net worth (c)	818	104	146

This time last year the *FM* expressed the hope that, once Momentum had completed its first full year after absorbing Lifegro, the enlarged group would become easier to assess. But investors seem to be just as confused as a year ago — or just indifferent.

On the one hand, the share price is higher — by 15c, or 7% — than when the *FM* reviewed the last annual report. Against a net 4% decline in the industrial index, this at least means some upward rerating against the market as a whole.

But within the insurance sector, the rating remains disappointing. Momentum continues to trade at an average discount of about 20% to the other four listed life assurers, which is unchanged from a year ago, even though 1990 results were ahead of the prospectus forecast and growth prospects, particularly for the next year or two, could better the industry average as integration of Lifegro is completed.

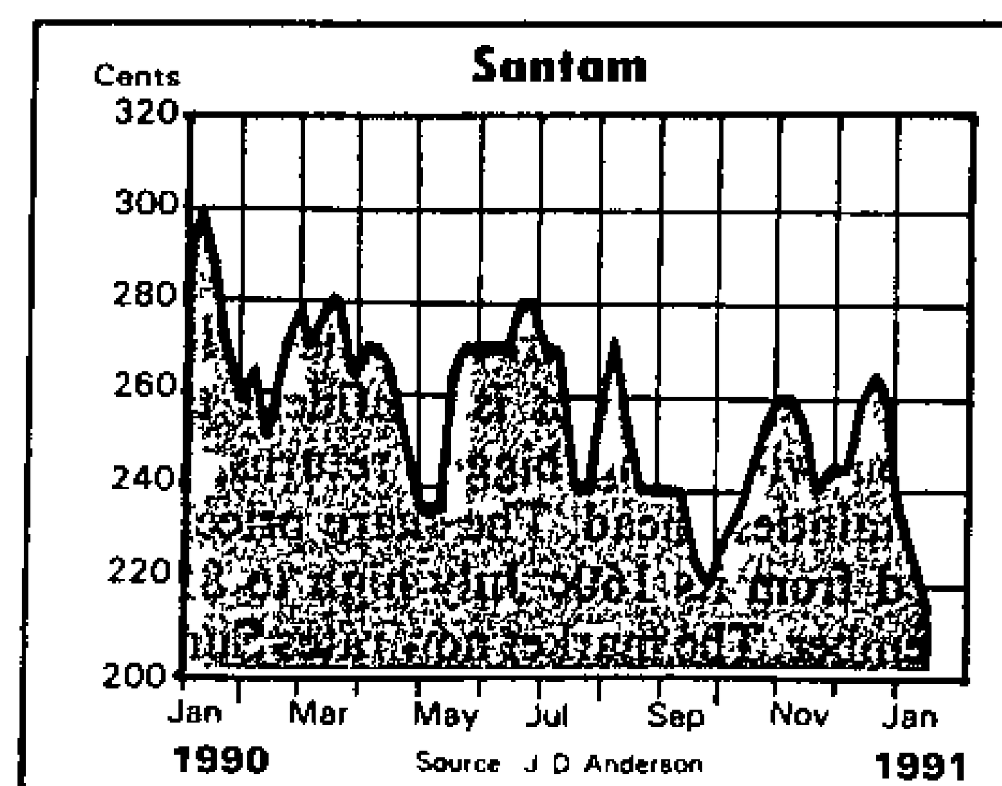
Part of the problem is that earnings of an equity-based assurer are far more arbitrary than for most companies, and best judged on track record — which the new Momentum does not have. At the risk of oversimplification, what normally happens with these companies is that management assesses long-term growth prospects of the life fund (the favoured assumption just about throughout the industry seems to be 20% a year) and sets the annual transfer from the life fund to the equity income statement accordingly.

With any luck, these assumptions, long-term, turn out to be conservative. Then, normally, a sort of profit pool, which could become available to equity at management's discretion, builds up in the life fund. It is this

Momentum's Hefer .. *an unpredictable brew*

Continue →

FM 1/2/91 (58)



margin is strong at 35%, and it hardly seems likely that its risk exposure will prove that much worse than its competitors.

Getting back to the subject of disclosure, but this time right out of the investment field, Santam was remiss in not disclosing the designer of its report, which features a series of delightful pictures. Particularly appealing is the child watching his sand castle being destroyed by a wave, under the heading "Natural Disasters," and "Major Risks" which shows another child adding an 11th storey to an impressive house of cards.

Brian Thompson

Allied's share price sails above FNB offer

58

Star 1/2/91

By Derek Tommey

The fight between banking groups UBS—Volkskas (UBS) and First National Bank (FNB) for control of the Allied Group took a new turn yesterday.

Aggressive buying of Allied shares on the JSE pushed their price to above those being offered by UBS and FNB.

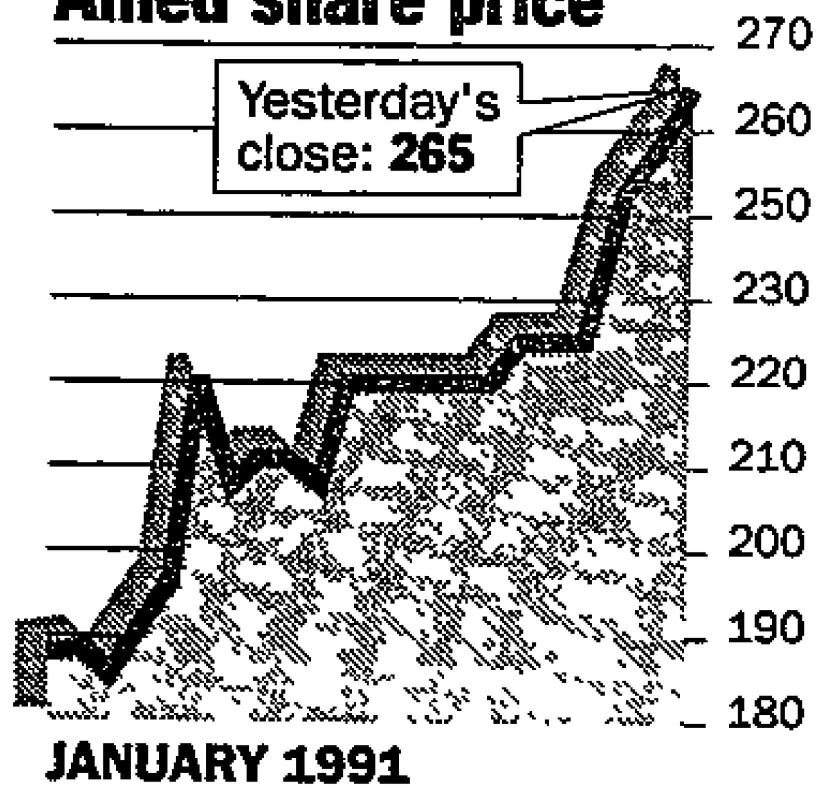
The shares closed at 265c, which means that if brokerage is included, some investors were paying the equivalent of 267c a share.

On Monday UBS offered the equivalent of 240c a share.

This was followed on Wednesday by FNB offering either 250c a share in cash or the equivalent of 262,5c a share in FNB shares.

Brokers speculated yesterday that the rise in Allied's share price to 265c indicated that some investors were expecting the UBS to counter FNB's offer with a higher bid.

An analyst with years of experience in the investment field believed what had happened so far was only the first round, and that it would be followed by several more rounds before the takeover was settled.



He said the battle had a long way to go, adding that it was the first contested major takeover bid on the JSE for a long time.

The prospect of further higher offers for Allied shares raises the question of just what the counters are really worth.

Five months ago they were 168c, and during the past 12 months they have been as low as 113c.

However, analysts say much of Allied's low share price was not the result of its earnings and profits, but a matter of market perception.

Because of its many small shareholders, its lack of major investors able to control its share price and incessant rumours about problems within the group, the market tended to downgrade Allied shares.

Had these adverse factors not been present, the market might well have valued Allied shares more highly.

If Allied's shares had been put on the same earnings and dividend yields as UBS shares, their price would have been around 280c — before any takeover talks.

And if the market had put Allied's shares on the same dividend yield as NBS, they would be standing at around 325c.

In the present takeover battle, the price paid for Allied will depend on what FNB and UBS think the group is worth to them — and they are not telling.

Allied's attraction is that it one of the few building societies available for sale at what (until now) could be a reasonable price.

It certainly has a scarcity value, and anyone wanting to develop a building society business should be prepared to pay a premium price for it.

Another factor that could have a considerable bearing on what the UBS and FNB are prepared to pay for Allied is the Deposit-Taking Institutions Act (DTI), which comes into force today.

The DTI requires deposit-taking institutions to meet certain minimum cash and liquid asset levels and will significantly raise their capital requirements over the next five years.

These requirements will not be easy to meet. Basil Hersov, chairman of FNB, told shareholders recently that the bank would easily meet the initial capital requirements.

Profit-retention

But the additional capital levels required in 1993, 1994 and 1995 would call for continued levels of profit-retention.

This meant dividends would not be as high as they would have been before the introduction of the Act.

Building societies do not have to meet such high capital requirements as banks. The result is that the acquisition of Allied by either FNB or UBS would make it easier for the victor to meet the new capital levels.

Just how much this is worth to either UBS or FNB is not known.

But if the figure is substantial, it could produce some surprises in what the contestants are prepared to pay for Allied.

UBS plea to Allied shareholders

W/C-ABSA 2/2/91 (ST)

From JOHN SPIRA

JOHANNESBURG. — As the fierce battle for control of Allied hots up, UBS, Volkskas and Sage Financial Services have issued an open letter to Allied shareholders urging them to take a second look at the counter bid from First National Bank.

On Monday, UBS, Volkskas, Sage and Allied announced the formation of Amalgamated Banks of SA (ABSA), a new diversified financial services group with assets in excess of R50 million.

UBS Holdings, to be renamed ABSA, would be used as the vehicle for the merger and would acquire the assets of Allied and Volkskas through the issue of new ABSA shares in exchange for shares in Allied and Volkskas.

The offer, which provided a cash alternative to Allied shareholders in respect of 50 percent of their new ABSA shares, valued Allied at 240c a share.

This was closely followed by an offer from FNB to Allied shareholders at a price of 250c a share with a full cash underpin.

Speculation that the ABSA bid would be increased to counter the FNB offer, along with rumours that Standard Bank might enter the fray, pushed Allied shares to a high of 280c on Friday, though they reacted to 165c at the close.

The UBS/Volkskas/Sage message to Allied shareholders suggests that the ABSA alliance will not be improving on its original bid, which United's Piet Badenhorst describes as more than full value for Allied.

The message points out that in terms of the proposed ABSA merger, Allied shareholders have been given a contractual guarantee not only of the continuity of Allied's 100 year old name but also of Allied's continued operating independence.

"We have also guaranteed the continued functioning of the board, with a strong presence from your existing directors on the both the operating company and ABSA boards."

The letter urges Allied shareholders not to sell their shares in terms of the FNB offer without taking into account the following:

● The FNB offer is conditional on the resolutions to be proposed at a general meeting of Allied shareholders (for the approval of the UBS offer) not being passed.

That meeting will not be held until the second half of March 1991, which means the closing date of the FNB offer is likely to be extended beyond that date. The earliest that Allied shareholders would receive payment is April 1991.

Mr Badenhorst calculates the interest lost as a result of the payment lag makes the FNB offer equivalent to 235c a share.

And, the letter points out, if the conditions of the FNB offer are not met, payment will not be made at all.

● Since the announcement of the FNB offer, Allied shares have traded well above the 250c cash underpin.

● In contrast to the Allied board's assurances, FNB has given "weak" assurances regarding the Allied name and identity, the continuation of its established operating structure and the future of Allied staff.

● There is a far better "match of cultures" between UBS and Allied than between Allied and FNB.

● "If you are one of the approximately 35000 Allied shareholders holding less than 1200 Allied shares, the terms of the FNB bid are such that your investment into the company could be eliminated by the treatment of odd lots."

● There will be a "material" reduction in net asset value as a result of the FNB share exchange option.

● The FNB offer envisages FNB obtaining 100 percent of the Allied equity. "This might be impossible to achieve because a number of Allied shareholders may well support the ABSA offer.

● See page 6.

Allied bidders warned by JSE

Star 2/2/91.

DEREK TOMMEY

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

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

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

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

The SRP made this announcement shortly after Allied shares traded at 275c. This was substantially above the United offer price of 240c and the First National offer of 250c in cash or 262,5c in FNB shares.

After the announcement Allied shares dropped back to 265c.

Allied has almost 300 million shares so if the UBS had been involved it would have cost them an extra R105 million. For FNB it would have meant an extra R37 million to R75 million.

Market sources believe that speculators were behind the surge in the Allied share price in the expectation that the UBS would make a higher bid for the Allied.

So far the UBS has not replied to the FNB offer.

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

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

However, the decision as to who wins rests not with the competing banks, but with the tens of thousands of "little" shareholders including the "golden girls" as they have become known — the wives, widows and career women who over the years entrusted their savings to the Allied and took up Allied shares when it went public in 1987.

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

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

BIDDERS: Swart to Badenhorst — "Top that if you can".

Saflife sheds the shackles

S/Times 3/2/91 (58)

DIAGONAL STREET

By JULIE WALKER

PAUL CUSHWAY: Confusion about identity removed

WHEN a competing life-assurance company asked Saflife to collect premiums on its behalf, at least one of the group's tactics was vindicated.

Companies that change their names are often ignored by the JSE until everyone has become familiar with the new one.

Saflife managing director Paul Cushway says the name was changed from IGI Life because of its being confused with IGI Ltd, the short-term insurer in the same Hosken group.

Saflife comprises four divisions — IGI Life, Safrican Association, Traduna and one made up of Safegro and small interests.

IGI Life has hit on a successful formula which keeps new-business strain to a minimum. The strain comes from the initial annual costs of writing new business. The norm for recurring premium business ranges from 120% of the first year's premium paid by a new policyholder, to as much as 150%.

Costs fall to between 2% and 5% from about the third year of the policy.

The commissions payable to agents and brokers are legislated. But IGI Life has kept its average acquisition costs below 120% on recurring premium business because of its focus on generating new business from groups, such as the employees of a company, instead of individuals.

"Nothing costs an insurer money more than having a marketing team addressing an audience that isn't listening," says Mr Cushway.

The strategy involves a trained sales force giving presentations to large groups in the workers' home language.

Those taking out cover do so voluntarily, or it could be part of the employer's group life scheme. Either way, the premiums are deducted from the policyholder's salary on his behalf for payment to Saflife.

There are other procedures in the event of this method of collection no longer being available.

Mr Cushway says: "Our focus is on continuity. The selling methods are reliable and the benefits are explained so that everyone can understand them.

"Product development is also important."

One of the biggest obstacles between life offices and potential policyholders has been the lack of banking facilities available to the emergent population.

"Insurers are cash averse when it comes to collecting premiums," says Mr Cushway.

It is difficult for policyholders to pay their premiums and for life offices to collect them without the help of the banks.

The past few years have brought the ordinary person considerable autonomy over his choice of banking services, particularly since the advent of automatic teller machines.

Nevertheless, 70% of all financial transactions are still settled in cash. Clearly, the potential for more bank account holders gives rise to a large and untapped client pool.

IGI Life's target market is the blue-collar worker, to whom it offers meaningful benefits at low premiums.

IGI Life is the dominant profit contributor to Saflife.

Safrican Assurance underwrites group funeral funds, and enjoys considerable support from pension-fund brokers. It provides instant cash on proof of a member's death to cover funeral costs.

Efficiency in handling claims is one of Safrican's strengths. The group has spent more than R4-million on computerisation, building in capacity for growth.

The third arm, Traduna, was bought in 1988 when it was a sort of wheeltappers' and shunters' benefit club for whites. The movement lost momentum in the 1980s although the books were in good shape.

It is now the vehicle for Saflife's pensions business, the original Traduna life policies being administered by IGI Life. This is the best way of achieving economies of scale.

The rising star of Saflife's miscellaneous operations is Safegro. The shop window is the recently launched Safegro Unit Trust, which is attractive to small investors.

So far, a defensive policy has been adopted, liquidity being kept at a third of the fund's R23-million.

Safegro also manages property, personal assets and institutional funds. It recently bought 49% of Mercantile Bank and was part of a consortium which acquired Spareco's assets.

Safegro has R1-billion under the management of a small yet effective staff.

The banking revolution and a higher degree of sophistication among the emergent population have stood all life offices in good stead in the past five years. Saflife's profits have grown at a compound rate of 40% a year, and the results for the year to March 1991 will outpace that.

At the halfway stage, Saflife's attributable earnings had risen by 90% to R6,7-million, and earnings a share were up by the same percentage at 22,5c.

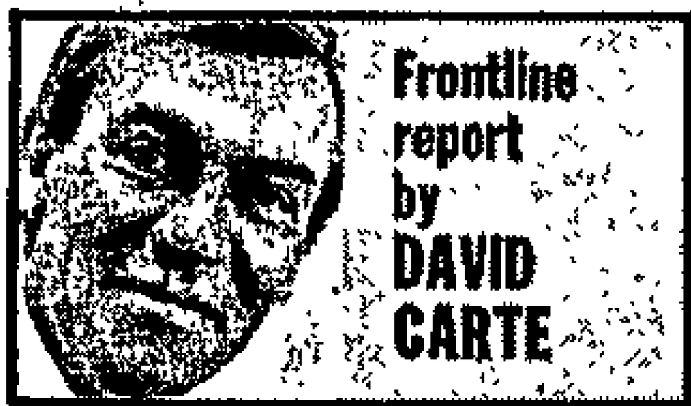
Saflife will probably top 50c for the year, putting it on about seven times forward earnings at the current share price of 370c.

Mr Cushway says: "A few years ago, IGI was best known for its short-term business. Now the life-assurance arm of the group is making its presence felt. That is the way of the future."

as battling bankers lay siege to Allied

S/Times 3/2/91 (58)

Behind closed doors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A major strategy in this fight is to win the hearts and minds of the public. There are 47 000 Allied shareholders. They represent a huge floating vote. Argument and counter-argument will find its way into newspaper columns and low blows will be visible.

But in business wars, official statements often tell only half the story. The Press is kept at bay. At the end of these conflicts, the casualties usually emerge smiling in spite of the daggers in their backs and — after a decent interval — resign "to pursue personal interests". No-one tells tales There are no communiques until battle is over.

However in the rare event of a publicly contested takeover, such as this week's tussle over the Allied, it is more difficult to maintain decorum.

Aggressive

Allied chief executive Kevin de Villiers broke the code of the stiff upper lip this week, announcing to the world that he, his management and staff would prefer to work with First National He also queried the methods and morality of Rembrandt and its partner UBS.

He is a salary-earning employee. One could say that relative to his adversaries, he is small fry, but there is nothing small about the impact of the aggressive Allied boss on events.

Mr De Villiers had an extraordinary public spat with Sage's Louis Shill at the Allied general meeting in June last year. On that occasion, Mr Shill unseated three directors favourably disposed to Mr De Villiers. He complained that the executive committee couldn't control the managing director.

Mr De Villiers replied that Allied's contractual relationships with Sage had cost Allied millions. He said Allied had lost heavily on its 20 percent holding in Sage, and it was not properly compensated for computer work it did for its associate.

Sage has scored on Allied. Not only has it received a great bid in the ABSA proposals, but its 10 percent stake in Allied has rocketed in value to R75-million.

After all this, it seems clear that if the Rembrandt-United coalition wins, Kevin de Villiers will be looking for another job.

He is a dead man in the eyes of the Rembrandt-United-Sage coalition. The eyes of United's pugnacious chief executive Piet Badenhorst glint menacingly at the mention of Mr De Villiers' name. His comments are unprintable.

Rivals

Mr Badenhorst is a formidable enemy. He has taken on many giants in his time. He has run down rivals, such as the Perm's Bob Tucker and Saambou's Hendrik Sloet.

He has lambasted the life assurance companies from public platforms. His own staff tiptoe about him on the 28th floor of United Towers.

If he is an unstoppable powerhouse, behind him stands another titan —

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Dr Rupert chooses his generals well, tough-minded achievers all. Apart from Piet Badenhorst, he has on his side the redoubtable accountant Herc Hefer, Joe Stegmann, the man who built up Sasol, now chairman of Volkskas and Louis Shill an accomplished business battler. Also acting for Rembrandt is Theo van Wyk, former Registrar of Financial Institutions.

Scraps

The men on the other side of the fence are mild bankers, good humoured ordinary folk Viv Bartlett, a senior general manager of First National is credited with starting the counter-bid. First National's chief executive Barry Swart insists that Anglo, which has the biggest holdings in First National Bank and Southern Life, has not been involved at all.

It is critical for Louis Shill, founder of Sage Holdings, that Rembrandt and UBS should win.

If First National wins, the ABSA offer valuing Sage Financial Services at a generous R308-million falls away. That will be an enormous setback for Mr Shill, who controls Sage personally. Sage needs this capital profit to offset an impending loss of up to R60-million on a venture in the US.

Louis Shill has been in more acrimonious takeover scraps than most SA executives.

A co-founder of Liberty Life, he fell out spectacularly with Donald Gordon over control of the Sage Fund in 1967. Ken Romain's book Larger Than Life, quotes a memo from Mr Gordon, which described the actions of Mr Shill and his associates as a "breach of trust".

Mr Shill disputes Mr Gordon's assertion, complaining about "Liberty's desire to call the tune in every respect."

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United chairman Herc Hefer says he and Piet Badenhorst initiated the idea of the megabank.

He recalls: "Piet Badenhorst and I went to see Anton Rupert in Stellenbosch 18 months ago. We told him that the expense of manpower and technology meant there had to be rationalisation in banking. We felt there was something we could do with Rembrandt's associates in financial services.

"He agreed and we have been working on it ever since. I would say there have been 60 or 70 meetings. We have spent hundreds of hours of executive time on this."

If they win, Rembrandt and UBS will have the biggest banking group in SA If First National carries off Allied, it will be one of three banking groups with assets of roughly R40-billion.

Devalued

Rembrandt has cemented a close relationship with the Mine Officials' and Mine Employees' pension funds, which between them have assets of R10-billion, not to mention crucial stakes in Sage and Allied. United chairman Herc Hefer is chairman of the mines' pension funds.

In the present deal, Dr Rupert is again demonstrating that if you want to wield power you don't need control. You need friends.

He has friends in UBS and Volkskas, not outright control, and so it is with the mine pension funds, who admit they are "partners" of Rembrandt, even though contributions come from the mining houses and their employees.

Volkskas has been devalued badly in the megabank proposals. Its shareholders will reduce their earnings, dividends and asset values.

It is not clear whether its chief executive, Danie Cronje, accepted the insulting valuation placed on Volkskas. But analysts reckon Rembrandt's word has prevailed against all opposition.

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Shareholders will now wait to see if First National, or Standard, for that matter, will go higher. The market price has soared 30c — that's R90-million — above the FNB offer.

Watching the melee are Liberty chairman Donald Gordon and Standard chief executive Conrad Strauss.

Dr Strauss might have been prevailed upon by Liberty and Rembrandt to stay outside the battle while Allied, Volkskas and United joined forces. But he may well be prompted into action if he thinks his chief rival, First National, might get away with the spoils.

All he will say is he is not uninterested and he will act in the best interests of his shareholders.

While Standard is not known to have a strategic stake, price is the thing that will tell in this bid The majority of the shares in Allied are uncommitted.

Fiduciary duty obliges the directors of Allied, as well as the trustees of the mine pension funds and Sage's unit trust to advise according to the interests of members — regardless of vested interest.

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President Bush has tried to keep the moral high ground in the Gulf War. It is important in takeover bids to do the same. The contentious aspects of the bank war are that UBS and its partners are attempting to get their deal done without reference to the new Securities Regulation Panel.

And they propose to take out the Allied minority by means of provisions of Section 228 of the Companies Act.

Being a pukkah gentleman could be the way Barry Swart can carry this off.

The share price of Allied this week peaked at 265c, 15c above First National's offer. Shareholders can cash in, or wait for a better offer. The price is already steamy and a bird in the hand might be worth two in the bush.

Rembrandt, UBS in counter-attack

By IAN SMITH and DIRK TIEMANN

THE BATTLE for Allied Group entered a new phase this weekend as the UBS Holdings-Volkskas-Sage alliance launched a strong attack on First National Bank's rival bid.

UBS, Volkskas and Sage say in an appeal published today that Allied shareholders should reject the FNB offer.

But observery say that if the alliance does not succeed in winning a huge number of Allied's 35 000 minority shareholders, it will have to raise its bid.

The alternative is that the R7,5-billion building society-cum bank will go to First National Bank (FNB), or perhaps another bidder.

FNB's offer of 35 of its own shares for 400 Allied, valuing Allied at 262,5c apiece and its alternative of 250c cash for all shares is an improvement on the UBS offer of 100 in the proposed Amalgamated Bank of SA (ABSA) shares for every 320 Allied or 240c cash for half their shares.

This means that the Allied board and important shareholders, such as the Mine Officials and Mine Employees Pension Funds and the Sage unit trust, are bound by fiduciary duty to accept FNB's offer — unless UBS and Rembrandt, the chief architect of the proposed R50-billion ABSA, revise the terms.

UNITED'S PIET BADENHORST: We're not backing down in face of the FNB offer . . . Allied holders should wait

UBS chief executive Piet Badenhorst said on Friday: "Allied shareholders should be wary of the First National offer until they have seen all the details of our proposals."

Details would be posted soon, he said.

Mr Badenhorst shows no sign of backing down, and he does not exclude the possibility of a counter offer. "The current offer stands and talk that the FNB approach is more correct is nonsense.

"Our interest in the Allied stems from the scope for bigger returns that exist through economies of scale. We are not trying to asset-strip them for capital.

"The FNB offer is conditional on our offer being rejected by the shareholders."

FNB's offer cannot come into play until a special general meeting of Allied shareholders in March, says Mr Badenhorst.

But FNB managing director Barry Swart says the response to the bank's offer for Allied shares has been "tremendous". He has not heard of any counter bids.

Standard Bank chief executive Conrad Strauss says: "We are not aloof to what is going on and will act in the interests of our shareholders."

UBS, Volkskas and Sage say today that the FNB offer envisages its gaining 100% of Allied.

"This might be impossible to achieve because a number of Allied shareholders may well support the ABSA offer. As a result, the possibility exists that FNB's attempts to frustrate the ABSA merger could result in deadlock, or control stalemate, and the Allied share price could drop considerably below current market prices."

Allied shares traded at 280c on Friday — in expectation of revised offers or a new bid.

Valuable

But Allied managing director Kevin de Villiers has no doubts about first prize. He would like to see the group go to FNB where there is a similar culture and most benefits for Allied.

This would create three strong banking groups — Standard, FNB-Allied and UBS-Volkskas, all in the R40-billion bracket.

He visited Allied branches around the country this week to reassure staff members. "Allied is valuable," he told them. "That is why there is an auction."

He does not see a threat to rank-and-file staff. "Whoever takes over Allied and its 1,5-million customers will need the 5 000 staff members."

Mr De Villiers says Allied would fit best with FNB. The bank would get a big home loans book and Al-

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□ From Page 1

lied's expertise.

UBS, on the other hand, has huge loans business from its traditional operations and Standard has built its own mortgage business.

Similarly, Allied's capital surplus would be most attractive to FNB which will have to increase capital levels to meet the Deposit-taking Institutions Act requirements after 1992.

UBS has a huge capital surplus, which would balance Volkskas' undercapitalisation.

Mr De Villiers says "We would have three well-capitalised and well-matched banking groups which would compete more or less equally for market share."

Mr De Villiers says the FNB offer is finely pitched — "they are only paying six months' of our profits as a premium".

Doug Gair, executive director of the new Securities Regulation Panel, says that if anything apart from the price is changed in the UBS offer, it will fall under the tough takeover code.

Rembrandt and UBS tried to sign and seal a deal before it became operative on February 1.

Under the new rules they would have had to disclose all share dealings in the affected companies for the past six months. They would have to offer the final bid price to anyone who had sold shares to them in the past three months.

If they had bought any shares at higher than the bid prices, they would have been obliged to extend a similar offer to all shareholders.

Ducking the Securities Regulation Panel is not the only controversial aspect of the Rembrandt-UBS coalition bid. Normally in taking a minority out and delisting it, it is necessary to have a scheme of arrangement and a shareholders' meeting in which 75% approval is required.

Rembrandt and UBS propose to effect the take-out through section 228 of the Companies Act. It will be necessary to receive approval from only 51% shareholders present at the scheme meeting to get the deal through.

Allied's Mr De Villiers, who has put his job on the line by stating that he and his staff favour FNB's offer, says use of section 228 is "iniquitous".

Behind closed doors as battling bankers lay siege to Allied

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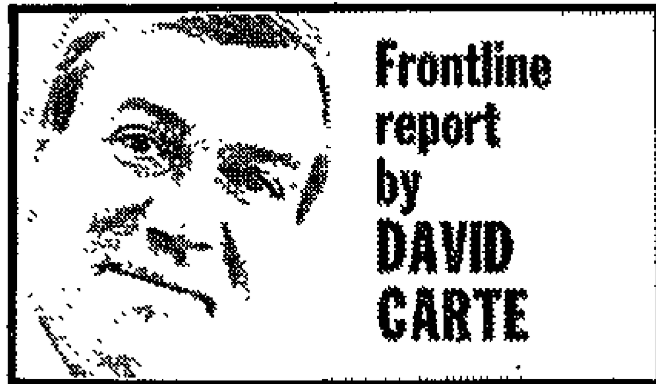

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● See Business Times

Saambou acts to stave off takeover

BDay 4/2/91 (58)

GRETA STEYN and SEAN VAN ZYL

SAAMBOU management is fighting tooth and nail to avert a hostile takeover bid with its latest move being a deal with independent insurance company Fedsure. Saambou MD Hendrik Sloet said: "We want to send a message to the market place that a takeover of Saambou will not be easy."

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

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

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

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

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

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

Asked whether Fedsure would act if a significant stake was acquired by an outside party, Fedsure CE Arnold Basserabie said: "That depends on circumstances."

Fedsure, whose core business is insurance and long-term investments, and Saambou, whose business is banking, will use each other's infrastructure to market products. This surprised analysts as Saambou had an agreement with short-term insurance brokers Prestasi. The latter said they were comfortable with the Fedsure agreement.

Battle for Allied Group intensifies

GILLIAN HAYNE

THE battle for the Allied Group intensified at the weekend with both the UBS, Volkskas and Sage Financial Services (SFS) camp and First National Bank (FNB) appealing to Allied shareholders to support their respective merger proposals.

The new Securities Regulation Panel (SRP) warned traders on Friday that in terms of the newly legislated Securities Regulation Code, competing bidders for Allied who bought shares above their offer price would have to extend their highest price paid to all Allied shareholders.

This announcement dried up buying and the share dropped back from a high of 280c to close unchanged at 265c.

UBS, Volkskas and SFS placed an advertisement in Sunday newspapers detailing to Allied shareholders why they should "not respond to the FNB offer". An FNB advert told of the advantages of "our proposed alliance" with Allied

The UBS has offered Allied shareholders 240c a share or a 50% cash underpin in a deal that would result in the merger of UBS, Volkskas and SFS into Amalgamated Banks of SA (Absa). FNB has offered 262,5c a share or 100% cash underpin at 250c

The UBS said: "Until you have all the facts, particularly the Absa merger docu-

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Allied

BDay 4/2/91

☐ From Page 1

ment, leave your decision as late as possible. If you need the cash now, you can sell on the stock market at significantly above the 250c underpin per the FNB offer."

UBS chairman Piet Badenhorst said yesterday he had nothing to add to the statement.

First Corp director Stuart Jones, commenting on the UBS advert, said it was "unbelievable that anyone could appeal to shareholders not to accept a better offer".

The SRP's clarification was issued at the request of FNB following market rumours that Davis Borkum Hare was buying shares, through their nominee company Chalkton Nominees, on behalf of UBS.

The ruling applies only to shares bought after February 1.

SRP executive director Doug Gair said yesterday that if the UBS had bought more than 5% of Allied's shares on Friday, it would be duty-bound to declare this and raise the offer terms accordingly.

Approximately 4-million shares were traded on Friday, valued at R11m.

Rule 5.2 of the code, which is similar to Rule 8.1 but without the 5% lower limit clause, does not apply to UBS as it has not yet posted its offer documents, Gair said.

New Act levels playing fields

Cape Times 4/2/91

By ARI JACOBSON

THE arrival of the Deposit-Taking Institutions Act (DTI) as the new all-in-one bill for banks, building societies and discount houses has had a pronounced effect on the banking industry.

The merger and acquisition trend and the general shake-up in the financial services industry is directly linked to the new Act — which became law on Friday.

Why new rules? Historically, bank and non-bank shareholdings in an "approved finance company" were limited to as little as a 10% stake.

Banks, building societies and discount houses — which encompass the definition — were guided by separate laws which had cumbersome and inequitable repercussions.

Also, the virtual collapse of the US banking system pinpointed the need for tougher capital reserve requiremnts to protect depositors.

The idea says Delloittes, Pim Goldby's Tim Storr is to place the burden of bad banking — on shareholders not depositors.

The DTI emphasises risk management on both the asset (simplistically loans) and liability (deposits) side of the banking business, and unites all the disparate deposit-takers, under one Act — to level the playing fields on the financial scene. The life offices, to some chagrin, will not be grouped among deposit-takers.

The DTI has a wide definition — virtually as it reads — an attempt to prevent episodes such as the Albert Vermaas swindle while providing the Registrar of Financial Institutions with leeway on interpretation.

A 4% capital reserve requirement has been set for less risky asset holdings (mortgage loans) with an 8% penalty for higher risk assets.

Storr regards the new conditions as tougher then the previous capital guidelines. "Although in the old Act some risky assets required a 10% backing, the average was at 4% to 5% — the DTI lifts the average to 8%."

Capital shortages have played a role in the rapid rationalisation of this sector, but the ability to hold larger stakeholdings has accentuated the pattern.

A bank holding company may now own a deposit-taker, with a non-bank institution entitled to a 49% stake (after fulfilling certain requirements).

The search for tighter allegiances has caused an industry scramble — such as the tug-of-war over Allied, the hostile bid for Saambou, the Investec-Reichmans linkage and The Board of Executors (BOE) tie with mining house Anglovaal.

Storr believes the monetary authorities prefer the more concentrated form to the private banking sector which provides a solid shell around the Reserve Bank.

"To attract foreign capital a safe haven is essential — larger banks have the necessary capital to compete for international business."

Harsh rules on disclosure will replace the meek accounting policies previously followed. Income, for instance, was allowed to flow unreported off financial statements into internal reserves.

"They could hide everything — all they really disclosed was a rough asset and liability outline," says Storr.

Newly defined deposit-takers will require detailed information on, among others, inner transfers and risk positions. So preventing fiasco's like The Cape Investment Bank (CIB) R15m over-exposure in the futures market.

The new legislation plans to align the SA banking system with its international counterparts — encouraging prudence, easing merger/acquisition laws and generating efficiency with one, all-encompassing Banking Act.

Saambou and Fedsure in R55-m control deal

Star 4/2/91. (58)

By Ann Crotty

Fedsure is set to acquire a 30 percent stake in Saambou at 140c a share.

Given Saambou's scattered shareholding and the fact that the deal has the backing of the Saambou board, and therefore probably of Sanlam (which has a 10 percent stake), Fedsure's 30 percent holding seems certain to give it effective control.

Today the directors of Saambou and Fedsure announced a R55 million deal that involves Saambou acquiring Planet Finance from Fedlife (a wholly owned subsidiary of Fedsure) in exchange for the issue of 39 million convertible debentures (CD) at 140c each.

Conversion of the debentures will be effected between end-March 1991 and end-March 1994.

There are currently 85,2 million shares in issue. The conversion of the 39 million CDs will raise this to 124 million, with Fedsure holding 30 percent.

Planet Finance is a finance company involved in leasing and hire-purchase. It has a book of close to R50 million. It is this plus 50 percent of the shareholder capital in Planet Finance that is being sold to Saambou.

While the deal is expected to have significant longer-term benefits for both Saambou and Fedsure, shareholders who were expecting to see a battle for control might be disappointed.

If enough shareholders approve the deal, Fedsure will have secured effective control for the exchange of a R55 million asset.

Assuming that Fedsure has control of Saambou, then Planet remains under its control.

For a cash-strapped Fedsure — which could not have afforded an open cash offer to shareholders at even 140c a share — the deal, if effected, looks something of a gift.

The deal was struck on January 31. If it had been struck a day later, Fedsure would have had to make an offer to all the shareholders — in line with the requirements of the new Securities Regulation Code, which came into effect on that day.

In addition, Rule 19 of the new regulations could have frustrated attempts to effect the Planet transaction.

If the relationship with Fedsure helps to produce a stronger management performance, Saambou shareholders should benefit from improved earnings.

The past few years have seen a fairly dismal earnings performance by Saambou, with earnings in the year to March 1990 unchanged from the 1989 figure.

The poor operating performance largely explains why the share price has been at such a large discount to net asset value (NAV).

For most of last year it was trading at about 100c, compared with a NAV (including revaluation of properties) of around 260c a share.

Issuing the 39 million CDs at 140c each will, assuming full and immediate conversion, reduce NAV from 260c to around 220c a share. Shareholders will find this difficult to accept unless they see benefits on the earnings front.

Given that the Saambou board is ultimately responsible for the poor management, it is likely that not all shareholders will be encouraged to vote in favour of the deal merely because it has the support of the board.

Apart from Sanlam, the only other known signficant shareholders are Fedsure (with less than 10 percent), Prestasi with an estimated 10 to 15 percent and Trafalgar, which has not yet declared the extent of its holding.

The meeting of Saambou shareholders, needed to approve the transaction, is being held under Section 228 of the Companies Act.

This requires at least 50 percent present (or submitted proxies) to vote in favour.

If enough shareholders feel control should be priced at above 140c a share, the meeting could prevent the issue of the CDs and throw open the control position.

Fight for Allied turns nasty

With no improved offer for Allied likely by the UBS-Volkskas-Sage camp, the fight for the hearts and minds of more than 41 000 Allied shareholders has shifted down a couple of levels.

Judging from the tone of a nationwide advert placed in the Sunday newspapers, rumour and innuendo now seem to be the main weapons in the battle for control of the Allied Group.

Allied shareholders are urged not to accept First National Bank's counter-offer at a much higher price of 250c a share on the basis of, among others, the following arguments:

- Payment to Allied shareholders, if the offer succeeds, will only be made in April.
- FNB has given "weak" assurances that the Allied name and identity will remain independent.
- There is a far better "match of cultures" between the UBS and Allied than between FNB and Allied because they, as the advert claims, are both predominantly building societies.

Other allegations, described by analysts as surprising, contain very little of substance to convince Allied shareholders of the merits and demerits of the two offers.

Diagonal Street

MAGNUS HEYSTEK

The UBS camp might just succeed in its attempt to dissuade Allied shareholders from taking up the FNB offer.

Some of the arguments, however, are open to question.

For instance, the advertisement says, shareholders who need the money can sell their shares at higher prices on the market because the share price closed at 265c on Friday.

A flood of sellers, however, will soon drive the price back down to 250c, which is FNB's cash offer.

Also, the UBS camp's claims of a merger between itself and the Allied being a better match of cultures is open to question.

For 100 years they were formidable enemies. Now they are supposed to have a match of cultures.

The Allied staff mostly disagree.

They have no doubt who will rule the roost. It's a case of the victor and the vanquished.

No degree of sophistry will conceal this.

The advertisement warns Allied shareholders not to accept the FNB offer because it will prevent them from considering better offers from other parties, if made.

Is another offer expected? If so, shareholders should not accept either of the two offers now on the table.

The fight for control of the Allied is not over, by any stretch of the imagination.

The UBS camp claims to have control of about 30 percent of Allied, with FNB claiming control of 22 percent.

The next few days are crucial.

Kevin de Villiers, managing director of Allied, has already openly nailed his colours to the FNB mast.

If FNB loses the battle, Mr De Villiers' head will roll.

Considering his statement last week, FNB might just be enamoured enough to keep him on.

Small and relatively unsophisticated shareholders are likely to be quite confused by all of this.

Sifting fact from fiction is going to be even more difficult in the days and weeks ahead.

FNB attacks UBS

By Magnus Heystek

(58)

The war of words between the UBS and First National Bank continued yesterday, this time with Barry Swart, MD of FNB, firing a broadside at the UBS for comments made in weekend advertisments.

Mr Swart is particularly upset about the implications of certain allegations which can be construed as a slur on the integrity of the FNB's offer to take control of the Allied Group.

FNB this morning placed advertisements in newspapers countrywide saying inter alia that the whole ABSA deal was "strung together by hidden agendas and third party interests".

He also lashed out at the impression the UBS camp is trying to convey that the deal is a fait accompli, which, off course, it is not.

Shareholders still have to vote on this at a special general meeting. The date for this meeting has not been announced.

A powerful weapon for the FNB in the fight for shareholders' loyalty must certainly be the statements made by Kevin de Villiers, managing director of the Allied Group last week.

"I'd rather my shareholders (of which I'm one) were associated with a dynamic and successful group such as FNB than with the likes of United and Sage.

Mr De Villiers went on to say: "United hasn't achieved the returns on its capital that it should have, while Sage has an abysmal profit record."

The UBS' only retort was to say that Mr De Villiers did not have board approval to make those statements, but very little was offered to counter the allegation.

The Allied share price retraced some its gains last week to close at 265c a share after a statement by the JSE which said that should any of the competing bidders buy Allied shares on the market at a higher price than the offer prices on the table they could, in terms of new legislation, be forced to make a similar offer to all minority shareholders.

Reverse takeover of Saambou expected

Star 5/2/91.

(58)

Diagonal Street

ANN CROTTY

Yesterday the Saambou share price moved back 10c to 148c and Fedsure moved up 20c to 475c — both in reasonable volume trade.

The Saambou share price indicates that the market is not expecting a bid to counter Fedsure's move to get an effective controlling stake in Saambou.

The Fedsure price indicates that the market believes the deal to be to Fedsure's benefit.

The deal, if effected, will secure the control position of Saambou without any offer being made to shareholders. Analysts see it as a reverse takeover of Saambou by Fedsure.

The latter has sold Planet Finance (valued at R55 million) to Saambou in exchange for the issue of 39 million convertible debentures — this will be equivalent to 30 percent of the enlarged equity base.

A third party could move to block the transaction by making a higher offer or by securing the support of sufficient shareholders to prevent the necessary approval being obtained at the special shareholders meeting needed to approve the Fedsure/Saambou deal.

Because the deal hinges around the acquisition of an asset by Saambou, the Companies' Act does not oblige it to put the matter to the shareholders. However because it involves a 30 percent stake in the company, Saambou is obliged by JSE regulations to refer the matter to the shareholders.

Saambou could quite easily have avoided any meeting with the shareholders by pricing the deal equivalent to a 29 percent stake instead of the JSE trigger level of 30 percent.

Approval of the scheme requires 50 percent present at the meeting to vote in favour. Fedsure, which has an undisclosed stake in Saambou will be requested, by the JSE, to abstain from voting its shares.

If one of the banking groups felt that Saambou was worth making a play for, it could try to frustrate the Fedsure deal by offering shareholders significantly more than 140c a share.

Analysts believe that full control of Saambou could be worth as much as 180c to a banking group. This reflects the underlying net asset value of the share (estimated at around 260c) as well as the capital benefits that would be derived by a bank — these capital benefits are of no use to Fedsure.

So at this stage a tight Fedsure/Saambou alliance is not in the bag.

In addition the debentures are convertible at the election of Fedlife (a wholly owned subsidiary of Fedsure) before end-March '94. This suggests that Fedsure can walk away from the deal at any stage before conversion, or it could on-sell the CDs/shares to another party.

There seems little reason for Fedsure to convert the CDs until the last moment as these carry an interest rate of four percentage points below prime compared with a dividend yield of around 8 percent on the ordinary shares. (However the former is pre-tax in the hands of the receiver while the latter is post-tax.)

From Saambou's point, the acquisition of Planet with a book of around R50 million should have cash flow benefits. The debenture interest payment (on R55 million) is likely to be less than the approximate 26 percent interest income that is earnable on Planet's book.

Fedsure in the clear

By Ann Crotty Star 5/2/91 (58

Although Fedsure's deal with Saambou, if concluded, could result in Fedsure having effctive control of Saambou it is possible that even under the new Securities Regulation Code and Panel, Fedsure would not have had to make an offer to all Saambou shareholders.

(Because the transaction was completed on January 31 it does not come under the jurisdiction of the new and, presumably more rigorous, SRC.)

It appears that the JSE is treating the Fedsure/Saambou deal as an acquisition of an asset by Saambou. Although this seems set to result in a reverse takeover of Saambou by Fedsure according to JSE requirements a reverse takeover does not trigger an obligation to make an offer to minorities.

The situation is further complicated by the fact that new shares are being issued (convertible debentures) and so the deal has not involved the disposal of shares by any shareholder.

So strictly speaking, the mechanics of the Fedsure/Saambou deal results in it not constituting "an affected transaction" and therefore could fall outside the jurisdiction of the SRC and the SRP.

However although the definition of an affected transaction is quite precise, the panel has the authority to broaden considerably its jurisdiction.

According to the introductory section of the SRC's General Principles:"It is impracticable to devise rules in sufficient detail to cover all circumstances which can arise in affected transaction. Accordingly, persons engaged in affected transactions should be aware that the spirit as well as the precise wording of the General Principles and the ensuing rules are to be observed".

Manserv minorities in from the cold

By Ann Crotty

It looks as though the long-suffering Manserv minorities may soon receive the offer from Financial Ltd that the previous controlling shareholder Colfin received last February.

Unless there are more, unforeseen problems, they should then be able to pick up the 106c a share cash that was paid out to Colfin.

JSE president Tony Norton says the Reserve Bank has agreed to unblock financial rands deposited at UAL. They were blocked as part of a wider investigation into finrand-related frauds.

"The Reserve Bank accepted our point that the Manserv minorities were being prejudiced by the blocking of these funds," he says.

However, the Bank is not allowing the use of finrands to effect the offer to minorities; which means the funds on deposit at UAL will have to be topped up to match the commercial rand equivalent needed to effect the offer.

There is no indication of who will top up these funds.

FW's confidence booster

ARGUS 5/2/91

The Argus Foreign Service and Political Staff

CONFIDENCE in South Africa's speedy return to the international community has been boosted by the European foreign ministers' pledge to lift sanctions and a deluge of praise for President De Klerk's latest reform moves from around the world.

In prompt reaction to President De Klerk's promise to abolish the Land, Group Areas and Population Registration Acts, European Community ministers meeting in Brussels yesterday agreed to scrap sanctions as soon as legislation to repeal the Acts is tabled in parliament.

The EC's trade bans include imports of iron, coal, steel and Krugerrands.

The government today hailed the EC decision as a major breakthrough.

While an opposition leader warned that the decision would not necessarily address one of the country's biggest problems — lack of overseas investment — Foreign Affairs Minister Mr Pik Botha said the move was "a clear indication that we are now in the post-sanctions era and we need not push any further". World reaction to Mr De Klerk's initiatives had been favourable and positive.

To him the most significant response was from Australia and Canada.

"Australia was at the forefront of efforts to isolate South Africa, especially in the Commonwealth. I welcome Prime Minister Bob Hawke's statement. Just as Australia had been been a leader in the campaign for sanctions it will now be in the lead to react positively."

But Dr Zac de Beer, leader of the Democraic Party, said that while the decision was reason for gratitude and relief it had not exactly come as a surprise.

"We should remind ourselves that trade sanctions have been of relatively little importance.

'Damaged economy'

"What has severely damaged our economy is the refusal of world financial institutions to lend and invest here. We can only hope that this, too, will now change."

● The African National Congress had not given up hope that the EC would retain sanctions, said Mr Ahmed Kathrada, deputy head of the movement's department of information and publicity.

"It will be very unfortunate if sanctions are lifted because Mr De Klerk has not given answers on the position of political prisoners, exiles and political trials.

"He has also rejected our calls for a constituent assembly. This is a crucial time because these things have not changed. We will continue to try to dissuade these people from lifting sanctions."

● The removal of apartheid remained a precondition for any discussions with the government, said Pan Africanist Congress spokesman Mr Barney Desai.

'Hold the line'

"And that discussion will be on a constituent assembly. Our view is that sanctions must remain in place until we have a constituent assembly. Any move to lift sanctions is premature."

● The South African Communist Party urged the EC not to "take any precipitate actions against sanctions".

"We demand that they hold the line," said SACP spokesman Mr Essop Pahad.

The repeal of the laws in question "is only the government's stated intention, but they are still there".

It would be premature to call for the partial lifting of sanctions while these laws and the obstacles to negotiations had not been removed.

● The central Witwatersrand region of the Azanian People's Organisation (Azapo) rejected President De Klerk's reforms and called for the maintenance of sanctions and the cultural boycott.

The region's executive committee announced that its congress at the weekend had resolved to "stand firm on the cultural boycott and the isolation of South Africa by the international community".

Financial rand rises

By TOM HOOD
Business Editor

INCREASING foreign investor confidence after President De Klerk's speech to parliament last week has boosted the financial rand.

The foreign investment currency, which rallied to 30,5 US cents immediately after Mr De Klerk's speech on Friday, rose further to 31 cents. The finrand was worth only 28,5c in mid-December.

Meanwhile, the Johannesburg Stock Exchange reacted positively to the president's speech, although the higher finrand kept a lid on share prices — foreigners are encouraged to sell shares when the finrand rises.

The JSE industrial share index rose 37 points on Friday and another 14 to 2 933 yesterday.

Retailers Pick 'n Pay and Wooltru were amomg shares to make impressive gains. Analysts said undertakings to uplift the black community would raise their incomes and spending.

Saambou shares ease after debenture deal with Fedsure

SEAN VAN ZYL

SAAMBOU's share price eased by 6,3% to 148c a share yesterday on relatively small volumes in response to the joint announcement issued at the weekend by the building society and Fedsure.

Market sentiment seems to indicate that the issue of Saambou redeemable convertible debentures to the value of R55m to Fedsure will put an end to any speculation that a hostile party will succeed in gaining a majority stake.

In response to the announcement of Fedsure's involvement with Saambou, Trafalgar Portfolio Managers' MD Pieter Hougaard said they were "currently reviewing the situation".

He said Fedsure seemed to be playing a big brother role and expressed some doubt as to whether Fedsure intended to go through with the conversion of the convertible debentures into ordinary shares. Should Fedsure convert the debentures, it would gain a 30% stake of the ordinary issued shares in Saambou.

The conversion of the debentures will also have a diluting effect on the earnings and dividend a share of Saambou's ordinary shares, a fact which market analysts suggest shareholders will not be overly enthusiastic about. Saambou still has to gain approval from shareholders for the issue of the debentures.

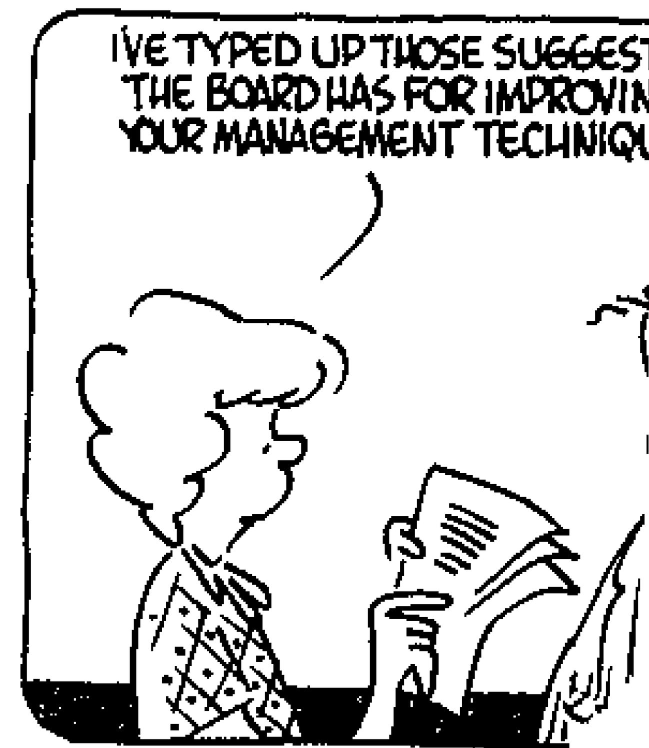
Furthermore, neither Saambou or Fedsure have stated that the debentures will be converted into ordinary shares.

Sloet said the debentures, if not converted in the three years, would be redeemable. They carry an interest rate of four percentage points below the prime rate.

Analysts said it was significant that debentures had been issued and not shares, partly because Fedsure could elect not to take any stake in Saambou. The latter was also facing increased finance charges because of the interest on the debentures.

If Saambou had issued shares instead of debentures, Fedsure would also need approval from the Registrar of Banks and the Finance Minister to take a 30% stake.

EXECUTIVE SUIT



Liberty BDay 5/2/91.

(58)

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Liberty Holdings (Libhold) director Farrell Sher said yesterday that shareholders of Libhold and Liberty Investors (Libvest), which have joint control of the group with Liberty Life Controlling Corporation, the group's ultimate holding company, would also receive FIT shares from Liberty.

This move would give Liberty shareholders a direct interest in the group's offshore operations, he said.

Liberty shareholders would receive 34,2-million FIT shares on the basis of 16 shares for every 100 ordinary shares held.

Libvest shareholders would receive 5,1-million FIT shares on the basis of 2,5 shares for every 100 Libvest shares held, while Libhold investors would receive 19,2-million FIT shares on the basis of 42 shares for every 100 shares held. The shares would be distributed on February 22.

Liberty posted a 54c final dividend which, with an interim dividend of 32c, lifted its total distribution 36,5% over that of the previous corresponding period.

Libvest posted a final dividend of 8,8c. With an interim 5,2c dividend, total dividends for the year were 14c, 29,6% higher than for the previous year. Libhold's 145c final dividend, with a 75c interim, was 46,7% higher than the previous year's.

The FIT share distribution will reduce Liberty shareholders' funds from R3,1bn to R2,7bn. The company said the share distribution would have a minimal effect on Liberty's earnings and dividends for the year ending December 1991.

Only 34,2-million of the 65,9-million FIT shares attributable to Liberty shareholders are involved in the dividend in specie. The 19-million attributable to policyholders are to remain untouched.

Liberty's total shareholding, on completion of the share distribution, will amount to more than 40% of FIT's issued share capital.

Libvest's share price soared to a 12-month high on the JSE yesterday after the dividend announcement, gaining 25c or 5,9% to R4,45 from its R4,20 high on February 1. Libhold shares surged 150c to R62, and Liberty climbed 100c or 3,7% to R27,50.

Liberty shares offshore investments

GILLIAN HAYNE
and PETER GALLI

LIFE assurer Liberty Life Association (Liberty) — which yesterday announced strong dividend growth — is to distribute as a special dividend some of its shares in the Liberty Life group's offshore arm First International Trust (FIT).

FIT is the holding company for the group's UK interests. These are held through Transatlantic Holdings, in which FIT has a 49,3% stake.

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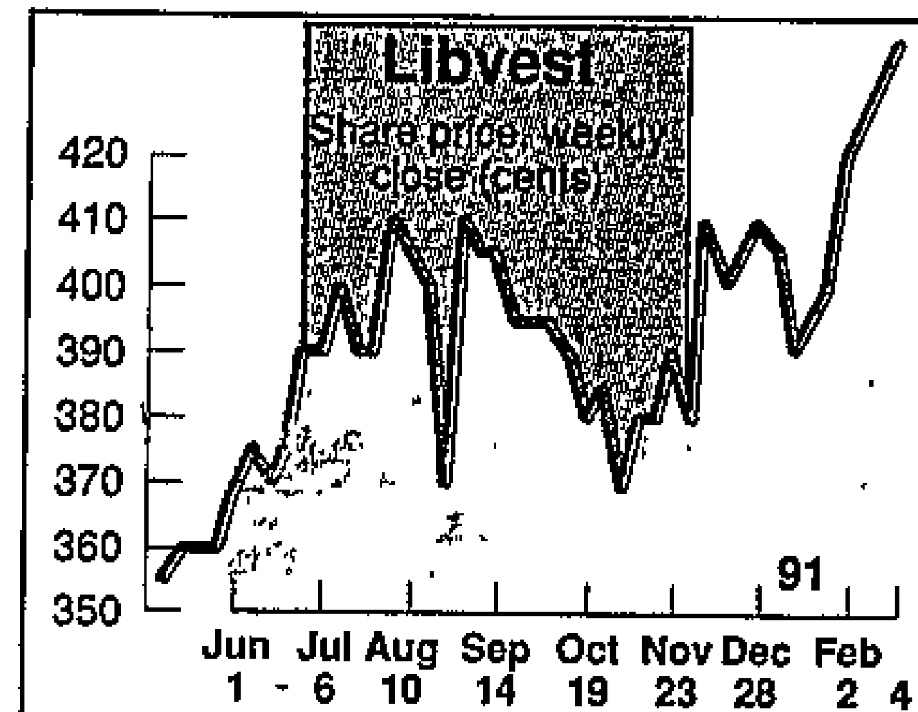

Graphic: LEE EMERTON Source: JSE

FNB fires fresh salvo in Allied battle

GILLIAN HAYNE

FIRST National Bank (FNB) is advising Allied Group shareholders not to be bullied or misled by UBS's attempts to "steamroller" them into accepting the UBS, Volkskas, Sage Financial Services (SFS) merger proposals as a *fait accompli*.

The FNB statement published today is in reaction to the UBS consortium's weekend statement to Allied shareholders which gave reasons why shareholders should not respond to the FNB offer.

It also quotes Allied MD Kevin de Villiers as backing the FNB bid, criticising United's return on capital and describing the Sage profit record as "abysmal".

The FNB statement claims the UBS consortium deal has been strung together with hidden agendas and third party interests.

UBS CE Piet Badenhorst said last night that some of the FNB claims were "arrant nonsense". He denied any attempt to steamroller Allied shareholders.

Badenhorst said UBS would shortly submit a formal offer to shareholders and argued that it was misleading to say UBS had not consulted Allied shareholders.

He added that the UBS merger agree-

□ To Page 2

FNB

ment for the formation of Amalgamated Banks of SA (Absa) was conditional upon acceptance by Allied shareholders.

He also emphasised that auditors Price Waterhouse had issued a certificate to the JSE stating the various aspects of the deal could be considered as "fair and reasonable" to the shareholders of the four merging companies.

Badenhorst said De Villiers did not have the backing of his board in coming out in favour of an FNB/Allied alliance. He said this had been confirmed by Allied chairman Norman Alborough.

Brokers would not be drawn on the next step in the battle, saying it was time to end the speculation and just watch the events unfold in the next couple of days.

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However, they dismissed, as "unlikely", suggestions of a counter-bid by UBS or the entry into the fray of a new bidder.

Allied shares continued to attract most attention on the JSE with 2,76-million shares worth more than R7,3m changing hands in 350 deals. The share price remained unchanged at 265c.

FNB featured in a big bookover deal which dealers said was not related to the current merger proposals. A total of 233 368 shares worth R7m were traded, but the price eased 25c to R30 at close of trade.

UBS shares fell 2,5% or 20c to 750c in 48 deals worth R685 000 on a volume of 90 054 shares.

Volkskas and Sage remained unchanged at 1 750c and 800c respectively.

More underwriting losses expected

B Day 5/2/91. (58)

SEAN VAN ZYL

A FAIR number of short-term insurance companies are expected to disclose underwriting losses for the 1990 financial year, says analyst Graham Baillie of stockbrokers Davis, Borkum Hare & Co.

The majority of insurers' year-ends are to end-December and their results should be disclosed during the course of February and March.

Last week SA Eagle Insurance's published year-end figures showing a dismal underwriting performance with no real growth in investment income. It ascribed the underwriting loss to the high level of crime and the rates war.Because of this factor, many insurers have been largely reliant on investment income to compensate for underwriting losses.

Baillie said that due to the volatile conditions experienced on the JSE and world stock markets last year, insurers' investment income would have remained largely static, without any gain in real terms.

As a result, insurers' solvency margins must have been affected. But, he added that the situation was "far from critical".

"Most insurance companies' solvency margins are well above the 15% requirements."

Insurers, however, are also required, as recommended by the Melamet Commission, to pay 10% of net premium income over a five-year period into a contingency reserve.

The second payment to this reserve was due for the year to end-December, and would not be reflected on the income statement of companies. As a result, sums set aside for the contingency reserve would put additional pressure on insurers.

Liquidation

Baillie said the biggest problem facing the industry was the impact which a loss of business through higher rates would have on their books. Most insurers have already indicated an increase of about 30% for this year.

"Higher premium rates will be necessary to strengthen insurers' balance sheets this year."

SA Insurance Brokers Association's (Saiba's) vice-president Paul Heinamann stated in the association's latest bulletin that "if the current rate war continues unabated . . . there is a real possibility of one or more insurance companies being plunged into liquidation".

This sentiment was backed by PFV Insurance Brokers' MD Mike Hofmeyr, who said that "the security and solvency of some SA insurers, as the local market follows the UK and US trend of large underwriting losses, remains a matter of concern".

He added that insurer solvency margins, which improved dramatically over the past three years, had shown signs of declining over the last six months.

"Major contributors to this decline have been underwriting losses, restricted cash flows and a bear stock market which has adversely affected insurance companies asset values."

Hofmeyr believed that it was quite feasible that this year would see further rationalisation in the short-term insurance market.

Registrar of Insurance Piet Badenhorst said that there was still concern in the market over the financial health of some insurers resulting from underwriting losses. As a result, short-term insurance companies would still be required to submit quarterly financial returns on operating results until there were signs that the situation was improving.

Badenhorst added the latest quarterly returns had to be submitted by last week.

● BADENHORST

Insurers asked to investigate deregulating commissions

B/Day 5/2/91. (58)

SEAN VAN ZYL

THE Financial Institutions Office (FIO) has requested that life offices' and short-term insurers' representative bodies investigate possible deregulation of intermediaries' commissions, says Registrar of Insurance Piet Badenhorst.

Insurance intermediaries' commissions on policies, which is standardised through legislation, has been a hot issue in the industry for a number of years.

Badenhorst says the latest probe into "prescribed versus negotiated commissions" resulted from a Competition Board recommendation.

Insurance bodies such as the SA Insurance Brokers' Association (Saiba), SA Insurance Association (Saia), the Life Offices Association (LOA) and the short-term and life advisory committees have been notified. These organisations are to meet the FIO during February and March.

Industry bodies are also expected to have formulated their recommendations by March 15. These will be addressed by the authorities and a final report, which could result in the repeal of existing legislation, should be drawn up by the end of this year, says Badenhorst.

Saiba president Garry McCreesh confirms the FIO request. He says the Competition Board's recommendation is thought to have been inspired by government's drive to deregulate the economy.

Saiba has contacted other insurance organisations involved, and should be able to comment on the industry's findings in March, he says.

It is believed that brokers will favour deregulation while insurance companies will oppose it.

An LOA spokesman says the organisation has "gone through this many times in the past" without the industry and authorities reaching any conclusive decision.

However, brokers should be cautious supporting deregulation of commissions. If commissions are freed, brokers will have to "give full disclosure to policyholders".

This could be detrimental to brokers, because agents, being in-house staff of insurance companies, do not have the same overheads as brokers. Brokers require higher commission and could lose business.

Liberty shareholders get special FIT bonus

By Tom Hood

Liberty Life Association is to pay out as a special dividend more than 34 million shares in the group's 62 percent-owned First International Trust, holding company for its UK interests.

The shares are worth about R68 million and they will be tax-free except for life insurance companies and non-resident shareholders.

The move is to give shareholders a direct interest in the group's overseas operations, says Farrell Sher, executive director of Liberty Holdings.

Liberty shareholders will receive 34,2 million FIT shares on a basis of 16 for every 100 ordinaries held. Libhold shareholders will get 19,2 million on a 42-for-100 basis. Libvest shareholders will get 5,1 million on a basis of 2,5 for every 100 held.

Shareholders entitled to fewer than 100 shares will be paid 199,2c a share in cash.

After the payout, Liberty Life's stake in FIT will drop to 40 percent from the present 62 percent, with about one-third attributable to policy holders.

At present 66 million of Liberty's 85 million shares are attributable to shareholders and 19 million are attributable to policy holders.

Chairman Donald Gordon also announced today a record final dividend by Liberty Life for the half-year to December, raising the payout by 44 percent to 54c (37,5c). Total payout for 1990 is 86c, up 36,5 percent from the 63c paid for 1989.

Liberty Holdings will pay a 145c final, up 57 percent, to boost the year's total by 46,7c to 220c.

Phone-in TV debate on Allied merger ditched at the last moment

B Day 6/2/91.

GILLIAN HAYNE

SABC's attempts to get UBS Holdings CE Piet Badenhorst and Allied MD Kevin de Villiers on to a television chat show have been ditched.

The planned discussion on today's Good Morning South Africa was aimed at investigating issues surrounding rival merger proposals for the Allied Group.

The show was expected to provide the UBS consortium and First National Bank (FNB) with the opportunity to discuss the merits of the their respective bids for Allied. The public were to have been invited to phone in with questions.

Both De Villiers and FNB MD Barry Swart said yesterday they had been keen to appear on the show.

Programme producer Isak Minnaar said although everything had been arranged, problems arose and a decision to scrap the show was taken last night.

The problem apparently arose after Badenhorst complained that the terms of the UBS merger plan barred De Villiers from taking part.

Allied sources said chairman Norman Alborough also "forbade" De Villiers from attending. Alborough could not be contacted for comment.

De Villiers, however, sought legal advice and was told that he could take part.

Lawyers said De Villiers was protected by a clause in the UBS/Volkskas/Sage/-Allied merger proposals which stated nothing prevented a director of Allied from actively encouraging shareholders of Allied from voting against the merger.

De Villiers said: "I have made it clear that my views do not represent those of my board, and I am not speaking on their behalf. I speak as a major shareholder and an employee of the company."

He added he was "disappointed" that the programme had been cancelled.

Swart also expressed his surprise and disappointment at the late cancellation and said he could only assume that pressure was brought to bear on the SABC to can the show.

(58)

Neither Badenhorst nor UBS chairman Herc Hefer were prepared to comment last night.

SABC TV news editor-in-chief Christo Kritzinger said the GMSA show had been prepared around a complicated and sensitive issue.

After speaking to various people, including Alborough, it was decided to postpone it until a more fair and equitable approach to the issue had been decided upon.

"It is true to say that the Allied shareholders are entitled to a fair presentation of the facts rather than an emotional fight between two people," he added.

Public interest in the merger talks is high. UBS heads a consortium — also comprising Volkskas and 49% of Sage Financial Services — which hopes to merge with Allied.

If its bid succeeds, it would lead to the creation of SA's largest banking group — the Amalgamated Banks of SA (Absa) — which would control assets in excess of R50bn.

RMB shows 21% profit growth for half year

B\Day 6/2/91

ANDREW GILL

RAND Merchant Bank Holdings yesterday reported a strong 21% growth in attributable profits for the six months ended December 1990.

Good results from the trading and project finance divisions helped the unlisted group cap its 20% growth for the full year ended June last year, while other divisions all fared "reasonably well", said chairman G T Ferreira.

The outlook for the next six months should see profits maintained at the 21% growth rate, he said.

Earnings a share were up 21% to 19,5c from the corresponding six months in 1989.

A taste of things to come for other banks was apparent in the 53% jump in total assets as a result of the new Deposit-Taking Institutions Act.

Although only implemented at the beginning of the month, RMB decided to put off-balance sheet assets targeted by the Act on balance sheet for the interims. Ferreira said most of the asset growth had risen as a result of this.

He said declining short-term interest rates and the consequent "normalisation of margins", together with more stringent asset/liability management, enabled the banking division to improve on its budget.

An expected further decline in short-term interest rates should have a positive effect on margins and improve prospects in the banking division, he said.

NEI's diesel operations drag earnings down 36%

B\Day 6/2/91

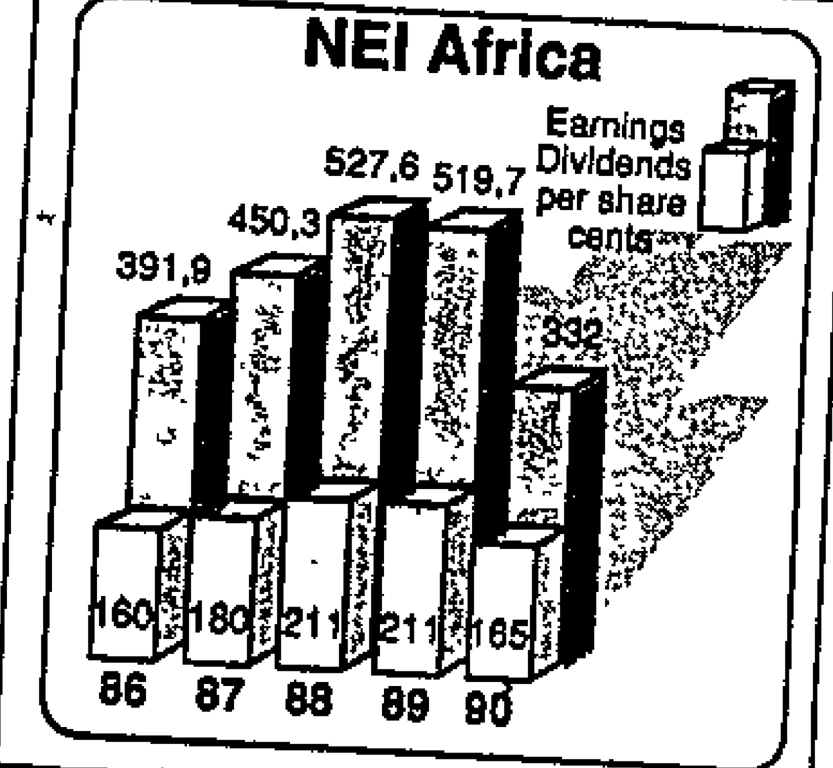
MARCIA KLEIN

THE undetected poor performances in two of North Engineering Industries Africa's (NEI Africa's) diesel operations resulted in a 36,1% decline in earnings to 332c (519,7c) a share in the year to end-December 1990.

The engineering group's MD and CE Lawrence Hyslop said last night that a serious deterioration in the performance of two subsidiaries "was exacerbated by a breakdown in accounting controls" — which was not apparent until the closing of the year-end accounts.

This meant that the board was unable to advise shareholders earlier of the nature and extent of the variation from forecast, and the two companies had "been doing a lot worse than was reported".

He said the transport industry had been badly affected by the downturn in the economy, and this, together with "some operating company difficulties", resulted in the two subsidiaries of the diesel operations turning in performances well below budget.



Graphic: LEE EMERTON Source: NEI AFRICA

While NEI Africa's turnover increased by 21,6% to R713,6m (R587,0m), the combined effects of a 19,6% drop in operating income to R55,6m (R69,1m) and a 59,9% increase in net financing costs to R15,1m (R9,5m) saw net operating income down by 32,2% to R40,4m (R59,6m). Net income after tax declined by 35% to R20,8m (R32m).

A final dividend of 110c was declared, bringing the full year dividend to 165c (211c) a share on a reduced dividend cover of 2 (2,5) times.

However, besides the diesel operations, other divisions in the group had performed well, particularly the mechanical division where International Combustion Africa Limited (ICAL) and John Thompson Africa had achieved "very positive results".

While Hyslop would not make forecasts for financial 1991, he said the group had a sound base with orders totalling about R400m in the books.

Holding company North Africa Holdings declared a final dividend of 55c a share based on earnings of 166c (255c) a share.

Nedcor offers fair value for money

Diagonal Street

LYNNE PEACH

Nedcor produced satisfactory results in the past financial year and, despite continued recession and fierce competition, has the potential to enlarge its market share and improve profitability.

In the annual report, CEO Chris Liebenberg warns that the banking industry will have to recognise a capital constraint on future growth.

Nedcor, which includes Ned-Perm Bank with its divisions Nedbank and the Perm, is a diversified group of companies in the financial services industry.

Activities include merchant banking (UAL and Finansbank), trust and participation bond management (Syfrets and Secured Investments), and debt factoring (Nedbank Commmercial Services).

The group also comprises a number of specialised institutions — Nefic, Nedfin Bank, Cape of Good Hope Bank and Syfrets.

Nedbank remains the major contributor to Nedcor's results, and in 1990 contributed 50 percent of pre-tax income (1989: 52 percent).

Nedbank's total assets of R17,7 billion represent 50 percent of group total assets (1989: 49 percent).

In the year to September, Nedcor's pre-tax income rose 24 percent from R407 million to R506 million.

After tax equalisation, attributable profit rose 12 percent from R257 million to R287 million.

Earnings per share grew from 138c to 154c. The dividend for the year was 51c a share (46c previously).

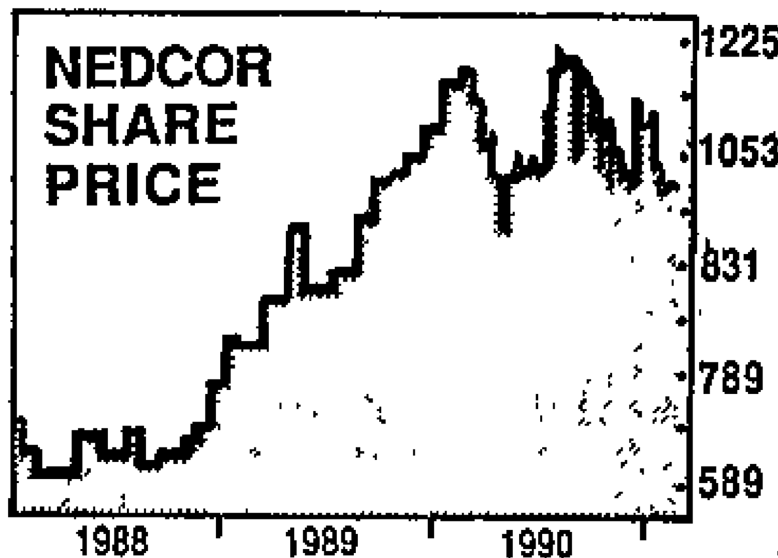
The balance sheet revealed an 18 percent rise in total assets from R29,7 million to R35,1 million and a similar increase in net asset value from 722c a share to 851c.

Mr Liebenberg says these results are gratifying when seen against the backdrop of recession, a tight monetary policy and intense competition.

Nedcor, priced at R10,05, is trading on a P/E ratio of 6,5 and provides a dividend yield of 5,1 percent.

The share offers fair value, compared with the sectoral average P/E ratio of 7,4 and an dividend yield of 4,6 percent.

COMMENT: After climbing strongly throughout 1989, Nedcor's share price tended to drift between R10 and R11 in 1990. The price is currently in a downtrend and will have to approach R11 before a turnaround is confirmed.



New bank would control home loan market

CAPE TIMES 7/2/91

By ARI JACOBSON

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

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

The importance of the tug-of-war between First National Bank (FNB) and the UBS-led coalition is highlighted by Allied's 13,6% portion of the home loans market. FNB languish on roughly 9% (a book of a mere R3,6bn).

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

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

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

FNB senior GM Viv Bartlett said a tie-up with Allied would assure the banking group a well-diversified presence in the industry. FNB has a 27% claim in the instalment credit market coupled with a strong banking portfolio. The Permanent Building Society of SA (the Perm), with its well-documented endeavours in the black housing market, has a sizeable 18,2% of the home loan market.

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

Take FNB-Allied on 22,8%, UBS-Volkskas alliance on 24,8%, and the Perm-Nedbank tie at 21,2% — neatly sharing the spoils in the mortgage market.

In addition intimations of a Standard Bank and Natal Building Society linkage (NBS) would enhance equality with 22,2% of the total home loan profile.

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

CE Piet Liebenberg said the group's 9% stake through Trust Bank home loans was satisfactory, considering the enlarged focus in commercial, industrial and mining loans.

Breakthrough for black business

Sowetan 7/2/91.

By ALI MPHAKI

BLACK businessmen are set to become a major force in industrial property ownership following the opening up of industrial areas to all races, says Investron's investment advisor Mr Charles Ntuli.

In the past black businessmen could only rent offices or factory space.

The new law offers opportunities for the black businessmen to break out of the mould of the past and own their offices and factories - and the land they occupy.

"This means they can now benefit fully from the growing value of property rather than pouring rental money down a bottomless pit," says Ntuli, who was recently appointed investment advisor by Investron.

Ntuli said one of the benefits in buying industrial property was that black entrepreneurs would always be in constant contact with businessmen of other races.

He said this was important because they would be able to exchange ideas with one another. This would go a long way in improving their businesses, Ntuli said.

He said the response to the opening up of industrial land about six months ago was virtually immediate.

He has since sold five stands to black businessmen while more stands are under negotiation.

He said the buyers included two paraffin distribution companies, two taxi operators and a burglar proofing manufacturer.

Ntuli predicted a rapid increase in demand for industrial and commercial property, although hinting that becoming a part of the so-called "formal sector" was initially a complicated exercise involving many things, from banking to municipal regulations.

Ntuli is one of an elite but growing group of industrial land marketers who are geared at meeting the needs of the black industrialist of the 90's.

He is well-known in both business and community circles, particularly in the East Rand township of Katlehong where he serves as chairman of the local chamber of commerce.

He owned and managed his own supermarket which he sold recently. He is a former public relations officer for Shell SA.

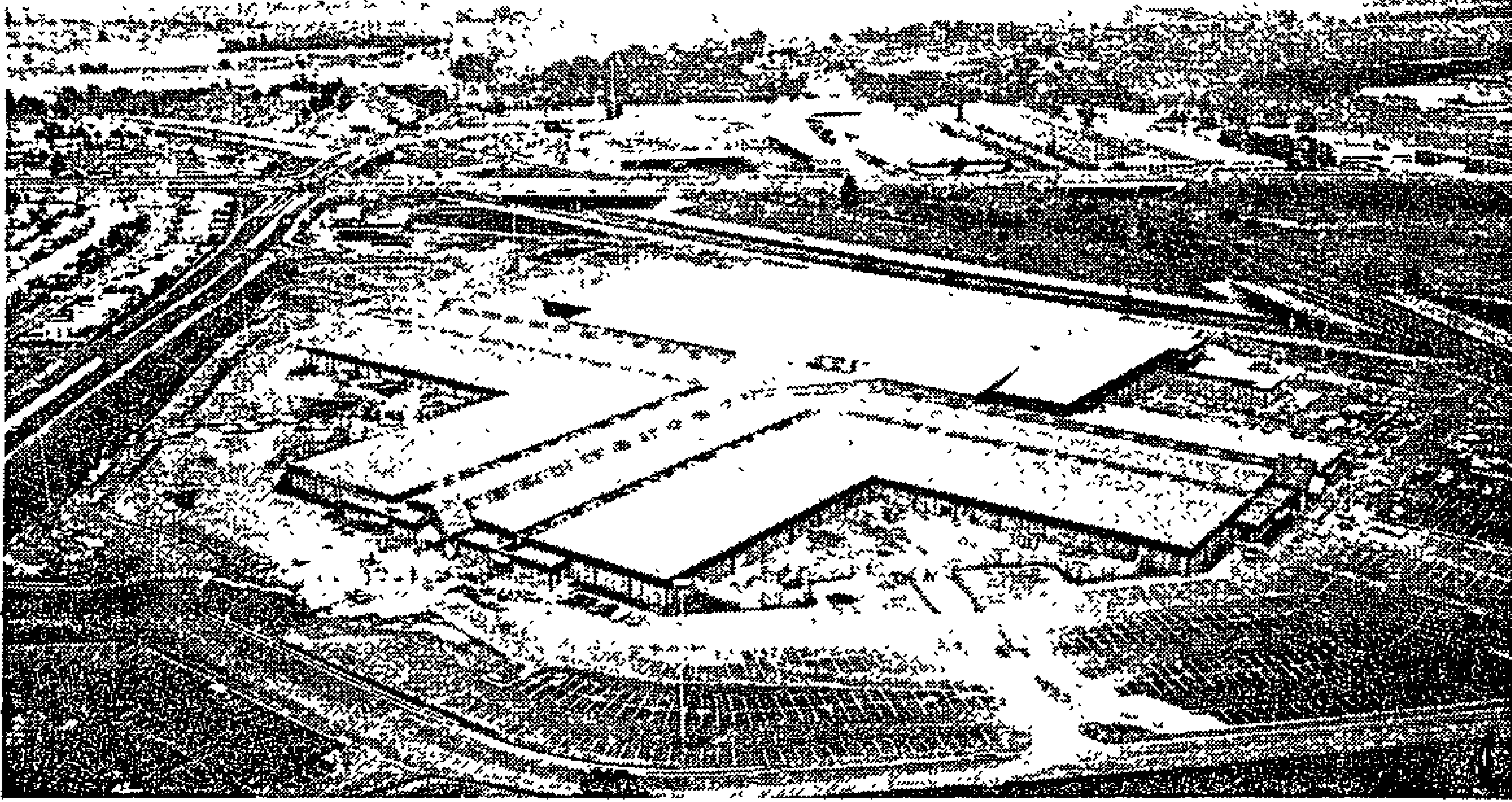
He is currently serving on the board of SA Perm.

Consequently, Ntuli finds himself deeply involved in consultancy on a wide variety of business matters when dealing with his clients.

"We see it as part of our responsibility to ensure that the new owner is settled in his premises.

"If that means providing that little bit extra by way of good general business advice, then that's precisely what we'll do," he says.

He sees the opening up of industrial areas to all races as an opportunity for black businessmen to continue to improve their skills and general business knowledge rather than being isolated and out-of-touch with new developments.



Aerial view of Johannesburg industrial site . . . blacks can now own property like this.

Finrand slowed by profit-taking

(58)

BDay 7/2/91

JOHN CAVILL
and ANDREW GILL

CONTINUED investor interest in SA was countered late yesterday by profit-taking that halted the financial rand's recent surge but failed to knock it off its two-and-a-half-year high.

After climbing to R3,06 ($0,3270) to the dollar in morning trade, finrand creation on the JSE and profit-taking from Germany, London and Switzerland saw the investment unit fall back to close marginally better than Tuesday's R3,12 at R3,11.

"We have evidence of major buying even though there is not much business in equities or bonds. It is possible that demand for the financial rand could be in excess of R300m," said Rob Weinberg, head of mining and SA research at brokers James Capel.

"The outlook is still good, today was a bit of a rest day," said one dealer, who expected the finrand would "have another go" at reaching even stronger levels today.

Upward pressure on the finrand continued in London yesterday, cutting the discount to the commercial rand dollar rate to 18%, one of the lowest since President F W de Klerk's speech last Friday. Since then it has risen by 7% to a high of R3,06 ($0,3270c). It has gained nearly 15% in the past 13 trading days.

Weinberg said: "Not all of it is for portfolio purposes — some looks to be for the purpose of direct investment. It is quite remarkable that the financial rand is now at the level we last saw briefly during the euphoria which followed De Klerk's unbanning statement 12 months ago and that the discount is even narrower, at 18% against 20%.

"We are starting again to get inquiries about SA industrials and there seems to be a broad trend developing — one can expect the discount to narrow further. We know the Reserve Bank objective is a unitary rand.

"One way of getting there is to cut down the discount, so the very strong move of the last three days begs the question of whether there is more to it than supply and demand," he said.

At Smith New Court, Tim Read confirmed renewed investment interest in SA was affecting the supply of finrands. "People have stopped selling SA stock and institutions are looking at the market, even if they are not acting yet.

Tight

"A lot of people who haven't invested in SA since 1976 are also rethinking. We know that there has been a meeting of left-wing controlled local councils to discuss future policy towards SA investment.

"The financial rand market is also rather tight — one can basically deal in only R2m at a time. One factor has been the gold price weakness which has meant London is not bidding for Johannesburg mining stocks, so financial rands are not being created.

"People are also very nervous. Nobody wants to be short of financial rands because the politics in SA have turned positive and the US dollar is down against everything. But they also don't want to get caught as they were last year when the rand took a beating after shooting up on De Klerk's February 2 speech and the release of Nelson Mandela," he said.

BDay 7/2/91

Sage group changes its year-end to March

(58)

GILLIAN HAYNE

SAGE Holdings has changed its year-end to March from December making the current reporting period 15 months to March 31 1991, the group announced yesterday.

Sage Holdings subsidiaries have also changed their year-ends to March, as required in terms of the Companies Act.

These include Sage Financial Services (SFS) — its life insurance and unit trust arm — and Sage Property Holdings.

Sage Holdings financial director Bernard Nackin said the decision had nothing to do with SFS's proposed merger with UBS, Allied and Volkskas — all of which have March year-ends.

Trusts

"If the merger into Amalgamated Banks of SA (Absa) goes ahead, the March year-end will be convenient, but it would have been very premature to make the change purely on that basis," he said.

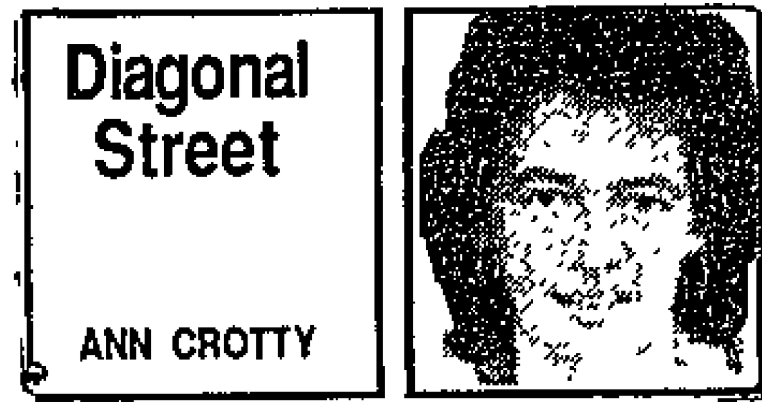
Nackin explained that the decision had been taken by Sage Holdings as a matter of convenience, inter alia, as there were a number of problems with December, especially for the trusts.

The listed companies in the group will declare final dividends in respect of the 15 months to March 31 1991.

In the case of the group equity and property trusts, income distributions will be paid for the six months to end-December and a special distribution for the extra three months will be declared.

Fedsure's Saambou role far from certain

Star 6/2/91 (58)



While the Fedsure/Saambou deal has tended to focus attention on the looseness of the control position at Saambou, some analysts are now pointing to the fact that Fedsure's role as possible white knight could be somewhat undermined by the fact that control of Fedsure may not be too secure.

Fedsure is not attached to any of the large institutions. Control is effected through a pool arrangement between a number of directors and shareholders (among which is John Barrow of Barrow Construction).

This pool arrangement is believed to hold about 40 percent of the shares.

Apart from a large bookover last June, there was relatively little trade in Fedsure in calendar 1990.

The bookover renewed speculation about a change of control, with FSI's Jeff Liebesman mentioned as a possible suitor.

Speculation about Fedsure is fuelled by the fact that the group controls a large and attractive asset base which has seen rapid growth in recent years.

This growth is believed to have put a strain on the group's capital base, with one analyst speculating that Fedsure may need to come to the market with a rights issue in the not too distant future.

Because control does not rest with a cash-rich institution, feeling was the pool partners might want to approach a friendly cash-rich party to support a rights issue.

But after June, speculation, along with the trading volumes, died down.

Then, in December volumes picked up and the share price strengthened. From a level of 350c in early December the price has moved to a current 475c.

McGregor's Reference to the JSE shows that the three major shareholders are Federated Employers Mutual Assure with 14,65 percent, Jonel with 12,4 percent and, Ferbros Nominees (associated with stockbrokers Fergusson Bros) with 4,5 percent.

The rest of the shareholding is very scattered — rather like the Saambou shareholding.

After Fedsure's decision to support 50 percent of FNB's cash underpin to Allied shareholders (through Federated Life), there was speculation that Fedsure might move towards the FNB camp if its independence could be protected.

FNB is believed to have offered attractive longer-term benefits to Fedsure in exchange for its support for the Allied offer.

A loose arrangement between FNB and Fedsure would also involve Saambou if the Fedsure/Saambou transaction is effected and if Fedsure elects to convert the convertible debentures (CDs). (It should be pointed out that even a loose arrangement between Fedsure and FNB might conflict with FNB's relationship with Southern Life).

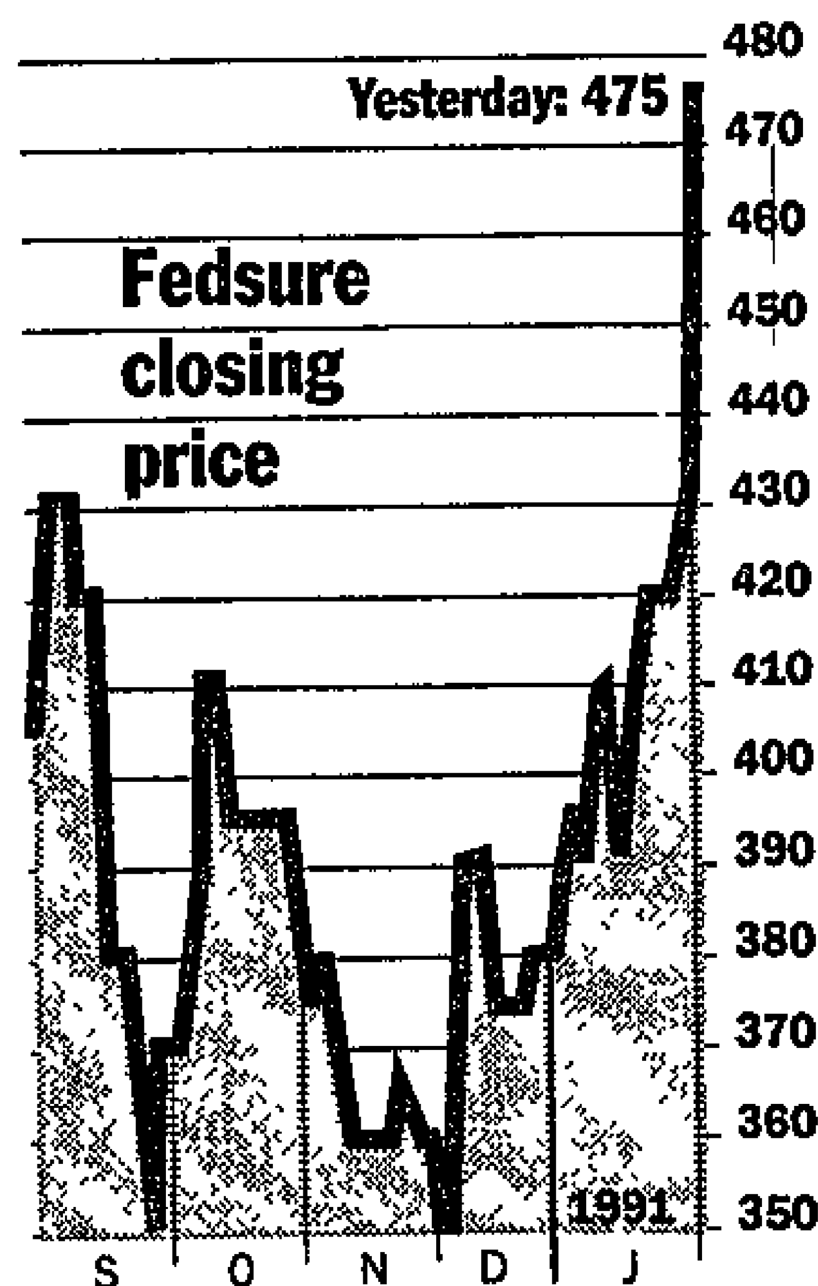
Presumably Fedsure could on-sell the CDs or the shares to another party. A banking group such as FNB could pick up attractive capital benefits from Saambou.

NBS would also have a leg in this camp as both FNB and Fedsure have stakes in NBS.

All of this means that if FNB does miss out on Allied it could still have a significant exposure to building societies.

But as one analyst pointed out there is currently so much speculation concerning the banking/finance sector that it would probably be possible to link any parties in a deal.

(For investors who feel the Fedsure/Saambou transaction has a familiar ring to it, it may be significant that the Perskor board (which recently sought a white knight in the form of Rembrandt) has two members in common with Saambou — Koos Buitendag is chairman of Perskor and a director of Saambou; Hendrik Sloet is chairman of Saambou and a director of Perskor).



Prestasi and MIB group join forces

Star 6/2/91 (58)

Finance Staff

Prestasi Financial Network and the MIB Group, formerly known as Minets, have joined forces to form a new short term insurance broking group which will be known as Prestasi Commercial.

This represents the coming together of the largest independent commercial (MIB) and personal short term brokerages (Prestasi).

Jan Erasmus, chief executive of Sege Alliance and chairman of Prestasi Commercial said in Johannesburg yesterday that the new company would provide specialist short term insurance services to the commercial and industrial sectors.

Prestasi holds 51 percent and MIB the rest of the shares.

The company will be managed by the MIB Group.

Together Prestasi Financial Network and the MIB Group boast a joint premium income in excess of R500 million a year.

MIB Group CEO David Harpur, left, with Jan Erasmus, Sege Alliance CEO and new Prestasie Commercial chairman.

New joint venture in broking

GILLIAN HAYNE

INDEPENDENT short-term insurance brokers Prestasie Financial Network (PFN) and the MIB Group yesterday announced the formation of a joint venture broking firm, Prestasie Commercial.

The new brokerage will provide specialised short-term insurance services to the commercial and industrial sectors. PFN was traditionally concentrated in the short-term insurance market and MIB in personal short-term insurance.

The MIB Group, known previously as Minet SA, was brought under the Syfrets umbrella in 1980, but achieved independence with a management buyout in October 1990.

Sege Alliance CEO Jan Erasmus will be chairman of the new company with MIB Group CEO David Harpur as deputy chairman. The company will be managed by the MIB Group with Willers Baard as executive director of Prestasie Commercial.

PFN will hold 51% and MIB 49% of the new company. It will be backed by the combined resources of the two groups' premium incomes which exceed R500m a year.

Erasmus said that in the new SA the "old vested interest links" with insurance companies would be broken down, opening up opportunities to independent brokerages.

He believed that the new venture's independence would appeal especially to black entrepreneurs.

Both companies emphasised the importance of working off an independent platform. It was only by maintaining an independent status that brokers could ensure that a client's interests were paramount, they added.

Harpur said: "By bringing both personal and commercial lines of business together, as well as English and Afrikaans cultures, new doors will be opened."

SHORT-TERM INSURANCE FM 1/2/91 (58)

FACING THE WORST

An unofficial method of redistributing wealth — theft — is working well, but hurting insurers badly. SA Insurance Association (Saia) CE Rodney Schneeberger expects short-term results for 1990 to reflect aggregate underwriting losses of R250m.

Such loss ratios are unprecedented in SA short-term experience.

In 1989, underwriters were partially shielded by investment profits. For 1990, several insurers, including some prominent players, concede they will report overall losses.

The R250m includes fire, commercial, industrial and all personal lines. A R129m fire claim at the beginning of the year, the Welkom tornado and a hailstorm in Barberton which produced severe losses, are largely reinsured.

The crunch, says Schneeberger, is that most motor vehicle underwriting is for the insurer's net account and the main culprit remains car thieves, who have overcome sophisticated loss prevention devices.

In 1987, 56 640 vehicles were reported stolen. The figure was much the same the next year, at 56 940. Saia members project that final figures for 1990 will be about 72 000. About 53% of vehicles stolen are recovered. That leaves, at an average vehicle value of R30 000, a haul of more than R1bn.

The situation was exacerbated by rising accident claims. Average vehicle accident costs are approaching R5 000, from R1 800 only three years ago. Schneeberger says the losses cannot be absorbed. Nor can the industry solve the problem simply by raising rates — "that would be an insensitive answer to the consumer's situation."

Yet rates will go up, so long as the industry experiences such losses. But, Schneeberger says, there could be other palliatives. One might be for policyholders to accept more risk (excess) themselves to hold down premiums. Because insurance companies do not abide by tariffs, there are no statistics to confirm how much the average motorist carries in self-insurance.

Schneeberger reflects that the current level of theft is a mirror of society's needs. The statistics could reduce when a satisfactory socio-political dispensation is reached.

Meanwhile, there is the possibility that fleet owners — and even groups of private owners — will opt for self-insurance. That route, Schneeberger says, has obvious temptations and even more obvious pitfalls. "Experience has shown that even large fleet owners who went that route and had initial success were tempted to raid the pool for the wrong reasons, when they needed capex and when interest rates were high."

The very reason that short-term insurers must have high solvency margins, he adds, is why private pool insurance should not be contemplated.

Vehicle hijackings are not the problem some reports suggest. Saia's figures record 208 incidents from November 1989 to December 1990, with 88% in the Transvaal. Between 65%-70% involved high value cargoes such as liquor and tobacco. ■

MONEY BROKING FIM 8/2/91

ON THE LINE (58)

Proposed rules relating to money broking have been spelt out in a discussion paper drafted by the Reserve Bank. Comments on the paper are requested by February 22.

Stockbrokers, accountants and lawyers who run money brokerages could be most affected as "pooling" of funds becomes illegal, cutting revenue from commissions and interest and making money broking a much less attractive business.

Money broking is defined in the Deposit-Taking Institutions (DTI) Act as "the effecting of a money lending transaction directly between a lender and a deposit-taking institution as borrower, through the intermediation of a money broker."

This means money brokers will have to comply with stricter conditions. Whereas in the past they were allowed to pool funds, they will now have to open individual bank accounts for each client/investor. The funds of a lender in a money-broking transaction may not flow through the bank account of a money broker.

The move will benefit banks as they will now pay (lower) retail rates for many small deposits instead of wholesale rates for large pooled deposits, says Deloitte Pim Goldby partner Tim Store. However, he says the new rules might put smaller banks at a disadvantage. They relied more heavily on money brokers for funds than did big banks with large branch networks which attract retail funds.

The paper also states that it is illegal for a money broker to place funds with a borrower, other than a DTI, whose borrowing and lending transactions have to be reflected on

Continue →

ECONOMY & FINANCE FIM 8/2/91

its balance sheet. This cuts out the controversial grey market in funds which by-passed banks.

DTIs are allowed to have an interest of 50% or less in a separate legal entity which is a money broker. These are nominee companies which have previously been used by banks for this purpose. All funds handled by the nominee company however should be invested with its shareholder DTI.

The lender has no recourse to the bank where funds are placed. In case the money broker fails to follow the lender's instructions, falls into difficulty or acts illegally, the paper recommends a mandate from lender to money broker. This would include information on ownership of funds, types of borrowing instruments in which the funds may be invested, instructions to the lender and where funds may be invested. ■

BANKING

FM 8/2/91

BACK FROM THE RUBICON

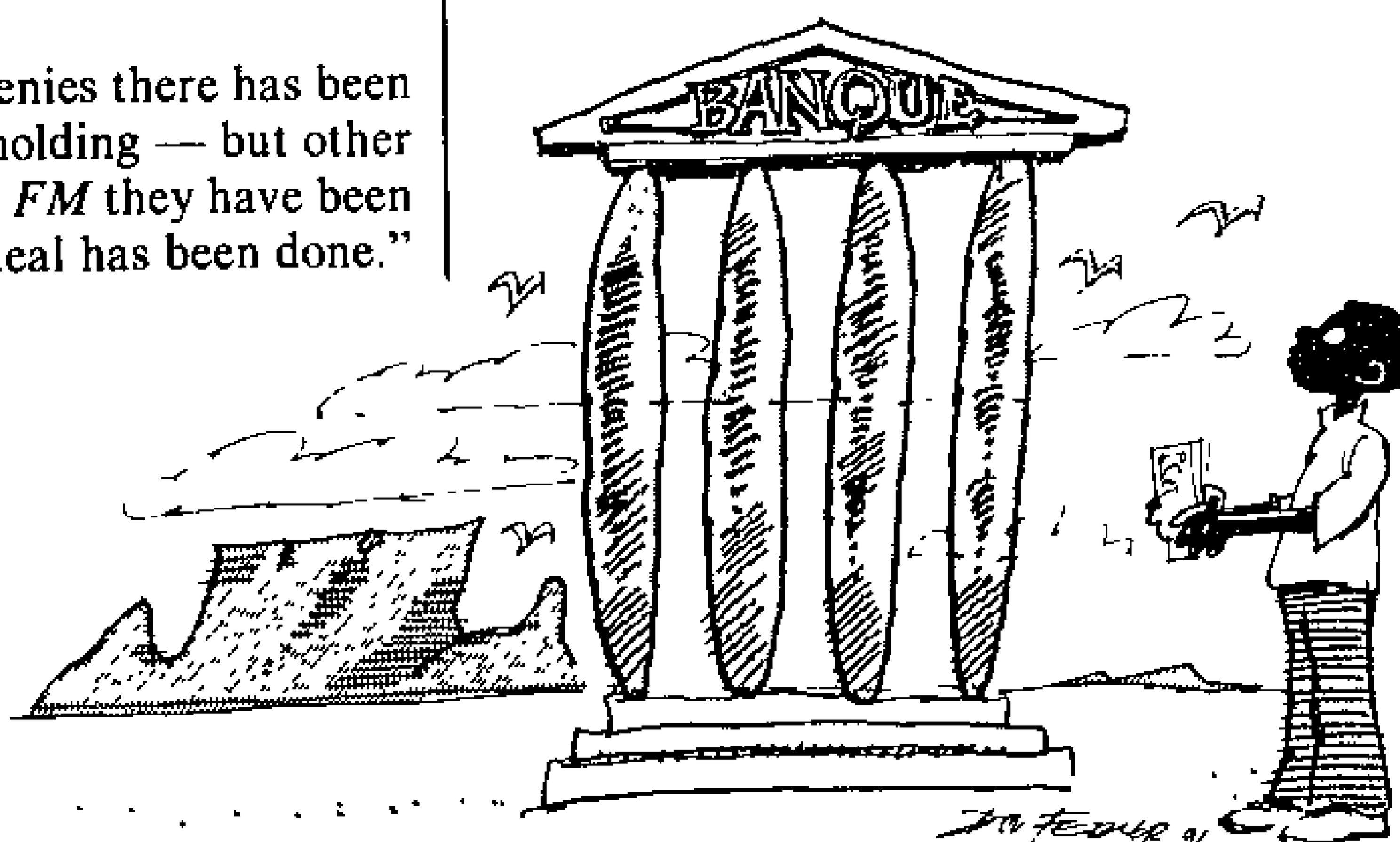
(58)

A deal involving Bankorp's 50% stake in the International Bank of Johannesburg (IBJ) is in the pipeline. One of France's largest banks is thought to have bought — or to be in the process of buying — this shareholding.

Bankorp decided to sell as part of its strategy to rationalise business. Moreover, it seems the group thought it didn't make sense to hold 50% in a bank which was effectively a competitor.

IBJ MD Peter Gray denies there has been a change as yet in shareholding — but other interested parties tell the *FM* they have been told to "cool off, as the deal has been done."

He does confirm that a number of foreign and local institutions have shown interest — but says finalisation of any deal will take an estimated three to four months.



Gray comments that despite recent developments, there is still a level of concern among European banks worried about being associated with SA — so they are reluctant to attract the attention of anti-apartheid activists, which means negotiations at this stage are shrouded in some secrecy. "They have to be careful because of their interests elsewhere in the world," Gray says.

Since political pressure induced the US-based Chase Manhattan to abandon SA in 1985, followed by other international banks, the country has been isolated from the global financial community. Though credit, largely short-term trade facilities, continued to trickle in, investment funds virtually disappeared.

But, since the lifting by the EC in December of the ban on new investment in SA, European institutions have been expected to stage a comeback. IBJ is a small general bank involved mainly in trade finance, foreign exchange and corporate lending.

It would be the perfect conduit for an international bank looking for a springboard to southern Africa.

Bankorp's partner in IBJ has hitherto been stated as a major European financial institution; Gray says only that the shareholder is Swiss-based. It is not yet clear whether this institution is bidding for the remaining 50%.

IBJ was established in 1980 by the late Fred du Plessis, Sanlam chairman, who acted as IBJ chairman until his death in 1989. Du Plessis wanted to have an international shareholder so the bank could claim international status and be in a position to benefit from international business.

IBJ must be a minor investment for a major European financial institution. But it is seen as having enormous potential growth, as SA is the route to business with the rest of southern Africa. It is small in terms of assets and capital with net capital and disclosed reserves of R23,8m, total assets of R505m and a capital:asset ratio of 4%, according to September quarterly returns submitted to the Reserve Bank.

Gray says new funds have pushed net capital up to R26m-R30m — 1990 figures are being finalised now. An estimate of net asset value (not adjusted for investments) based on figures in the September 1989 annual report, is R1,76 per share.

This is calculated on shareholders' funds of R19,8m and issued ordinary shares of 11,2m.

Unlike its predecessor, the 1965 Banks Act, limited foreign holdings in domestic banks, the Deposit-Taking Institutions Act which allows a foreign bank to own a 100%-subsidiary in SA.

It has to be a fully capitalised subsidiary and cannot be a branch

Heather Formby

FM 8/2/91

SAAMBOU/FEDSURE

STRIKING A DEAL (58)

Fedsure has positioned itself to take a major stake in Saambou, while keeping the back door open for retreat in case synergies, which the two groups hope to achieve by working together, fail to materialise.

In agreeing to trade Fedlife subsidiary Planet Finance for convertible debentures in Saambou, valued at R55m, Fedsure has probably closed the door on any other bids for control of the building society, while giving itself three years to try to develop a close relationship with the Pretoria institution before committing itself to equity. According to the terms of the agreement, Fedsure can choose at any time before the end of March 1994 to convert its debentures into a 30% stake in Saambou, or redeem them for R55m — 140c a share — plus a premium calculated on any increase in the building society's net worth from March 1991.

Fedsure CE Arnold Basserabie emphasises the deal was under discussion long before Trafalgar Portfolio Managers made its bid last month for 30% of Saambou. He says it is not intended to protect the building society from a hostile takeover. "It's beneficial for both organisations and their shareholders," he says. "Fedsure has acquired a potentially good investment while Saambou has secured its future and will benefit from the synergies of the association with Fedsure."

With many Saambou shares held by small investors, conversion of the debentures held

continue p.

by Fedsure into equity is likely to be sufficient to give it effective control — Fedsure already holds a small, though undisclosed interest in Saambou.

Saambou's board has backed the agreement and it is expected to be accepted by most of the shareholders. Basserabie says Fedsure's immediate aim is to help the board and management of Saambou maximise earnings. This will initially be achieved through board participation by Fedsure management, as well as co-operation in such areas as computer services and marketing. Later, support in the form of financing as well as closer ties between the two groups' property and investment interests could materialise. The transfer of credit financier Planet, whose book Fedsure values at about R50m, should benefit Saambou's cash flow and profitability.

Saambou chairman Hendrik Sloet acknowledges the building society's performance has not been up to scratch but says several steps, including strengthening management and scaling down administrative overheads, are being taken to improve results. The association with Fedsure should help Saambou to broaden its services into the English-speaking community, he says, and if Fedsure takes up its equity, this will pave the way for creation of a new financial services group.

Though Basserabie says Fedsure will be strongly represented on the Saambou board, he is cautious of describing the deal as an acquisition or even a merger. "It is certainly not a takeover," Basserabie says. "It is rather a first step towards an alliance which we anticipate will lead to us taking up a 30% equity."

The Fedsure and Saambou agreement was effective from January 31 — the day before the new Securities Regulation Code came into force — and will not be subject to scrutiny by the panel. Basserabie says that even had the code been in force, the structure of the deal would not have changed. He contends the agreement involves acquisition of an asset by Saambou, for which it issued debentures and would not have required an offer to other shareholders.

Others may find that unconvincing. Irrespective of whether Saambou acquires an asset, Fedsure gets convertible securities that would entitle it to a 30% stake upon conversion. That seems clear enough.

Simon Cashmore

Allied MD's fate in the balance

By Derek Tommey

The battle between the two financial giants UBS-Volkskas and First National Bank for the Allied Group could take a dramatic turn today.

The Allied managing director Kevin de Villiers, who has publicly opposed the Allied's merger with UBS-Volkskas, is expected to be asked to resign.

Meanwhile, FNB is expected to continue with an expensive campaign to aquire enough shares through the stock exchange to block the UBS-Volkskas bid — a move which should give Allied shareholders handsome benefits.

Johanesburg financial district was alive with stories yesterday that the board of the Allied had decided on Wednesday night to fire Mr de Villiers because of his opposition to their decision to merge the Allied with UBS and Volkskas.

Mr de Villiers who was at his office all yesterday, said he could not confirm or deny the reports but added that his firing was not impossible.

Other Allied board members refused to make themselves available for comment yesterday.

It now appears that Mr de Villiers has been summonsed to a meeting of the Allied board at 10 am today when it is expected he will be asked to resign. Mr de Villiers is expected to refuse.

The outcome of the meeting is uncertain but could result in a major legal battle, with the fiduciary duties of a director and his responsibilities to shareholders being highlighted.

Price jumped

Yesterday the Allied share price jumped 14c to a record 280c on the Johannesburg Stock Exchange yesterday. This is considerably higher than the offer prices from UBS, Volkskas and FNB.

Dealers on the JSE believe the jump in the Allied share price to 280c is result of heavy buying by FNB. They believe that the FNB is finding it extremely difficult to mobilise the 40 000 small shareholders, each holding less than 1 000 shares, in its support.

Allied's small shareholders' apparently will not be rushed into committing themselves. As a result, as time is against the FNB, it is believed it has decided to pay a premium and aquire enough Allied shares to frustrate the UBS-Volkskas merger through the JSE.

The effect of this will be to increase the price the FNB will have to pay for the Allied by about R60 million to around R840 million.

ATLANTIS BUYERS' CO-OPERATIVE
GROUP OR AREA ORDER FORM
DATE:
GROUP ORDER FORM
TEAM
AREA ORDER FORM
AREA NAME:
REP SE ADRES:
TOTAL
SUBS
TRANSPORT
GRAND TOTAL

METROPOLITAN LIFE

MANAGING THE COST RATIOS

FM 8/2/91 (58)

Activities: *Life assurer.*
Control: *Sanlam and Sankor 74,14%.*
Chairman: *P J F Scholtz; MD: W S Pretorius.*
Capital structure: *44,5m ords. Market capitalisation: R316m.*
Share market: *Price: 710c. Yields: 5,2% on dividend; 8,0% on earnings; p:e ratio, 12,6; cover, 1,5. 12-month high, 750c; low, 575c. Trading volume last quarter, 288 000 shares.*

Year to Sep 30	'87	'88	'89	'90
Total assets (Rbn) ...	1,87	1,92	2,57	2,99
Premium income (Rm)	261	341	438	546
Invest income (Rm) .	132	165	217	273
Earnings (c)	28,5	36	45	56,5
Dividends (c)	19	24	30	37
Net worth (c)	153	165	180	199

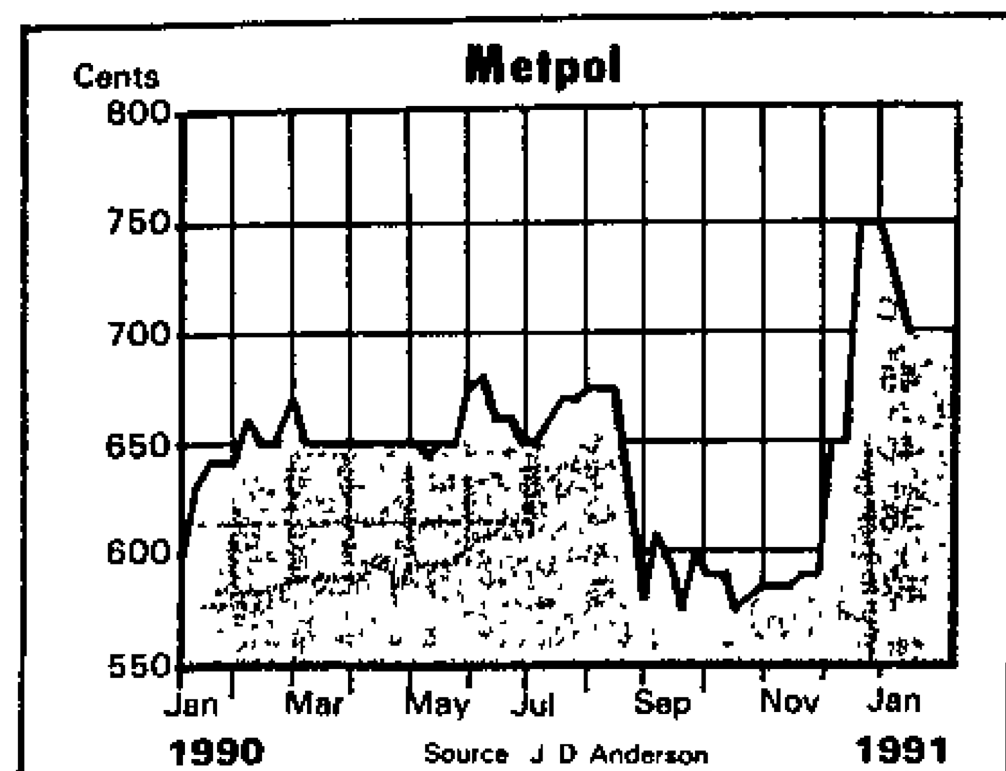
Unrest and turbulence were manifest throughout the country last year but Metropolitan Life (Metpol) was again able to demonstrate that life assurance is a growth industry in the black market. There were clear signs that policies were becoming more difficult to write but the company had a successful financial year with EPS rising by 26%.

A financial review of Metpol's performance over the past decade shows consistent and sizeable growth occurred in every important facet of the operation. Its record is a credit to outgoing chairman Pepler Scholtz and to MD Willem Pretorius, who assumed the chair on October 1.

Recurring premium policies accounted for 95% of new business written and single-premium business the rest. The company has never channelled much energy into the latter category simply because it is a relatively small market. The rise of only 15% in commissions and other sales remuneration, against 32% the previous year, indicates sales were much tougher to obtain.

Similarly, the rise in operating costs (including advertising and PR) of almost 27% shows the company had to work harder to achieve the performance it did. Even so, operating costs were held to 11% of total income, a figure consistent with past performance.

Scholtz notes that the product mix of a



Metpol's Pretorius ... *assuming the chair*

company influences its cost ratios; pension and other group insurance, for example, as well as single-premium policies, usually have low cost ratios, while the opposite is true for ordinary individual insurance with recurring premiums.

But the product mix, he contends, need not have adverse effects for policyholders and shareholders, as each category of business provides for its own costs, with little if any cross-subsidising. Scholtz reckons the important factor when evaluating an insurance company's cost ratios is how effectively they are managed, and the trends being shown. Statistics show a clear downward trend over the past 10 years in Metpol's operating costs as a percentage of total income.

At R820m, total income was a quarter greater than last year. Premium income showed a similar increase, while investment income was up by slightly more than a quarter in the face of difficult stock and money market conditions. Analysis of the year-end investment portfolio shows that funds held on deposit and other money market assets had increased to R876m to represent 45% of the portfolio, compared with R605m representing 38% at the end of the 1989 year. The timeous preference for liquidity proved to be the correct investment strategy, owing to the high interest rates earned in the money market while the performance of equities remained relatively weak.

The value of shares held was R362m, representing 19% of the portfolio, compared with the previous year's value of R279m, representing 18%.

An analysis of any life assurer is incomplete without a comment on the potential effect of Aids and the company's ability to cope with claims that may result from this source. The long-term insurance fund rose by 22% to R1,87bn. To achieve this, R339m

FM 8/2/91 (58)

was transferred from net income, an increase of 23% on the previous year's transfer (in 1989 the transfer to reserves rose by 45% against that of the year before).

Scholtz notes that Metpol "has done extensive analysis and projections concerning the Aids issue," and it has to be assumed that adequate provisions have been made to cope with claims, both in regard to policy conditions and claims.

Given Metpol's record, the share, priced around 700c, should be seen as an attractive haven for investment funds — especially as the black insurance market has substantial growth potential.

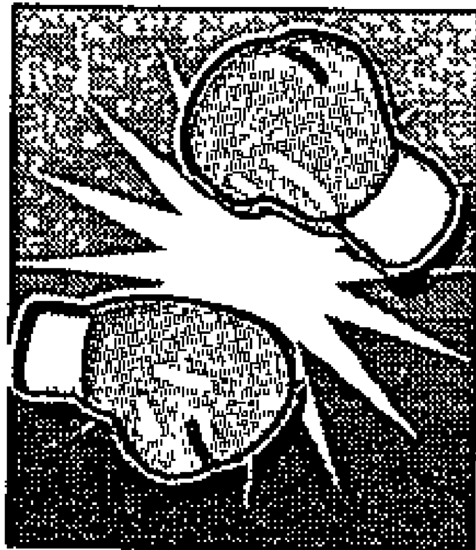
Gerald Hirshon

THE BATTLE FOR ALLIED

FM 8/2/91

UNLOCKING ADDED VALUE

WITH STAKES SO HIGH, SHAREHOLDERS CAN'T LAPSE INTO APATHY



A week ago, Allied Group seemed destined to become part of the new financial services giant being formed by UBS Holdings — Amalgamated Banks of SA (Absa). Now First National Bank (FNB)'s MD, Barry Swart, has launched a counter bid and Allied is in the middle of a tug-of-war between two of SA's largest banking groups, each backed by powerful interests.

That leaves shareholders — and board members — facing decisions whose outcome will determine the future of Allied and also affect the entire financial sector. This is a rare instance where the group's minority shareholders, more than 46 000 of them, are actually the majority and can decide the outcome. They must get involved and cast votes for one of the offers — since this is no time for the shareholder apathy that has caused small investors to be left holding the rump end after so many other JSE deals.

Allied, of course, has been no stranger to controversy since its 1987 listing. Only last year it was rocked by boardroom battles over directorships and its association with Sage. Whatever the upshot of these or other bids investors, as well as staff and management, would doubtless prefer that the appearance of stronger shareholders will allow the business to face a less contentious and disruptive future.

In making their judgments, all will have to consider the possibility of a still higher bid from either party — or even a third player. In their turn, the bidders will, one hopes, be conscious of the risk of materially over-paying. If that happens, it will be a Pyrrhic victory for the winner, affecting its shareholders as well as its management, who will be stuck with the task of bringing home the promised fruits.

Having said that, it must be accepted that the value of Allied may vary among the parties concerned. Its value after the deal will depend not only on the group's assets and its current profitability, but on such factors as how it would fit into the acquiring group and what synergies or rationalisation may actually become possible. And these differ between FNB and Absa.

There is no great hidden asset value to be unlocked in Allied. At last balance sheet of September 30, the net asset value was about 200c a share and there is no obvious reason to think this would change significantly as the other groups are unlikely to adopt more liberal accounting policies. Herc Hefer, chairman of UBS and chairman designate of Absa, indicates it could even be reduced once the UBS's conservative accounting policies are applied.

UBS's Badenhorst ... *looking at more than a merger*

FNB's Swart ... *out of a match, synergy*

Assuming that NAV remains about 200c, then acceptance of the UBS offer valued at 240c would result in UBS acquiring goodwill of R118m which would have to be written off. Similarly, in the probably unlikely event that the FNB offer of 250c is accepted by all shareholders, it would bring on to its balance sheet goodwill of R148m. FNB's policy is to write off goodwill in the year of acquisition, though it would come out of the share premium and not through the income statement.

With 295,3m Allied shares in issue, a 10c per share increase in the offer price would cost either bidder an additional R29,5m. Yet in its 1990 year, Allied generated a stated return on assets of only 0,75%, markedly lower than either FNB's 1,1% or UBS's 1,4%, so the acquirer must be looking at a dilution of profitability until rationalisation or other benefits take effect.

For FNB, it is calculated that there would be a first-year EPS dilution of about 10%, though the dividend would almost certainly be at least maintained. At last week's press conference, Swart placed the value of Allied's underlying assets at about 220c a share. The FNB offer represents a premium of about 13,6% over that figure and a 25% premium over NAV.

From the earnings standpoint, UBS's 240c offer means it makes the acquisition at a p:e of 9,6, while FNB's 250c is on a p:e of just over 10 (based on Allied's EPS for the past 12 months). This compares with current earnings multiples of 6,6 for FNB, 8,4 for UBS and 8,3 for SBIC. So the present offers are already quite finely pitched, and nobody should be greatly enthusiastic about making higher offers — though someone might.

The question is, what are the relative attractions of Allied to UBS and FNB, and what might justify a higher value? And, for that matter, can the present offers be justified? Martin & Co analyst Richard Jesse believes Allied is definitely worth more to FNB than to UBS, and he has no qualms about FNB's offer.

FNB's balance sheet has shown virtually no growth for the past two years, as the group has gone through a phase of concentrating — successfully — on profitability rather than volumes. At the end of the 12

Sage's Shill ... *memories of boardroom battles*

FIM 8/2/91

REFORM AND THE ANC

PROMISING THE EARTH

FIM 8/2/91

The abolition of apartheid leaves, of course, the economic and social legacy of the system. For this reason alone it was not to be expected that the ANC would respond with rapture to F W de Klerk's announcements last week.

In his response to De Klerk, Nelson Mandela argued that "we are not called upon to thank the government for the repeal of laws and reviewing policies which are considered a crime against humanity." No, but since the road has now been cleared for negotiations which will give blacks the vote and a crucial role in public expenditure, it seems intellectually lacklustre to give history lessons to people who have shown they have learnt from history.

There is discernible resentment in the response — probably attributable to the fact that De Klerk has once more gained the high moral ground and, therefore, in a sense, remains in control of reform.

To counteract the effect of this, Mandela stresses the victim status of blacks.

However, the world has too many victims at the moment. If the ANC's intention is to make the case for reparations and affirmative action, the best place to argue this would be parliament — not to demand them now under the threat of continued sanctions, mass action and nationalisation. That way there would be a better chance of democracy than leaving the process to the mood of the people.

The violence of that mood is all too apparent — to give it leeway would be not only for De Klerk to lose control, but all serious participants in the constitutional negotiations as well.

Yet for every reform which is enacted, the ANC shivers with suspicion. Mandela continues to call on foreign nations to boycott us because "real change" has not yet occurred. In walking out of parliament, the Conservatives demonstrated just how real the change has been for them — though it is equally true that many black schoolchildren still cannot find a place at a desk. The *FM* has suggested a few things that ought to be done about that (*Leaders* January 25).

Only if you believe that reform must mean the overnight betterment of the life prospects of millions, can you believe that reform is a trick. Mandela's body language radiates suspicion and uncertainty, but there is a good reason why this instantaneous betterment cannot simply occur.

It is that resources are and always will be finite and, therefore, while reform is irreversible, its effects will take time. The million-odd schoolchildren who have lost out since 1976 may all wish to read and write, have a job, drive a big car and live in mansions. Unfortunately, they are at best likely to be dependent on charity or kind-hearted magistrates for survival in the next few decades. For the ANC this is unsayable, but it is risking its own credibility if it continues to fuel unrealistic expectations.

That is why Mandela's argument that the per capita inequalities in black and white education can be resolved in "months" through exponential hikes in spending, is as dangerous as it is absurd.

Last year, the Human Sciences Research Council estimated that if educational expenditure were equalised, it would cost R37bn for 1990/1991 — more than treble current total annual expenditure. Apart from the fact that the money is not available — because of contraction in the economy due in part to sanctions — it could not physically be spent in "months" to raise schools, create transport systems for disadvantaged pupils, train teachers and produce and distribute textbooks. Inflation would become uncontrollable.

The racial gap in education is inequitable and must continue to be narrowed. And there are many other areas in which injustices must be remedied.

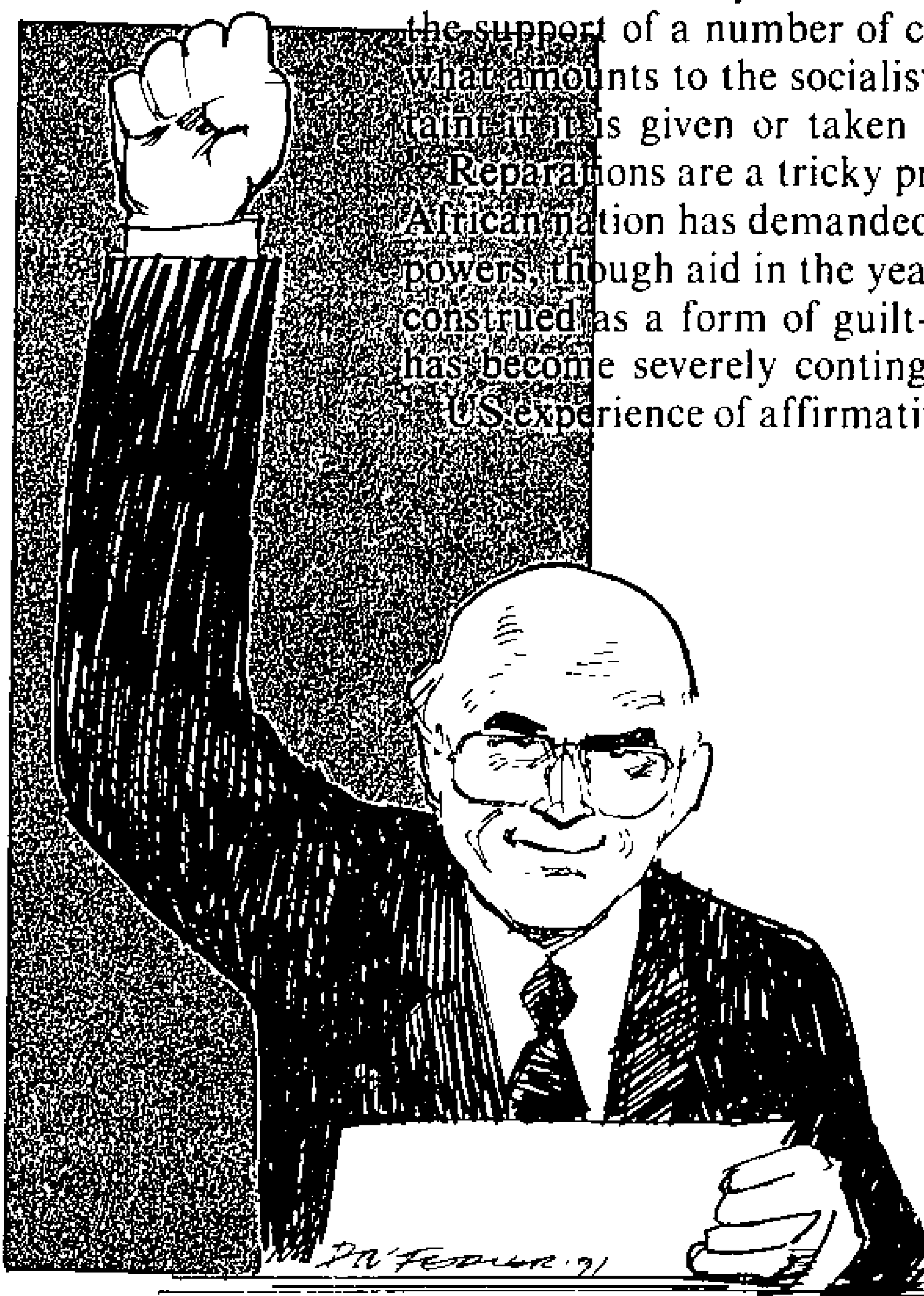
As the ANC approaches closer to a participatory role in central government, it needs to fine-tune its arguments on the reallocation of expenditure, not merely reiterate the "nothing has changed" chord. It isn't doing so — and appears to want redress by fiat, meaning reparations and affirmative action so that conditions change swiftly.

There is no doubt, in fact, that a great deal of the ANC's forward thinking has become concentrated on these issues, rather than on, say, the electoral process. In this they have the support of a number of churches, who have long argued what amounts to the socialist case that wealth only loses its taint if it is given or taken away.

Reparations are a tricky problem in international law. No African nation has demanded them from the former colonial powers, though aid in the years after independence might be construed as a form of guilt-salving. In the event, such aid has become severely contingent on accountability.

US experience of affirmative action has not been happy. It leads to quotas, resentments and a cycle of failure and it depends on one or other definition of racial grouping. There can't be affirmative action for blacks in a legally non-racial SA, or conscription for whites.

Why isn't the ANC telling its followers these things? It can no more deliver the kingdom of the earth than government — yet it continues to generate emotionalism and unrealistic expectations as if there were no tomorrow. ■



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months to September 30, the group's total assets stood at R30,3bn, compared with R28,2bn at the 1988 year-end. During the same period EPS rose by 59%.

For much of that period, FNB kept a tight rein on its home loan book, but last year it re-entered the home loan market aggressively. Viv Bartlett, Senior GM, says FNB's home loan book is now valued at R3,6bn "and growing." At March 31 1990, Allied's home loan book was valued at R7,1bn, so by acquiring Allied, FNB would almost triple its share of this market, an area where it now wants to expand.

Over time, it would also hope to achieve the sort of rationalisation and cost savings that UBS is planning. FNB has gained useful experience at carrying out that process in its own operations under Swart. On the other hand, UBS at this stage probably has a clearer idea of what would be involved. Hefer points out that UBS has already had the opportunity to go through a due diligence exercise at Allied, whereas FNB has not.

Though acquisition of Allied could help FNB to improve its own capital ratios in terms of the new Deposit-Taking Institutions (DTI) Act, that would only apply if FNB gets 100%. Bartlett says an improvement in capital ratios was never seen as the most important benefit. Instead, the benefits are seen in the creation of a strategic grouping, with gains in terms of "market share, common cost bases, lower unit costs and the rationalisation of support areas."

In principle, Bartlett thus does not appear to hold reservations about advantages that UBS and Volkskas could gain through the creation of Absa. "They are doing things that are now required in the banking business," he says. "If we don't get Allied then we will have to take a different approach and grow organically. That just takes longer. For us the attraction of Allied is in its size relative to us and our ability to attain the benefits, compared with the difficulty of doing too many things at once."

In contrast, the UBS camp will be looking at the global effects of bringing together the components of Absa, rather than what may come out of a merger of UBS and Allied. UBS already has a very strong balance sheet and remains the leader in the mortgage market, with advances of R11,3bn, though it lost share to the banks.

However, Hefer says that if Allied does not go into Absa, then nor will the 49% stake in Sage Insurance Holdings and Absa becomes a merger between UBS and Volkskas. That would allow for some of the cost savings that UBS CE Piet Badenhorst is planning, but with a lesser effect. If FNB is successful, Sage would presumably have the choice of realising capital by selling FNB shares; or it could look at working with FNB.

A third outcome is also possible: neither the UBS nor the FNB camp may end up getting enough support to carry out its plans; effectively a stalemate.

The importance of the Allied-Sage elements to the Absa camp will depend partly

Allied's De Villiers ... *preference worn on his sleeve*

on how determined are major shareholders, such as Rembrandt, Mines Pension Funds (MPF) and Sage chairman Louis Shill, to see their financial services interests moved into a single vehicle. Another factor is the importance that some of the key players will attach to the size of Absa's asset base.

Absa's planners worked for many months on the deal and they may not easily walk away, even if bidding does reach levels where the arithmetic indicates that would be wise. Just as important, the financial services sector is undergoing a major regrouping. Some may feel the long-run effect outweighs the price and inflation will later make these numbers look cheap.

The logic of merging UBS and Volkskas is the most apparent. They are largely in different businesses and Volkskas would gain from having a partner with a strong balance sheet. Analysts reckon that, without the Absa deal, Volkskas would sooner or later need to raise capital through a rights issue to comply with the DTI Act's stricter capital requirements. That would largely explain the seemingly less attractive financial effects of the Absa terms for Volkskas: EPS would drop by 20,9%, the dividend by 9,3% and NAV by 19,9%. Also, Volkskas's share has long had a poorer rating than UBS's.

The opportunity to move related interests into a single group would apply both to Rembrandt and MPF. The latter is said to have a total stake of around 5,5% in Allied and, on the face of it, should be tempted by FNB's offer. But MPF also holds 10% of UBS and is a major shareholder in Sage, so it may well be considering the potential benefits for all its financial investments, rather than viewing Allied in isolation. Hefer, who is chairman of MPF as well as UBS and chairman designate of Absa, says he will not participate in MPF's decision.

FNB acted swiftly to publish its full offer document when its offer was announced last Thursday. Hefer says the Absa document will be available soon and a first draft is expected this week. Essentially, FNB is hoping to win the approval of at least 50% of shareholders, plus one share. It is offering 35 FNB shares for every 400 Allied held, or 250c cash for every Allied share held. UBS is hoping that a simple majority of shareholders will vote at a special meeting to sell all Allied's assets and liabilities into Absa.

Both offers were made before the new Takeover Code took effect on February 1 but, at the request of FNB, the Securities Regulation Panel issued its first ruling on Friday that Rule 8 would apply. This states that a concert party that acquires at least 30% of a company must make a full offer at the highest price at which the shares were acquired and an existing holder of 30% must make the full offer if an additional 5% is acquired during a 12-month period. Allied traded as high as 280c on Friday, but dropped to 265c after the ruling.

The big swing factors from FNB's stand-

continue →

RECORDING NEW REALITIES

The Gerhard de Kock memorial essay competition, launched jointly by the *FM* and the International Students' Committee of the University of St Gallen, Switzerland, is open for entries until February 28. Students born in or after 1960, and enrolled at university in 1991, are eligible.

De Kock

The SA winner will be able to attend, at the *FM's* expense, the 1991 annual International Management Symposium at St Gallen, on May 27-29. The three best papers submitted from around the world will be awarded prizes of SwFr8 000 (first), SwFr5 000 (second) and SwFr3 000 (third), to be used for educational purposes.

The essay may cover one of two broad topics:

☐ Leadership and corporate learning amid new realities; or

☐ Opportunities and risks of national economic policies amid new international realities.

Further details and entry forms are available from the *FM*, Box 9959, Johannesburg 2000, or telephone (011) 497-2400 or fax (011) 497-2474.

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Absa chairman designate Hefer ... *contingency plans*

point will be a favourable recommendation from the Allied board to its shareholders and that enough minority shareholders are willing to exercise positive responses. Allied's board now has until February 13 to respond to FNB's offer and recommend their shareholders either accept it or reject it. All now know that MD Kevin de Villiers would prefer acceptance; other directors may be less keen. Shareholders must respond by close of business on February 22.

Partly because of the timing of the offers, but also because events are continuing to unfold, it is unclear how much further the Takeover Code will influence these deals. There are bound to be intensive legal discussions on both sides. In any event, all the directors concerned should consider in whose interests they are acting.

Apart from fiduciary duties spelt out in the Companies Act, the Securities Regulation Code states as its ninth general principle:

"In advising shareholders, directors of the offeror and the offeree company shall at all times act only in their capacities as directors and not have regard to their personal or family shareholdings, nor to their personal relationships with the companies. When giving advice, it is the interests of holders of relevant securities taken as a whole which must be considered." All concerned should follow the spirit of the code.

FNB's Bartlett ... *trebling an area of interest*

advice to Allied shareholders is still to wait. Other offers could be made and it would be pointless to act prematurely. But, when the deadlines approach, it is essential to cast a vote for one of the offers. Too much is at stake for the matter to be decided by default.

Andrew McNulty

SHORT-TERM INSURANCE (58) FIM 8/2/91

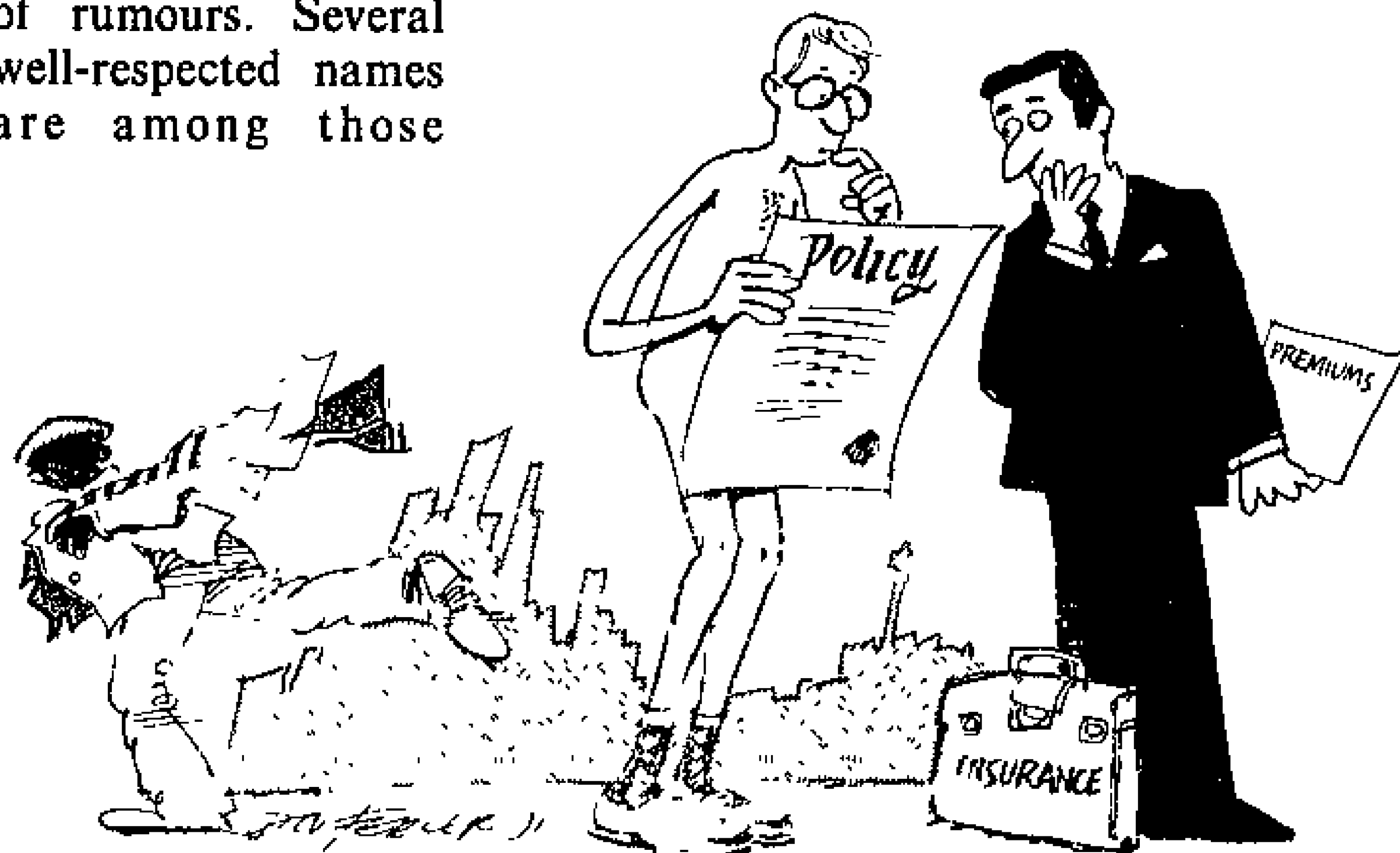
NO QUICK FIX

RISK MANAGEMENT WILL FIND A PLACE IN THE HOME

The expectation that an insurance company will be around to pay legitimate claims is the first and most basic consumer right of every policyholder.

That sentiment comes from a US House of Representatives report called *Failed Promises* — presented last year after some insurance company debacles. It contains some uncomfortable allusions to situations which exist in SA now. The possibility does exist that some local insurance companies will not be around to fulfil their promises.

A semi-official estimate is that local short-term insurers lost R250m last year on their underwriting accounts; some insiders think the eventual tally will be higher. The industry, as always, is full of rumours. Several well-respected names are among those whose overall results could be in the red.



Many of the short-term insurers have December year-ends, so their results are now starting to flow — and anyone who thinks a good reputation is a certain assurance against failure has a short memory. AA Mutual crashed as recently as 1986.

Early last year, before the real losses started to mount, Registrar of Financial Institutions Piet Badenhorst called for special returns from the short-term insurers and went public on the fact that five companies were a matter of concern, though he would not identify them. Half way through the year his worry list was down to one — but a few months later he issued a news release expressing a renewed level of concern.

Insurance underwriting is essentially a promise to pay, at an undetermined date, a legitimate claim for all or part of a loss. It is on this principle that insurers get their premiums up front, have positive cash flows from the outset and, if they read the signs correctly, have sufficient funds to meet a precalculated level of claims. Underwriting from cash flow appears easy in theory. In practice it demands sensible rating policies, good research and sound reserves.

SA insurers are carefully regulated but great emphasis is placed on solvency margins which, as Mutual & Federal's MD Ken Saggers, points out, is hardly the only criterion for success.

The Registrar has computerised the analysis of insurers' returns but the current *Blue Book* of detailed statistics is two years out of date. Quest, an independent insurance advisory service, valiantly tries to identify danger signals — but sometimes misses the mark.

How much of the industry's current malaise is due to mismanagement is debatable. Industry spokesmen will talk of three-year cycles, forgetting that they create the cycles with their rating policies. Undeniably, they have also been caught up in a level of crime losses which make previous actuarial predictions meaningless.

Yet insurers are supposed to be in the prediction business. The US *Failed Promises* report was censorious in the extreme: "Common elements ... included rapid expansion, over-reliance on managing general agents, extensive and complex re-insurance arrangements, excessive underpricing, reserve problems, false reports, reckless management, gross incompetence, fraudulent activity, greed and self-dealing."

Insurance is regulated differently in SA

Continue →

but anyone who thinks the US investigation is irrelevant should remember AA Mutual and its CE Warren Plummer.

Premiums are chaotic. Motor losses and personal lines, by general agreement, are the cause of last year's dismal results. A table prepared by Cape-based Compuquote shows a 1988 1,3 Corolla quoted at a monthly R267,96 by M&F and at R162,58 by Santam. A quote on a 1990 BMW 320i was in a range from R506,96 down to R248,67. Compuquote agrees it does not always compare apples with apples — benefits can differ and so can service. A quoted rate is not always the effective rate — a branch manager usually has some leeway to make a rate applicable to his area and local demands. This can mean a quoted rate is subject to discounts of as much as 25%.

Industry leaders say they disapprove of the practice but, if a branch is producing overall results, it is hard to do anything about it.

The fact remains that the industry has been rate-driven. Saggers says it will remain so until there is common purpose to reject business which is not worth having. Meanwhile, he says pointedly, he has made *Failed Promises* required reading for his senior colleagues. The report is also very much in demand at the Registrar's office. Assistant Registrar (short-term insurance) Nico Fourie says *Failed Promises* works as an additional checklist when assessing the state of the industry. The emphasis in perusing insurers' returns, Fourie adds, is no longer focused on a handful of companies. "Instead of a worry list, we are concerned about the health of the whole industry."

SA Eagle, first of the major December year-end companies to report, had a R36,8m underwriting loss (R20,6m profit in 1989). Investment income was stable, at R52m. Others will fare worse. General Accident has had an horrendous year and it is speculated its investment income will not cover underwriting losses. It is not alone.

The *FM* asked industry leaders what could remedy the industry's plight. All cited the social factors, arguing that the ingenuity of thieves would be tested less in a stable economy. They noted that this ingenuity has gone beyond burglary and car theft: there have been cases of expensive construction equipment, including bulldozers and cranes, being "redistributed."

Commercial Union MD John Kinvig notes that domestic premiums were raised by most insurers in 1990 and further increases can be expected soon. "Insurance has become an expensive commodity and one must consider whether many individuals will take the view that they can no longer continue to pay for this luxury. In reality, insurance is no longer a luxury. Insurance is a necessity and rather than cancel their policies it's more likely policyholders will try to contain their costs."

Clients could incline to catastrophe insurance, says Kinvig, by agreeing to voluntary excesses on their personal lines. In return for an excess of R5 000, a policyholder could probably negotiate 25% off the monthly or annual premium.

"Another approach to consider is whether to continue with All Risks cover for valuables because this form of insurance can hardly be considered protection against a catastrophe. No householder should expose himself to a catastrophe like a fire or legal liability. For the older motor car, comprehensive insurance may be replaced by the less costly Third Party, Fire & Theft policy."

General Accident assistant GM Ian Bain foresees no improvement in the security situation this year. He expects claims experience to continue at current levels. If the experience does not deteriorate, rate increases will be kept to the 20%-30% range reflecting rising repair costs. "If the experience further deteriorates we could see premiums up by a further 50% by the end of this year."

Consumers will have to explore cheaper forms of insurance, says Bain, who agrees there will have to be larger excesses to keep premiums within bounds.

Self-insurance is a delicate act. A householder could decide to exclude the TV, recorder and hi-fi from his policy, in which case the typical premium would reduce dramatically because, say insurers, these are priority targets for burglars. The principle of self-insurance dictates that the householder should have a private fund or adequate cash flow to replace these excluded items if they are stolen.

Conversely, a possession may be valuable but almost irremovable or too specialised for the average thief to handle. Excluding its value from a policy will have minimal effect on the overall premium.

Commercially, risk management is widely practised. Some of these principles are already incorporated in motor and household policies. Premiums reflect whether an effective immobiliser is fitted or a house has an adequate level of security.

Propagating sound risk management could give an alert insurer the edge in current conditions. The company that is seen to mount an information campaign which educates policyholders in methods of managing risk — and therefore management of premiums — could gain a major marketing advantage. Coldly raising rates to get the industry out of its current self-inflicted bind will gain no new friends. ■

TOP BOOKS FOR EXECUTIVE READERS

To improve the availability and increase the scope of the books we review, the *FM* is launching an Executive Mail Order Club next week.

The club, open to all *FM* readers at no extra cost, is being run by Benjamin Trisk, the former *FM* writer who has many years of experience in book selling and publishing. In the late Seventies and early Eighties, he expanded the Premier Group's book shop interests, especially its Exclusive Books chain.

Later, as his responsibilities in the group broadened, he remained close to the industry as a non-executive director of CNA-Gallo. Since 1987, he has been active in publishing enterprises, including Jonathan Ball Publishers.

Trisk believes this new *FM* undertaking will fill a vacuum left by booksellers who have become increasingly risk-averse and less entrepreneurial in their approach to inventory and marketing.

"The publishers and their agents are welcoming us with open arms," he says. "We are in a position to make interesting books available and we will demonstrate that there is still a readership in SA for worthwhile books with broad general contemporary appeal for the intelligent layman."

Trisk says publishers tell him they have been unable to sell many really good books — including some of the outstanding business titles published during the last two or three years.

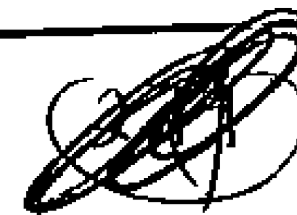
The new mail order club will not be limited to books. Many CDs, videos and state-of-the-art electronic equipment will also be on offer. The goal is to bring *FM* readers the very best at highly competitive prices.

How will the club work?

☐ Readers will be able to fax, post or telephone orders;
☐ An order form will be included in each issue of the *FM* promoting the club;
☐ All major credit cards will be accepted, including budget facilities (where applicable) for purchases of more than R500;
☐ Each offer will be valid for 14 days after the *FM* publication date;
☐ Company orders must include a valid order number;
☐ Every product will be backed by a reputable manufacturer or publisher. Faulty or damaged goods will be replaced during the first 14 days from dispatch date; and
☐ While every care will be taken to ensure the high quality of the books and products sold the *FM* cannot offer any guarantee of its own. But the manufacturer's guarantee, where appropriate, will apply.

LEADING ARTICLES

FIM 8/2/91



PRESSURES IN THE USSR

TEETH OF IRON

GORBACHEV'S AUTHORITY FACES ECONOMIC DECLINE AND NATIONALISM

Recent analyses of the state of the Soviet Union, after nearly six years under President Mikhail Gorbachev's twin banners of *perestroika* and *glasnost*, tend to conclude with an anxious note bordering on despair. The economy is in chaos and Gorbachev has had to fall back on the reactionary forces of the KGB and the military-industrial complex to stop the USSR falling apart.

"He has a nice smile but teeth of iron," said Andrei Gromyko, the veteran Soviet foreign minister and then president, when Gorbachev came to power in 1985. And the Nobel Peace Prize winner's teeth — in the shape of paratroops and the Interior Ministry's "black berets" — were on display last month in Lithuania and Latvia.

In December, Gorbachev's swing to the "right" provoked the emotional resignation of Eduard Shevardnadze, the former foreign minister who, as mush as anyone, engineered the end of the Cold War. Out, too, have gone others closest to Gorbachev the reformer: Stanislav Shatalin, chief architect of the aborted 500-day plan to jump-start the market economy in the USSR, Nikolai Petrakov, personal economic adviser to Gorbachev, and Nikolai Ryzhkov, the PM who was made the scapegoat of the failure of *perestroika* thus far.

Gorbachev has fallen back on the Communist Party (CP), even though one of his biggest changes was the official abolition (last March) of its constitutional monopoly of political power. The KGB's public relations effort to present a cuddly image to the West has gone sour.

The new vice-president (who might have been Shevardnadze) is an old-style apparatchik, Gennady Yanaev — ominously hailed as "a fine choice" by Igor Ligachev, the CP's doctrinal custodian, whom Gorbachev dumped more than two years ago. The new PM, Valentin Pavlov, also enjoys the imprimatur of the increasingly vociferous military members of the 542-member Supreme Soviet (parliament).

It has long been clear to an increasingly nervous West which wants Gorbachev to succeed, that the Soviet leader was forced to ride two tigers: the nationalist and democratic forces unleashed by *glasnost*; and those of the old "evil empire," the Party, the KGB and the military.

Gorbachev used the radicals to try to kick off the USSR's inherited lethargy and inefficiency, but succeeded only in raising expectations without delivering the goods. Now he stands against a range of hostile dissidents: Estonia, Latvia and Lithuania, occupied by Stalin's Red Army in 1939; the Russian Federation, led by Boris Yeltsin, which is in a coalition with the Ukraine, Belorussia and Kazakhstan, four republics which account for 85% of Soviet gross national product; Georgia, planning its own army; and Moldavia. The spectre of Islamic fundamentalism in the southern republics with their 55m Muslims has been aroused again with the war against Iraq.

Reform has not been abandoned, nor can Gorbachev afford to consider that option. Western disapproval of the events in the Baltic states has manifested quickly: the European Community postponed US$680m in food credits and $544m of technical aid. Japan has indicated "reluctance" to provide help if "oppression has occurred." The US Congress may soon consider a Bill which makes the Baltics' independence a condition of granting most favoured nation trading status to the USSR.

Gorbachev

Though relatively small in relation to Poland's $46bn, the USSR's mounting external debt is causing alarm among bankers. It has more than doubled to $65bn during the Gorbachev years yet the Soviets were $5bn in arrears on current import bills in December and its foreign exchange reserves are estimated to have dropped from $15,1bn to $5,1bn last year.

The commercial banks are retreating — the debt of Vneshekonobank is valued at only 75% of face value — leaving the USSR dependent on official help. So far, nearly $17bn in foreign government credits have been identified, which include promises of $4bn from Saudi Arabia and $1bn from the Kuwaitis in addition to German money.

The Soviets' external deficit is not expected to improve in the short term. Any boost from higher oil prices after Iraq invaded Kuwait has been dissipated by a 20% fall in the volume of exports. Forecasts about the USSR are subject to wide margins of error, but leading Western institutions, including the IMF, suggest that last year's current account deficit of $10,7bn could be followed by one of $11,1bn.

With $11bn needed to cover maturing debt and $5bn of current trade arrears, the USSR could need up to $27bn.

Cutting back imports is not a plausible solution. The Kremlin has already stirred up trouble by "confiscating" under-the-mattress cash savings with the abolition of the Rouble 50 and Rb100 notes and a Rb500 a month limit on bank account withdrawals. The idea has dubious merit.

Inflation is beginning to gallop. In December alone, prices at the so-called farmers' produce markets went up 28%, while on the black market they rose 32%

So Gorbachev has shown signs of backing off. Last week's Washington talks between US Secretary of State James Baker and Soviet Foreign Minister Aleksandr Bessmertnykh produced some hard bargaining.

Ostensibly, the product was a joint stance on terms for a conditional ceasefire in the Gulf (which, with no linkage, pointed to an international Middle East conference on the Palestinian issue at some stage) and agreement to postpone next week's planned summit between Gorbachev and George Bush.

But, behind that, the USSR agreed to pull out the *extra* troops sent to the Baltic states and to renew negotiations. Both were duly announced. In exchange, the Americans, it was reported, made no threats about slapping a veto on Soviet affiliation to the IMF and World Bank, or stopping food aid and grain credits.

The Kremlin, of course, has its own bargaining chips, even though it can never restore the status quo ante in the Warsaw Pact. Arms control and reduction pacts remain to be signed, implemented and verified. The Iraqi war has postponed an economic peace dividend which both superpowers need.

If the US has its Federal Budget problems, so does the USSR: the 1991 budget approved by the Supreme Soviet allocated Rb97bn (37,5%) of the Rb277bn spending total to defence, and Rb10bn for the KGB.

America's geopolitical interests also require a partnership with the USSR. One scary scenario about the Gulf War posited recently reads Imagine if Saddam Hussein had been prodded or encouraged by the USSR into invading Kuwait 10 years ago? The US and its allies would not have risked depleting their European defences to move against Iraq.

Nobody can afford to go backwards — a fact which the Western powers pray must eventually penetrate the most anti-reform minds of the Soviet CP and military. But there is the danger that Gorbachev will be removed before that awareness sinks in.

Hence Bush's caution in his State of the Union speech to the joint sitting of Congress: "If it is possible, I want to continue to build a lasting basis for US-Soviet co-operation, for a more peaceful future for mankind . . ."

It was a prayer. ■

Besieged bank boss puts his case

Star 8/2/91 (58)

Allied managing director Kevin de Villiers has come under fire for his statements and actions since the UBS/Volkskas/Sage (ABSA) bid for Allied surfaced two weeks ago. JOHN SPIRA, Assistant Editor (Finance), asked him to justify an attitude which supports the First National Bank bid for Allied in preference to the ABSA bid.

THE Allied board has supported the ABSA bid for Allied. You appear (said John Spira to Kevin de Villiers) to be the only dissenting member of that board, having encouraged Allied shareholders to favour the FNB bid.

Isn't this an untenable situation? Doesn't it give rise to much confusion in the minds of Allied shareholders?

De Villiers: The Allied board very correctly insisted on including a clause in the ABSA merger document stating that "nothing ... shall prevent ... any director from actively encouraging other shareholders of Allied to vote against such resolutions".

Such resolutions used Section 228 of the Companies Act to give effect to the ABSA merger.

The clause in the ABSA document articulates what are in any event statutory and common law rights and duties of directors.

In terms of this clearly worded clause, I am permitted to express my views.

In so doing I do not profess to talk on behalf of other directors or on behalf of shareholders.

Spira: You've gone on record with the statement that UBS and Volkskas haven't achieved the return on capital they should have done.

Hence you would rather be associated with FNB than with UBS and Volkskas.

Yet UBS's Piet Badenhorst has suggested that return on assets is a superior yardstick for efficiency, pointing out that UBS's return on assets is the highest in the industry.

What's your response?

De Villiers: A bank's capital determines the degree to which the bank can healthily expand its business.

In this respect it is identical to the production capacity of an industrial company.

Surplus capital, like surplus production capacity, is good only to a point.

Too much surplus capital, like too much production capacity, can indicate that an excessive amount of capital was raised or that an excessively large factory was built.

It can also indicate lack of success in marketing a bank's services, resulting in insufficient balance sheet size, or lack of success in marketing the goods a factory produces.

The Allied is recognized as having a very healthy capital position. The fact that United has a higher capital ratio than the Allied might just as well indicate that United raised excessive quantities of capital unneccessarily or that it has lost market share since competing head-on with South African banks.

A high return on assets is a natural consequence of over-capitalisation. If return on assets were the most important measure of performance, banks would do best to raise no deposits at all and simply lend shareholders' funds to triple-A clients at prime rate.

Under current circumstances, this absurd strategy would result in a record-breaking return on assets of 10,5 percent — of little use to shareholders, as return on capital would then also be 10,5 percent and well below the rate of inflation.

At the end of the day, it is a high return on capital which safeguards and increases shareholders' wealth and not a high return on assets, which often indicates nothing more than lack of success in properly gearing up a bank's balance sheet.

Spira: One of the reasons you've given for favouring the FNB bid is the common culture that exists between FNB and Allied.

Mr Badenhorst, on the other hand, insists that greater commonality exists between UBS and Allied, since both organisations have been in the same (essentially building society) business for more than 100 years.

How can you justify your view when Mr Badenhorst's argument makes so much sense?

De Villiers: Among nearly 5 000 staff there must be some who feel some kinship with a former building society such as United.

However, most seem to perceive the United as the "traditional enemy" and would rather compete head-on with an organisation that has a completely different management style and a completely different way of marketing its services.

Unfortunately, many staff recall the harsh treatment meted out to Southern Trident staff after the United take-over.

The United might or might not have had good reasons for acting as it did.

The fact remains that its actions are remembered today and have had a negative impact on Allied staff perceptions of United □

Allied MD Kevin de Villiers . . . 'In terms of this clearly worded clause, I am permitted to express my views.' Picture: Ken Oosterbroek.

BUSINESS

McGregors open up the debate on possible SA economic scenarios

By REG RUMNEY

OWNERSHIP in the banking industry, even before the latest merger moves, was too concentrated, according to Azar Jammine, economist at independent consultancy Econometrix.

Jammine's argument is contained in a recently published book that holds up the South African economy for inspection from different angles.

Concentration of ownership and the dominance of conglomerates feature prominently in the various contributions to Robin McGregor's *Economic Alternatives* (Juta). Concentration of ownership is surely one of the issues which a future government must tackle.

Jammine's argument is that concentration of ownership has meant banks have not been cautious in their lending policies because their lobbying power is too strong. They have been certain either the Reserve Bank or their parent companies, such as Anglo American, Sanlam or Old Mutual, will bail them out. The rescue over the years of banks which have found themselves in difficulty — like Nedbank and Trust Bank — seems to bear him out.

Robin and Guy McGregor discuss in much detail competition theory, competition law in various countries and the possible effects of economic concentration.

They conclude that bigness is not bad in itself, while the abuse of bigness is.

They pose the question: Is concentration necessarily a bad thing? "Do we look at concentration from a structural or behavioural point of view?" They note the Free Market Foundation has found the behavioural patterns of South African companies to be essentially competitive. "This may be so and certainly appeared to be the view of the Competition Board until recently."

However, they quote report 15 1985 of the board in which it states various practices such as resale price maintenance, price collusion, market sharing and collusive tendering did occur "fairly generally".

The McGregors come up with specific recommendations. Chief of these is a move away from the subjective approach of the Competition Board.

They suggest, among other things, that to keep state intervention to a minimum "substantive criteria" — ie a pure competition test — should be used rather than a host of other factors such as employment.

Notification to the authorities before a merger rather than after should be encouraged by limiting the number of after-the-fact notifications.

The McGregors also note the takeover rule now adopted by the new stockmarket watchdog Securities Regulation Panel. This obliges all holders of between 30 percent and 50 percent of the voting shares of a company to make an offer for the balance. They suggest this should be made retroactive. The book was published before the actual rules were published, so their hopes have been disappointed.

The African National Congress, according to an "interpretation" of its policy by Professor Laurence Harris, is concerned about conglomerates but its concern does not stem from the lack of competition which generates economic efficiency.

"That argument is not the main driving force behind the ANC's views on conglomerates, for the ANC does not envisage market competition as the main mechanism for allocating resources to achieve its goals of economic and social transformation."

Since this is an interpretation and not an official policy document it is difficult to know where the party line ends and Harris begins. Harris heads Economic Research on South Africa, a research and training unit within the ANC's Department of Economics, and has helped the organisation for some years on economic policy. So he must in some way reflect thinking in the ANC.

Harris, unlike party members speaking to white audiences, doesn't avoid the N-word, nationalisation. He discusses the pros and cons of nationalisation and public ownership extensively, summing up:

- "The ANC does include nationalisation of some private corporations as a significant element in its economic strategy.
- "The extent of public ownership and its detailed implementation will be determined on a case-by-case basis in the light of the ANC's overall objectives for the post-apartheid economy. The basic goal is to overcome inequality; public ownership will be considered where necessary to achieve this in the context of economic growth.
- "Major corporations which are privatised by the present government will be returned to public ownership."

The overwhelming impression given by Harris's contribution is that the degree of state intervention envisaged by the ANC is by no means limited.

On the opposite end of the scale, there is a contribution by free market ideologue Leon Louw.

Though he has some good points to make, he seems at times to miss the point. Black fears of the effects of an untrammeled free market, and resentment at past injustices, cannot merely be dismissed on the grounds that apartheid wasn't really capitalist.

A more non-partisan, though firmly free-market, approach is displayed by Bobby Godsell and Jabulani Maphalala in discussing growth, unemployment and the informal sector. They do not overstress the importance of the informal sector, nor do they undervalue it. Instead they argue that "great and unrealistic expectations of the informal sector are misguided and dangerous".

Saambou plan to break out of its mould

LESLEY LAMBERT (58)

CAPE TOWN — Saambou is to break out of its traditional Afrikaner mould and will soon announce the appointment of a new MD to effect cultural and financial changes. 6l Day 8 12 91

Chairman Hendrik Sloet said yesterday the building society had chosen an outsider to replace retiring MD Christie Kuun and had made other management changes in its bid to overhaul the group.

The new MD would be announced in the next two weeks, he said in an interview.

Saambou recently averted a hostile takeover by Trafalgar Portfolio Managers by entering into an agreement with insurance company Fedsure in which it would issue convertible debentures valued at R55m to Fedsure subsidiary, Fedlife.

Sloet appeared to be confident that Fedlife would exercise its option to convert the debentures into 31% of Saambou's ordinary shares during the next three years.

But he added that the building society group would have to prove its worth to Fedsure by improving its financial position and placing greater emphasis on profitability. It had already embarked on a programme of rationalisation.

"Our agreement with Fedsure could result in the emergence of another financial services group with a capital base of up to R9bn," he said.

The link-up would open up a number of opportunities for co-operation. Saambou currently provided housing insurance to its mortgage clients and could market other types of policies from Fedlife to its clients. It could also market the new unit trust Fedsure had recently launched through its 82 branches.

Sloet said he was not sure who had been behind the Trafalgar bid.

MERVYN HARRIS reports that the Fedsure share soared to a high of 520c yesterday before easing slightly to close 14,4% or 65c up at 515c.

Analysts said the surge could be on the back of an impending development after the link-up with Saambou, which remained in demand at its lower level of 147c.

De Villiers could be asked to quit

Allied MD in showdown with board

KEVIN DAVIE and ANDREW GILL

ALLIED MD Kevin de Villiers squares up to the group's other directors today as the R800m battle for control of Allied moves into its boardroom.

The showdown is set for a meeting at 10am today when the board is expected to tell De Villiers it decided on Wednesday to ask him to resign. De Villiers was yesterday asked to be present at today's meeting. He said last night he would attend.

Board members apparently decided at a meeting on Wednesday that De Villiers should be asked to leave. He was not present when the decision was made, informed sources said.

The decision to ask him to go had not been communicated to De Villiers by late yesterday.

"I'm still the managing director of Allied," he said last night.

Allied chairman Norman Alborough refused to comment last night. His wife said he would not come to the phone. Other Allied directors, including Sage chairman Louis Shill, declined to comment, and referred inquiries to Alborough.

The board's decision may be difficult to implement. De Villiers has a management contract which requires that he be given 12 months' notice.

Shareholders may also vote to accept the FNB rather than the UBS-led offer for Allied within weeks. This could lead to FNB winning control and appointing a new board, possibly enabling De Villiers to secure his position.

Also, for the board to fire De Villiers, it might have to prove that he did not act in shareholders' interests. Observers say that De Villiers managed to secure a higher offer from the UBS-led camp than it had originally intended making.

The FNB cash offer is 250c an Allied share and/or an effective 262,5c for a swap into FNB shares.The UBS camp's offer is 240c a share. De Villiers has thrown his weight behind the FNB offer.

DE VILLIERS

Both offers were well above what Allied shareholders stood to get in the early days of the attempted merger.

Today's board meeting could put into motion attempts by the board to remove De Villiers in terms of accepted labour practice. The meeting is likely to be a major legal scrap.

One well-placed source said the board already had a replacement in mind for MD, but he declined to name the candidate.

Wednesday's decision by the board followed weeks of acrimony between De Villiers and the other nine members of the board. Observers say he and the rest of the board have disagreed in recent weeks on almost all key issues.

One observer said there had been tension

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Allied MD

From Page 1

between De Villiers and the rest of those involved in the proposed merger as he had from very early days pushed for a higher rating for Allied shares.

"As a substantial shareholder himself he was pushing for a higher deal from the other parties right from the beginning," the observer said. Allied's share price has jumped from 187c at the beginning of the year to its present 280c.

Yesterday 4,24-million shares worth more than R12m changed hands in 478 deals.

Financial circles were yesterday abuzz with rumours that De Villiers had been fired. A late edition of The Star quoted "a report circulating in Johannesburg financial districts" saying he had been fired for his opposition to the Allied merger with UBS, Volkskas and Sage.

But shortly after the newspaper appeared on the streets De Villiers was still at his desk, saying: "That is not the position at the moment."

Allied censures De Villiers for defying board

DEREK TOMMEY

MR Kevin de Villiers, managing director of the Allied Group, is not to be fired.

But he has been censured for compromising the Allied board by his statements on the proposals by the UBS-Volkskas to merge with the Allied, and the offer by First National Bank for the Allied, Mr Norman Alborough, chairman of the Allied said last night.

He said Mr de Villiers had been asked to refrain from commenting on these matters until the board decided otherwise and Mr de Villiers had agreed to this.

Mr Alborough said Mr de Villiers had acted in defiance of the Allied Board and his actions had been prejudicial to the board's deliberations and the exercise of the members' fiduciary duties.

And in a development that could have a decisive effect of the outcome of the battle for the Allied, Mr Alborough said the Allied board was considering the offer made by First National Bank and would give its views to shareholders within the next week.

Mr Alborough cautioned Allied shareholders to wait until this "take-over statement" was issued before disposing of their shares and their right to vote.

He said the statement should help remove some of the confusion that now appeared to surround the merits of the rival offers from FNB and UBS-Volkskas.

Mr Alborough said the Allied's board was doing its utmost to carry out its fiduciary duty and to bring any proposals or offers for the company to the attention of shareholders in an unbiased

● TO PAGE 2.

Allied row

● FROM PAGE 1.

manner. He said the offer made by FNB for the Allied last week had differed significantly from the first offer made earlier which the Allied board had considered a risk and prejudicial to the interests of shareholdes and, therefore, could not support it.

On the Johannesburg Stock Exchange yesterday, there was hectic trading in Allied's shares. In mid-afternoon, their price shot up from 280c to 290c in a frantic buying spell. But this buying suddenly ended and Allied's shares dropped back to between 275c and 280c.

An indication

Dealers believe that the sudden termination of the buying was an indication that one of the contestants (probably the UBS) had achieved the permitted 30 percent shareholding in the company.

By the close of the day's trading, more than 11,5 million Allied shares worth R32,2 million had changed hands.

Meanwhile, it was learnt that earlier in the week First National Bank (FNB) had called on the Johannesburg Stock Exchange to suspend the listing of the [illegible] in order to clarify the position of the newly appointed Securities Regulation (take-over) Panel. However, Mr Tony Norton, president of the Johannesburg Stock Exchange, had rejected the FNB's proposal. He said it would be wrong to suspend the listing of the Allied in the middle of a contested take-over battle.

The Securities Regulation Panel started operations on February 1 and is intended to ensure that shareholders receive fair and equal treatment and provide an orderly framework for take-over operations.

One of the provisions of the panel's take-over code is that share dealings by a company making a take-over offer, or anyone acting in concert with it, "should be disclosed forthwith" to the panel, the Stock Exchange and in a press release.

Mr Jones said this was not happening.

But Mr Norton pointed out that the UBS—Volkskas and FNB offers were made before the panel started operations. Consequently, the take-over was outside the scope of the panel.

He said the panel had called for all the relevant information and was trying to establish whether anything was happening that could trigger the take-over code.

Confusion grips the Allied shareholders

W/t Argus 9/2/91 58 080

From CLAIRE GEBHARDT

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

We selected 36 names at random from the Allied share register, found 24 phone numbers and managed to talk to 13 shareholders.

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

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

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

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

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

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

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

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

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

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

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

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

Barbara Jamieson of Parktown North is one of the unfortunates who sold her 1 500 shares at 210c because of lack of information.

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

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

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

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

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

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

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

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

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

Elderly Miss Annie Robb of Highlands North (2 553 shares) says it all seems to be such a mix-up that no-one knows what is going on.

"One gets circulars form one crowd and then another but nothing is properly explained," she laments.

"I think when the time comes I will just sell and get rid of the shares."

Favours UBS

Another senior citizen, Mrs Margaret Rosewarn of Kensington (16 500 shares), says she would like the UBS to win, as they have a good standing and seem to be going ahead very rapidly.

"The fact that both are building societies is a good start."

Mrs June Hynd of Craighall Park is not quite sure what to do about her 7 500 shares. She'll rely on her husband's advice. "In any event, if we sold where would we put the money?"

A Johannesburg gynaecologist, who did not wish to be named, said he was holding on to hisv2 403 shares because of rumours that there might be another offer.

People you can't talk to

S/Times 10/2/91

(58)

Allied clamp on information after MD Kevin is silenced

By IAN SMITH

ALLIED Group managing director Kevin de Villiers has been censured and silenced by his board, but he has still not retracted statements that landed him in trouble with his co-directors.

The board met behind closed doors for eight hours in Sandton on Friday to consider Mr De Villiers's position after he publicly declared his preference for a counter-offer by First National Bank in the battle to create South Africa's largest banking group.

After the meeting Mr De Villiers and the Allied directors retreated behind a wall of silence – people you *can't* talk to.

Tobacco conglomerate Rembrandt seeks to combine its financial services associates – UBS Holdings (comprising United Building Society and United Bank), Afrikaans banking group Volkskas, half of Sage Financial Services and the Allied – into a R50-billion banking group called Amalgamated Banks of SA. The six parties have already agreed in principle to form ABSA.

In the proposal, Allied shareholders have been offered 240c a share or R712-million by Rembrandt and the United Group.

But in the first contested bid in SA in six years, FNB counter-offered with 250c or R750-million and Mr De Villiers stated that he and his staff would prefer to work with First National.

Defiance

In a two-page statement addressed to shareholders, the Allied board said after the meeting that it had been placed in a compromised position by Mr De Villiers who, "despite requests and instructions, has chosen to act in defiance of the board by expressing his comments and advice outside the framework of authority".

Bankers you can talk to.

"Your board wishes to state strongly that Mr De Villiers does not speak on its behalf and that these actions are prejudicial to the deliberations of board members in the exercise of their fiduciary duties."

The board rejected Mr De Villiers' claim that his actions had been justified by a clause in the ABSA agreement-in-principle which says nothing shall prevent directors "actively encouraging" other Allied shareholders to vote against the proposals.

Allied directors also urged shareholders to be cautious before "taking any action to dispose of their shares or right to vote" ahead of a general meeting, probably in mid-March, to decide on the rival bids.

The board will advise shareholders on how to respond to the FNB offer later in the week.

Before Friday's meeting, it was widely speculated that Mr De Villiers would be fired, but he came out of the meeting richer than he entered it.

While the directors argued, Allied's share price soared to 280c in frantic trading on the Johannesburg Stock Exchange, valuing the group at R855-million.

The 2,5-million shares owned personally by Mr De Villiers rocketed in value to R7-million and buyers were speculating that one of the parties might make a higher bid.

What went on at Friday's meeting is shrouded in secrecy and Allied chairman Norman Alborough would not even disclose how many directors attended.

If Rembrandt and its financial associates prevail, ABSA will be the biggest banking group in SA. Standard would rank second with assets of R43-billion and FNB a distant third with R33-billion.

If FNB gets Allied, its assets will move up to R40-billion, not far behind Standard and ABSA without Allied.

The board's statement said that Mr De Villiers had been censured and instructed that "any communication with the media or any other party with regard to the FNB or ABSA proposals will be strictly in accordance with board resolutions and directives. Mr De Villiers has agreed to abide by these decisions."

Quiet

After the meeting Mr De Villiers said: "I am happy with the statement. I think there has been a remarkable agreement.

"Difficult issues confront the board and this is not the time to talk. A quiet period is needed for decisions to be made."

Asked whether, in the light of the censure, he regretted any moves in the takover battle, Mr De Villiers said: "I can only say 'no comment'."

Mr Alborough, who became chairman of the Allied eight months ago after retiring as an executive at Nedbank, has had a hard five months since intense negotiations on the ABSA merger began.

He said: "This is an unusual environment – it is the first time a South African bank has faced two predators. But we have a strong board and we are conscious of our duty to shareholders, depositors and staff."

Allied would be a prize for any bank because of its strong capital surplus and R9-billion home loan portfolio.

"There should be a premium on the Allied share price," said Mr Alborough.

"Any bank controlling Allied becomes one of the biggest players in the field."

CENSURED ... Allied boss Kevin de Villiers who, his co-directors say, acted in defiance of the board

Sage delays releasing its results

Sunday Times Reporters | Times 10/2/91

SAGE Holdings, involved in the Rembrandt-UBS proposal to set up the R50-billion Amalgamated Banks of SA, has changed its year end — thus delaying declaration of its results by three months.

Director Bernard Nackan said it was "ludicrous" to suggest that the change had been made to delay publication of results.

Stock market analysts are expecting poor results from Sage because it has run into severe problems with an American offshoot.

"The change was made purely for internal reasons," Mr Nackan said.

Sage's financial services division in the ABSA proposals have been valued at R154-million. Poor results could thus set back these proposals.

The company said on Thursday — two months after its December year end and a few weeks before the results were expected — that its financial year would end in March.

Through a life assurance company, a personal finance operation, property interests and the Sage unit trust, Sage Holdings controls R4-billion of assets.

Mr Nackan said the decision to change the date had been made before the last financial year ended, but the decision had only been ratified by the board last week. It thus complies with Companies Act.

(58)

Liberty makes a FIT gift

S Times 10/2/91.

By JULIE WALKER

MEMBERS of the three listed Liberty Life companies received a bonus this week — shares in First International Trust (FIT).

Liberty Life will give 34,2-million of its 84,9-million FIT shares to shareholders in the ratio 16 FIT for 100 Liberty Life held on February 22. Liberty says 19-million of its FIT shares are attributable to policyholders and the rest to shareholders.

This is because shareholders originally funded the establishment of TransAtlantic in 1980. FIT holds TransAtlantic shares. TransAtlantic owns 27,7% of Sun Life plc and 73,7% of property developer Capital & Counties plc.

The distribution dividend in specie out of Liberty Life reserves is equivalent to 199,2c a share. This amount is available as cash where odd lots would otherwise occur.

After the distribution, Liberty will own 40% of FIT, a third of which will be attributable to policyholders. Voting arrangements will ensure Liberty of more than 50%. The outcome is a more tax-efficient method of dividend collection by direct participation in FIT. Its tradeability might also improve.

Libhold members will be offered 42 FIT (worth 522,9c a Libhold share) for 100, and Libvest 2,5 FIT shares (worth 31,125 a Libvest share) for 100.

Liberty Life aims to distribute not less than 85% of the group's net taxed surplus as dividend. It declared a final dividend of 54c to total 86c for the year to December 1990 — 36,5% up on 1989.

Libhold will pay 220c for the year, a rise of 46,7%. Libvest will pay 14c, up 29,6%.

UBS could now have 30 pc of Allied after buying raid

Star 11/2/91 (58)

By Derek Tommey

After aggressive buying on the JSE last week, UBS Holdings is now believed to hold 30 percent of the Allied group's shares.

This is the latest development in the takeover battle for the Allied between the UBS and First National Bank.

Although a 30 percent holding of Allied does not give UBS automatic control, it puts the UBS in an extremely strong position to prevent FNB from acquiring the group.

It means that FNB will have to secure the support of 40 to 45 percent of Allied shareholders to block the UBS, which could be difficult.

The Allied share price reached a peak of 290c on the JSE on Friday afternoon. However, the strong buying suddenly ended and the price dropped back to between 275c and 280c.

Dealers say this indicates that whichever group had beeen doing the buying had acquired the 30 percent of Allied shares which it is allowed to do without triggering the JSE takeover code.

If it had bought more than 30 percent it would have to make an offer for all Allied shares at the highest price paid on the stock exchange — or 290c in the light of last week's trading.

That is 50c more than the 240c being offered by the UBS and would have increased the Allied price to the UBS by about R150 million.

There is no doubt that the FNB, which is offering 250c in cash or 262,5c in FNB shares for its Allied shares, will have its work cut out to mobilise sufficient support to block the UBS.

However, the Allied board could support the FNB offer. The Allied directors are considering the offer and are to report on it later this week.

An Allied spokesman said at the weekend that the FNB offer was higher than that of the UBS and was also more favourable to shareholders than the First FNB offer.

This suggests that the Allied board might rule in favour of the FNB, which could help win the support of many thousands of undecided Allied shareholders.

Top world bankers in SA this week

CM Tvl 11/2/91

WASHINGTON. — SA will have full access to the credit and development funds of the World Bank and IMF restored as soon as the EC lifts sanctions.

This is one of the messages which will be carried this week from Washington to SA by a team of World Bank and IMF economists.

EC sanctions are scheduled to be lifted "in a matter of weeks", possibly as early as February 19 when EC foreign ministers meet.

The IMF-World Bank delegation will meet secretly with Reserve Bank governor Dr Chris Stals and other top Pretoria officials. Reports have said that IMF managing director Mr Michel Camdessus will pay a one-day visit to SA later this week.

At stake are billions of rands which SA would be entitled to borrow from both the concessionary job-creating programmes of the World Bank and hard currency loans which it could take to stabilise its export industries.

Officials of the two agencies say they are following the lead of the EC foreign ministers who have tied the lifting of sanctions to the successful adoption of anti-apartheid measures proposed by President F W de Klerk to Parliament a week ago.

Investments

Returning SA to the World Bank-IMF fold and lifting economic sanctions would leave the US alone among the major boycotters.

US investments approached R7,5 billion in the mid-1980s but have shrunk to R1,875 billion, mostly in mining.

One of the tricky questions is whether SA will take its place as an African member on the executive boards of the two institutions.

Until its suspension from the executive board 15 years ago, Pretoria had been part of a block of former British colonies including New Zealand and Australia. — Daily Telegraph.

'Grey areas' hit by DTI Act

CAPE TIMES 11/2/91

THE grey areas of financing have been the hardest hit by the new Deposit-Taking Institutions (DTI) Act — which became law last week.

The monetary authorities striving to create a sound financial system have a twin-focus on — disclosure of banks unreported assets and tighter rules regarding money brokers (intermediaries).

A loophole in the previous Act allowed trade without detection in, among others, repurchase agreements and off-balance sheet loans.

But a simple addition to the new DTI, forces banks to identify all assets which effectively outlaw such activity.

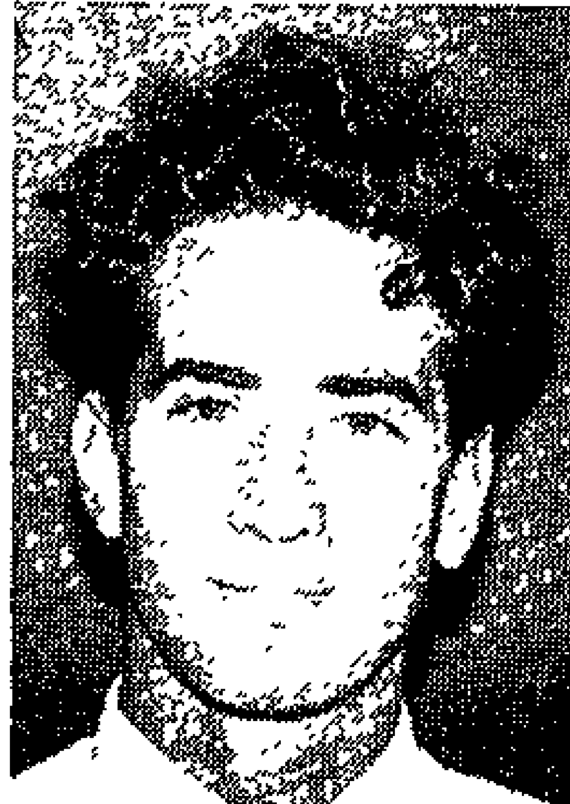
Institutions bypassed the strenuous liquid asset requirements — 20% on short-term funding, 15% on medium-term and 5% at the long-end — by parcelling-off assets on a buy-back (repurchase) basis. They were never recorded, creating greater cash reserves for banks as liquid requirements fell.

The government moved in rapidly last year — allowing a temporary phase-in before all such transactions were brought on-balance sheet from February.

And so the demise of an essential element in banking strategy!

Grey market activity is obviously hard to quantify — but should have a pronounced impact on both financial markets and the money supply.

Market players said grey market activity had generated untold profits for participants. "Those



Banks, Bonds & the Bourse

by ARI JACOBSON

institutions guided by a strict code of conduct sidestepped on lucrative returns."

The new system has a built-in mechanism for policing DTI regulations.

Large corporations or non-DTI's breaking the rules, by playing the grey market, take the risk of being classified as DTIs.

The speed of obtaining information in the financial markets should also help to wipe-out illegalities.

From the writer's perspective when it comes to cash you don't need a commanding officer.

Money brokers no longer escape the rigours of banking discipline — the new Act revolves around deposits and therefore deposit takers.

The thin line dividing a DTI from a non-DTI is dependant on whether funds attracted are pooled together.

A non-DTI must keep client funds in individual accounts at a registered DTI. The investor, in turn, knows the whereabouts of his investment.

Dubious brokerages (for instance the Albert Vermaas fiasco) exploited the old Bank Act promising enormous returns. Invariably, the loan and interest payment never materialised.

These tough tactics to clean up the financial system have trapped two important cogs on the periphery of banking.

Accounting firms and stockbrokers so essential in previous off-balance sheet activity may be classified as DTIs if representations, currently underway swing against them.

Truce offer as Allied share price rockets

Cape Times 11/2/91

Own Correspondent

JOHANNESBURG. — First National Bank (FNB) approached United Building Society (UBS) on Friday afternoon hoping to strike a deal in the battle for the control of Allied, well-placed observers said at the weekend.

The flag of truce has been raised because Allied's share price rocketed to 290c at one stage on Friday, well above its net worth of just over 200c and the 250c cash offer FNB has made to Allied shareholders.

The observers speculated that FNB could make an offer to the UBS-led Amalgamated Banks of SA (Absa) consortium for its Allied shares at a price above the UBS camp's offer price, but below current market prices.

If such an offer was to be accepted, UBS would stand to make a profit of about R200m. But observers say UBS chairman Piet Badenhorst has put much work into his proposed super-bank and is unlikely to back off without a protracted fight.

A truce of sorts has also been declared in the Allied boardroom.

Allied MD Kevin de Villiers was heading for a showdown with his board on Friday. It was expected that he would be asked to resign but would refuse to do so.

In a statement issued after the meeting the board said it would perform its fiduciary duty to shareholders and was preparing, together with its advisors, its response to the FNB offer. This is expected to be completed within the next few days.

Although De Villiers was officially gagged, the board softened the blow by saying it would allow him to carry out his statutory responsibilities in terms of sections 316 and 317 of the Companies Act. These sections allow the expression of minority and diverse opinions.

Sources close to the battlefield suggested that an expensive stalemate could result from the recent scramble for shares on the JSE, with neither FNB nor UBS gaining clear control of Allied.

The UBS has been the more aggressive buyer of shares, but FNB has also been active. At the beginning of the battle Absa and its allies could claim about 30% of Allied's shareholding against FNB's 20%.

In the past month 14% or 41m of Allied's 295m shares have changed hands. The value of turnover has been a massive R107m at an average of R35 000 a deal, an indication that smaller shareholders are taking advantage.

Friday's trading was hectic as R32,7m worth of shares changed hands in 592 deals involving 11,5m shares. Allied shares closed at 280c on Friday, down from the day's high of 290c.

Dealers believe a particularly large seller was in the market, as R6m worth of shares traded within 20 minutes in mid-afternoon. This view is backed up by the average deal size rising to R55 287 from the R30 212 monthly average on Thursday.

But trading came to an abrupt halt late in the afternoon, leading to speculation that a truce flag had been raised, or one of the parties had acquired sufficient shares in terms of takeover panel rules.

"Allied's share price is unrealistically high," Ed Hern analyst Alan McConnochie said on Friday afternoon. "There is no chance the bids (by the UBS and FNB camps) will near this level.

"I would advise shareholders to sell and get paid next week rather than wait months and get a lower payout," he said.

Other analysts pointed out the net asset value of Allied was in the low 200c bracket, and said some large shareholders might not sell as they had promised their support to one of the parties.

FNB is offering Allied shareholders 250c for cash, or an effective 262,5c, in a share swap for FNB shares.

FNB MD Barry Swart was in a meeting yesterday and could not be reached for comment at the time of going to press.

CAT Times 11/2/91 (88/2668)

Rembrandt sees higher earnings

By PIETER COETZEE
Financial Editor

THE Rembrandt group of companies is expected to show an increase of about 20% in earnings for the year to end-March 1991. This follows the previous year's growth of 25% in earnings.

This follows the announcement of 20% higher dividends than the previous year.

Rembrandt is known for its conservative dividend policy and it is not expected that dividend cover will be lowered substantially in order to increase dividends.

Rembrandt Group declared a final dividend of 19,5c a share bringing the total for the year to 30c — which is 20% higher than the previous years total dividend of 25c a share.

Rembrandt Controlling Investments declared a final dividend of 14,43c, giving a total of 22,21c (18,51c).

Technical and Industrial Investments declared a final dividend of 13,43c for a total of 20,66c (17,22c), while Technical Investment Corporation declared a final dividend of 12,67c for a total of 19,49c (16,24c).

Share price soars over 270c mark

(58)

FNB, UBS 'declare truce over Allied'

Business Day 11/2/91.

KEVIN DAVIE
and ANDREW GILL

FIRST National Bank (FNB) approached United Building Society (UBS) on Friday afternoon hoping to strike a deal in the battle for the control of Allied, well-placed observers said at the weekend.

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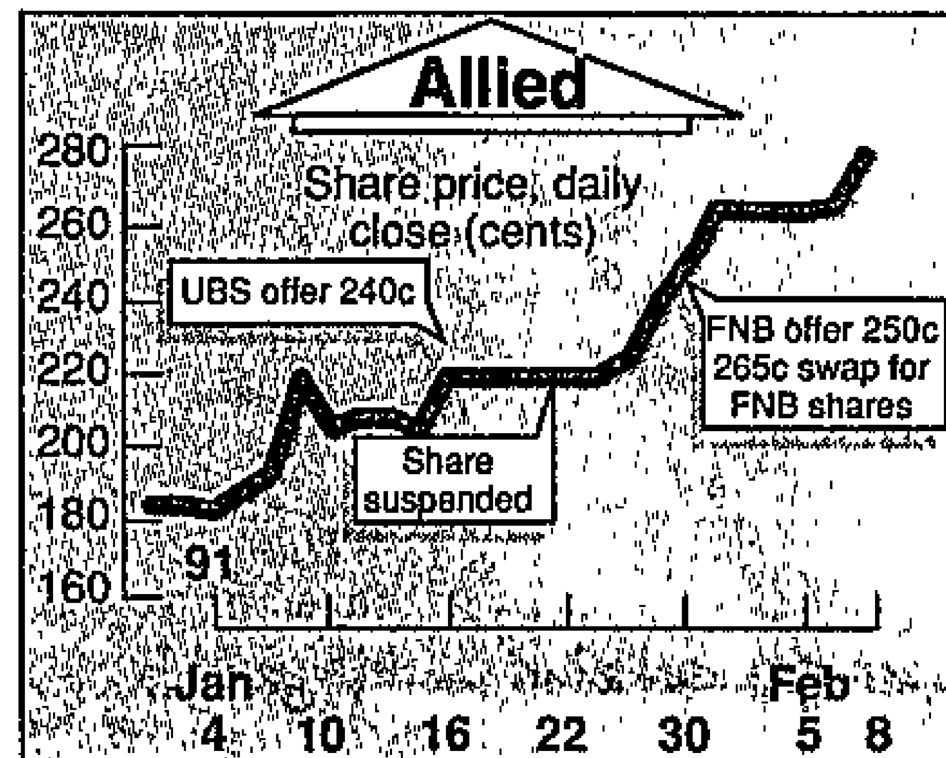

Graphic LEE EMERTON Source JSE

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☐ To Page 2

Allied

BDay 11/2/91

(58)

☐ From Page 1

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House prices may rise 12% — United

CHARLOTTE MATHEWS

HOUSE prices are expected to increase by about 12% in 1991 but the market will remain under pressure, the United says in its Quarterly Housing Review for the three months to end-December.

Pressure will come from the persistent economic downswing throughout most of 1991 and the authorities' intention of keeping interest rates positive in real terms by a substantial margin.

In the first three quarters of 1990 there was a fall in the number of building plans passed and the value of buildings completed is expected to fall in 1991. Higher building costs will also affect this activity.

The United shows the average price of a medium-sized house increased by 14% year-on-year in the fourth quarter to about R108 600.

BDay 11/2/91

Definition

In the same period the average price of larger houses rose by 5% to about R147 500 and smaller house prices went up 17% to about R92 000. The United's definition of a small house is one that has a building area of about 114m², a medium-sized house is about 179m² on average and a larger house has an area of about 265m².

Prices vary widely between different areas — a small older house in Johannesburg was selling for about R107 000 in the fourth quarter and the same house was selling for R53 000 in the Vaal Triangle.

The average price of a medium-sized house rose by 12,6% in 1990, which is roughly four percentage points above the 1989 increase. In real terms the price fell 1,6%.

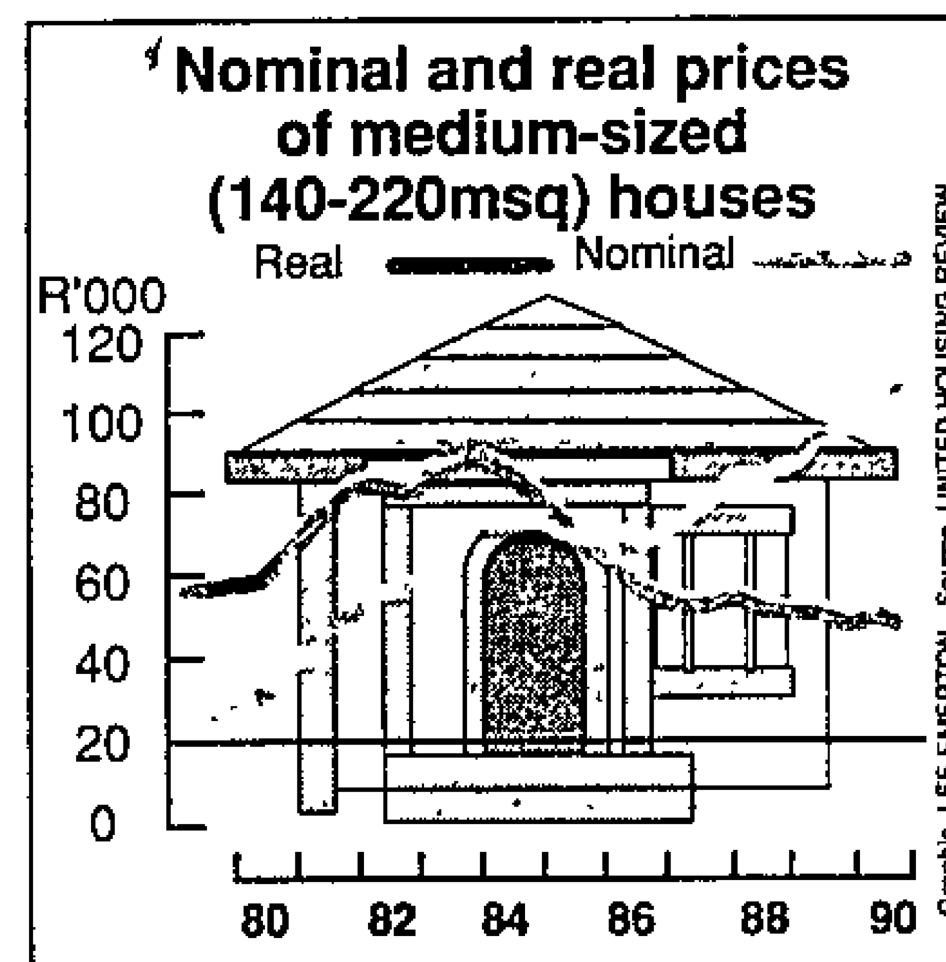
The annual average price of all houses increased by 11,7% in 1990.

Substantial increases in the price of medium-sized houses in the fourth quarter were recorded by the Western Cape, where prices rose 16% year-on-year, in Johannesburg (11% higher) and Durban and the rest of Natal (14% higher).

The United foresees a two percentage point drop in the Bank rate in the first half of 1991, which implies the mortgage rate, 20,75% at the United on the 18% Bank rate, will remain positive in real terms.

Nominal mortgage repayments on an 80% bond on a medium-sized house rose 13,5% compared with the monthly repayments a year previously. After adjusting for the effects of inflation this is 1,1% lower than in 1989.

"Nevertheless the continued increase in the repayment/remuneration ratio up to the second quarter of 1990 can be perceived as an indication that it is becoming progressively more difficult to finance a new home," the United concluded.



Allied shareholders take the cash and run

Star 12/2/91. (58)

By Derek Tommey

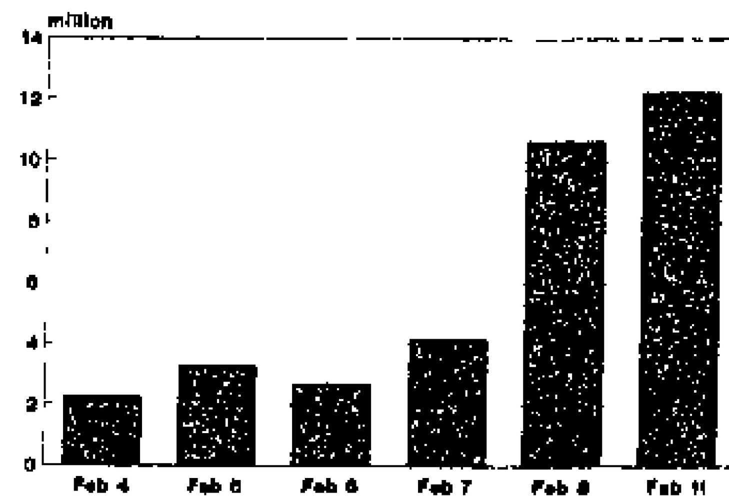
The battle for Allied flared up again on the JSE yesterday.

Hectic trading developed in Allied shares and by the end of the day a record 12,3 million shares worth R36,2 million had changed hands, with the price reaching a peak of 295c.

In the past six trading days 35,5 million Allied shares worth more than R100 million have been sold on the JSE.

It seems many Allied shareholders, confused and undecided about the conflicting bids by UBS and First National Bank, are taking the higher price available on the market.

Yesterday's closing price of 295c compares with the 240c being offered by UBS and the 250c in cash or 262,5c in shares being offered by FNB.



Allied share turnover

Dealers point out that in situations where there are two parties bidding against each other in the share market, the price can suddenly collapse once both have secured their targets.

But dealers are speculating that the boom in Allied shares could continue for some time.

Both parties are allowed to hold up to 30 percent of Allied shares without incurring penalties.

But in the past six days only about 11 percent of Allied's total share capital has changed hands — which means that a lot more shares might have to be traded before the two parties get their full shareholding.

A sudden halt to the buying on Friday afternoon started speculation that the UBS had succeeded in getting its 30 percent.

But its apparent return to the market yesteday suggests it still has some way go. As FNB has not been particularly active in the market until now, it might have to buy substantial numbers of Allied shares.

Although FNB's offer is higher than that of UBS, it has a harder task in securing the support of enough Allied shareholders to give it control.

As things are, all UBS needs to merge the Allied with UBS-Volkskas is the approval of the majority of shareholders attending a general meeting in the second half of March.

Therefore the FNB must muster enough support to out-vote the UBS at the meeting if it wants to block the merger.

Making life difficult for FNB is that it is unlikely to know how many shares UBS has, so it does not know how many votes it needs.

Furthermore, its offer is conditional on its being able to block the UBS.

This aspect of the FNB offer is causing confusion among Allied shareholders and tending to deter them from supporting FNB.

But Stuart Jones, vice-president of First Corp, which is acting for FNB in the takeover battle, says: "If Allied shareholders do not support FNB to block the UBS, they will not get the higher FNB offer."

House sellers jump on bandwagon

Consumer Reporter

Star 12/2/91.

The asking prices for properties had increased, "sometimes absurdly" in the wake of President de Klerk's announcement that the Group Areas Act would be scrapped, say estate agents.

Camdon Group managing director Scott McRae said that while the scrapping of the Act was good for the market, sellers had to keep a sense of perspective on their asking prices, which had jumped in all main centres.

Eskel Jawitz/JHI manager for sectional titles Bob Gauld said this was true of flats and townhouses.

But the scrapping of the Act had been expected for so long that it had already affected prices.

Aida Holdings chairman Aida Geffen said there was a buyers' resistance to current asking prices.

A pessimism had also affected the market, and the dropping of interest rates would have a great effect on the market for all buyers, she said.

Mr McRaé said turnouts at show days countrywide were excellent since the President's speech, but sellers and buyers were on different levels.

"Sellers are, in fact, deluding themselves, as prices in areas where there is likely to be buying by Indians, coloureds or blacks have already risen in anticipation of the Act being scrapped.

"There is now a very real danger that sellers will price themselves out of the newly emerging market unless they are more realistic."

"The gap between the expectations of the seller and those of the buyer is enormous," said Mr Gauld.

Buying of white properties by other races has been continuing for some time, and Mr McRae foresees the market easily absorbing the new buyers without a short, sharp, impact on prices.

"Nor will there be an immediate overwhelming influx into white areas, as some politicians have suggested, and which some sellers are apparently gambling upon."

Mr Gauld said long-term prices would be ruled by supply and demand. The large number of buyers moving into the market would mean that prices would increase.

But future house sales would be based not so much on racial terms as on economic terms.

58

Price hits record highs . . .

R36m Allied shares change hands on JSE

Cape Times 12/2/91

(58)

Own Correspondents

JOHANNESBURG. — The battle for control of Allied was rejoined in earnest yesterday as frenetic buying resulted in a record R36m worth of shares changing hands, pushing the share price to close at a new high of 295c.

Both First National Bank (FNB) and United Building Society (UBS) camps agreed at the close of trading yesterday that the UBS camp was probably close to acquiring the maximum it may buy in terms of the new Securities Panel rules.

"The UBS camp is approaching a major position," said one insider.

Panel rules require individuals or people acting in concert to pay the highest price they paid for shares to all other shareholders if more than the specified maximum number of shares are purchased.

In the UBS's case, sources say, this is 5%, while FNB may acquire up to 10% because its shareholding in Allied is lower. The UBS has offered 240c for Allied shares, while the FNB's offer is 262,5c (cash and shares) or 250c (cash).

A breach of the rules could cost the breaching party between R56m and R100m extra to win control of Allied.

"We're watching the code very carefully," a source in the UBS camp said.

"A contravention would be very expensive."

JSE president Tony Norton said yesterday that there had not been any breaches in Securities Panel rules.

Yesterday's activity on the JSE floor followed a FNB-initiated attempt late on Friday to calm the market and discuss a possible settlement whereby the FNB would buy the UBS camp's Allied shares.

But the peace was short-lived, and the UBS response was seen in the market, as the price surged towards 300c.

Trade in the shares hit a record high yesterday as 12,7m shares changed hands in 893 deals. This brings the total amount traded in February to over 40m, 13,6% of the issued shares.

In terms of Rule 8 of the new Securities Regulation Code, an offer has to be made to minority shareholders if the party acquires the specified percentage or more that carries voting rights in a company. This is believed to be the case with FNB.

This also stands for any party that holds the specified percentage and then acquires, within a year, an additional 5% of voting rights. This is believed to be the case with the UBS camp.

Observers say the UBS-led group is very close to acquiring the maximum allowed by panel rules. As this camp originally held more than 30% of the total shareholding, if it and its concert parties acquire another 5% then all other shareholders must be offered the highest price paid during the acquisition spree.

Assuming the UBS camp holds 35% of Allied and they are forced to make an offer at 295c a share, it will cost them R567m, R106m more than the R461m they would have paid at the 240c offer price.

FNB held about 20% of Allied at the beginning of the share war two weeks ago. It can boost its holding to 30% before being required to pay the highest purchase price to all other shareholders.

FNB, if it overstepped the 30% mark, might have to pay R611m at 295c, R56m more than the R555m offered at 250c.

Analysts say the premium is too high for either party and they will be wary of overstepping the mark.

Sources close to the UBS have suggested that Anglo American is backing the FNB bid, and that it either bought FNB shares or did a share swap to enable FNB to offer the 250c cash underpin for Allied shares.

An Anglo spokesman said yesterday: "Anglo has no involvement whatsover."

Bankfin MD moves to Saambou group

GRETA STEYN

SAAMBOU has appointed a top Bankorp executive, Bankfin MD Johan Myburgh, as its new group MD.

Analysts have been severely critical of management at the building society group, which has just averted a hostile takeover bid by Trafalgar Portfolio Managers.

With an underlying net asset value of about 220c, Saambou was criticised for presenting shareholders with a low 8% return on their funds. Its link-up with Fedsure subsidiary Fedlife to form a new R9bn financial services group hangs in the balance, if new management does not come up with the goods.

Fedsure could choose not to convert its debentures into ordinary shares in the next three years if the return on shareholders' funds does not improve.

Myburgh's appointment is surprising as Saambou last week said it wanted to effect cultural changes. Bankorp and Saambou have similar cultures and it is unlikely that the move will see any change on that score.

The Saambou share, which fell back substantially after the Fedsure deal from a high of 165c, has seen demand return at the lower levels. It rose 1,3% yesterday to 152c. The Fedlife transaction valued Saambou at 140c a share.

Financial markets expecting interest rate cut 'in weeks'

8ki 11/2/91 (58)

By David Canning

DURBAN — A cut in official interest rates is expected within weeks, according to economists and financial market operators reacting to comments by Reserve Bank Governor Dr Chris Stals on Thursday night.

Dr Stals told the Afrikaanse Sakekamer in Cape Town that he would let the market lead him into a decision on when to cut interest rates.

This would come about only as a result of a fall in demand for credit, he said.

Ray Lalouette, managing director of Natal Financial Services, said at the weekend that markets were already pointing downwards.

Provided nothing untoward happened in the Gulf war, another drop in domestic money supply and inflation figures later this month was likely to trigger the Reserve Bank into easing Bank Rate, he said.

Although Dr Stals talked about taking a lead from markets, Mr Laloutte believed it was unlikely that the commercial banks would take independent action to cut the prime rate in the absence of a Reserve Bank signal.

Lower interest rate expectations are evident in capital and money markets.

Dr Chris Stals . . . will let the market lead him into a decision

The Eskom 168 has slipped from 16,15 to 15,56 percent in the past month.

In the money market, the Bankers' Acceptance rate has slipped from 18,8 percent on November 21 1989 to around 17,6 percent last October.

There then followed an upward tick, in line with increased tension in the Gulf and other factors.

Since last October the BA rate has dropped from 18,2 percent to around 17,55 percent.

The market consensus is that the prime rate should ease from 21 percent to between 17 and 18 percent over the next 12 months.

However, an upset in oil prices stemming from the Gulf war could delay this process.

On the other hand, Mr Lalouette felt the prime rate could drop as low as 15 percent if the US and world economic recession is more severe than expected.

Dr Azar Jammine, chief economist for Econometrix, said he believed Dr Stals would be obliged to cut the Bank Rate once money market rates had eased by another 40 points of so.

This could be expected to happen before next month's parliamentary reading of the Budget.

However, Dr Jammine said he was a little more pessimistic than most about the prospects for inflation — and therefore for interest rates.

Recent money supply and inflation figures had been higher than most economists had been predicting.

He believed that structural factors such as trade union demands and the power of monopolies would prevent inflation from coming down much below current levels.

He thought prime rate would dip to between 18 and 19 percent over the next year.

UBS edges to 'major position'

(58)

Share frenzy as battle for Allied rages

B/Day 12/2/91

KEVIN DAVIE and ANDREW GILL

THE battle for control of Allied was rejoined in earnest yesterday as frenetic buying resulted in a record R36m worth of shares changing hands, pushing the share price to close at a new high of 295c.

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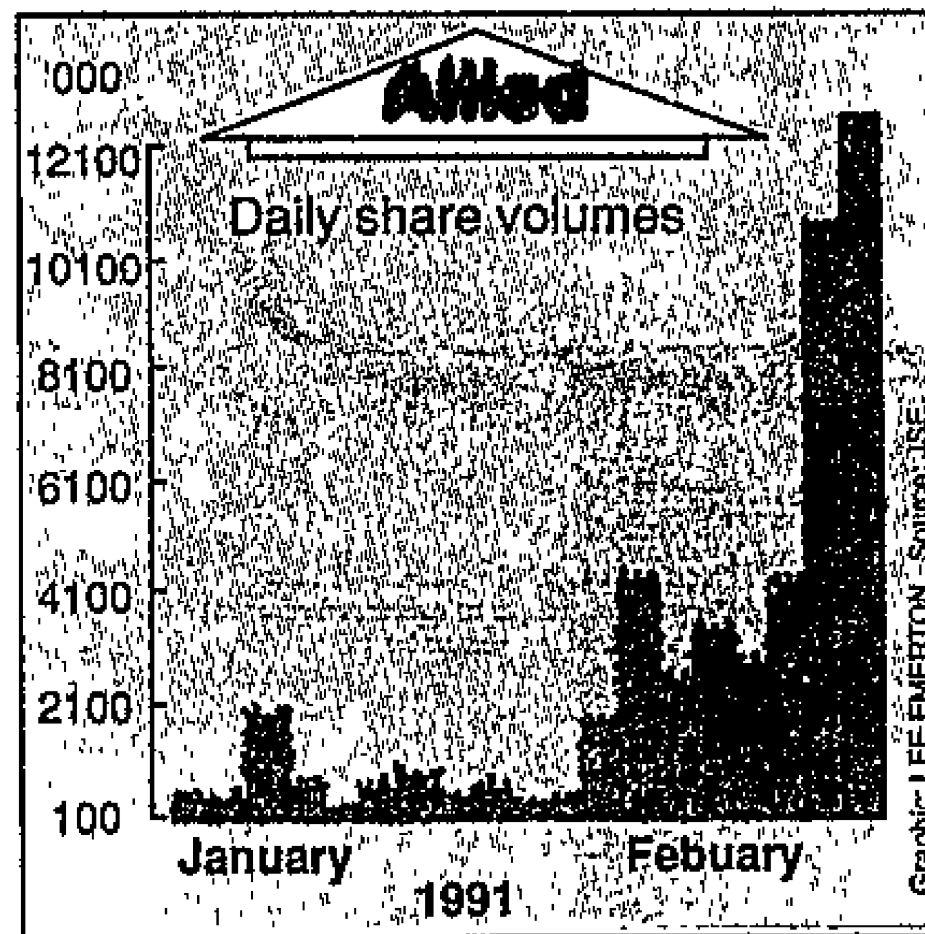

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Allied

B/Day 12/2/91

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● See Page 3

Standard Bank posts 24% higher earnings

Cape Times 13/2/91

Own Correspondent

JOHANNESBURG. — The Standard Bank group yesterday reported a strong 24% jump in earnings for the year ended December 31, in spite of a 25% hike in operating expenses and a sharply higher bad debt provision.

In results geared heavily towards the requirements of the new Deposit Taking Institutions Act (DTI) the group shrugged off a poor interim performance and a recessionary climate to beat the bad debt blues.

Attributable income climbed 24% to R423,6m from 1989's R341,8m — thanks to a strong contribution by Standard Bank and associate Liberty Life Controlling Corporation.

The first six months accounted for 39% of net income at R167,2m, while the second six months saw income up at R256,4m, a 61% contribution.

Earnings a share were up 24,1% to 422c from 340c but overall dividends were 18,8% up to 133c.

This brought dividend cover up to 3,2 times from the three times of 1989. The final dividend was 96c.

A new feature for the bank was an option to elect a share allotment in lieu of a cash payment for dividends, another DTI inspired move, say analysts.

Shareholders holding over 334 Standard Bank Investment Corporation shares (SBIC) may elect to receive three new ordinary SBIC shares at a price of R29 and a R9 cash payment for every 100 ordinary shares held.

Asset growth was kept at a reasonable 14,2% to R45,5bn. Loans and advances however, were up 15,9% at R36bn from R31bn.

SBIC group MD Conrad Strauss said the home loans book had shown strong growth over the year with a 32,6% climb to R6,5bn.

Provision for bad and doubtful debts, as with the industry wide norm, was up a hefty 37,5% to R215m. An analysis shows this came about due to a 119% jump in specific provisions to R177m.

A divisional breakdown shows Standard Bank of SA's contribution 24% higher at R249m, Stannic and Stanpro up 45% at R34m, Standard Merchant Bank up 14% at R30m, Stanbo up 24% at R22m and Stanswa down 45% at R4,9m.

Business Report

Third player emerges in battle to control Allied

CMT TIMES 13/2/91

Own Correspondent

JOHANNESBURG. — A third major player has emerged in the battle for the control of Allied, with all indications being that it is Standard Bank Investment Corporation (SBIC).

SBIC MD Conrad Strauss said last night "it would be inappropriate to comment".

But FNB MD Barry Swart said that he was aware that there was a possible third major player. He said the huge volumes of shares on the JSE in the past few days would have suggested that Securities Panel rules were breached if there were only two major buyers.

"These mechanisms would have already been triggered," he said.

The third party is independent of both the UBS and FNB camps as Securities Panel rules require parties acting in concert to disclose their links.

Securities Panel executive director Doug Gair said yesterday he had heard that there was a third player active in the market but doubted that this player would be able to buy up 30% of Allied.

In another development yesterday, a source close to the UBS camp indicated that it was likely to lift its 240c offer.

"There is pressure on the UBS camp to lift its offer," the source said.

Allied featured on the JSE again yesterday. The share touched 300c at one stage before easing to close at 278c in active trade of R26m.

Observers believe the third player is unlikely to try for control saying it is more likely that it is making the battle more expensive for the other two parties, or trying to force a stalemate where neither the FNB nor the UBS camp wins outright control. This could mean that Allied remains independent.

Standard's holding in Allied is not reflected in "Who Owns Whom".

The two camps bidding for Allied are providing detailed daily returns of all Allied share purchases and holdings, says Gair.

He says the panel is only applying rule 8 of its Securities Regulation Code. This rule obliges parties which hold more than 30% and increase their stakes in a 12-month period by 5% to pay all other shareholders the highest price paid in the open market.

The same mandatory offer applies to parties which increase their holdings above 30% over an unlimited period.

Gair indicates that neither the UBS nor FNB camps expected to have their bids fall within the jurisdiction of the panel.

"I assume from their actions (making their bids before the beginning of this month when the panel came into effect) that they believed they would not fall under the new rules," he says.

Gair says the panel has asked for lists of concert parties, adding that the panel is considering releasing the names of these parties "if the code is broken or for some other valid reason".

FNB's Swart criticised the secrecy over UBS's concert parties. He said shareholders had the right to know who was supporting the UBS-led bid.

GILLIAN HAYNE reports that in spite of the fact that the UBS merger proposal announced over two weeks ago, the official UBS offer document has yet to be released.

FNB claims the delay is "inordinate, unreasonable and unfair". They have been pressing the JSE to make the document available.

A UBS spokesman said the document would be published on February 25. He added it was unreasonable to expect the more complex UBS proposal to be finalised as quickly as the FNB offer.

BUSINESS DAY, Wednes

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Bankorp chief spells out banks' dilemmas

(58)

B/Day 13/2/91

ANDREW GILL

AS ILL-conceived as the overexpansion in the banking industry in the 1980s was, an overcontraction in the 1990s would be as ill-conceived, Bankorp executive chairman Piet Liebenberg said yesterday.

Although the banking sector was overserviced, undercapitalised and underprofitable, it could be entirely counterproductive to slash the banking sector at this stage, "and so unnecessarily constrain its ability to contribute to and share in the potential boom of the 1990s in this country," he said.

In the short term, he said, SA was overbanked and the most serious dimension of this was overstaffing.

"The way in which technology has changed the essence of commercial banking in particular from a low-volume, labour-intensive profession to a capital-intensive, high-volume business with the consequent rationalisation on the labour side, does not seem to have fully penetrated the SA banking industry.

There was no doubt, he said, that the banking system was undercapitalised, while its real rate of growth for the decade compared unfavourably with blue chips in other sectors quoted on the JSE.

Commenting on rationalisation in the banking sector, he said if the proposed Volkskas/United/Allied/Sage merger went through, there would be limited scope for another major rationalisation.

The big players would then be neatly partitioned within the camps of major investment groupings.

"This will provide a certain amount of stability and consequently also provide reassurance for investors and depositors."

Some of the smaller specialist banks would always find a niche in the market and perform a useful function, he said.

He said the banking industry was not particularly profitable. It had not been earning suffcient rates of return to justify shareholder confidence.

"We should be providing our shareholders with a minimum of 5% real rate of return and growth annually on their investment in order to justify their continued support," he said.

Third bidder for Allied (58)

KEVIN DAVIE

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BDay 13/2/91

Allied

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☐ From Page 1

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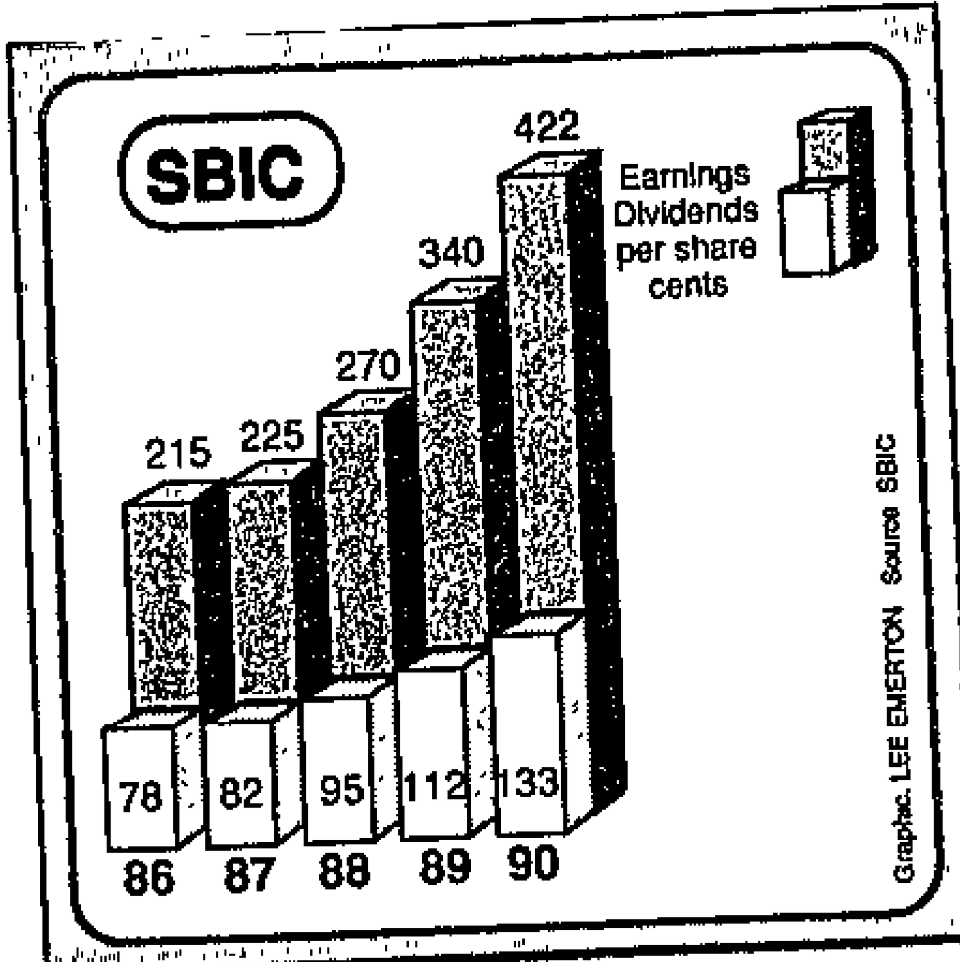


Big earnings rise for Standard Bank

B/Day 13/12/91 ANDREW GILL (58)

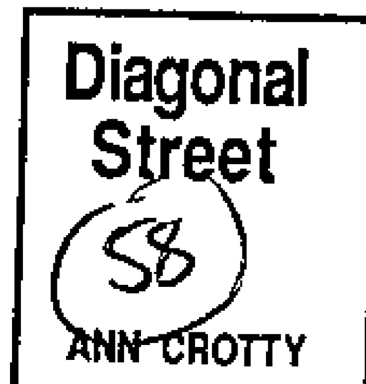
CONTINUED high interest rates and sharply higher bad debt provisions and operating expenses failed to dampen the Standard Bank group's year-end results released yesterday, which showed a 24% increase in earnings.

In results giving optimum disclosure, the bank reported earnings a share 24,1% higher at 422c and an overall dividend payment 19% higher at 133c. The final dividend was 96c. Attributable earnings were up at R423,6m from R333,2m.

In a new move, the group has given the shareholders an option to be allocated Standard Bank Investment Corporation shares in lieu of a cash payment.

● See Page 9

Commendably up to Standard



Attributable profit up 24 percent, a return on shareholders' funds of 19 percent, a 16 percent increase in shareholders' funds and a 14 percent hike in total assets — these are some of the highlights of the fine results posted by Stanbic for the 12 months to December.

A final dividend of 96c a share has been declared, bringing the payment for the year to 133c a share.

(Shareholders are being offered the right to receive part of their final dividend in new Stanbic shares at an allotment price of R29 — yesterday's market price was R30.)

The performance is all the more commendable given that it is off a strong base, with earnings growth of 20 percent and 26 percent in financial '88 and '89 respectively.

Despite tough conditions, including a massive hike in the specific provision for bad debt, the group achieved an 18,4 percent rise in taxed operating profit — up to R370,7 million from R313 million.

Share of profit from associates (the Liberty group) shot up 84 percent to R52,9 million (R28,8 million), lifting the increase in attributable profit to 24 percent — up from R341,8 million to R423,6 million.

For the first time, the income statement is broken down to show net interest income — this was up 23,6 percent to R1,55 billion (R1,25 billion).

Other operating income (including commissions and exchange earnings) was up 21,1 percent to R1,06 billion (R875,8 million), which meant total income was up 22,6 percent to R2,61 billion (R2,13 billion).

Operating expenses were up 24,7 percent to R1,99 billion (R1,60 billion). Within this category the increase in staff costs was held at 21 percent.

Other operating expenses were up 26 percent. The bad and doubtful debt provision rose 37,5 percent to R214,8 million (R156,2 million).

Pre-tax operating profit was up 16,3 percent. The tax rate was down slightly to 39,8 percent.

Group MD Dr Conrad Strauss says the rise in specific provisions for bad debt (much of it relating to Stannic) is in line with industry experience.

In financial '90 the group's bad debt experience represented 0,45 percent (0,24 percent) of its total advances, other accounts and acceptances.

Dr Strauss says that even the higher level was not out of line with the experience of international banks (excluding LDC debt).

Stanbic is comfortable with the initial capital requirements of the new Deposit-Taking Institutions Act and, he says. Some parts of the group are even comfortable with the longer-term requirements.

With regard to the secondary component of the capital requirement, the end-December balance sheet shows the group with R876 million — made up of 50 percent of the R368 million general debt provision, 50 percent of the R589 million investment surplus, all of the R290 million debentures and 50 percent of the R214 million property surplus.

Given the likely support of major shareholders, the offer of shares instead of dividends will have a twofold benefit on the group's capital position.

Sage counters allegations of rule-breaching

GILLIAN HAYNE

SAGE Holdings yesterday countered suggestions that it and its subsidiaries breached clauses of the Companies Act and the regulations of the JSE by changing its year-end from December 1990 to March 1991. B/Day 13/2/91.

Sage Holdings executive director Bernard Nackan said applications were lodged with the Registrar of Companies prior to the December 31 1990 year-end, and he had approved the change.

He said the move to a March year-end was to overcome the inconvenience of having a financial year-end at the time of traditional holiday periods.

A March year-end would be vital should the proposed merger of Allied, UBS, Volkskas and Sage Financial Services go ahead.

Standard beats the bad debt blues

(58)

Bday 13/2/91.

ANDREW GILL

THE Standard Bank group yesterday reported a strong 24% jump in earnings for the year ended December 31 despite a 25% hike in operating expenses and a sharply higher bad debt provision.

In results geared heavily towards the requirements of the new Deposit-Taking Institutions Act, the group shrugged off a poor interim performance and a recessionary climate to beat the bad debt blues.

● STRAUSS

Attributable income climbed 24% to R423,6m from 1989's R341,8m, thanks to a strong contribution by Standard Bank and associate Liberty Life Controlling Corporation.

The group was buoyed in the second half after severe pressure on margins was alleviated as demands on liquidity in the system eased later in the year.

This is shown by the half-yearly contribution figures. The first six months accounted for 39% of net income at R167,2m while the second six months saw income up at R256,4m, a 61% contribution.

Earnings a share were up 24,1% to 422c from 340c but overall dividends were 18,8% up to 133c, an indication of provision for the more stringent capital requirements of the Act. This brought dividend cover up to 3,2 times from the three times of 1989. The final dividend was 96c.

A new feature for the bank was an option to elect a share allotment in lieu of a cash payment for dividends, another move inspired by the Act, say analysts.

Shareholders holding over 334 Standard Bank Investment Corporation shares (SBIC) may elect to receive three new ordinary SBIC shares at a price of R29 and a R9 cash payment for every 100 ordinary shares held.

Asset growth was kept at a reasonable 14,2% to R45,5bn, an indication of the constraints on the banking industry in the face of new capital/asset requirements. Loans and advances, however, were up 15,9% at R36bn from R31bn.

SBIC group MD Conrad Strauss said the home loans book had shown strong growth over the year with a 32,6% climb to R6,5bn. This is apparently another gearing towards the Act as it is more lenient in terms of capital requirements.

There would be no difficulty in complying with the Act's initial 4,5% capital-to-asset ratio requirement and that some divisions were in such a position they were comfortable with the ultimate 8% requirement.

Provision for bad and doubtful debts, as with the industry-wide norm, was up a hefty 37,5% to R215m. An analysis shows this came about due to an 119% jump in specific provisions to R177m — a sign of the times, said Strauss.

He attributed the slower growth in general provisions (down R37,7m to R37,6m) to a general slowing of growth as it was based on a formula including asset growth.

Bad debt experience (specific provisions as a percentage of total advances, other accounts and acceptances) was up at 0,45% from 0,24%. Strauss said this was not too bad given the circumstances. The acceptable norm was about 0,30%.

A divisional breakdown shows Standard Bank of SA's contribution 24% higher at R249m, Stannic and Stanpro up 45% at R34m, Standard Merchant Bank up 14% at R30m, Stanbo up 24% at R22m and Stanswa down 45% at R4,9m.

Third party unlikely in Allied battle

By Ann Crotty Star 13/2/91

It is unlikely that a third party is making a serious control bid for Allied, analysts say.

Some market sources speculate that a third major player, apart from UBS and FNB, has entered the fray.

However, given that the other two players are believed each to have 20 to 30 percent of Allied, it is difficult to see that a third party could be making a serious control bid.

At the current price it is hard to see Allied as a good buy, independent of a control battle. So the entry of a third party is likely either to be an obstructing tactic or an attempt to take some profit on the battle for control.

If such a player exists and he is later proved to be acting in concert with either FNB or UBS, pushing their total over 30 percent, then according to the new Securities Regulation Code that camp would be obliged to make a full offer at the highest price paid on the market.

Responding to rumours of a Standard Bank involvement, MD Dr Conrad Strauss said it was inappropriate to comment, but analysts can see little logic behind a Stanbic move at this stage.

Fedlife, EP, Saambou launch new unit trust

By Derek Tommey

Arnold Bassarabie, the dynamic managing director of Fedlife, is making waves in the financial markets for the third time in less than two months. This time it is the launch of Fedlife's new unit trust, Fedgrowth.

Fedlife is the largest independent life assurer in South Africa.

Earlier this year Mr Bassarabie took the markets by surprise with a white knight performance, saving the besieged bank-building society operation Saambou from predators by Fedlife's acquisition of a 30 percent stake in the company.

And in a further show of muscle, Fedlife announced two weeks ago that together with Southern Life, it was underwriting First National Bank's R750 million to R800 million offer for the Allied Group.

If the bid succeeds, Fedlife may have to buy millions of rands worth of FNB shares.

In keeping with Fedlife's recent track record, Fedgrowth is coming to the market with a splash.

Although the trust only starts operating publicly today, it already has more than R14 million in the kitty, which makes it one of the biggest of the more recently established trusts.

Moreover, the new trust should show quite rapid growth because, in marked contrast to many other newly established funds, it will be available to the public at a large number of outlets.

Saambou, which has 81 branches, and EP Building Society, which has 21 branches, are joint shareholders in the trust's management company and can be expected to give Fedgrowth rather more shelf-space than they give other unit trusts.

Fedlife will also sell Fedgrowth units through its own branches and through brokers.

But having a large number of sales outlets does not make a unit trust a success.

It must also perform well and give service.

On the service side, Paul Clipsham, a director of Fedgrowth, says advantage has been taken of the latest technological developments and that a client can expect to be paid out with 48 hours of selling one's units.

This is an important consideration when a client wants a cheque, he says.

Ian Fraser, Fedlife's general manager, investments, says that the fund is still extremely liquid.

But this will change in the coming months as shares are acquired for the fund's portfolio.

About half its equity investment funds will go into the 15 shares most favoured by unit trusts and which, for this reason, are among the market's best performers.

The other half of the money will be invested in good second-tier stocks, which have quality management, adequate financing, are in growth sectors, and which could be future Liberty Lifes and Pick 'n Pays.

Mr Basserabie says he is delighted with the participation of Saambou and EP Building society.

The association will provide a much expanded distribution network and will make many synergies possible.

Saambou chairman Hendrik Sloets says his organisation identified a need for its own unit trust a long time ago.

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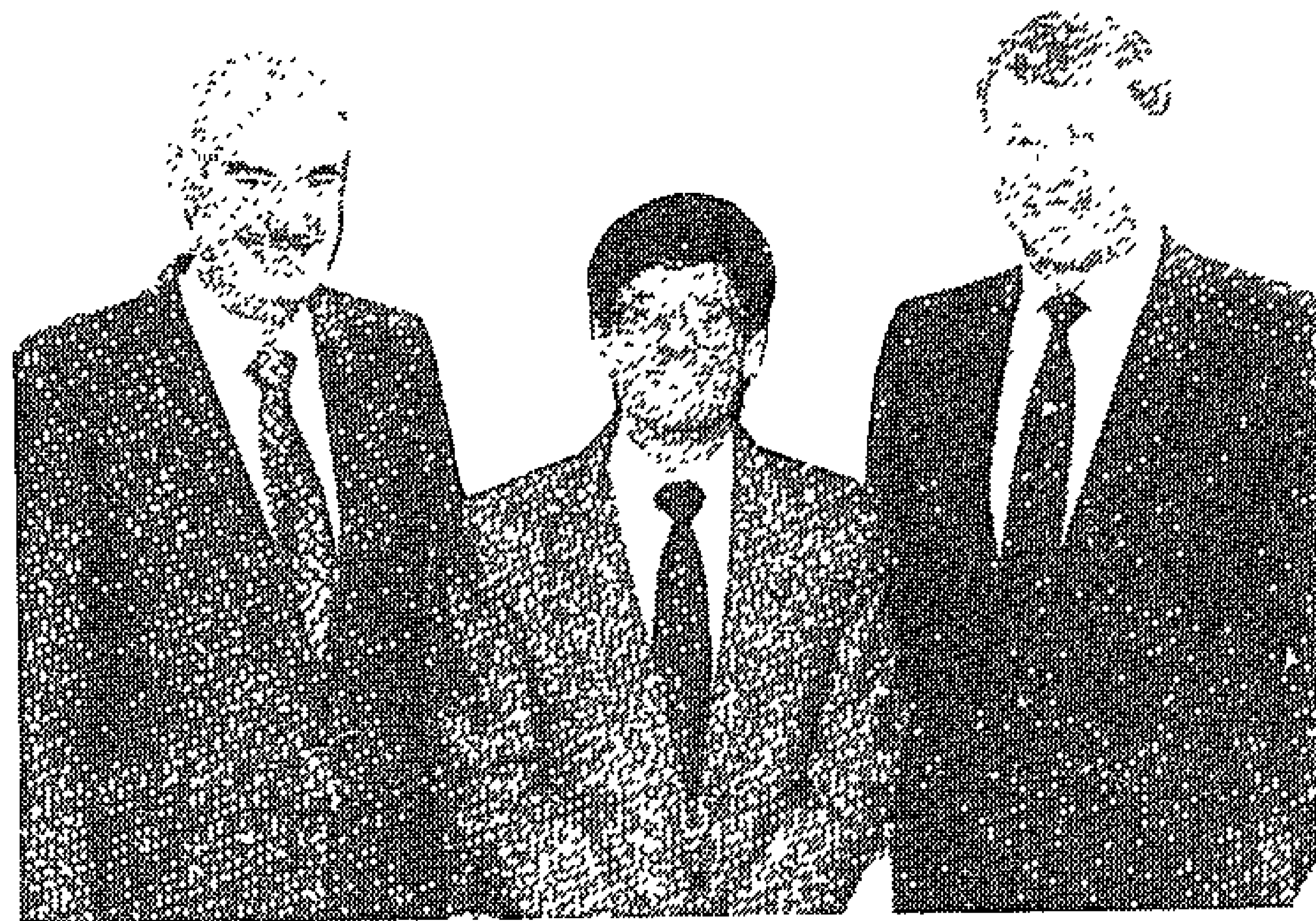
Referring to the link-up with Fedlife, he says Saambou had realised for a long time that if it wanted to expand its business it would have to break away from the idea that it did business with Afrikaans-speaking people only.

Trevor Jennings, MD of EP Building Society, says that building society clients need growth investments in inflationary times.

The EP has been selling other people's unit trusts since 1986 and it is excited about now selling its own.

On the reason for the link with Fedlife, Mr Jennings says the EP feels more comfortable with the type of corporate culture that Fedlife has.



The start of a new financial grouping? From left: Hendrik Sloet, chairman of Saambou, Arnold Bassarabie, MD of Fedlife, and Trevor Jennings, MD of EP Building Society, at the launch yesterday of Fedgrowth, their new unit trust.

Institutional Shareholdings as at December 31 1990

	Mutal Funds Equities %	JSE All Share Index %	Capital Growth (12 m) %	Dividend Yield (31.12.90) % pa
De Beers	9,2	9,1	8,1	4,2
Richemont	7,9	4,2	19,7	0,9
AAC	5,3	8,3	−12,5	3,4
Remgro	5,2	3,0	14,0	1,8
SA Breweries	3,5	4,1	34,2	2,6
Gencor	3,4	4,4	−8,9	4,1
Barlows	3,3	2,6	−16,3	4,6
JCI	3,2	0,2	−29,6	3,5
Safren	2,4	0,9	−15,4	4,7
Iscor	1,7	1,3	−25,3	9,4
Subtotal	45,1	38,1	3,8	3,1
Wooltru	1,6	0,8	63,9	2,3
Minorco	1,6	3,1	−16,2	2,6
Tiger Oats	1,5	1,6	22,4	2,1
Anglovaal	1,5	—	−8,0	1,9
Liberty Life	1,4	2,1	22,6	2,7
Subtotal	52,7	45,7	5,75	3,0
Others	47,3	54,3	−24,3	5,8
TOTAL	100,0	100,0	−8,5	4,1

The unit trust movement had 52,7 percent of its assets in only 15 shares at December 31 last year, as this table prepared by Fedlife shows. The value of these shares grew by 5,75 percent in 1990 and gave a yield of three percent.

Fedlife, EP, Saambou launch new unit trust

By Derek Tommey

Arnold Bassarabie, the dynamic managing director of Fedlife, is making waves in the financial markets for the third time in less than two months. This time it is the launch of Fedlife's new unit trust, Fedgrowth.

Fedlife is the largest independent life assurer in South Africa.

Earlier this year Mr Bassarabie took the markets by surprise with a white knight performance, saving the besieged bank-building society operation Saambou from predators by Fedlife's acquisition of a 30 percent stake in the company.

And in a further show of muscle, Fedlife announced two weeks ago that together with Southern Life, it was underwriting First National Bank's R750 million to R800 million offer for the Allied Group.

If the bid succeeds, Fedlife may have to buy millions of rands worth of FNB shares.

In keeping with Fedlife's recent track record, Fedgrowth is coming to the market with a splash.

Although the trust only starts operating publicly today, it already has more than R14 million in the kitty, which makes it one of the biggest of the more recently established trusts.

Moreover, the new trust should show quite rapid growth because, in marked contrast to many other newly established funds, it will be available to the public at a large number of outlets.

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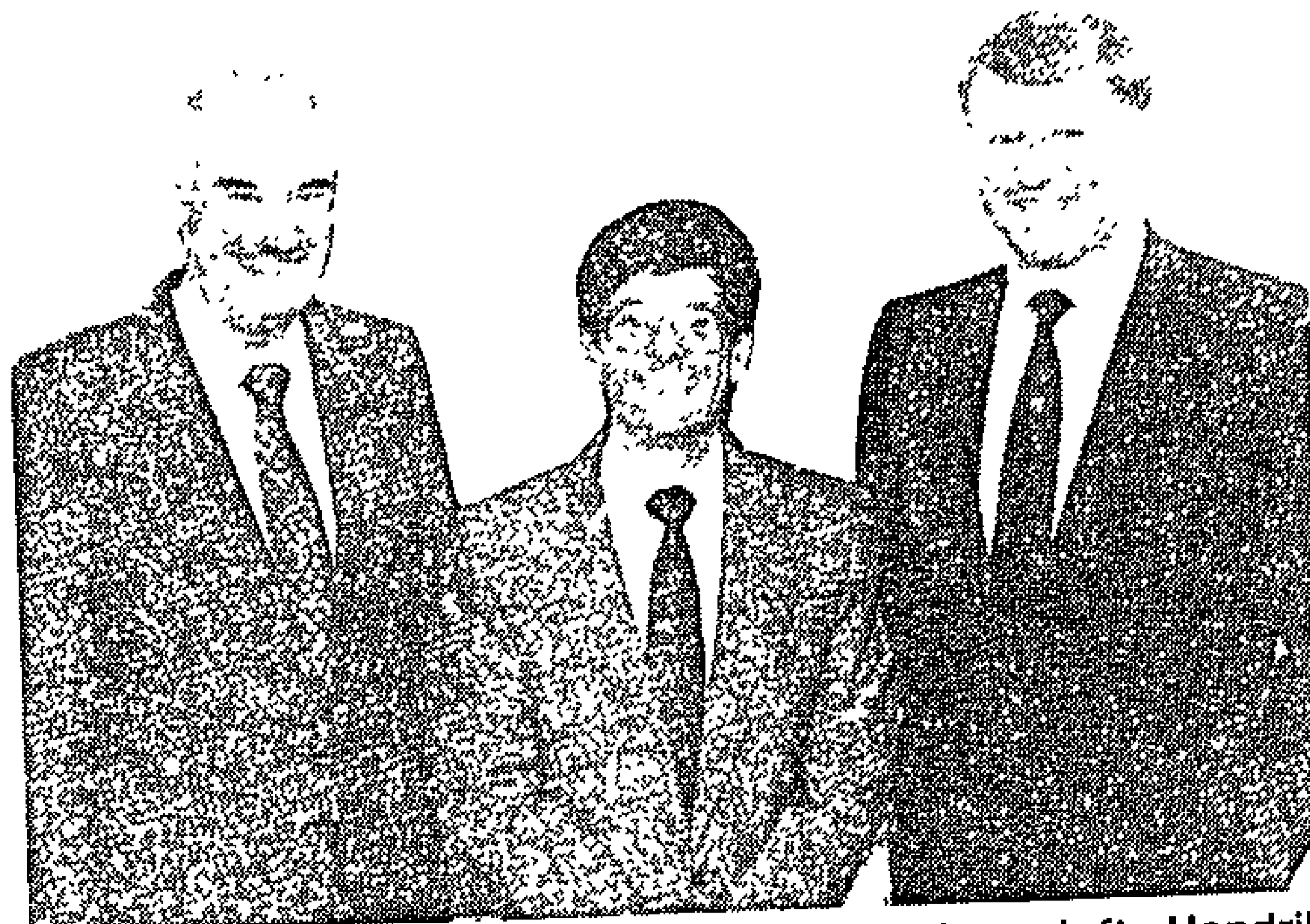

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Allied shares no longer top of pops

By Derek Tommey SW 14/2/91 (58)

Allied shares were no longer top of the pops on the JSE yesterday. Only R5,8 million worth changed hands (R26 million on Tuesday).

Pick 'n Pay, Grinaker, De Beers and Malbak all had larger turnovers.

This lack of interest in Allied showed up in its share price, which dropped 13c to 265c — a fall of 30c since last Friday's close.

Dealers speculated that the low level of trading probably indicated that one of the parties bidding for the company, probably UBS, had acquired its permitted 30 percent stake.

They said that at 265c, after taking brokerage into account, Allied's share price was little different from the 262,5c FNB is offering.

Both UBS and FNB are waiting to hear which party the Allied board favours. This should be known tomorrow.

● A report, which has been strongly denied by Standard Bank, that it was bidding for Allied, may well have had its origins in a facetious comment at Frankel's investment conference on Tuesday.

Sacob urges RB to lower rates

Citi Times 14/2/91

By PIETER COETZEE
Financial Editor

THE SA Chamber of Business (Sacob) has asked the Reserve Bank to reduce the bank rate, possibly by one percentage point, as soon as possible.

A Sacob delegation, led by its deputy president Hennie Viljoen, met the Governor of the Reserve Bank Chris Stals in Pretoria yesterday and pointed out that economic conditions now favoured an early lowering of the bank rate.

While the Reserve Bank should continue exercising monetary discipline and reduce inflation, Sacob believes that greater financial stability in the economy now made some relaxation in monetary policy possible.

"Any announcement on the bank rate should be made within the next few weeks," Sacob said.

This follows hints by Stals on Tuesday that a cut in key interest rates was within sight. At the same occasion he, nevertheless, warned that monetary policy would remain tight.

These sentiments were shared by the market, with the key rate of 3-month BAs softening further to 17,35/40%.

Economists say a drop in the bank rate could be announced later this month or just after the Budget next month. Much will depend on figures, especially the inflation figures, that are to be released later this month.

They point out that before an interest rate cut could be announced there must be a clear indication that the inflation rate is on its way down again after rising late last year due to the increase in the petrol price.

Furthermore the money supply growth must stay under control, while the net gold and foreign reserves need to be strengthened further.

At the moment this covers about two month's of imports while a more comfortable level would be for the reserves to cover three month's of imports.

Nevertheless, most economic indicators are falling into place and it will be just a matter of time before the announcement of a drop in the bank rate is announced.

Economists, however, warn that interest rates will remain relatively high this year and the expectation is that the prime rate will not drop below 18% by the end of the year.

They point out that the Reserve Bank is determined to maintain positive real interest rates. The drop in the prime rate therefore depend on how much the inflation rate drops.

Scramble for Allied

Sowetan 14/2/91 (58)

By JOSHUA RABOROKO

THE Standard Bank Investment Corporation has neither denied nor confirmed that it has joined the tug-of-war by two of South Africa's largest banking groups for the control of the Allied Group.

The bank's managing director, Mr Conrad Strauss, yesterday said it would be inappropriate to comment on the issue.

In the past few weeks, Allied Group seemed destined to become part of the new financial giant been formed by UBS Holding - Amalgamated Banks of South Africa (Absa).

First National Bank (FNB) has launched a' counter attempt and Allied is in the middle of a battle between the two major banks each supported by powerful interests.

Share deals

The fight leaves more than 46 000 shareholders - and board members - facing decisions whose outcome will determine the future of Allied and also affect the whole banking spectrum in South Africa.

FNB's managing director Mr Barry Swart said this week he was aware of the third possible major player in the deal. He said the large number of share deals on the Johannesburg Stock Exchange suggested that Securities Panels rules would have been breached if there were only two major buyers.

A spokesman for the Securities Panel said he also heard that there was a third player who was independent of the FNB and the UBS.

However, the spokesman expressed doubts that the third player would be able to buy up 30 percent of Allied.

Property boom leads to false expectations

Sowetan 14/2/91

SCRAPPING the Group Areas Act is positive for the property market but sellers must keep a sense of perspective on their asking prices says Scott McRae, Group MD of Camdon's.

McRae says asking prices for properties in all the main centres jumped "sometimes absurdly" in the wake of the announcement that the Group Areas Act will be scrapped.

"Turnouts at our showdays countrywide were excellent in the wake of Mr De Klerk's speech but sellers were often on one level and buyers on another even in areas which are not likely to be in demand from buyers of other races.

"Sellers are in fact deluding themselves as prices in areas where there is likely to be buying from Indians, coloureds or blacks have to a large extent already risen in anticipation of the Act being scrapped.

Danger

"There is now a very real danger that sellers will price themselves out of the newly emerging market unless they are more realistic.

"It's our experience that Black, Coloured and Indian buyers are perfectly well informed when it comes to property purchases and they are unlikely to overpay for a given property, particularly now that they will have complete freedom of choice.

"In some areas where sales via the permit system or other methods have been at a premium, there could actually be a temporary softening of prices as buyers look further afield for likely properties.

"We are therefore likely to see something of a see-saw in property prices and a very fluid situation for a while, with areas close to Coloured, Indian or Black areas benefitting the most.

Buyers

"Indians and to a lesser extent the emerging black middle class are likely to be the biggest buyers in white areas in the immediate term and they will in time, become a significant new factor in the market.

"But buying of white properties by individuals of other races has been going on for some time via the permit system and I foresee the market easily absorbing the new buyers without a short, sharp, impact on prices.

"Nor will there be an immediate overwhelming influx into white areas as some politicians have suggested and which some sellers are apparently gambling on.

"Scrapping of the Group Areas Act will turn a *de facto* situation into a *de jure* one which reflects the New South Africa and as such it is positive for the property market in the long term.

"Removal of the Act will also instil confidence in overseas buyers who have been waiting for a clear indication of which way the political wind is blowing in South Africa.

"This combination of factors will ensure that prices will rise but at a steady, not spectacular pace and sellers who believe they are in for a quick killing are going to be sadly disappointed.

"For the short term therefore sellers would be wise not to overprice their properties in anticipation of a flood of demand and they should not be misled into giving estate agents mandates on the strength of unrealistic promises of high selling prices." - *Sapa*

FW DE KLERK

UBS bid to dodge new rules

JSE makes key move in Allied battle

B/Day 14/2/91

GRETA STEYN

THE battlefront for the takeover of the Allied shifted to the JSE's Securities Regulation Panel (SRP) yesterday when the UBS launched a secret bid to be exempted from the panel's rules.

SRP executive director Doug Gair said last night: "The committee met and a ruling has been given but its contents will not be disclosed." He declined to say whether the ruling had affected the UBS.

According to SRP rules, parties that exceed a certain maximum percentage of shareholding in a company are required to pay the highest price they paid in the open market to all other shareholders.

Speculation was rife that the UBS had exceeded the number of shares it is allowed to hold in the Allied before being forced to make the offer to minorities.

Market watchers were unanimous that the UBS had withdrawn from the market as volumes plunged to only 2-million from 9-million shares the previous day. In the five trading days preceding yesterday, an average of almost 8-million Allied shares changed hands daily. The share shed 11% from its peak of 300c this week to 266c.

It is believed the UBS wants exemption from the panel's rules on a legal technicality. Because the panel's finding is secret, it is not known whether the bid succeeded.

A market source said the UBS had argued that its offer to shareholders was to acquire assets and not shares and that the panel's rules should therefore not apply.

UBS CE Piet Badenhorst declined to comment.

First National Bank MD Barry Swart described the JSE's decision to keep the ruling secret as "incredible", and said it should be made public immediately.

"This is another example of the secrecy causing confusion in the minds of the Allied minorities. I again call on the UBS to disclose its concert parties."

But JSE president Tony Norton said all the parties had been promised full confidentiality and the SRP would only make a finding known if one of the parties had reached a level of shareholding where a specific offer had to be made to minorities.

Analysts said if the UBS had been exempted, the fight for the Allied was over — with the UBS the winner.

Speculation that the UBS would make a counter bid to top FNB's 262,5c (cash and shares) or 250c (cash) offer has failed to materialise. The UBS is offering 240c a share for Allied.

Meanwhile, it is not yet clear what role, if any, the Standard Bank Group will play in the Allied takeover. Group MD Conrad Strauss said in a statement yesterday spec-

☐ To Page 2

Allied

B/Day 14/2/91

☐ From Page 1

ulation that the group could be a third player was "not a fruitful avenue to follow and could well be mischievous". However, he did not deny that Standard had been purchasing Allied shares.

The Allied share register shows the Standard has a 6% stake in the building society group, reports GILLIAN HAYNE.

Rembrandt, the conglomerate behind the "megabank" merger of the UBS, Volkskas, Sage, and possibly the Allied, has a 10% stake in the Standard Group and has further interests in Standard through Gold Fields and its partner Liberty. An analyst said it was unlikely that Standard would want to rock the Rembrandt boat.

● See Page 3

PR teams enter Allied fray

BDay 14/2/91 GILLIAN HAYNE (58)

ALLIED shareholders have been extensively lobbied by public relations teams from the UBS and First National Bank (FNB), both of which are trying to determine support levels and sway undecided shareholders to vote in their favour.

FNB spokesman Brent Chalmers admitted FNB's merchant bankers, First Corp, were phoning Allied shareholders to give them "financial advice" and if possible determine their voting inclinations.

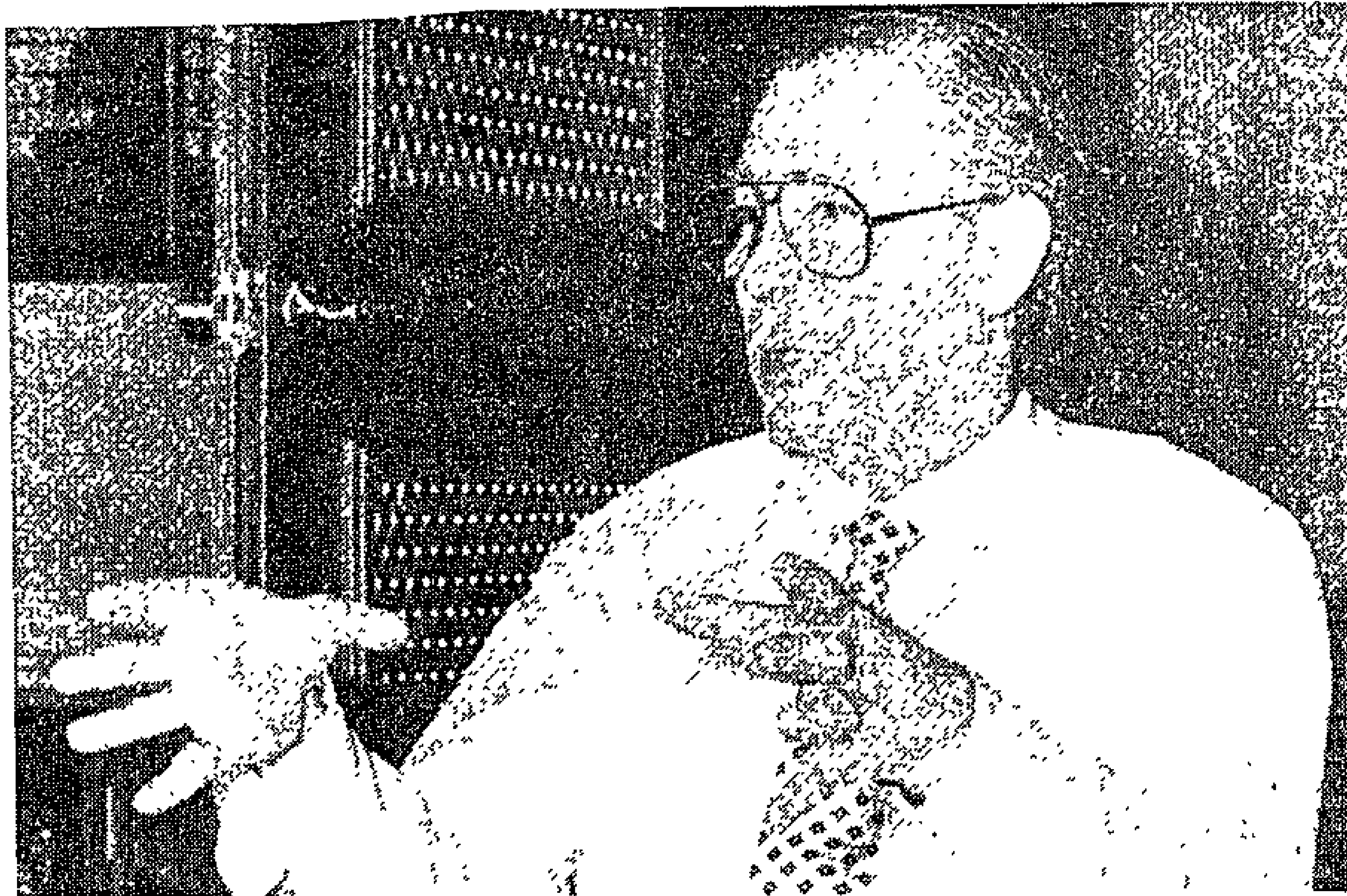
"With 48 000 Allied shareholders it is a large undertaking. We know who is selling and who is not, but it is tactical information and not available at the moment."

Other sources believe FNB management has gone so far as to visit Allied shareholders.

UBS spokesman Lucien Vallan said UBS was phoning Allied shareholders as a courtesy, and was not trying to "hard sell" its proposal.

"We have approached shareholders with a tone of reassurance, explaining the issues and suggesting they wait for the UBS offer document before making a conclusive decision," he said.

It appears the two camps are reliant on the lobbying, as both have reached the shareholding limit imposed by the Securities Regulation Panel.



SA Insurance Brokers' Association president Garry McCreesh. Picture: CATHERINE ROSS

Plea for insurance consensus

8 Day 14 2 91

SEAN VAN ZYL

LIFE industry sources have expressed concern that the possible deregulation of brokers' commissions could be replaced by more restrictive and costly legislation.

Short-term and life insurance representative bodies have been notified by the Financial Institutions Office (FIO) that legislation regulating brokers' commissions could be repealed by the end of 1991.

The Competition Board initiated this "deregulative move", although some believe the order came from government's upper echelons. The insurance industry has been asked to consult with the FIO in order to come up with a meaningful agreement for implementation.

(58)

It is suggested that brokers will be in favour of deregulation, while the insurance companies will oppose it.

SA Insurance Brokers' Association (Saiba) president Garry McCreesh said it was important that the industry came to some consensus, and that a proposal was put forward, so that unacceptable legislation was not enacted.

"The Competition Board is really saying that we had better sort something out or we will end up with deregulation anyway — and whatever comes with it."

Brokers' commissions were first regulated toward the end of the 1970s, when it was felt that brokerage firms were becoming too powerful and pushing insurance companies to pay higher commissions.

The problem could manifest itself again should commissions be deregulated now. McCreesh said: "Market forces should be allowed to dictate business practices."

Brokers who pushed for unrealistically high commissions would eventually drive themselves out of the market.

McCreesh said additional costs would have to be borne by brokers once commissions had been deregulated.

The authorities have indicated that brokers will have to contribute towards the running of the Financial Services Board, which will be established to oversee the financial services industry and protect consumers' interests.

McCreesh said costs incurred through this, and the likelihood that brokers would have to pay VAT on commissions, would neccesitate an increase in their earnings.

A situation such as that of the UK brokerage market, which, once commissions were deregulated, became "hopelessly bogged down in red tape", had to be avoided. McCreesh added: "If we are going for deregulation, it must be in the full sense."

Reprieve for home buyers

Building societies delay Khayelitsha eviction orders

By EDWARD MOLOINYANE, Staff Reporter

FINANCIAL institutions have undertaken to suspend eviction orders hanging over Khayelitsha home buyers in arrears with their bond repayments in an attempt to save their homes.

This will be done in consultation with residents' representatives and building societies which financed the properties.

There are about 20 affected buyers living in the upmarket residential areas of Tembani, Bongweni and Kwezi on Lansdowne Road Extension.

The undertaking was given this week at a meeting between senior regional managers from the Allied, United and NBS and residents' representative committees aligned to the Western Cape Civic Association.

'Unaffordable'

The heated meeting, chaired by the WCCA chairman Mr Michael Mapongwana, was a sequel to calls by buyers for bond repayments to be reduced to R200 a month.

Buyers say they are paying more than was initially stipulated when they bought their properties.

Repayments on the houses, which cost between R51 000 and R85 000, ranged from R700 to R1 500 when they bought them in 1988, but were now "unaffordable".

At least 14 houses have been sold or repossessed.

Another 20 families face eviction and building societies had to "guarantee" that this would stop, representatives said.

They also appealed for monthly instalments to be reduced to an "affordable level.

Committee member Mr Sam Ntutubele said if the "guarantee" was not given, residents vowed to prevent new buyers from occupying houses from which buyers had been evicted.

Interest rates

United regional manager Mr H Green said the "guarantee" could not be given because borrowers had entered into contracts with the institutions individually and if they had problems with repayments they should approach their building societies individually.

"Instalments are rising and it is understood that all communities have financial problems as interest rates go through the roof. It is not our aim to evict anyone and we always bend backwards to try to help," he said.

He was told the issue had become a "burning community matter".

The atmosphere relaxed as discussions progressed and it was resolved that buyers' representatives and building societies form commitytees to deal with the problems affecting buyers. More meetings would follow.

CITY AFRICA

FEDSURE/SAAMBOU (58)

WHAT'S IN IT? FM 15/2/91

The first of what Saambou and Fedsure believe will be many synergies between the two organisations was revealed this week when the Pretoria-based building society acquired a 25% stake in Fedsure's new Fedgrowth unit trust. Discussions about the investment began last year and were concluded before last week's alliance of the two groups.

Saambou chairman Hendrik Sloet says the building society will market Fedgrowth's products through its 80 agencies. The organisation subscribed for 25% of the shares in the management company at a par value of R500 000. Other shareholders are Fedlife (65%) and the Eastern Province Building Society (10%).

The two parties identified cross marketing of financial services products as one of the potential benefits of the Saambou/Fedsure alliance. This could include the sale of Fedlife's life assurance products to Saambou clients, as well as the marketing of Saambou's bank and building society products to Fedlife customers.

Further areas of co-operation, probably involving the two groups' property interests, will be explored once shareholders have ratified the alliance and due diligence tests are completed. Saambou has begun looking at ways of cutting administrative costs and bolstering management in an effort to improve earnings. This week it appointed former Bankfin MD Johan Myburgh as group MD, a position vacated with the retirement last year of Christie Kuun.

Provided the deal goes ahead, one of the first material benefits to Saambou will be the contribution of about R1m a year to the group's bottom line from Fedsure credit finance company, Planet Finance. This would have added about 1c to Saambou's EPS of 29,6c had the deal been concluded before March last year, but will have a negligible impact on Fedsure earnings. The insurance group this week reported a 22,7% rise in EPS for the year to December.

Under the terms of the agreement, Planet, which operates mainly in the eastern Cape, will be transferred to Saambou in return for R55m in convertible debentures in the building society. Fedsure has guaranteed that Planet's book, which it values at R50m, will

continue →

FM 15/2/91 (58)

yield a return 2% higher than the interest Saambou will pay on the convertible debs.

Fedsure deputy GM Dave Avnit contends the terms of the transaction favour Saambou from the outset, though without being detrimental to Fedsure.

At any time before March 1994, Fedsure has the option to convert the debentures into about 30% equity in Saambou, at 140c a share plus a premium calculated on the increase in Saambou's net worth from March 1991 to the date of conversion

Simon Cashmore

Several Allied directors in favour of FNB offer

Star 15/2/91

By Derek Tommey (58)

A number of Allied directors favour the First National Bank offer for the Allied and are willing to sell their Allied shares to FNB.

Stuart Jones, executive vice-president of FNB's merchant bank Firstcorp, said the Allied board had faxed its view on the FNB offer in a 13-page document last night.

The Allied board said the FNB deal was a fair one and the cash payment of 250c per share was better than that offered by UBS Holdings, the other participant in the battle for control of the Allied.

But the board then made certain comparisons and did not say outright which was the better deal.

Mr Jones said the Allied response was 48 hours late in terms of the Company Act, yet the Allied board had suggested that there had been no need to reply.

He said the unseemly haste of the Allied's board in agreeing to the UBS offer, in order that it should not be subject to the new regulations, was contrary to the law.

INSURANCE FM 15/2/91 (58)

DECOMMISSIONED

Remuneration of insurance brokers and agents is back in the spotlight. At present their commission is government-regulated. That situation is perpetuated in the draft Short-term Insurance Bill (clause 66) and in Chapter IX of the draft Long-term Bill.

Registrar of Financial Institutions Piet Badenhorst wants the position re-examined. He has invited comment from Saiba (SA Institute of Insurance Brokers), Luasa (Life Underwriters Association of SA) and IBC (Insurance Brokers Council). These represent the intermediaries' point of view.

Comment has also been requested from the SAIA (SA Insurance Association), which represents short-term underwriters, and the LOA (Life Offices Association.)

Regulations were introduced in 1977 because wrongly qualified people were selling wrong products to wrong portfolios. Conditions were chaotic with brokers using their relative strength to extract larger commissions from underwriters. Now, rather than be subject to government regulation, some sectors of the industry would prefer self-regulation. But that, the Competition Board has warned, might amount to price collusion.

Some discipline, the entire industry acknowledges, must be maintained.

One of the arguments for deregulation is equivalence of reward. In this argument, a

Continued

broker who has a complicated infrastructure is removing a lot of work from an underwriter. Such a brokerage is well removed from the two-man office which writes life business and takes short-term proposals as a side issue and boasts one personal computer. Both types of broker now claim the same commission for short-term work.

Saiba has held discussions with IBC and Luasa to formulate a response to Badenhorst. Complicating the matter, Saiba represents mostly big and medium-sized brokerages, those which usually present a full range of services But Saiba has been having informal talks recently with a view to coming closer to the IBC IBC has five times as many members as Saiba but its membership is drawn mainly from brokers who run small shops and lack some of the infrastructure necessary for managing short-term business.

There are diverse views on deregulation Saiba would advocate unregulated commissions in the short-term industry but is hesitant about applying the principle to life assurance brokers. The association has watched events in the UK where deregulation went hand in hand with a rule that brokers must make full disclosure of their cut when offering a proposal. Many small brokers went out of business.

IBC chairman Ben Swart believes some form of regulation is necessary for consumer protection. Government regulation might be preferable, he says, because any form of self-regulation of commissions within the industry could draw flak from the Competition Board.

On life industry commissions, Luasa has not yet formulated a response. At a meeting with the LOA in April it will indicate that it does not favour disclosure of commissions but might favour disclosure of total "acquisition costs." While a broker's commission is regulated, the remuneration of a life company's agent is not: total acquisition costs could include commission, production bonus, pension, group insurance, car subsidy, home office allowances and achievement awards.

The LOA's attitude is that "equivalance of reward" means the total sum of the remuneration package paid by an insurer to a sales representative may not exceed the maximum described in the schedule to regulation 28 of the existing Act. A difficulty is that life offices pick up the tab for training their high-turnover cadres of agents, while brokers are expected to be knowledgeable at their own expense

On balance, the LOA is against deregulation.

Though the short- and long-term industries have very different characteristics, they are similar in their remuneration methods. Agents and brokers are remunerated by the commissions paid on the business they bring to underwriting companies.

On the short side, a client may be advised by a broker with a multimillion-rand infrastructure which includes extensive research facilities and a position of strength when negotiating rates: or a life agent who writes short-term business as a sideline.

In the life business, the client could be dealing with a fellow of ILPA (Institute of Life & Pension Brokers) who has tertiary-level education and experience: or a total newcomer to the industry

Theoretically, in a free enterprise society, remuneration should be deregulated. Market forces should prevail. Good advisers should receive more, ill-equipped advisers less. In practical terms, insurance horizons are widening to admit a large number of unsophisticated consumers. It can be argued they need some protection in an industry where the intermediary draws immediate financial benefit while the consumer's benefit is a mere promise. ■

SBIC FM 15/2/91 (58)

PREPARING FOR LOWER RATES

An easing of banking margins has helped to compensate for pressures placed on Standard Bank Investment Corp by the progressive deterioration in the economic climate. Volumes inevitably slowed, and bad debt provisions took a heavier toll, but the group produced an EPS advance of 24,1% in the 1990 year.

At interim stage the thin interest margin was one of the more severe problems the group was facing. In the second half the margin widened significantly as the authorities' tight control over the money supply, with high nominal interest rates, brought about a steady softening in credit demand.

Advances and other accounts increased at year-end by 15,9% — with a 20% rise in loans and overdrafts — while total assets were higher by 14,2%. The total asset figure was, however, affected by buy-backs (repos) of just over R2bn taken on to the balance sheet for the first time. With comparable figures adjusted, return on assets rose from the previous year's 0,86% to 0,93%.

Large increases in bad debt provisions were the main factor that eroded the benefit of improved margins. The total bad and doubtful provision was 38% higher at R215m, with the biggest jump coming in the specific provision, which more than doubled from R81m to R177m. However, the general debt provision stated as a percentage of total advances, other accounts and acceptances dropped from 0,99% to 0,94%, and group MD Conrad Strauss says he remains comfortable with these provisions.

A welcome change is an improvement in disclosure standards, with several additional items included. Investors now have a clearer view of interest income and expenses, as well as non-interest expenses.

Apart from the debt provisions, there is a 26% rise in "other" operating expenses, while staff costs were 21% up at R975m — which Strauss attributes to the increased staff requirements needed to handle greater volumes. However, profit per employee has grown in real terms each year since 1987.

The largest profit contributor, Standard Bank, lifted its contribution to net after-tax income by 23%, but a strong improvement was achieved at Stannic and Stancor, where there was a 46% rise. Strauss says much was done to address problems at Stannic, whose difficulties were primarily related to fund rather than asset management.

In the overall deposit mix, there has been a general shift from short- to medium- and long-term funding, partly in anticipation of lower rates. Strauss is evidently expecting a cut in prime sooner rather than later — with further benefits for the interest margin — but he expects a lag before lower rates lead to better volumes.

At 3 025c, the share yields 4,4% on the 18,8% higher dividend, and remains a prime investment vehicle in the banking sector.

Andrew McNulty

MARGIN RISES

Year to December 31	1989	1990
Net interest income (Rbn)	1,26	1,55
Other optg income (Rbn)	0,86	1,06
Operating exp (Rbn)	1,60	2,0
Attrib income (Rm)	333	413
Earnings (c)	340	422
Dividends (c)		
— ordinary	112	133
— pre ord	112	—

Mutual suspends investment staffers

CAPE TIMES 13/2/91

Own Correspondent

JOHANNESBURG. — The Old Mutual announced yesterday that certain members of its staff had been suspended pending the outcome of investigations into investment transactions.

Old Mutual chairman Mr Mike Levett would not comment on how the development might effect policy holders, but an official statement said the amounts involved were an insignificant portion of Old Mutual's business.

Estimates on the Johannesburg Stock Exchange (JSE) floor, however, suggest that irregular transactions could have cost the country's largest life assurer hundreds of thousands of rands.

Rumours at the JSE suggest that certain members of Old Mutual's investment staff were involved in irregular deals — including financial rand transactions — with one or more stockbroking firms.

According to a source, an Old Mutual board meeting was held yesterday morning after a week of investigation into the matter.

A JSE source said the company had suspended two senior staff members.

The Old Mutual statement said: "Some investment transactions which require investigation have come to our notice. An internal investigation into these transactions is under way.

"As is customary under such circumstances, certain personnel within whose area of responsibility the transactions fall, have been temporarily suspended.

"It has to be stressed that it is transactions that are being investigated, and that no reflection on any person should be inferred," the statement concluded.

Allied merger: Odds favour UBS after secret ruling

CAPE TIMES 15/2/91

JOHANNESBURG. — The odds in the takeover battle for the Allied are stacked heavily in the United Building Society's favour after a secret Securities Regulations Panel (SRP) ruling this week.

The UBS-led camp now has scope to increase its stake in the Allied substantially before triggering the panel's limits mechanism that requires an offer to be made to minorities at the last purchase price.

Although no official confirmation of the finding could be obtained, market talk is that the panel decided Sage Holdings was not acting in concert with the UBS.

UBS chief executive Mr Piet Badenhorst said yesterday: "We asked the panel for confirmation of our interpretation of the law, and they provided it. We have scrupulously observed its rules and regulations."

Asked whether the battle had been won, he said: "First National has a chance and we have a chance, but we think we stand a good chance. The battle will only be over after the Allied shareholders' meeting."

With its big stake in the Allied, the UBS-camp is favoured to gain the 51% majority needed for the "megabank" merger of UBS, Volkskas, Sage Financial Services and Allied to go ahead.

First National Bank (FNB) managing director Mr Barry Swart said the bank intended to contest not only the secrecy of the SRP ruling but the finding itself.

Mr Swart was unhappy about the Allied board's delay beyond Wednesday's deadline for its response to FNB's offer. FNB is offering 262c (cash and shares) or 250c (cash) against the UBS's 240c offer.

Late yesterday afternoon the Allied board presented FNB with an "unofficial" response that failed to choose sides clearly between FNB and UBS, according to a well-placed source. The source said the board did, however, recommend in favour of the FNB cash offer.

Expectations that the UBS would raise its offer faded yesterday amid rumours of the panel's ruling in favour of the UBS.

Market players expressed frustration at the panel's secrecy, saying it was confusing the issue.

FM 15/2/91

THE BATTLE FOR ALLIED (58)

SELLING TO THE MARKET

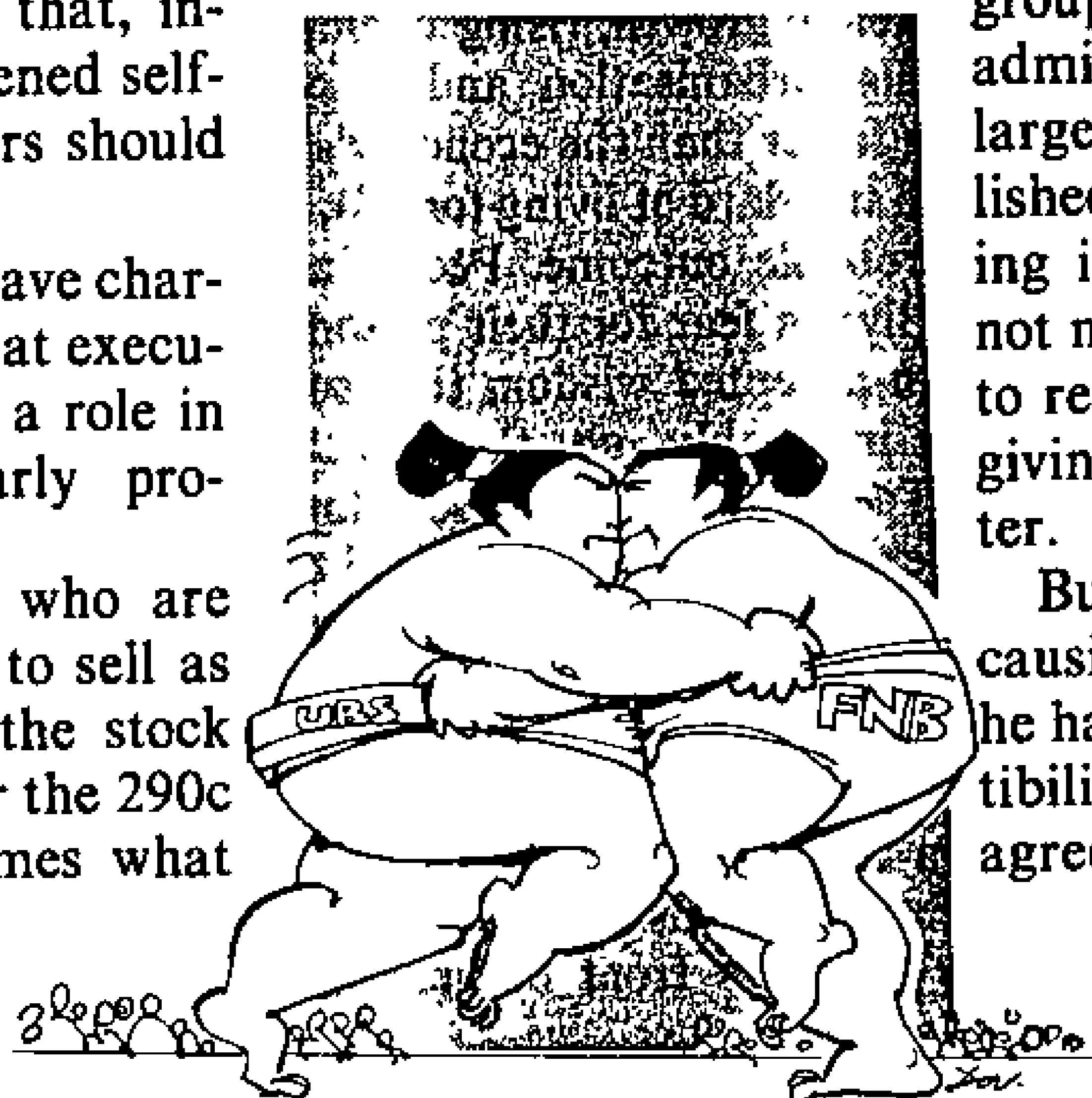
There must be tens of thousands of Allied Group shareholders with little financial sophistication who are bemused about what to do with their shares — as the large and rapacious United and First National groups slug it out in secret for their company.

The peculiar thing is that these small shareholders hold collectively the key to Allied's future. In any other Western country they would be the prime focus of the protagonists, who would be writing to them, buying TV time and taking newspaper advertisements to explain their offers, outline their plans and solicit support.

So distant and arrogant have our institutions become that they are clearly incapable of comprehending that small shareholders sometimes do count and that, indeed, there are occasions when enlightened self-interest suggests that these shareholders should be kept well informed.

The secret boardroom dealings that have characterised this takeover battle suggest that executive aspirations, which invariably play a role in corporate acquisitions, are particularly pronounced in this one.

Our advice to Allied shareholders who are unsure of what is happening is to try to sell as many of their shares as possible on the stock exchange if they can get anywhere near the 290c level of recent days. This is three times what Allied depositors paid for their shares when the institution forsook its mutual status and is substantially above the value of the underlying assets in the group.



Neither the United nor First National stands out as being a particularly attractive suitor. First National has for more than 10 years been without the earnings and management predominance it enjoyed as Barclays National Bank under Harold Morony and Frank Dolling. Current CE Barry Swart has forced up earnings by reducing assets, cutting costs and improving staff morale.

Swart is, of course, playing with Anglo American money, which could be an advantage, but he has not been boss long enough to have set the banking group on a sustainable or imaginative course of recovery.

However, if Allied shareholders decide against the cash they could obtain from a straight JSE sale, they might hold on until First National ups its bid and throw their support behind it for what will probably be a better medium-term return on Allied assets than the rival bidder could produce.

Those Allied shareholders brave enough to take a longer view might put their eventual support behind the United's plan, which is to create a giant financial institution including Volkskas Bank and Sage Holdings. With Rembrandt money behind it, the mega-enterprise will no doubt eventually be made to work, but it is going to take time. Even United's boyish wonder Piet Badenhorst is going to have his time cut out getting that lot of disparate assets and fractious executives on line.

Badenhorst saw early on the revolution in the financial services markets and positioned the United, both in the market and with sufficiently diverse executive and banking skills, to take rapid advantage of that situation. This was in sharp contrast to Allied, which is why it is the victim now.

He was smart enough to resist absorption by the Liberty Life-Standard Bank axis some years ago. He has challenged the mighty life assurers over "unfair" competition. He is touchy, tenacious and tough.

But the plans he has so far revealed for the proposed giant group are not particularly convincing. To look for administrative rationalisation while keeping two large building societies-cum-banks and an established commercial bank as separate and competing institutions under common ownership does not make much sense. The object of takeovers is to reduce competition and raise productivity by giving fewer employees more assets to administer.

But it is possible that the First National bid is causing him to change his plans. No longer does he have to take into account the personal susceptibilities of so many interested directors, whose agreement he needed for a merger prior to First National entering the arena. He may now be working on not only a higher price but a more streamlined group.

De Villiers has made his preference for First National very plain. But he is in a position to win no matter which of the two suitors is successful. If it's First National, he keeps his top job. If it's United, he can cash in his fortune, in the form of Allied shares now worth probably more than R7m. De Villiers, the only involved executive who has shown any ability to turn media interest to his advantage, has been muzzled. He was brought into Allied from Barclays, where he was a talented middle manager, to run its small bank, in which he was enabled to buy shares. Having been given also the group treasury function, his superiors feared that his focus would be too much on the bank and not sufficient on the group. So he was moved to the group and his bank shares were turned into shares in the top Allied company. He took over a group that was verging on the moribund and quickly improved its performance. But his inability to gain the support of all directors turned too often to conflict.

In summary, the incentive to sell Allied shares on the open market at prices ruling early in the week is substantial. For those who are prepared to wait for a medium-term return, back First National when it ups its offer. Those who can afford to wait for a stake in a mega-merger, hold out for United's revised offer. ■

Old Mutual probing investment department dealings

By Ann Crotty

Amid some speculation on the JSE, the Old Mutual has issued a heavily guarded statement concerning investigations into certain transactions undertaken by its investment department.

"Some investment transactions which require investigation have come to our notice. An internal investigation into these transactions is under way.

"The amounts involved are not significant in relation to Old Mutual's business, but our concern for the soundness of the procedures involved has prompted the decision.

"As is customary under such circumstances, certain personnel within whose area of responsibility the transactions fall, have been temporarily suspended.

"It has to be stressed that it is transactions that are being investigated, and that no reflection on any person should be inferred. No further statement can be made without prejudicing the investigation."

No one was available at Old Mutual yesterday to shed further light on the statement or to comment on JSE speculation about the investigation.

What needs to be established is the specific nature of the transactions concerned, over what period of time they occurred and what has given rise to the need for an investigation.

It will be of some comfort to policyholders that the amounts involved are not significant in relation to Old Mutual's business, given that in the 12 months to June 1990 that business produced premium income of R7,1 billion, investment income of R3,5 billion and that its total assets at end-June were R52,5 billion.

Speculators stampede for Allied shares

By Derek Tommey

Speculation that the UBS had acquired more than 30 percent of Allied's shares and might have to offer 300c for every share it does not own, triggered a wave of buying in Allied shares just before the JSE closed yesterday, stockbrokers said.

Allied shares jumped by 15c to 280c — the level prevailing late last week — and dealers estimated that well over a a million Allied shares changed hands in the last few minutes of trading.

Control

Altogether, about 2,8 million Allied shares worth R7,8 million were traded yesterday.

The UBS and the parties acting in concert with it can hold up to 30 percent of Allied's shares without triggering action by the stock exchange.

However, should they exceed the 30 percent figure, they will be regarded by the JSE as having acquired control of Allied.

And, according to regulations, they must then make an offer for the remainder of the shares at the highest price which had been paid for shares acquired on the JSE.

Ruling

Allied shares were traded at 300c earlier this week

It is known that the UBS sought a ruling from the newly appointed Securities Regulation Panel on Tuesday.

But no details of the meeting has been made public.

However, it is strongly believed that the UBS discovered it had inadvertently overbought Allied shares and had asked the panel what it should do.

Initially it was assumed that the panel had condoned the UBS actions.

But the rush for Allied shares last night suggests that some speculators might believe otherwise.

First National to contest JSE ruling

UBS is nosing ahead in race for the Allied

GRETA STEYN

THE odds in the takeover battle for the Allied are stacked heavily in the UBS's favour after a secret Securities Regulations Panel ruling this week.

The UBS-led camp now has scope to increase its stake in the Allied substantially before triggering the panel's limits mechanism that requires an offer be made to minorities at the last purchase price.

Although no official confirmation of the finding could be obtained, market talk is that the panel decided Sage Holdings was not acting in concert with the UBS.

UBS CE Piet Badenhorst said yesterday: "We asked the panel for confirmation of our interpretation of the law, and they provided it. We have scrupulously observed its rules and regulations."

Asked whether the battle had been won, he said: "First National has a chance and we have a chance, but we think we stand a good chance. The battle will only be over after the Allied shareholders' meeting."

With its big stake in the Allied, the UBS-camp is favoured to gain the 51% majority needed for the "megabank" merger of UBS, Volkskas, Sage Financial Services and Allied to go ahead.

First National Bank (FNB) MD Barry Swart said the bank intended to contest not only the secrecy of the SRP ruling but the finding itself.

"The situation is far from settled. We are talking about a legal minefield. There are some formidable options," he said.

Swart was unhappy over the Allied board's delay beyond Wednesday's deadline of its response to FNB's offer. FNB is offering 262c (cash and shares) or 250c (cash) against the UBS's 240c offer.

Late yesterday afternoon the Allied board presented FNB with an "unofficial" response that failed to choose sides clearly between FNB and UBS, according to a well-placed source. The source said the board did, however, recommend in favour of the FNB cash offer.

A comparison of the financial effects of the two offers also presented FNB in a more favourable light, as it would result in a bigger increase in earnings, dividends and net asset value per share. The Allied board is to finalise its response today.

Expectations that the UBS would up its offer faded yesterday amid rumours of the panel's ruling in favour of the UBS.

Market speculation is that purchases by the UBS-camp caused the Allied share price to shoot up 15c to 280c just before the close of trade after marking time at 265c for most of the day. Volumes were low for the second day in succession.

Market players expressed frustration at the panel's secrecy, saying it was confusing the issue.

GILLIAN HAYNE reports there is speculation the UBS has been exempted from the concert rule in its entirety. SRP executive director Doug Gair said the panel firmly believed confidentiality of its ruling was the correct step, adding that the details of its discussions with UBS would not materially affect Allied shareholders' decisions.

● Comment: Page 8

THE PROCESS OF HANDLING MATERIALS FROM STORAGE TO THE MANUFACTURING AREA

Our hypothetical AS/RS is horizontally integrated with the manufacturing plant. By constructing the high bay storage system land has been saved and the factory area laid out on a single floor. The factory is a flexible manufacturing system (FMS) which works round the clock.

Demand for Allied shares unabated

Star 16/2/91 (58)

DEREK TOMMEY

Allied shares were again active yesterday, closing 10c higher at 290c after touching 297c at one stage.

Two major financial institutions, UBS—Volkskas and First National Bank, have both been trying to take over the company.

Some 8,1 million shares worth R23,5 million were traded yesterday.

This brought the week's turnover to around 24 million, for which some R120 million was paid.

This is less than 10 percent of Allied's shares.

Trading in Allied was dominated by speculation that the UBS and its partners in the take over had bought more than the 30 percent of Allied shares permitted under the JSE regulations and would have to make an expensive takeover offer for all Allied shares.

However, the new Securities Regulations Panel (SRP) said this situation had not been reached.

This apparently led to either the UBS or its partners resuming their buying of Allied shares.

● Later today Allied directors will announce their response to the FNB offer.

Initial reports are that they tried hard to sit on the fence and not commit themselves.

Perhaps they could do something positive for their shareholders by giving them an idea of what is happening by putting pressure on the Securities Regulations Panel to make public some of its decsions.

The SRP has been monitoring the trading in Allied shares. Shareholders would welcome news from the SRP on this trading.

Allied's Kevin makes a cool R3m

S/Times 17/2/91

(58) By IAN SMITH

CONTROVERSIAL Allied Group managing director Kevin de Villiers made himself a cool R3-million profit in the past week — by selling Allied shares.

The 43-year-old banker in the middle of the battle for Allied between First National Bank and a United/Volkskas/Sage alliance said yesterday he sold most of his 2,5-million shares on the stock exchange as a scramble drove prices sky high.

A week ago, he was censured by the Allied board for his outspoken support of the FNB bid for the building society-turned-bank.

He told a press conference in Johannesburg: "When the feeding frenzy was on, I sold my shares into the market."

Mr De Villiers would not disclose the price he sold at, but last week 33-million Allied shares changed hands on the JSE at prices ranging from 260c to 300c. He is unlikely to have sold for less than the FNB share offer, which values Allied

□ To Page 2

BANKER COINS IT

(58) □ From Page 1

shares at 262,5c.

The deal came to light when an Allied document setting out the board's views on the competing bids revealed that Mr De Villiers' stake had fallen to 225 000 Allied shares.

His original 2,5-million shareholding — less than one percent of the 295,3-million shares in issue — had been built up since he was appointed managing director of Allied Bank in 1987 at an average price of 132c. The shares he sold for at least R6-million cost him less than R3-million. And he still has 225 000 shares worth R750 000.

Mr De Villiers denied there was any element of insider-trading in the sale. "There are no facts that I know better than anyone else who has been reading the newspapers," he said.

He said he had built up his holdings when he was in control of the company.

"If I had not sold I could have ended up having a boss who says I am dead meat and a lot of UBS shares I do not want.

"This way, I can buy more FNB shares than I would have received through the FNB offer for Allied shares."

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Standard boosts home lending

S/Times 17/2/91. (58)

By DIRK TIEMANN

A GOOD reason for Standard Bank's standing aloof from the battle for the Allied could be the exceptionally strong growth of its own home loan book.

Allied's R7-billion home-loan book is the group's biggest attraction for the competing institutions.

Standard Bank Investment Corporation boosted its home loans by 32,6% to R6,5-billion in the year to December 31.

The book stood at R4,9-billion at the end of 1989 — up from R3-billion in 1988. It went into mortgages only four years ago.

A spokesman says: "It was built up cheaply and despite everything thrown at us."

The R6,5-billion includes R600-million bonds being registered.

Access

Rapid growth has much to do with the new Access bond.

Allied is no doubt more attractive to First National Bank, whose mortgage book remains about R4-billion. But the size of Allied's book has not grown much either.

No other bank or building society, save perhaps the UBS, can claim to have done as well as Standard in the past year.

Home loans have become attractive because they have only a 50% asset weighting, which means lower capital requirements in terms of the Deposit-taking Institutions Act (DTI).

Another important attraction in mortgages is that most borrowers have large equity in their homes against which to borrow for other things. Standard's Access bond has capitalised on this.

Group managing director Conrad Strauss has said that Standard is "not aloof" from developments at Allied, but appears not to want to hurt its flourishing business by distracting management's attention.

Results released this week show Standard to be in a strong financial position. Attributable earnings jumped by 24% to R413-million in the year to last December.

Costs

But one analyst is concerned because the bank was unable to contain operating costs to the inflation rate of 15%.

The 24,7% increase in costs to R1,9-billion largely reflects capital expenditure on computer equipment. Dr Strauss says capex on automation will continue, but he expects "good repayments in 1993".

The group has also lifted its provision for bad debts by 37,5% to R214,8-million. Dr Strauss says the increase is "not bad", given the circumstances. Half of the general debt provision balance counts as capital.

"The second half of the year was worse than the first because it was more difficult for people to keep up with interest-rate costs."

Specific provisions for the year jumped by 119% to R177-million because of exposure to two large property groups which went insolvent.

General debt provision as a percentage of total advances fell from 0,99% to 0,94%. Advances and other accounts rose by 15,9% to R36,1-billion.

Investment income was 15,3% down at R2,8-billion because of the change of the mix of deposits from short term to long term. An analyst says as much as 10% of the book could have been shifted. This was done to reduce liquid asset requirements.

Earnings a share rose by 24,1% to 422c and a final dividend of 96c was declared to lift the total by 18,8% to 133c. Total assets have risen by 14% to R45,5-million.

Standard also shared in a bonanza from Liberty, whose earnings growth and special dividend increased the share of associated companies' profits by 83,7% to R52,9-million. This includes R16-million transferred to reserves.

Dr Strauss says: "This is to be regarded as abnormal and non-recurrent."

An analyst says if the abnormal items are stripped out, earnings a share growth would have been 19%, not 24%.

He believes it will be an exceptionally good year for banks because margins have on average widened to 4%. "They are making baskets of money," he says.

Stannic

He says Standard's offer of dividends in specie at a 4% discount to the market price might not be too popular because some people rely on dividend income.

The commercial bank's taxed profit contribution rose by 23% to R249,1-million. Stannic and Stancor increased their contribution by 46% to R34-million. Total income was R423,6-million.

Stannic, the laggard in the group, has dealt with its problem of fund management and performance is expected to improve. Dr Strauss says its return on equity is unacceptable.

EARCH
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COMPANY ROUND-UP

PRELIMS	Turnover (Rm)	% change	Profit before tax (Rm)	% change	Earnings a share (c)	% change	Div a share (c)	% change
Ninian	24,7	+32	13,9	+26	207	−21	51,0	−12
Chemserv	446,0	+33	—	—	367,0	+20	120,0	+20
Highveld	1431,7	−11	201,3	−64	208,4	−54	70,0	−44
Stanbic	—	—	615,9	+16	422,0	+24	133,0	+20
Conafex ($)	35,3	+46	3,6	−15	30,7	−10	5,5	+10
Afex ($)	31,1	+50	2,6	−17	42,9	−14	10,0	+11
Marshalls	26,7	−20	4,0	+5	24,5	+8	19,0	+12
Marcon	26,7	−20	4,1	+5	11,6	+9	9,0	+13
BTR Dunlop	700,8	+11	125,4	+17	372,0	+20	165,0	+18

($ — US dollars).

INTERIMS	Turnover (Rm)	% change	Profit before tax (Rm)	% change	Earnings a share (c)	% change	Div a share (c)	% change
Seardel	535,8	+14	26,9	+7	65,5	+6	8,0	0
I & J	682,3	+14	42,2	+2	101,2	+7	70,0	0
Inteles	190,4	−5	35,2	+24	10,1	+13	4,75	+12
Micor	262,2	+6	1,1	−58	6,3	−57	—	—
MCM (Z)	53,6	+11	0,3	−75	1,44	−75	—	—
Sunbop	388,6	+23	128,8	+17	82,3	+22	55,0	+22
Afcom	54,2	−3	4,8	−23	7,7	+3	3,25	+8
Klipton	49,5	+24	4,7	+25	28,3	+7	—	—
Indsel	—	—	19,9	−19	7,03	−19	5,5	0
Natsel	—	—	20,8	−18	8,69	−17	6,5	0
Bidvest	197,2	+252	12,2	+30	139,6	+15	60,0	+11
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	63,8	+41	25,0	+67

Instant best-seller

Business Times Repor

A GUIDE to doing busin with South Africa has in into an instant best-seller.

Accounting and busin advisory firm Price Wat house published a revised tion of the 278-page guide, D ing Business in South Afri just in time for a surge demand for information.

The Department of Tr and Industry increased order from 50 copies to 2 within days of publi Copies have been sent to 400 Price Waterhouse offi in 106 countries, and they gone to all SA embassies consular offices.

"The publication coinci with renewed interest in vestment here. We are

Old Mutual suspends two

S Times 17/2/91

Sunday Times Reporter

OLD MUTUAL, the biggest business in SA, and the Johannesburg Stock Exchange have been shaken by the suspension of two senior men in Old Mutual's investment department.

Marco Celotti, responsible for portfolio management of the mining and gold funds as well as corporate pension funds, and colleague David Schapiro have been suspended pending an investigation into certain investment transactions by outside accountants.

Old Mutual chief operations officer Gerhard van Niekerk and investment chief Johannes van der Horst refused to confirm the names of the suspended personnel and said "no reflection on any person should be inferred".

(58)

Rules

Mr Celotti is reported to be the number three man in the investment department.

Old Mutual's new cash flow averages R3-million a day, at least half of which is invested in shares on the stock exchange.

It pays more brokerage than any organisation in SA and brokers vie aggressively for its business.

It has strict rules on apportionment of its share dealing business among stock brokers.

The investigation is believed to centre on how business was allocated and could implicate stock brokers.

Old Mutual stresses that, relative to its billions, the amounts involved were small and did not affect policy holders.

Banks get back on track

ST Times 17/2/91

AFTER the debt moratorium was declared on September 1, 1985, South African banks found that hitherto simple foreign-currency transactions became both complex and time consuming.

Rocco Rossouw, manager of Standard Bank's international division, says: "In those difficult times, the value of our friends was emphasised.

"It was only the intermediation of our excellent correspondent banking network which allowed us to continue doing business abroad on behalf of the trading community.

"The passage of time has seen restoration of foreign-exchange dealing lines, confirmation lines and now, increasingly, trade finance ones."

Mr Rossouw says improved international opinion of SA has moved the banking focus from the transactional areas to the ability to do business in evolving markets, particularly Central Europe and Africa.

Leader

Corporate South Africa is keen to exploit the new opportunities and looks to its bankers not only to reduce the risks involved in functioning in new markets, but to the provision of assistance in finding markets and suitable counterparts.

"As the acknowledged leader in foreign trade facilitation, Standard Bank declares that it will meet market requirements in a pro-active manner," says Mr Rossouw.

In the Standard's case, assistance will be through a network involving more than 2 500 banks and SBIC's representation in London, Zurich, Hong Kong and Taipei.

"Foreign trade promotion is seen as a core value of our international division. By means of the monthly Foreign Business Development Bulletin, markets are found for exporters and products brought to the attention of importers.

"We provide a door-to-door concept involving the sourcing of markets, the movement of goods and a secure payments system," says Mr Rossouw.

Secure

Nedbank executive general manager Derek Muller says the apartheid years left SA without a network of banking contacts in Africa particularly. However, this has been compensated for by African participation in the stream of international bankers who have visited this country in the past few months.

Securities Panel — the watchdog doesn't bark

S/Times 17/2/91

By DAVID CARTE

THE SECURITIES Regulation Panel is fending off heated complaints about a secret ruling it made in the battle for Allied Group.

The panel refuses to divulge what it was asked for by the Amalgamated Banks of SA (ABSA) partners in the fight and what its ruling was.

Critics say the introduction to the code says: "It is the panel's policy in the case of important decisions to publish its conclusions and the reasons for them."

First National Bank (FNB) chief financial officer Viv Bartlett says the bank has protested against the panel's secrecy.

"We believe the panel owes it to the investing public to release its ruling and the reasons for its decision.The decision in the Allied case could set a precedent."

Mr Justice Cecil Margo, chairman of the panel, tells Business Times: "The code inherited from the Companies Act a requirement of confidentiality. In this it follows the London Takeover Panel.

"Parties to contested bids cannot be expected to put information in front of the panel knowing it will be divulged."

Judge Margo says three members of the executive committee — he, executive director Doug Gair and JSE president Tony Norton — not the full 16-member panel, took the decision.

The parties both made their bids before February 1, the day the Securities Regulation Panel became law. Judge Margo says both bids fell outside the panel's jurisdiction — but all purchases of Allied shares this month ahead of a proposed sale of the Allied's assets under Section 228 of the Companies Act, were governed and were being strictly policed.

Concert

The new rules lay down that if a party or parties acting in concert acquire a stake of more than 30%, they must make an offer equal to the highest price paid to all shareholders.

It is believed that the ABSA partners asked the panel whether they were exempt from the code and for a ruling on whether they were "concert parties".

The panel is believed to have said no, thus permitting any of the parties to build up a stake of up to 30% without an offer to the minority.

Such a ruling would virtually assure ABSA of victory.

FNB is reported to have acquired 25% — enough to block special resolutions of Allied Group.

An unhappy stockbroker says: "This panel was set up after five years of groundwork and hailed as the best of its kind in the world.

"Its first objective was to protect the integrity of financial markets and to ensure fair and equal treatment of all securities holders. It is to uphold the spirit and not merely the letter of the law. While 47 000 Allied shareholders are in the dark, the panel has dealt in secret.

"Two weeks ago, the JSE was so concerned about the lack of information that it issued a statement warning Allied holders to be cautious in their dealings. Now the panel is mum."

Judge Margo says the panel's ruling does not affect either the Allied minority or the competing bid from First National Bank.

The ABSA partners appear to have acted against the spirit of the new rules in several ways. They made their bid in haste before the Securities Regulation Panel became operative. First National did likewise, but claims: "That was to be on a level playing field."

MGM
Group Five Properties
Group Five Limited
Registration No. 69/00032/06

Fedsure joins financial services first division

58

S/Times 17/2/91 By IAN SMITH

ARNOLD BASSERABIE: More financial muscle

FEDSURE Holdings is emerging from the shadows as a major player in the turbulent financial services industry.

Fedsure and its Fedlife assurance arm, which represents about 95% of group assets, are expanding their interests.

Fedsure chief executive Arnold Basserabie says the moves are part of policy to become more involved in business which complements the core of insurance and long-term investment.

"The recent developments do not conflict in any way with one another or our traditional business.

"They can be complementary or they can be self-standing."

The higher profile of the group is reflected in the share price. Offered at 280c in the October 1987 listing the shares trade at 515c, close to the 520c high a week ago. The low for the past year was 350c in November.

Earnings

With a p:e ratio of 15 they are underpriced compared with life-assurance groups.

Still to be reflected in the share price is this week's announcement of a 23% increase in earnings and dividends.

Three moves by the group this year have strengthened its links with other big financial institutions — proving that there can be co-operation in the industry without mega-mergers and loss of independence.

First, it strengthened long-standing informal ties with Saambou by laying claim to a potential 30% interest in the building society through convertible debentures in exchange for Planet Finance. Effectively this foiled any hostile bid by outsiders for 30% of Saambou.

Fedsure, which holds 6% of Allied's equity, wielded its heavy cash resources by underwriting half of First National Bank's R750-million cash underpin for the Allied bid.

This week Fedlife, SA's largest independent life company, broke new ground by launching a general equity unit trust, Fedgro, in partnership with Saambou and Eastern Province Building Society.

Saambou has a 25% stake in the unit trust's management company and EPBS has 10%.

Mr Basserabie says that worldwide there is a trend to joint developments in financial services.

In the Saambou deals both parties benefit from the broadening of product range and complementary client bases.

"Cross-pollination will produce innovative approaches to the requirements of different clients, and the association will effectively double the size of the financial muscle for both parties."

The debenture acquisition enables Saambou to increase its equity capital base and to retain its independence.

"Fedlife's vision is to focus on life assurance and not to become a banking or any other financial institution."

Underwriting the FNB offer for Allied will earn Fedlife a "substantial" fee and it acquires a stake in FNB without disturbing the market price, says Mr Basserabie.

Fedlife and FNB will also be able to exploit new business opportuinities in the medium term.

Initial

Participation of three institutions in Fedgro will open the way to fast growth. "This makes us different from other unit trusts," says Mr Basserabie.

All three organisations will sell the unit trust to existing customers and through branches.

Fedgro gets off the ground with an initial investment of about R14-million by the three institutions. Fedlife general manager, investments, Ian Fraser says the fund is highly liquid, but this will change as the portfolio builds up.

About half of the funds will go into blue-chip shares, and the rest will go into second-tier companies which have good management, strong financial systems and operate in growth sectors.

"That's the recipe for success," says Mr Fraser.

Securities panel meets on Allied

B/Day 18/2/91. (58)

GRETA STEYN

THE Securities Regulation Panel met urgently yesterday at the request of First National Bank (FNB) to clear up legal issues in the takeover fight between FNB and the UBS for the Allied Group.

The panel yesterday confirmed that a meeting was being held "at the request of one of the parties". It was still under way when Business Day went to press, but it is understood that the secrecy of the panel's ruling for the UBS last week and FNB's legal position were being discussed.

It is believed the panel last week confirmed the UBS's interpretation of the law — a move which meant the UBS-camp could build up a much larger stake in Allied by buying shares on the market than initially thought legally possible.

Allied chairman Norman Alborough has officially asked the panel to make public any rulings it has made about interpretation of the law "in the interests of our shareholders".

"We are not involved in the positions either of the two parties are taking in Allied shares, but we feel those positions should be communicated to our shareholders," he said at the weekend.

The message to Allied shareholders at a Press conference on Saturday was to sell in the market, unless they wanted a long-term investment. Director Joe Pamensky said: "The market is telling us there is a buyer at prices higher than those stipulated in either offer."

He added that "the serious investor" had to decide which group would best take advantage of rationalisation benefits once it had taken over Allied.

"The board had no time to judge the strategic merits of the FNB offer."

The message to sell in the market rather

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Allied

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than try to decide between the two offers was further underscored when Allied Group MD Kevin de Villiers acknowledged he had sold about 2-million shares "when the predators were feeding".

Noting the board's difficulty in making a single decision on behalf of 47 000 shareholders on which offer to favour, Alborough said the board had set out to identify the choices without attaching a value judgment. Both offers were "fair".

But the board also drew attention to potential pitfalls in both schemes.

A potential problem in the Amalgamated Bank of SA (Absa) offer was that shareholders could be left with a fragmented investment consisting of some Allied shares and some Absa shares. This would be the case if a special resolution was not passed with 75% in favour at the Allied general meeting in mid-March.

The resolution was needed to reduce Allied's share capital. Shareholders would end up with only 50% of the shares and cash they would have received otherwise, with the balance made up of Allied shares.

A potential pitfall of the FNB offer was that it could result in no effective control of the Allied. The only condition attached to FNB's offer was that the Absa offer be rejected at the shareholders' meeting.

Alborough disclosed that FNB's original intention to make an offer had contained a condition that it succeeded in acquiring a minimum of 50%. The Allied Board had convinced FNB to drop the condition.

"On one hand we had a firm proposal to form Absa, and on the other hand we had FNB's intention to make an offer with conditions that the board found unacceptable. It is signifcant to note that the condition of a minimum 50% was not included in FNB's final offer," Alborough said.

But while the board did not formally choose sides, only two directors — De Villiers and alternate director Angus Prentice — were in favour of the FNB offer.

Violent deaths claims rise

(58)

Sowetan 18/2/91

By JOSHUA RABOROKO

SANLAM paid out R157,3 million for claims arising from violence in the past financial year.

With an average of more than 1 000 death claims a month, Sanlam recorded an increase of 19,2 percent on the R132 million for 1988/89.

The company paid out a total of R583,8 million in respect of 13 500 claims in the year ended September.

About R344 million was for 8 500 claims on individual policies and R240 million arose from group and pension scheme claims.

Violent causes include car and other vehicle accidents. In this regard the company paid out R91,8 million (R81,7 in 1988/89).

"Put differently, it means that Sanlam paid out an average R369 000 every working day of the year. That makes one think, particularly as regards the need for safe driving on our roads," says Mr Maans Olivier, chief claims consultant of the company.

An analysis of the company's death claim statistics revealed the surprising figure of R30,5 million in payments arising from suicide and murder in 1989/90.

Suicide apparently costs the company considerably more than murder. Just in respect of individual claims, Sanlam paid out no less than R9,9 million because of suicides, compared with R5,1 million due to murders.

"Although one cannot make conclusive deductions about the success or otherwise of heart disease campaigns for the entire country from one company's statistics, it is interesting to note that Sanlam, with more than 30 percent of the industry's market share, experienced an increase of only 9,9 percent in death claim payment since 1989/90 totalled nearly R161 million," he said.

"The seriousness of heart disease cannot, however, be overestimated because it is still the largest single cause of deaths in South Africa, as has now again been proved by Sanlam's figures - even greater than violent causes at a time when violence has increased significantly."

For some reason which is not immediately clear, Sanlam's death claim payments in respect of cancer and other tumours showed a fairly steep increase of 28,6 percent to R81,4 million in the past year.

Drownings, on the other hand, showed strong decrease of 24,5 percent in claim payments compared with the previous year.

While the number of claims remained more or less unchanged, the amount involved decreased by R730 000 to R3 million in 1989/90.

Aids is very much in the news, but Sanlam experienced only two death claims (R240 180) in the past year.

Since 1988 there have been 20 claims and R3,1 million has been paid out. There have been no new disability claims arising from Aids.

He said: "Despite the fact that Sanlam is paying out on average R2,3 million in death claims every working day, our payments are well within budgeted expectations and the company can take these in its stride.

"After all, that is precisely why we started business - to provide security."

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Agents are out pricing houses

Sowetan 18/2/91

DE KLERK

THE asking prices for properties had increased - "sometimes absurdly"- in the wake of President FW de Klerk's announcement that the Group Areas Act would soon be scrapped, estate agents have said.

Camdon Group's managing director, Mr Scott Mcrae, said while the scrapping of the Act was good for the market, sellers had to keep "a sense of perspective" on their asking prices, which had jumped in all main centres.

Mcrae said turnouts at show days countrywide were excellent since the De Klerk's speech, but sellers and buyers were on different levels.

"There is now a very real danger that sellers will price themselves out of the newly emerging market unless they are more realistic," McRae said.

Eskel Jawitz/JHI manager for sectional titles, Mr Bob Gould, said this was true of flats and townhouses.

But the scrapping of the Act had been expected for so long that it had already affected prices.

Chairman of Aida Holdings, Ms Aida Geffen, said there was a buyers' resistance to current asking prices.

"A pessimism had already affected the market, and the dropping of interest rates would have a great effect on the market for all buyers," she said.

"The gap between the expectations of the seller and those of the buyer is enormous," Gould said.

Buying of white properties by other races has been continuing for some time and Mcrae says he foresees the market easily absorbing the new buyers "without a short, sharp impact on prices".

"Nor will there be an immediate overwhelming influx into white areas as some politicians have suggested and which sellers are apparently gambling upon."

Securities Panel meets on Allied takeover issues

CAPE TIMES 18/2/91 (58)

By GRETA STEYN

JOHANNESBURG. — The Securities Regulation Panel met urgently yesterday at the request of First National Bank (FNB) to clear up legal issues in the takeover fight between FNB and the UBS for the Allied Group.

The panel yesterday confirmed that a meeting was being held "at the request of one of the parties". It was still under way at the time of going to press, but it is understood that the secrecy of the panel's ruling for the UBS last week and FNB's legal position were being discussed.

It is believed the panel last week confirmed the UBS's interpretation of the law — a move which meant the UBS-camp could build up a much larger stake in Allied by buying shares on the market than initially thought legally possible.

Allied chairman Norman Alborough has officially asked the panel to make public any rulings it has made about interpretation of the law "in the interests of our shareholders".

"We are not involved in the positions either of the two parties are taking in Allied shares, but we feel those positions should be communicated to our shareholders," he said at the weekend.

The message to Allied shareholders at a press conference on Saturday was to sell in the market, unless they wanted a long-term investment. Director Joe Pamensky said: "The market is telling us there is a buyer at prices higher than those stipulated in either offer."

He added that "the serious investor" had to decide which group would best take advantage of rationalisation benefits once it had taken over Allied.

"The board had no time to judge the strategic merits of the FNB offer."

The message to sell in the market rather than try to decide between the two offers was further underscored when Allied Group MD Kevin de Villiers acknowledged he had sold about two million shares "when the predators were feeding".

Noting the board's difficulty in making a single decision on behalf of 47 000 shareholders on which offer to favour, Alborough said the board had set out to identify the choices without attaching a value judgment. Both offers were "fair".

But the board also drew attention to potential pitfalls in both schemes.

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"On one hand we had a firm proposal to form Absa, and on the other hand we had FNB's intention to make an offer with conditions that the board found unacceptable. It is signifcant to note that the condition of a minimum 50% was not included in FNB's final offer," Alborough said.

But while the board did not formally choose sides, only two directors — De Villiers and alternate director Angus Prentice — were in favour of the FNB offer.

Pressure builds on SRP to come clean

STAR 18/2/91 (58)

By Derek Tommey

Pressure is mounting on the Securities Regulation Panel (SRP) to release more information about what is happening in the fight between UBS-Volkskas and First National Bank for control of Allied.

The SRP was created to protect the interests of people with money in shares, especially in takeover battles.

Many investors find it strange that in what is probably the biggest takeover battle SA has ever had, the SRP is not carrying out its prescribed duties.

But the SRP, which started operating on February 1, says that because the offers from UBS and FNB were made before that date, it has no jurisdiction in the matter.

But it is monitoring the fight and should any of the parties break takeover rules, it will act.

One function of the panel which is being sorely missed is the reporting on a daily basis of the number of shares the contesting parties hold.

This information would help Allied shareholders decide what to do to get the best deal.

The panel's refusal to make public the ruling sought last week by UBS—Volkskas has been criticised. The ruling is believed to define what comprises a party acting in concert with the UBS.

It is felt that if UBS is given a "licence" to go hunting, FNB should also be given one.

The SRP met at the request of FNB last night to discuss some of the legal issues of the takeover battle and the secret ruling handed out by the panel last week.

Details of last nights meeting were not available.

However, Norman Alborough, chairman of Allied, said at the weekend his board had called on the panel to make public its ruling in order to give some degree of protection to Allied shareholders.

However, Doug Gair, the panel's executive director, said yesterday he had no knowledge of any such move.

At a meeting called by Allied's directors at the weekend, it was disclosed that MD Kevin de Villiers had sold 2,3 million of Allied shares on the JSE.

Analysts say it was probably at 280c, the price at which most Allied shares have been sold on the JSE. At 280c, he would have received R6,4 million, of which R3 million was likely to be profit.

Mr de Villiers said he had sold because he would not have the same control over Allied's operations after the takeover.

Mr Alborough, who indirectly holds 500 000 Allied shares, said at the meeting he would accept the UBS-Volkskas offer.

This means he has foregone R200 000 by not following Mr de Villiers example.

Allied directors said at the meeting they considered both the UBS-Volkskas and the FNB offers to be fair.

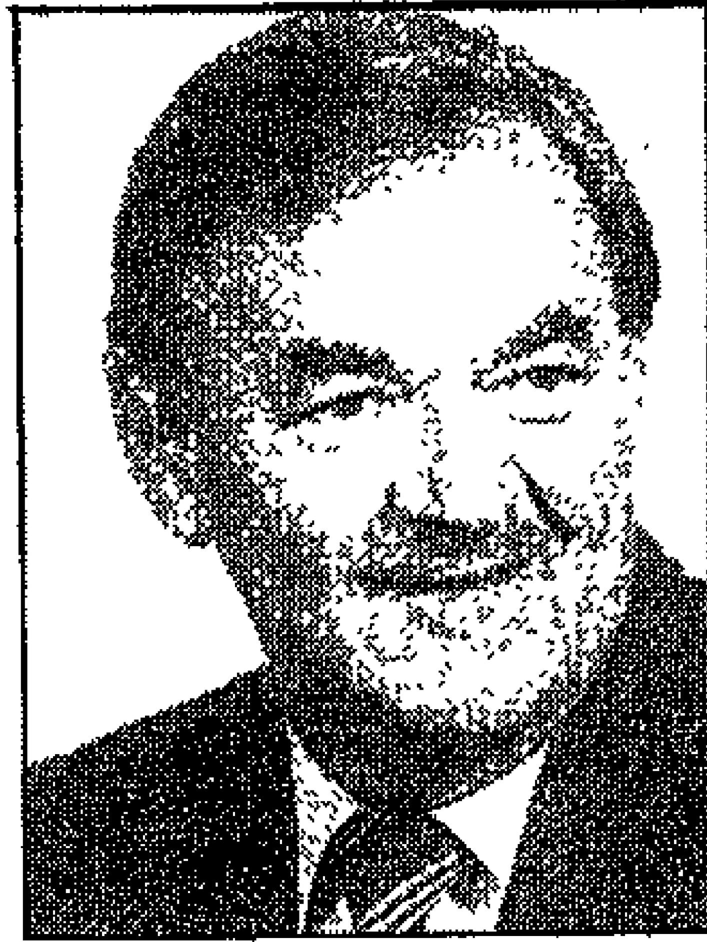
Mr Alborough was asked about the decision of Allied directors to agree to the UBS-Volkskas offer to merge on January 26, just five days before the SRP came into operation

He said negotiations had been going on for four months and UBS had set a deadline for Allied's decision.

The proposed terms of the FNB were unacceptable as one of the conditions was that the FNB would bid for only 50 percent plus one of Allied's shares.

As a result, the Allied board accepted the UBS offer.

To have done otherwise would have risked not having an acceptable offer at all for Allied.



Norman Alborough . . . losing R200 000

Kevin de Villiers . . . making R3 million

Banks' credit reports often wrong — Rennies

(58)
B/Day 19/4/91

MATTHEW CURTIN

BANKS are protecting cash-strapped clients by providing inaccurate credit-worthiness advice to their potential creditors, claims Rennies Travel national credit manager Nick van Huyssteen.

Van Huysteen said yesterday Rennies Travel had had to write off "a substantial sum of money" lent to a company which, despite "a glowing credit report" from a major bank, turned out to be bogus. Rennies is about to start legal proceedings against the borrower.

Rennies also received a C-rating — adequate basis for approving a loan — from another major bank for a customer. But a bank source told Rennies although the bank knew the client's cheques were frequently dishonoured, its original H-rating — the lowest possible — was overruled before presentation to Rennies.

He said only after Rennies approached a credit bureau, Information Trust Corporation (ITC), which took up the case with the bank, did the bank admit their client's credit rating was poor.

First National Bank (FNB) GM Finance Neil Garden said yesterday he was confident FNB managers prepared only fair and accurate credit reports.

However, while managers tried to keep as close as possible to their clients, they based their reports only on a company's accounts, which did not necessarily reflect the true state of the business.

He said cash flow problems might only emerge "at the 11th hour" while managers had also to take into account client confidentiality and their client's own interests.

Rennies Travel has set up a committee and electronic database in a joint venture with ITC to provide the travel industry with information on bad debtors and slow or reluctant payers.

Credit experts said yesterday it was dangerous to attach too much importance to bank credit advice which was inevitably nebulous while there were deeper-rooted problems with credit management in SA.

Concorde Travel group finance director Norman Steingold said last week such advice was invariably "wishy-washy".

He said credit rating was a complex process. Banks were not in the business of supplying credit information.

Concorde relied more on ITC information than bank credit advice.

Credit Management Learning Systems (CMLS) MD Ken Mills said last week banks were required only to give an opinion on the credit-worthiness of their clients.

Mills said the main problem facing creditors was not the risk of bad debts, but poor credit management which led to companies endangering their profitability by letting clients exceed their terms.

Ruling on Allied 'may be reversed'

B Day 19/2/91

GRETA STEYN

THE Securities Regulation Panel could reverse its decision last week allowing a UBS-led consortium to build up a huge stake in Allied after First National Bank (FNB) challenged the ruling.

The Allied said yesterday it had been advised by the panel that "significant legal issues" had arisen which could affect the value of its share.

"Pending clarification of these issues, shareholders are advised to exercise extreme caution in their dealings with Allied shares," Allied said in a statement.

Panel chairman Mr Justice Cecil Margo said yesterday he could not rule out the possibility that last week's decision would be overturned.

"The issue involves the interpretation of the takeover code's applicability to transactions concluded before the code came into effect."

He said the panel wanted to meet both parties to resolve the issue.

Reuter reports panel executive director Doug Gair said a meeting of both parties, scheduled for yesterday afternoon, had been cancelled when the UBS pulled out.

Market talk is that last week's panel ruling allows the UBS to build up a much larger stake than initially thought legally possible. Speculation is that the UBS has been exempted from the ruling on buying shares in concert with other parties.

However, First National challenged the ruling at the weekend.

The dispute revolves around the ambit of the takeover code in the battle for the Allied. The limbo saw trade in Allied shares dwindle — the share price touched a 260c low, 7% off its high for the day, but later closed at 268c.

The judge drew attention to the fact that both offers to Allied shareholders had been made before the code came into effect. The legal issue centred on which aspects of the

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battle for the Allied fell within the code's rules.

Asked whether either of the two parties had breached the limits stipulated in the Panel's Rule 8, requiring that a new offer be made to minorities, Mr Justice Margo said: "I do not know whether we have arrived at that point. It depends on which aspects fall within the code's rules."

In terms of Rule 8, an offer has to be made to minority shareholders at the highest price paid in the market if certain shareholding limits are breached.

Asked about the possibility of Allied minorities being offered 300c a share, the judge said this again depended on the applicability of the code's rules to the takeover battle.

Life insurers 'have no unfair tax advantage'

Star 19/2/91

(58)

By Sven Lünsche

Life insurers continue to attract the bulk of personal savings, but they do not enjoy an unfair tax advantage over their competitors in the banking and building society industry.

These are the key findings of a report by the Department of Economics at the University of Pretoria on the role of life insurers in savings and investments in South Africa.

The authors of the report, Professors Geert de Wet and Niek Schoeman, say they could find no evidence that life insurers have a definite and decisive tax advantage over other financial institutions.

Life insurers do enjoy an advantage in that they attract mainly long-term funds, but the only question is whether such a business is in principle open for anybody to enter, the report says.

"As long as this is the case, the answer to any complaint about unfair competition would be an invitation to join the club."

The report attributes the success of the life insurers to the historical good returns on investments as well as their well-established and intensive marketing systems.

"Through the long-term contractual nature of the inflow of funds, they are contributing towards keeping personal savings positive at a time when the propensity to dissave is high," the report says.

This trend is evident in the figures compiled by the Department.

Since 1971 the compound growth rate of funds flowing to the life insurers has been considerably higher than that of funds flowing to the banks and building societies.

In the period 1971 to 1980, the annual growth rate of premiums flowing to the life insurance industry was 19,5 percent, compared with 15,1 percent in the case of banks and 14,9 percent in the case of building societies.

In the following ten years the respective figures were 24,3 percent, 21,1 percent and 18,3 percent, but from 1985 to 1989 the volume of funds flowing to the life insurance industry increased by 31,6 percent as against 24,5 percent for commercial banks and 16,2 percent for that of building societies.

The report also points out that an increasing amount of funds from life insurers is put at the disposal of banks, with the share of investment in coins, banknotes and deposits as a percentage of total assets having risen from 5,9 percent in 1982 to 16 percent in 1989.

The professors also dismiss calls for higher investments by the industry in economically and socially more desirable areas.

Legal twist to the Allied battle

(58)

Star 19/2/91

By Derek Tommey

The takeover battle between UBS-Holdings and First National Bank for the Allied Group has developed into a legal wrangle.

The question facing the lawyers was apparently raised at a meeting of the newly established Securities Regulation Panel on Sunday.

It is believed the meeting was attended by representatives of both FNB and UBS-Volkskas.

According to brokers, it was adjourned to enable one or both parties to obtain legal opinion.

The panel was expected to reconvene last night, but did not do so, presumably because a legal ruling had not yet been obtained.

Mr Justice Margo, chairman of the panel, said it would reconvene as soon as either party requested it.

One result of Sunday night's meeting was the announcement by Allied yesterday that it had been advised by the panel that significant legal issues had arisen, which could affect the value of Allied's shares.

Mr Justice Margo . . . the panel will reconvene when required

No details were given about these "significant legal issues".

Speculation in the market is that they could centre either on the way Rule 8 of the Securities Regulation Code on takeovers and mergers should be interpreted, or what would happen if UBS could not distribute shares and cash to Allied shareholders in the way it specified in its offer.

Rule 8, which the panel brought to the attention of both parties at the start of the takeover, is intended to protect the rights of minority shareholders.

It stipulates that any person, or group of people acting in concert, who hold 30 percent of a company's capital and then acquire another five percent of the voting rights, must make an offer for that company's entire capital.

And the price offered must not be less than the highest price paid for any of these additional shares.

At one stage, Allied shares were changing hands at 300c.

If it is ruled that UBS/Volkskas paid this price, their bill for acquiring Allied would shoot up from about R720 million to around R900 million.

However, it is also possible that Rule 8 is not under discussion at all, and that the lawyers are considering a completely different matter.

One suggestion from the market is that they could be looking at some of the problems that might arise at the general meeting of Allied in mid-March, should FNB block the special resolution needed for the UBS bid to succeed.

FNB might find it difficult to stop shareholders approving the ordinary resolution transferring Allied's assets to the UBS as this would require it to hold more Allied shares than the UBS.

But it is expected to have enough Allied shares to stop the special resolution calling for the reduction of Allied's share capital and the distribution of UBS shares as dividends to Allied shareholders.

In this situation Allied's shareholders would have to retain half their shares and so receive only half the UBS shares and cash specified in the UBS offer.

Some dealers say that if this happens the minority shareholders could be regarded as being oppressed.

Consequently, this situation should be clarified before the UBS is allowed to go ahead with its proposals for Allied.

Pressure on insurers to help the poor

Argus 20/2/91

By TOM HOOD
Business Editor

THE government will be under great pressure to intervene and use the billions in the coffers of the life insurance giants unless the industry devotes funds to help the less developed parts of the economy.

This is the view of Dr Simon Brand, executive head of the Development Bank of Southern Africa.

Speaking at Sanlam's annual meeting in Bellville today, he said the private sector had a fundamental role in the upliftment of the less-developed sectors and should do something about it timeously.

New demands made on companies by the political process of change need not be seriously undermining, provided the business sector recognised the opportunities arising from the changes and reacted constructively.

Dr Brand said Sanlam's wide spread of assets and profits among all its policy-holders and the strong growth of premium income from black policy-holders was a strong defence against criticism against large groups like Sanlam that may be expected "in ceretain circles in South Africa".

Private enterprise was recognising to an increasing extent the need to correct the imbalances between the developed and underdeveloped parts of the economy.

FACTORY SITES

Institutions such as life assurers could invest in not only the already developed urban areas but also in factory sites and buildings and similar business facilities in less-developed cities.

"In this way a material contribution could be made to improve the quality of life and develop more diversified ecomic activities in those cities and towns.

"If this is not initiated by the industry, the government would be under great pressure to intervene in the utilisation of savings, be it my means of prescribed investments or even more drastic ways."

Dr Brand said the Development Bank was convinced that the less-developed sectors of the community had sufficient business potential to make it worthwhile for the private financial institutions to make this change in the direction themselves.

OM probe starts a chain reaction

Star 20/2/91 (58)

Diagonal Street

ANN CROTTY

As the Old Mutual investigation into some investment transactions continues, there are reports of other major insurers undertaking similar investigations into their own investment activities.

While the other investigations do not suggest any impropriety, it seems the shock of the OM development (and the ensuing speculation of massive amounts being involved over a number of years) has been enough to shake the industry into taking a very close look at itself.

An institutional manager said yesterday: "If a bomb goes off in a building near you, you take a very close look at your own building to make sure there's nothing similar."

He said it was possible to have all the checks and balances in place and still have irregularities occuring. "To a large extent it is a question of trust because it would be impossible to do a good job if the controls were so tight that they left no room for management disgression.

"The more senior the decision-maker, the greater the scope for abuse of this trust."

The life assurance industry controls R100 billion in assets.

It is estimated that the three largest — OM, Sanlam and Liberty — control directly or indirectly about 23 percent of JSE capitalisation.

Institutional investors account for the bulk of the trading activity in any day on the JSE.

Institutional business is allocated to brokers on the basis of a number of criteria, including research, dealing capabilities and administrative capabilities.

Systems are not rigid — a broker can pick up more than his allocation if he has an attractive parcel of shares on offer.

Speculation is that a number of broking firms were getting a proportion of OM business that was not justified on the basis of normal criteria.

Rowland Chute, AGM at OM, says no stone will be left unturned.

"We cannot be more informative at the moment, but the fact that we've gone as far as we have indicates how seriously we take the issue."

UBS, Volkskas merger to proceed regardless

Star 20/2/91 (58)

The merger between the United and Volkskas will still go ahead on substantially the same terms and conditions announced last month, even if Allied shareholders reject the merger with Amalgamated Banks of SA (Absa), Sapa reports.

A combined advertisement yesterday by the main players in the proposed merger, Allied, UBS Holdings, Volkskas Group and Sage Financial Services (SFS), set out the implications of the vote by Allied shareholders at the general meeting in March.

If the merger were approved by shareholders, the full merger would go ahead as set out in the press announcement last month, the advertisement states.

However, should the special resolution authorising the capital reduction of the Allied not be approved, shareholders would receive 56 Absa shares per 320 Allied shares held, and Allied would retain as its only asset the remaining 44 Absa shares per 320 Allied shares.

In this event, Allied shareholders would continue to retain their shareholdings in Allied, which would become an investment holding company with an important block of Absa shares.

Derek Tommey reports that there was no indication late last night that the parties had succeeded in resolving the "significant legal issues" which had led the Allied board to issue a cautionary statement on Monday.

Nor was there any indication when the Securities Regulations Panel would resume its apparently postponed meeting on Sunday night.

Unit trusts' chief warns off taxman

Star 20/2/91 (58)

By Derek Tommey

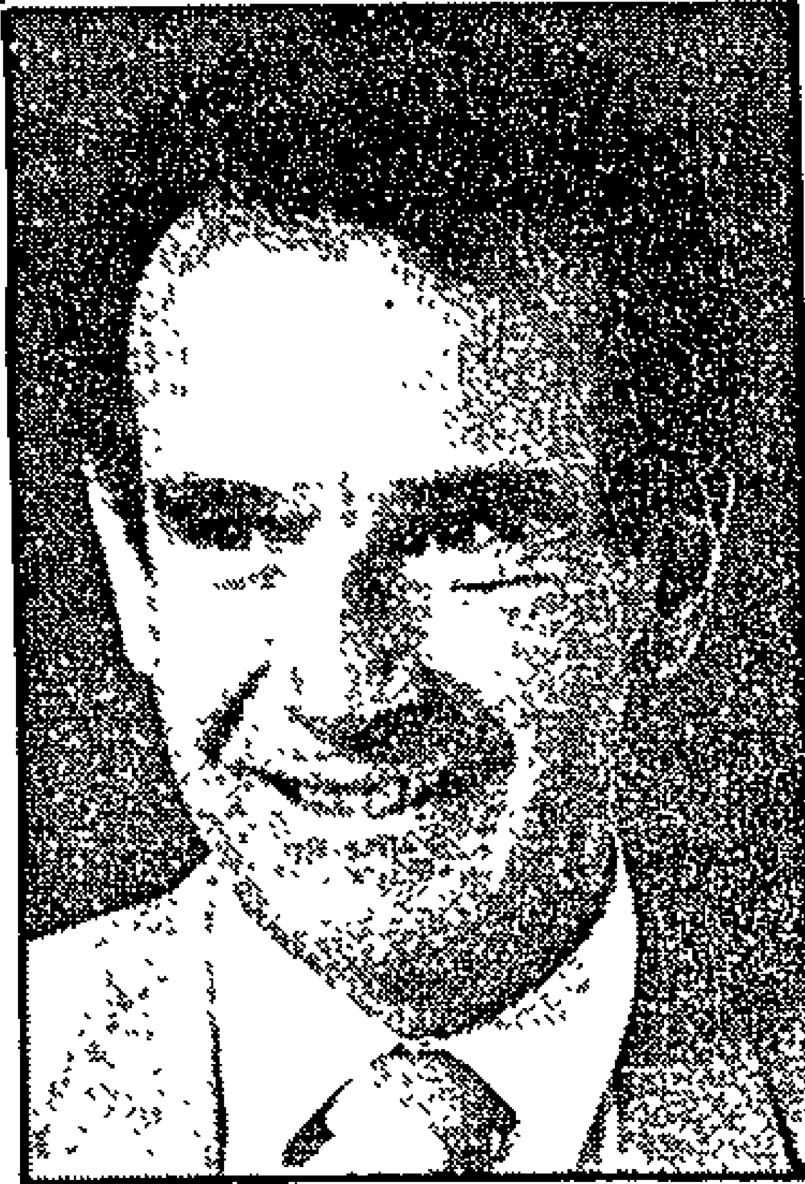
The taxman, edged on by the savings institutions, is looking to the unit trusts and the life assurers to increase his tax revenues.

Mr Roy McAlpine, chairman of the Association of Unit Trusts, says that certain institutions in the savings field have been making strong representations to the authorities to tax the capital surpluses of the life assurers — and the unit trusts have been caught in the cross-fire.

He says the savings institutions were unhappy about the tax-free nature of life assurers' capital surpluses which are passed on to their policy holders as bonuses.

This is seen as treating life assurers differently from other institutions. It has now been proposed that to achieve a level playing field for the financial institutions these capital surpluses should be taxed.

While not wishing to become involved in an issue which should not concern it, the Association had been obliged to make the strongest possible representations to the authorities not to implement any such legislation on unit trusts, he said.



Roy McAlpine ... No justification.

"Our case is very strong. The total assets of the unit trust industry amount to a comparatively low R7,6 billion while those of the banks, building societies, life assurers and pension funds comfortably exceed R300 billion."

"This illustrates clearly that there is no justification for believing that unit trusts are distorting the savings pattern of the general public." says Mr McAlpine.

The unit trusts represent the savings of more than 700 000 members of the South African public, being drawn in the main from the smaller investors.

He said it would be nothing short of a tragedy if fiscal measures were introduced which would penalise the savings of that sector of the community which could least afford it.

On a more positive note, Mr McAlpine said legislative changes were in the pipeline which will enable unit trust investment managers to enhance the performance of their unit trusts.

The Registrar of Financial Institutions has supported the Association in proposals to make certain provisions of the Unit Trust Control Act less rigid and it is hoped these will be on the statute book early this year.

Last year was one of continued strong growth for the unit trust industry. The number of trusts rose by six to 37, the total assets of the industry grew from R6,6 billion to R7,6 billion, while the number of accounts rose from 568 000 to 736 000.

Sales of units rose to R2,1 billion from R1,4 billion in 1989, comfortably exceeding the previous record figure of R1,6 billion set up in 1987.

Although repurchases rose to R985 million, the net inflow of R1,12 billion was still a record.

Mr McAlpine says the uncertain political and economic environment coupled with the depressed equity markets was an ideal time for members of the general public to invest in unit trusts.

BDay 21/2/91. 58

Allied's boardroom stakes

JIM JONES

ALLIED MD Kevin de Villiers's decision to sell almost 2,3-million Allied shares in the market made sense. De Villiers announced his decision at a Press conference on Saturday, underscoring a view that the shares are as high as they are likely to get while First National Bank (FNB) and the UBS slug it out in their battle for control of Allied.

De Villiers, whose future with Allied was recently in some doubt and who has supported FNB's approach through thick and thin, was the beneficial owner of 2,5-million Allied shares. He acquired the shares over some years, 525 000 of them accrued as part of the normal executive share option scheme and the remainder were bought by him through the market over a period of eight months about two years ago. He sold them when shareholders had all the details of the UBS and FNB proposals. And presumably, when he sold, he would have hoped his holding should go to FNB.

Some eyebrows have been raised at the disclosure of the 500 000 shares held by non-executive group chairman Norman Alborough and which only showed up on the Allied's share register late last year. They came to him, his personal secretary says, in terms of his June 13 1990 appointment as group non-executive chairman. According to Section 223 of the Companies Act, issuing shares to non-executive directors needs shareholder approval.

Allied's weekend statement comparing the UBS and FNB approaches says that Alborough, who has rejected FNB's offer and nailed his colours to the UBS merger mast, has an "indirect" interest in the 500 000 Allied shares. The holding is presumably "indirect" because they are registered in the name of a company, NVR Alborough Investments (Pty) Ltd of which he is a shareholder, even though he received Allied's last dividend on his holding.

ALBOROUGH held . . .

He was to get the shares in terms of his appointment as non-executive group chairman on June 13, though the terms were not made public. But Alborough and his Allied board colleagues had other things on their collective mind — not least the merger plans of the UBS — and the shares were formally offered to him only on September 24 by the group's board. The offer was confirmed on September 28 by the Allied's board executive committee chaired by Sage's Louis Shill. The UBS's merger plans for Allied were announced between these two dates, on September 26.

When Alborough was appointed as Allied's non-executive chairman last June, the chairman was by tradition a non-executive member of the board and his "normal" annual fee as a director was in the region of R10 000. That was what Alborough was paid before some adjustments in mid-October — adjustments Alborough helped initiate at the June 22 board executive committee meeting.

On October 1, Alborough's annual fee as chairman of Allied Group was increased to R100 000 and the board agreed to pay him an additional annual R75 000 as a consultant. The increase was backdated to the time of his June appointment. Other non-executive directors were awarded annual fees of R16 000 on October 1.

The benefits did not end there. On October 1, Alborough was officially appointed executive chairman of Allied Holdings (Pty), a shell company capitalised at a nominal R2. This appointment came with an annual salary of R75 000, making a total of R250 000.

. . . while DE VILLIERS sold

This appointment as an executive of a wholly owned Allied subsidiary meant that Alborough was not limited by Section 223 of the Companies Act and could immediately participate in Allied's share incentive scheme — a scheme whose benefits normally accrue to executives over six years and intended as an incentive for key employees. There was no time limit in Alborough's case. Section 223 says that a special resolution of shareholders is needed to authorise the issue of shares to a non-executive director.

On November 19 Alborough was formally allotted 500 000 newly issued and fully-paid up Allied shares at an effective price of R1,32 each, the price prevailing on June 13. On November 19 Allied's shares were trading at R1,80, so Alborough would have been assured of an immediate profit of 48c a share, or R240 000 in total, if he had decided to sell at that point.

On the same day, November 19, Allied's board declared a 6c interim dividend and Alborough's dividend cheque amounted to R30 000. The last date for registration for the dividend was December 7 and the payment was made on December 21.

Again on November 19, Rod Monthe, Allied's senior deputy chairman, and Joe Pamensky, the deputy chairman, signed a certified extract from the October 29 board minutes releasing from pledge the 500 000 scheme shares upon full payment of R660 000 by Alborough.

Alborough only paid on January 11 but still received the R30 000 dividend. Section 92 of the Companies Act specifies that shares shall not be allotted or issued unless they are fully paid-up.

Allied's shares briefly touched 300c as UBS and FNB battled for control of the company. Alborough still has his 500 000 shares and his profit would have been R840 000 if he had sold at the very top. It is still R540 000 if, as he says he intends, he accepts the UBS offer.

LETTERS

Life industry 'will have to aid upliftment'

B/Day 21/2/91

LESLEY LAMBERT

CAPE TOWN — Government would be under pressure to intervene in the investment activities of life offices if they did not initiate a breakthrough in socio-economic spending, Development Bank of SA chairman Simon Brand warned yesterday.

Addressing Sanlam's annual meeting, Brand said it was crucial that life assurers found ways to reduce the risks of socio-economic investment because they could not be expected to invest in areas which forfeited the return on policyholders' funds.

Significant

"It is therefore essential to find ways, in collaboration with development institutions such as the Development Bank and others, to identify the risks and to meet them in such a way that investments can be made with due allowance for the interests of the policy-owners."

Brand said Sanlam's support of development institutions such as the DBSA and the Small Business Development Corporation was a significant step in the right direction but more direct involvement was required.

Investment in less developed cities, for example, could help to develop more diversified economic activities in outlying areas, he said.

Sanlam chairman A J Van den Berg defended the industry's investment practices against criticism that they served only to push up values in investment markets without filtering down to the employment market.

"Although buying shares on the stock exchange is not directly responsible for new investment, the resulting price levels keep the price-earnings ratios at levels that make it attractive for entrepreneurs to obtain financing capital for new investments via the exchange."

Van den Berg said the life industry invested 30% of SA's annual gross domestic investment. Its provision of long-term funds to the public and semi-public sectors made a contribution to the development of the economic and social infrastructure of the country and, through its investment in shares, it provided venture capital, he said.

Defending Sanlam's size, Van den Berg said capital resources of large companies made it possible for private initiatives to prosper, particularly in the mining of minerals and metals, he said. An example of this was the R20bn Gencor planned to invest in capital projects over the next five years.

The life industry is still at pains to convince the Jakobs Committee investigating the tax treatment of life and deposit-taking institutions and socio-economic spending, that it does not have a comparative tax advantage.

Supported

Its argument has been supported in a report circulated by the Life Offices Association and submitted to the Jakobs Committee.

Compiled by Geert de Wet of the University of Pretoria's economics department, the report concludes: "We could find no evidence that (the life industry) has a definite and decisive tax advantage.

"The tax procedures differ in respect of life insurers versus other financial intermediaries, but in the end taxes are to be paid one way or another."

New bid to register brokers

B/Day 21/3/91. (58)

SEAN VAN ZYL

THE SA Insurance Brokers Association (Saiba) has initiated a registration plan which will identify brokers who contravene the association's code of conduct.

Legislative backing for registration is not likely to come into effect before 1993, and Saiba intends to test its registration "model" before taking it to the authorities as a workable guideline to be implemented across the industry.

Saiba president Garry McCreesh said that at present registration would be applicable only to the association's own members.

Saiba is said to represent about 78% of "active brokers" in the market.

McCreesh said Saiba's register would come into effect in June, provided some legal problems had been cleared up.

"Both brokerages and insurance companies agree that a 'code of behavour' and standard should be set for brokers and agents entering the market in order to protect the consumer," he said.

Contraventions to Saiba's existing code of conduct tend to reflect on companies, even though individual brokers might be at fault.

Under its new system, Saiba will keep separate registration books for broking companies and their employees.

McCreesh said Saiba could expel a member, whether it was a company or an individual, if misconduct became apparent. In an individual's case, he said, Saiba members would also undertake not to employ the broker concerned.

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Life assurers advised of need to fund less developed sectors

(58)

By Tom Hood Star 21/2/91

CAPE TOWN — The Government will be under great pressure to intervene and use the billions in the coffers of the life insurance giants unless the industry devotes funds to helping the less developed parts of the economy, says Dr Simon Brand, executive head of the Development Bank of Southern Africa.

He told Sanlam's annual general meeting in Bellville yesterday the private sector had a fundamental role in the upliftment of the less developed sectors and should do something about it.

New demands made on companies by the political process of change need not be seriously undermining, provided the business sector recognised the opportunities arising from the changes and reacted constructively.

Dr Brand said Sanlam's wide spread of assets and profits among all its policyholders and the strong growth of premium income was a strong defence against criticism from "certain circles".

Dr Simon Brand . . . Government under pressure

Private enterprice was recognising to an increasing extent the need to correct the imbalances between the developed and under-developed parts of the economy.

Life assurers could invest not only in the already developed urban areas, but also in factory sites and buildings and similar business facilities in less developed cities.

"In this way, a material contribution could be made to improve the quality of life and develop more diversified economic activities in those cities and towns.

"The necessity of a breakthrough in this field can hardly be over-emphasised," said Dr Brand.

"If this is not initiated by the industry itself, the Government would be under great pressure to intervene in the utilisation of savings, be it my means of prescribed investments or more drastic ways."

In his address to the meeting, Sanlam chairman Dr Abie van den Berg said political developments would not change the function of life assurers who would be indispensable in the new South Africa.

Dr van den Berg said that as life assurers mobilised the country's savings, more than 30 percent of gross domestic investment was available from assurance companies.

While Sanlam was fully prepared for the challenges it would have to face, he regretted the great deal of uncertainty about changes.

"This is not in the interests of the country or its people. It is vitally important that clarity about the future political and ec onomic systems be reached as soon as possible," he said.

He emphasised the need for economic growth and job creation, adding that no political organisation would create lasting peace unless it was accompanied by growth and economic reform.

He said Sanlam had maintained its growth in a difficult year for the industry, and that for the first time its total annual income had exceeded R10 billion.

Perm buys minority stake in two estate agencies

BDay 21/2/91. (58)

CHARLOTTE MATHEWS

THE Perm has bought a minority share in two leading estate agents, Basil Elk and Durr Estates, for an unspecified amount, it said in an announcement yesterday.

Although this is the first time the Perm has bought a stake in estate agencies, it comes after similar moves by United, which has bought into five agencies.

Jian Sdaya, who has been handling the negotiations for the Perm, said the move was not a response to United's move into estate agencies.

"The Perm has been working on estate agency strategies for some time," he said.

Said Perm MD Bob Tucker: "While we have acquired a minority stake in these estate agents, they will still be in a position to get on with the job that they know best — selling property — in the knowledge that they have a good relationship with us."

Basil Elk is based in Johannesburg but is represented in Natal and the Western Cape. Durr Estates is based in Cape Town and operates mainly in the Western Cape.

Other major home lending institutions said they would make similar moves.

"I don't believe a financial institution has any role in the estate agency business," Allied Building Society MD Don Hunter said. "The prime aim of estate agents is as brokers, to put the buyer and seller together as best as possible. They have to be free agents.

First National Bank (FNB) GM Jimmy McKenzie said FNB did not consider its position in the home lending market to be threatened.

'Major pitfall' in Absa's Allied bid

GRETA STEYN

ALLIED shareholders could face a major pitfall if the Amalgamated Banks of SA (Absa) takeover offer is approved, First-Corp executive vice-president Stuart Jones said yesterday.

He was commenting on First National's notice to shareholders in today's Press drawing their attention to the implications of a special resolution scheduled for next month's general meeting. The special resolution would follow once an ordinary resolution approving the Absa takeover has been passed.

The special resolution requires 75% of shareholders present in person or by proxy to vote in favour of reducing the Allied's capital so that it can be absorbed by Absa. If the resolution is not passed, shareholders would end up with fewer Absa shares or less cash than they expected in terms of the offer.

Instead of receiving 100 Absa shares for every 320 Allied shares held, they would receive only 56 Absa shares. Shareholders would end up with a fragmented investment as Allied shareholders would retain their shareholding in the Allied.

First National is widely believed to have the power to block the special resolution, as it is speculated to have acquired a 25% stake in the Allied.

In a notice to shareholders in today's Business Day, the bank draws shareholders' attention to the implications of the special resolution failing, saying the "entirely new information ... materially and very signficantly affects, or may affect, the receipt by you of the consideration indicated in the original anouncement of the proposed Allied/UBS merger published on January 29 1991".

UBS on Wednesday published a notice informing shareholders of the implications of the special resolution. It is believed the was published at the insistence of the Securities Regulation Panel.

FNB told shareholders it would deal more fully with the implications of the special resolution in its formal reply to the Allied board's response to its offer.

In addition, FNB has also extended the closure of its offer from February 22 to March 1 because shareholders had not yet received the formal documentation of the UBS offer.

● See Page 8

Black growth in Sanlam

Sowetan 21/2/91

By ALI MPHAKI

SANLAM, an insurance company with a traditionally Afrikaner base, is showing a strong growth among black and English-speaking clients.

Recurrent premiums received from black clients increased by 74 percent in the last financial year, while those from English speakers grew by 39 percent.

Sanlam chairman Dr AJ van den Berg, speaking at Sanlam's annual general meeting yesterday said the company received a total of R7,4 billion in premiums, an increase of R1,4 billion from the previous year.

This represented a leading market share of more than 30 percent of all premiums paid in the rand monetary area.

Payments to policy owners and beneficiaries amounted to about R9,3 billion during last year.

For the first time, Sanlam's total annual income exceeded the R10 billion mark.

The company received more than R1 billion in premiums from Namibia during last year.

Cash grant to home buyers would be a hit

A CAPITAL subsidy to first-time home buyers in the form of a cash grant would increase the number of families qualifying for a bond as well as decrease the total cost of funding their house purchase.

This is the view of Mr Steven Miller, managing director of Murray and Roberts Housing susidiary, Construction Development Holdings.

Calculations released by Miller show hat the interest subsidy appears to ensure better affordability for homes costing R25 000 or more while the capital subsidy is a far subsidy for buyers purchasing homes worth less than this amount.

Interest subsidy

"Should the present interest subsidy be replaced by a capital subsidy of R6 000, the monthly family income required to qualify for a bond on a R15 000 home would drop to R524," he said.

Under the interest subsidy, the family would have to earn R656 a month to qualify.

This would obviously increase the pool of prospective low-income buyers. At the higher end of the market, such as where homes cost around R50 000, the situation is reversed and the buyer has to earn at least R2 300.

Life offices look at funds

SEAN VAN ZYL

THE creation by life offices of corporate funds, in which their taxable surpluses would be deposited, is being considered. (58) (320)

The fund would be subject to the 50% company tax rate.

Financial Institutions Office representative Piet Badenhorst said the matter was "under investigation".

He said it would be "too premature" to comment on whether a corporate fund requirement would be worked into legislation.

The investigation forms part of a wider review of SA's savings market being undertaken by Japie Jacobs, advisor to Finance Minister Barend du Plessis. His brief is to find a way of "levelling the playing field" between life offices, banks and building societies. B/Day 21/2/91.

Life offices currently pay a tax rate of 45%, after 55% of expenses are deducted, on their taxable life income.

They do not pay tax on pension and retirement business except in the hands of the member.

As a result, assurers currently maintain two seperate member funds (life and pension) of which only life business is taxed.

The corporate fund would result in a third fund coming into existence, and would dispel any perceptions in the savings market that assurers have an unfair advantage in the existing tax structure.

Insurance crisis as claims skyrocket

By MONDLI MAKHANYA

POLICYHOLDERS should brace themselves for more premium hikes later this year as insurance companies attempt to recover their phenomenal underwriting losses.

Short-term insurers have begun the 1990s on a bad footing, with the number of claims submitted spiralling. Already warnings have been sounded that the South African insurance industry may be heading for a repeat of 1986, when the AA Mutual collapsed under similar circumstances.

The main causes of the current crisis are the inflation rate, which has sent items such as car spares rocketing, and the high crime rate in the country. While there is agreement in the industry that there is no quick remedy for the underwriting losses there is also a realisation that it is inadequate to simply resort to the increasing of premiums, and insurers are advising policyholders of loopholes which may help them reduce their premium payments.

Prestasi Insurance Brokers CE Jan Erasmus believes the raising of premium should not be resorted to as it is counterproductive and "suicidal".

"There are two approaches to solving this problem. One, which is favoured by insurance houses, is simply raising premiums but this tends to have a long-term negative effect. It results in people cancelling their policies and this may result in the next increase being more severe because you have to compensate for lost business.

"A long-term view is that the entry of capital must be encouraged and in order to effect this restrictions on the industry must be lifted. For example, the regulation that forces a new firm to gain approval from the registrar will have to go."

Another solution he proposed was that the concept of an insured person carrying the risk should be encouraged. His firm had already formulated a scheme to effect this.

In terms of the scheme the insured person gets a 35 percent discount if he consents to R5 000 excess on a claim.

While the person pays the ordinary premium, 35 percent is put into a savings account, endowment policy or unit trust. This money from the savings can then be used to help with the R5 000 excess on a claim.

The concentration of wealth in few hands in South Africa could also be blamed for the crisis because insurance companies tended to feel easier about raising premiums on the personal side rather on the commercial side, according to Erasmus.

"As a result of the concentration of economic power in the hands of five conglomerates, insurance companies are unwilling to raise premiums on the commercial as much as on the personal side because they are scared of losing this business.

"Therefore, whenever losses have to be recovered it is passed on to the small man who has no muscle to challenge them," said Erasmus.

His sentiments were not shared by Commercial Union MD John Kinvig, who said commercial insurers were suffering the most and had to raise their premiums.

"We have to balance the way in which we raise premiums. In the case of a national catastrophe which hits a residential area, most claims will come from that sector and we might have to adjust our rates accordingly.

"The same would occur if the catastrophe struck in the commercial district of a city. We have no intention at all of penalising the small man," he said.

Kinvig urged policyholders to accept that "in order to meet excessive claims we must raise premiums".

He also recommended that policyholders take out excess cover and reduce the number of items on their policies, such as small items or antiques.

As far as hikes are concerned, Kinvig forecast a 20 percent increase in the personal lines portfolio due to escalating crime. This should take place in the second half of the year.

He added that the percentage increases would depend on each company's underwriting losses

Santam MD CJ "Oosie" Oosthuizen simply put the onus on the consumer: "The only thing that can rectify the situation is that people must be more cautious about the security of their property. "We as an industry can only recommend that people take more serious note of things such as neighbourhood watches."

Santam MD Oosie Oosthuizen ... we must be more security conscious

He said the industry had to raise rates because "what else can you do? If you have a pool of premiums you can only take out as much as there is in it".

As a means of discouraging excessive claims Santam offers bonuses on policies to people who do not claim often. A restriction is also placed on people who claim excessively.

He also blamed the industry for sometimes allowing years to pass without instituting increases and recommended that increases should be annual in order to lessen the impact of premium hikes.

Oosthuizen predicted: "This will be a difficult year for us. Unemployment will exacerbate crime and thus increase the number of claims.

"During this year I think the industry will need increases. We are of course hoping the police anti-crime operations will alleviate the situation," he said.

PFV Insurance Brokers local director Michael Duncan said his company had a security committee which kept a check on insurance companies' security.

He noted that insurers were beginning to take remedial action to correct the situation in the industry.

"Already we see the personal lines hardening and that always tends to be the first area that is looked at when a situation is being corrected."

He added that the increases might price insurance out of the market, thereby making this an expense which people may just cancel and do without.

But he advised people to look into discounts which insurance companies offered.

FNB's Swart adds yet more fuel to Allied fire

(58)

By Derek Tommey

New information contained in the Allied statement on Monday "could materially or very significantly affect" the consideration offered by UBS Holdings for Allied shares.

The comment was made yesterday by Barry Swart, group managing director of First National Bank which, together with UBS-Volkskas, is bidding for the Allied Group.

Distribution

Mr Swart was referring to paragraph 4.1.1.2 in the Allied statement.

This describes what could happen to the distribution of UBS shares to Allied shareholders, should the necessary special resolution not be passed.

If the special resolution is approved, then Allied shareholders will receive 100 Absa (UBS-Volkskas) shares for every 320 Allied shares.

But if the special resolution

Barry Swart . . . matter will be specifically dealt with

does not go through, Allied shareholders will receive 56 Absa shares for every 320 Allied shares and retain 141 Allied shares.

Mr Swart said the matter would be specifically dealt with by FNB when it responded to the Allied takeover statement.

Until such time, Allied shareholders are strongly advised not to complete any form of proxy issued by the Allied to vote in favour of the ordinary resolution to effect the Allied/UBS merger.

Mr Swart referred to the announcement by the Securities Regulation Panel (SRP) that significant legal issues had arisen, which could affect the value of Allied shares.

Information

He said until these matters were resolved, FNB did not intend bombarding Allied shareholders with further confusing information.

Mr Swart said that the FNB offer was still significantly better than the UBS proposals in respect of the cash consideration and the share consideration.

He added that as Allied shareholders had not received any formal documentation from the Allied, the FNB offer had been extended by a week to Friday March 1.

Allied shares dropped 9c to 271c in light trading yesterday morning.

By noon, only 128 000 shares

Act 21/2/91.

worth just over R1 million had changed hands.

But a buyer at 280c emerged in the afternoon, and the share closed unchanged with a turnover for the day of 2,4 million shares worth R6,7 million.

The price of 280c would appear to be a floor price for Allied shares, should FNB win the battle for them.

FNB shares rose to R32 yesterday, which, in terms of the proposed share exchange, makes an Allied share worth 280c.

Allied shareholders are still waiting for clarification of the significant legal issues mentioned by the SRP.

It is understood that the FNB has appealed against a ruling given by the panel to the UBS last week, which could possibly result in the full panel of 16 meeting.

At present, only the panel committee is meeting.

This comprises the panel's chairman Mr Justice Margo, the executive director Doug Gear, and the president of the JSE Tony Norton.

Testing the mettle of the shareholder's new champion

(58)

BDay 22/2/91.

GRETA STEYN

THE Allied minority shareholder not only has two suitors fighting for her hand, but also a guardian watching to see they do the right thing. The takeover battle between First National Bank and the UBS-led camp is the first in which the guardian of minorities' rights, the Securities Regulation Panel, plays a role. To what extent has the panel proved itself the watchdog of minorities' rights?

The panel's duty is to enforce the Takeover Code, which came into effect on February 1. The code, based on the British model, tightens regulation of takeovers with one of its main aims to prevent the "oppression" of minorities.

According to Ernst & Young's guide to the Takeover Code, the role of the panel "is to ensure fair and equal treatment of shareholders, and generally ensure a level playing field such that shareholders are placed in a position to judge for themselves the best course of action in the circumstances".

Allied minorities who held onto their shares when the price languished at little more than R1,00 must be feeling like Cinderella at the ball. With the predators fighting it out in the market, the share price peaked at R3,00 and has remained high (above R2,60). Ostensibly, the minorities are hardly in need of protection. But it can be argued that "fair and equal treatment" so that shareholders can "judge for themselves the best course of action" has been lacking.

A tenet of the code is that "the oppression of the minority is unacceptable". A number of its general principles revolve around minority rights. There has been much focus on the "30% rule" stipulating that a mandatory offer be made to minorities when that level of shareholding is reached. In the case of companies already holding between 30% and 50% of a target company's equity as of February 1, 1991, the stake can be increased by another 5% in a year before falling foul of the requirement to make an offer to minorities.

The code applies not only to the predator, but to allies helping him with the takeover. These allies are known as "concert parties".

While in the Allied's case there are already two offers on the table for minorities, the offer price could be raised to the highest price paid in the market by a predator.

In terms of the code, a predator has to disclose publicly any dealings in the shares of the target company during the period of the takeover offer. Equality of information is another principle — information should be made available to all shareholders at the same time. Directors must act only in their capacity as directors, without regard to their personal relationships with companies. Relevant information must not be withheld. Directors cannot take action to frustrate an offer or to deny shareholders the opportunity to decide for themselves.

Since both the First National and UBS offers were made before the Takeover Code came into effect, does the code apply? Securities Regulation Panel chairman Mr Justice Cecil Margo says: "The whole code is potentially applicable. We are watching to see whether our rules become applicable. We have to decide from time to time whether the code applies."

MR JUSTICE MARGO

But what about the code's applicability to the UBS, which has made an offer to buy the assets of the Allied, and not the shares? Ernst & Young's guide notes the code applies only to transactions involving the acquisition of shares. "Where assets are purchased out of a company ... all that is needed is approval by a simple majority of shareholders present at a general meeting." Mr Justice Margo agrees, but says: "We cannot finally exclude any party from the code's ambit. We must find out whether the rules apply."

The "signficant legal issues" in the takeover battle noted by the panel this week are said to refer to a dispute between FNB and UBS on the code's applicability. In a secret ruling last week, the panel confirmed the UBS's interpretation of the code, leading to speculation that it could enter the market as a heavy buyer of Allied shares without being forced to make a mandatory offer to minorities. First National has lodged an appeal.

Why has the UBS ruling been kept from the minorities? The decision seems surprising, as the code states it is the panel's policy in the case of important decisions to publish its conclusions and its reasons for them. Evidence of a confidential commercial nature would not be disclosed. By all accounts, the UBS ruling was an important decision.

But Mr Justice Margo says those who criticise the panel for secrecy do so in ignorance.

"Section 440 (I) of the Companies Act imposes as a statutory obligation the duty of secrecy in respect of any information obtained by any panel member in the course of his duty. We don't force the disclosure to the public of the business strategy of the offeror. The (above) passage in the code refers only to the determination of principles. But when a party comes to us for advice, that is private," he says.

Asked whether the ruling was therefore clearly not one of principle, he responded: "It could be disclosed in due course to the extent that it is a matter of principle. But it is a ruling on a particular circumstance relating to the private affairs of one of the parties."

He says the panel was guided by part A3 of the code, which refers to a ruling on the interpretation of the code at the request of one of the parties. The code says: "The requirements of confidentiality shall be respected unless the circumstances require otherwise."

On why the ruling had been divulged to FNB if it concerned the "private affairs" of one of the parties, he said the bank had satisfied them it had an interest in knowing the contents of the ruling. The effects of the ruling, and not the confidential information leading up to it, had been disclosed to FNB.

Do the minorities not have an interest in the same information given to FNB? Says the judge: "Eventually, yes. It did not affect the minorities at that stage."

Asked again why the effect of the ruling could not be made available to the minorities, Mr Justice Margo said: "I suppose we could in due course."

If the ruling has given the UBS-led consortium the right to buy a sizeable stake in the Allied in the market, do the minorities not have the right to know? Is the principle of "equality of information" of less importance than the "private" business strategy of a major banking group?

In all fairness to the panel, it could not have foreseen a takeover battle with one leg outside the period of the Takeover Code and the other leg firmly inside. It is perhaps unfair to judge the panel's ability to protect minorities in an abnormal situation. But the panel still has to prove itself as a watchdog for minorities' rights.

UBS expected to counter FNB claim

Bloom 22/2/91 (58)

GRETA STEYN

THE UBS is expected to dispute First National Bank's (FNB) claim that Allied shareholders "face major pitfalls" in accepting the UBS-led offer for Allied.

Although there was no comment forthcoming from the UBS yesterday, expectations in the market were that the UBS would return fire at the weekend.

The dispute centres around a special resolution on the agenda for next month's annual general meeting of Allied.

Analysts said FNB appeared to be making a tacit threat to block the special resolution, requiring a 75% vote in favour, and they expected the UBS to respond to the threat by saying it was unlikely to be carried out.

If the special resolution is blocked by FNB, shareholders will end up with less cash and shares than they would have received in terms of the UBS-led Amalgamated Banks of SA (Absa) offer. They will retain a shareholding in the Allied, which will remain listed.

Market talk yesterday was that the chances of First National blocking the special resolution were slim. One analyst said FNB would end up with an investment it would be hard pressed to justify to shareholders.

It would retain shares in the Allied, which would effectively become a shell whose only asset was shares in Absa. While

□ To Page 2

UBS

Bloem 22/2/91 (58)

□ From Page 1

the Allied would remain listed, it was fair to expect the share price of the shell to fall on the market to levels well below those FNB paid for its investment. The return on its investment would be diluted through the continued administration and the running of the Allied Group.

"The implications for the return on FNB's investment should discourage it from making good its tacit threat," one market source said.

FNB is widely believed to have the power to block the special resolution, as it is believed to have acquired a 25% stake in the Allied. But the odds are in favour of the UBS winning the ordinary resolution, requiring a simple majority, to ratify the Absa deal — if FNB's appeal to the Securities Regulation Panel fails.

A secret ruling by the Securities Regulation Panel is believed to have placed the UBS-led consortium in a position to build up a sizeable stake in the Allied by buying shares in the market. The panel is expected to decide on First National's appeal on the ruling within the next few days.

● See Page 10

(58)

JUSTICE FM 22/2/91

THE MOTHER OF ALL TRIALS

There is a view that life would be a lot easier for everyone if the Winnie Mandela trial could be called off without any further ado.

The National Party government would not have to endure accusations that it is trying to undermine the ANC by harassing the wife of the organisation's deputy president, Nelson Mandela.

The ANC would be able to concentrate on the job in hand — negotiations, finding out about economics — instead of becoming confused and divided against itself over the trial (see *Current Affairs*).

And Nelson Mandela, the ANC's trump card as well as the great hope of the white man, would be freed of a painful and distracting sideshow that will steadily weaken his position the longer it goes on.

It is a tempting option — so tempting that there are suspicions among otherwise sceptical people that government and the ANC, or elements within each, have come to an informal agreement to find a way of allowing the trial to lapse.

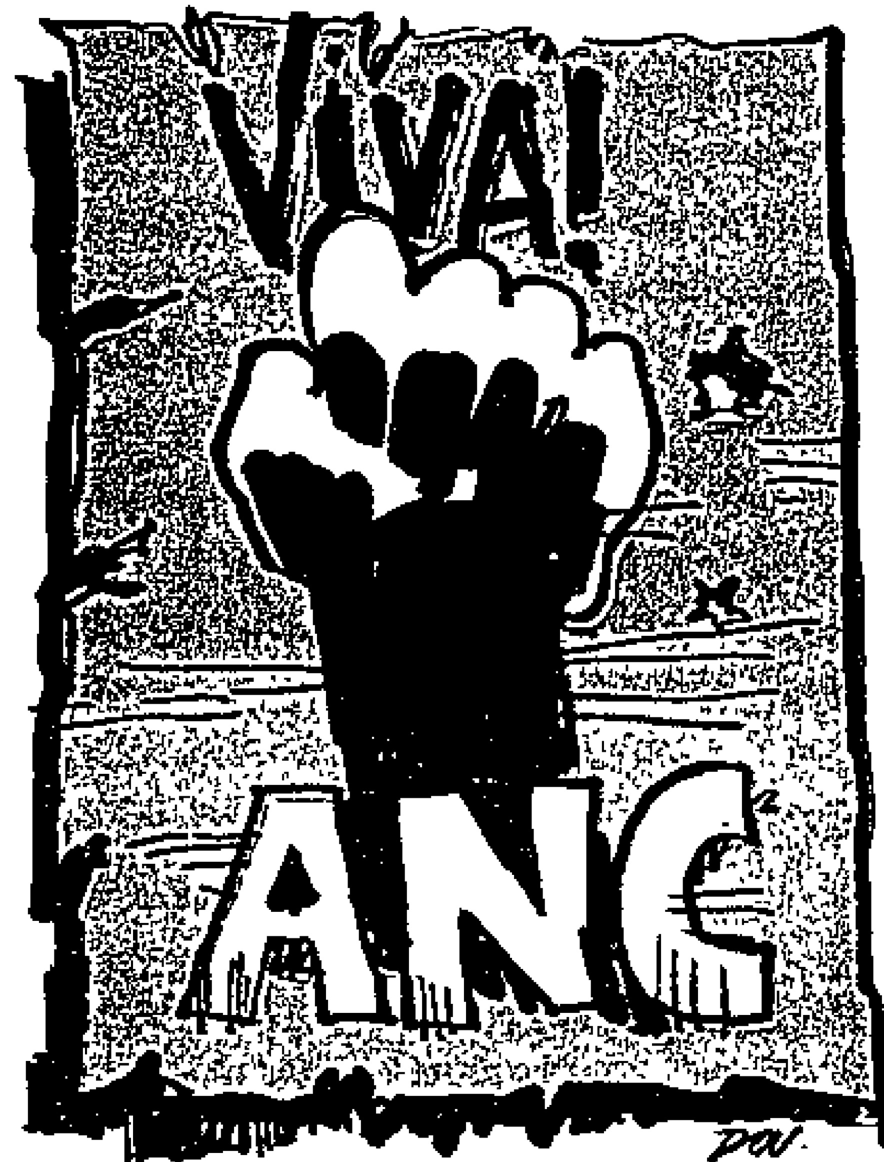
But such alluring temptations are the work of the Devil.

Of course it is of interest, and of political importance, whether Winnie Mandela is innocent or guilty of kidnapping and assault as charged. She is in many ways a considerable figure, drawing adulation in some quarters and hatred in others.

The story of Winnie and Nelson has more than traces of classical tragedy in it. But there is a more important principle at stake.

It is that justice must take its course. Charges have been put, and they must be answered. If not, Winnie Mandela will not be guilty, but nor will she be innocent. Nelson Mandela understands this very well, which is why he himself called for his wife to be tried.

By sitting in the Supreme Court, he lends legitimacy to the proceedings — and therefore to whatever verdict might be handed down.



Why must justice take its course? Because if it does not, the law will have been exposed as selective. And as soon as it becomes selective, the law ceases to be fair and becomes whimsical, a weapon in the hands of those who can manipulate its instruments and intimidate its officers. Without equality before the law, decay and barbarism are a short step away.

The reaction of the ANC as an organisation to this case leaves the impression that it does not understand the importance of upholding the law; that those of its members who eventually come to power will be just as cavalier in their contempt of the law as the worst of their Nationalist predecessors. We hope that ANC leaders will dispel this impression by doing all in their power to see that this trial goes ahead.

If the abstract argument is not compelling enough, consider the practical effects. Western governments, businessmen, editors — few of them are not puzzled and alarmed by what has happened. Even members of the US Congress who were previously blindly sympathetic to the ANC as the democratic movement of the oppressed, groaning under the yoke of apartheid, are asking questions.

To be quite blunt about it: SA's future depends on investment from the great Western democracies. But even hard-nosed British and American businessmen know very well that prosperity depends on long-term stability, which depends on human rights, which depend on the Rule of Law.

Already we are counting the cost.

This is why the trial of Winnie Mandela is more important than sanctions and the entrenched inequalities of our society.

It goes to the heart of what kind of country we are, and where we are going to end up.

If it is called off, whatever the reasons, we will all be the losers. ■

TAKEOVER PANEL (58) FM 22/2/91

BAPTISM OF FIRE

A more fiery birth for the Takeover Panel could hardly be imagined. One of SA's largest and most fiercely contested takeover battles — between First National Bank and UBS for Allied Group — was launched only days before the panel came into force on February 1.

However, sympathy for its difficulties does not absolve the panel from scrutiny over its handling of the Allied matter. Public confidence in the panel crucially rests on adequate dissemination of enough information to allow for balanced and considered decisions by the thousands of interested

continue →

P.T.O.

investors.

The panel (correctly called the Securities Regulation Panel) has replaced a system of takeover regulation that did not work well. Problems were almost inevitable under the legal framework that then applied. Requirements and procedures were not stated clearly enough, nor were there the teeth so patently needed to enforce the rules.

Another difficulty lay in the status of those who were expected to ensure the fairness of takeovers and mergers. They included JSE committee members, who must often have felt under pressure from vested interests in what remains a small business community. However independent minded the individuals concerned may have been, the system itself did not help the market regulators to nurture an image of fairness and independence.

It was largely to address such weaknesses that the Companies Act was amended to establish the Securities Regulation Code on Takeovers and Mergers under Section 440. Years of preparation preceded this stage and it's interesting to note that the process started after a suggestion from London's Takeover Panel, which felt a similar panel in SA would make local securities more acceptable in London.

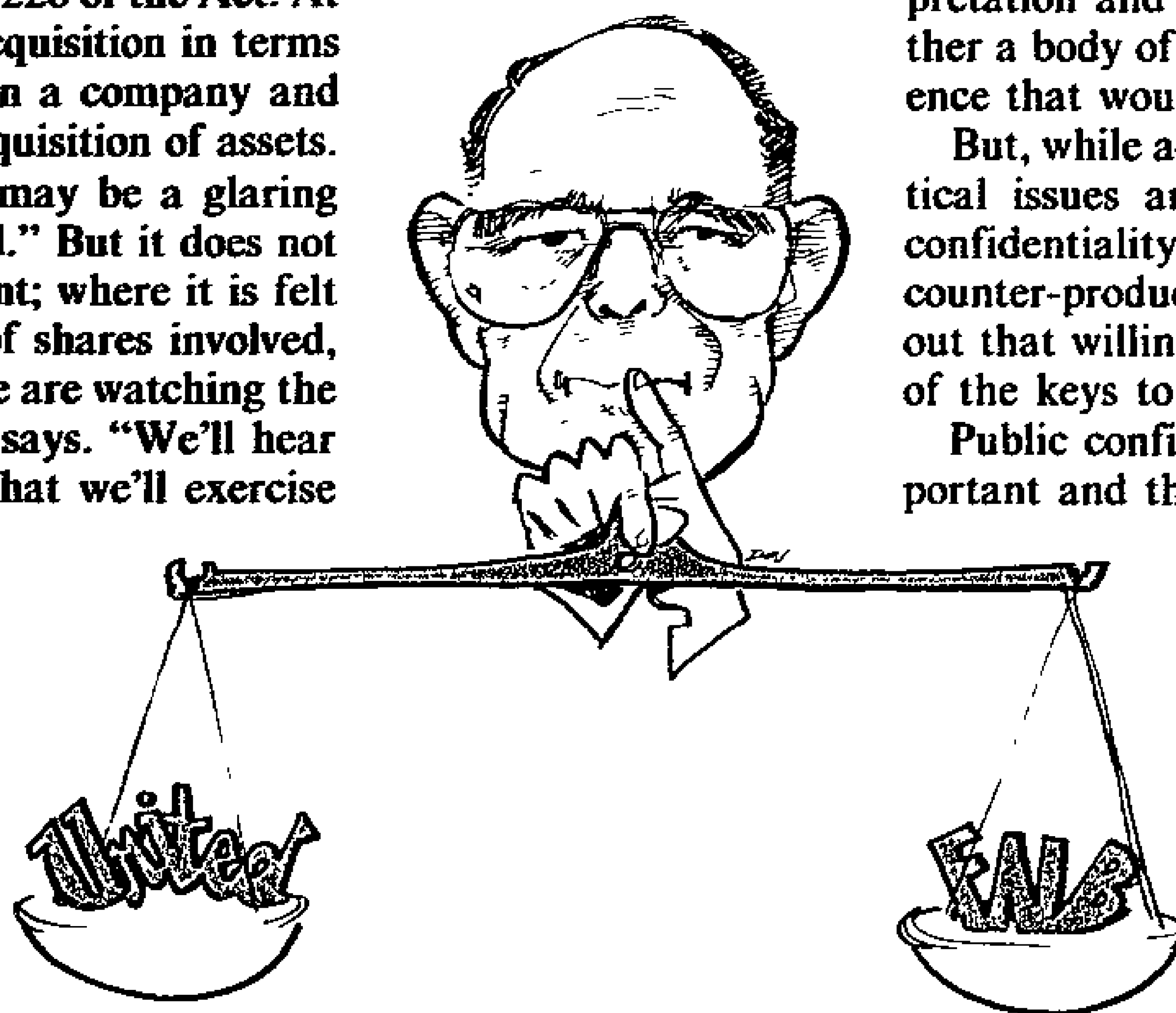
Participants in the securities industry have much to gain from a takeover code which is considered to be effective. For that to happen, the panel must be seen to act when necessary and there needs to be clarity on the rules of the game. These are among the important advantages of having the takeover code. In the past, too many deals ended in unsatisfactory disputes over such issues as whether control had in fact changed.

At this stage, unfortunately, clarity on what exactly is required from the parties concerned has not been a prominent feature of the Allied bids — though that is at least partly because of the nature and the timing of the bids.

Judge Cecil Margo, chairman of the panel, confirms that, *prima facie,* neither the UBS bid nor the First National offer falls within the jurisdiction of the panel, because both bids preceded the coming into force of the panel. However, the code includes extensive rules governing the conduct of the parties after bids are made and Judge Margo says the panel is interested in any relevant events from February 1 onwards and will apply the rules where necessary.

Another difficulty is that the UBS offer is to acquire the assets of Allied, under Section 228 of the Act. At present the code defines an acquisition in terms of shares or other securities in a company and makes no provision for the acquisition of assets.

This, says Judge Margo, "may be a glaring loophole which has to be filled." But it does not exclude the panel's involvement; where it is felt there may be an acquisition of shares involved, the panel *would* interfere. "We are watching the situation now," Judge Margo says. "We'll hear all sides and it may well be that we'll exercise jurisdiction."



Given that Rule 8 says an acquisition of a holding of 30% or more in a company would require a mandatory offer for all the shares at the highest price paid, any acquisitions of shares during the course of a bid could have important implications for all parties involved. That raises the question of what information all the parties should be entitled to have.

A simple reading of the code suggests that investors might now be entitled to see regular disclosure of dealings in Allied shares by offerors. Rule 7.1 states that dealings in relevant securities of the companies involved, or by any concert party, for their own account during an offer period shall be disclosed — to the panel, to the JSE in the case of a listed company and in a press release.

Judge Margo says that the panel is monitoring dealing, but regular disclosure in a press release is not necessarily required, though it might be in cases where the offers are made after February 1. Whether all relevant dealings are being disclosed to the panel and the JSE is unclear, but that, presumably, would be a minimal requirement.

Secrecy is a requirement under the Act's Section 440I and is intended to encourage disclosure and consultation. Hearings are held in camera and rulings generally are not revealed except when on a point of principle.

This can have benefits. In an R800m slugging match such as the Allied contest, parties may well be unwilling to come forward voluntarily and consult if there is a risk that tactical information will become public knowledge. But to hide too much behind a screen of confidentiality can also seriously undermine public confidence in the panel.

Judge Margo explains that the panel operates on two levels: it monitors conduct and intervenes where necessary; and it hands down rulings when approached for advice by the parties concerned.

It is believed that a ruling was made last week in response to a request for advice concerning whether or not UBS's associates in the deal for the acquisition of Allied's assets would be regarded as concert parties in any acquisitions by UBS of further Allied shares. If that was the point, it obviously could affect the value of the offer.

There is no provision for a right of appeal to the courts, though the courts would probably be prepared to review panel decisions on the legal grounds of an alleged failure of natural justice or irregularity in the proceedings.

Parties involved in the Allied takeover should be following the spirit as well as the letter of the code. While legal requirements are specified in considerable detail, however, there remain many areas of uncertainty that call for interpretation and discretion. The panel enjoys neither a body of case law nor the practical experience that would make the code easier to apply.

But, while accepting that commercial and tactical issues are involved, there is a risk that confidentiality could be taken too far and become counter-productive. Judge Margo rightly points out that willingness to consult is considered one of the keys to the success of the London code.

Public confidence in the panel is equally important and that might be undermined without adequate information. It would be unfortunate if the panel were later to be criticised for the conduct of its first big case. A more vigorous approach and more clarity on aspects such as the identity and the holdings of concert parties, would be helpful. ■

Firms should insure against credit risks

Star 22/2/91

In an increasingly robust business environment, credit control has grown in importance.

Latest liquidation statistics — which show an increase in the number of liquidations, but even more alarmingly, a sharp increase in the value of default and consent judgments — imply worsening liquidity problems for South African companies.

Although the actual number of liquidations last year was only marginally higher than 1989, the value of default and consent judgments will probably total R180 million for 1990 — a disturbing rise of 59 percent.

Perhaps the most reliable way of controlling a credit risk is to insure that risk. It is also prudent to investigate the credit rating of future clients and to monitor the creditworthiness of debtors.

Credit Guarantee Insurance Corporation offers SA's most comprehensive portfolio of credit management services and its policy holders benefit from Credit Guarantee's considerable resources.

Established in 1936 by a consortium of leading insurance companies, financial institutions and banks, Credit Guarantee is an underwriting firm which specialises in export and domestic credit insurance.

Credit Guarantee relies on its own library — the largest of its kind in South Africa — containing more than 100 000 confidential debtor files on businesses in South Africa and abroad.

Broadly speaking, the company offers two main kinds of export credit insurance cover. The most common export credit insurance policy (roughly 90 percent) of export policies fall into this category) is Export Short-Term which provides cover for export transactions where credit terms do not exceed 180 days.

Medium to long-term export credit insurance, dubbed "Projects" by Credit Guarantee, underwrites risks where credit terms are offered for between two to 10 years.

FM 22/2/91 (58)

Activities: *Property project managers.*
Control: *Directors 82%.*
Chairman and MD: *T Stergianos.*
Capital structure: *30m ords. Market capitalisation: R5,7m.*
Share market: *Price: 19c. Yields: 10,5% on dividend; 31,1% on earnings; p:e ratio, 3,2; cover, 3,0. 12-month high, 32c; low, 18c. Trading volume last quarter, 34 000 shares.*

Year to Aug 31	'88	'89	'90
ST debt (Rm)	1,0	0,32	1,8
Debt:equity ratio	0,09	0,03	0,19
Shareholders' interest	0,53	0,56	0,60
Return on cap (%)	42	31,2	7,1
Pre-int profit (Rm)	5,0	4,6	1,1
Earnings (c)	13,4	14,8	5,9
Dividends (c)	4,0	4,5	2,0
Net worth (c)	20,8	27,8	31,7

DISA HOMES FM 22/2/91 (58)

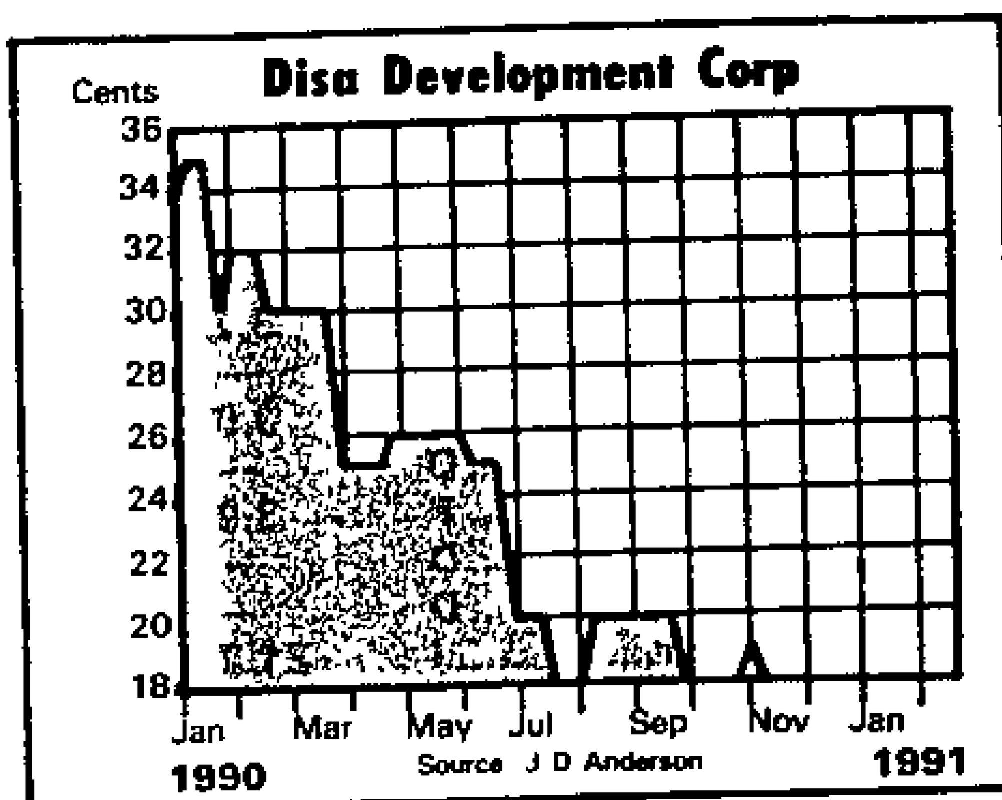
ELUSIVE BOOM

The enormous shortage of housing should, in the long run, provide great opportunities for companies such as Cape-based Disa Homes. However, high interest rates and township unrest have delayed the arrival of this potential bonanza and severely hampered Disa's performance.

Turnover, which the group declines to disclose, dropped 27% in the 1990 year, while attributable earnings plunged 60% to R1,8m or 5,9c a share. No tax was paid and earnings included a R315 000 overprovision from the previous year.

Chairman and MD Theo Stergianos blames high interest rates for constricting sales of new homes and forcing many home-owners to default on bond repayments. He adds that fewer bonds have been granted to blacks because of mass action campaigns in some communities.

Trading profit of Disa's housing division



plummeted from R4,8m to R828 000. Some compensation was provided by the fledgling services division which turned a loss in 1989 into an operating profit of R629 000. Not surprisingly, many of the group's financial ratios weakened considerably. Gearing remained slight, despite net borrowings rising six fold to R1,8m.

The financial policies remain unconventional. The 2c a share dividend declared by Disa will be paid out of the 5c "special dividend" that management announced last year, but withheld as an interest-free shareholders' loan. As payment of this "loan" is of a capital nature, the funds are expected to escape tax.

The remainder of these funds will be kept in a loan account and paid to shareholders in annual instalments at a rate of about 40% of EPS.

Stergianos is optimistic earnings will improve this year, but says they will be well below the 14,8c EPS achieved in 1989. He cautions that the group's performance will,

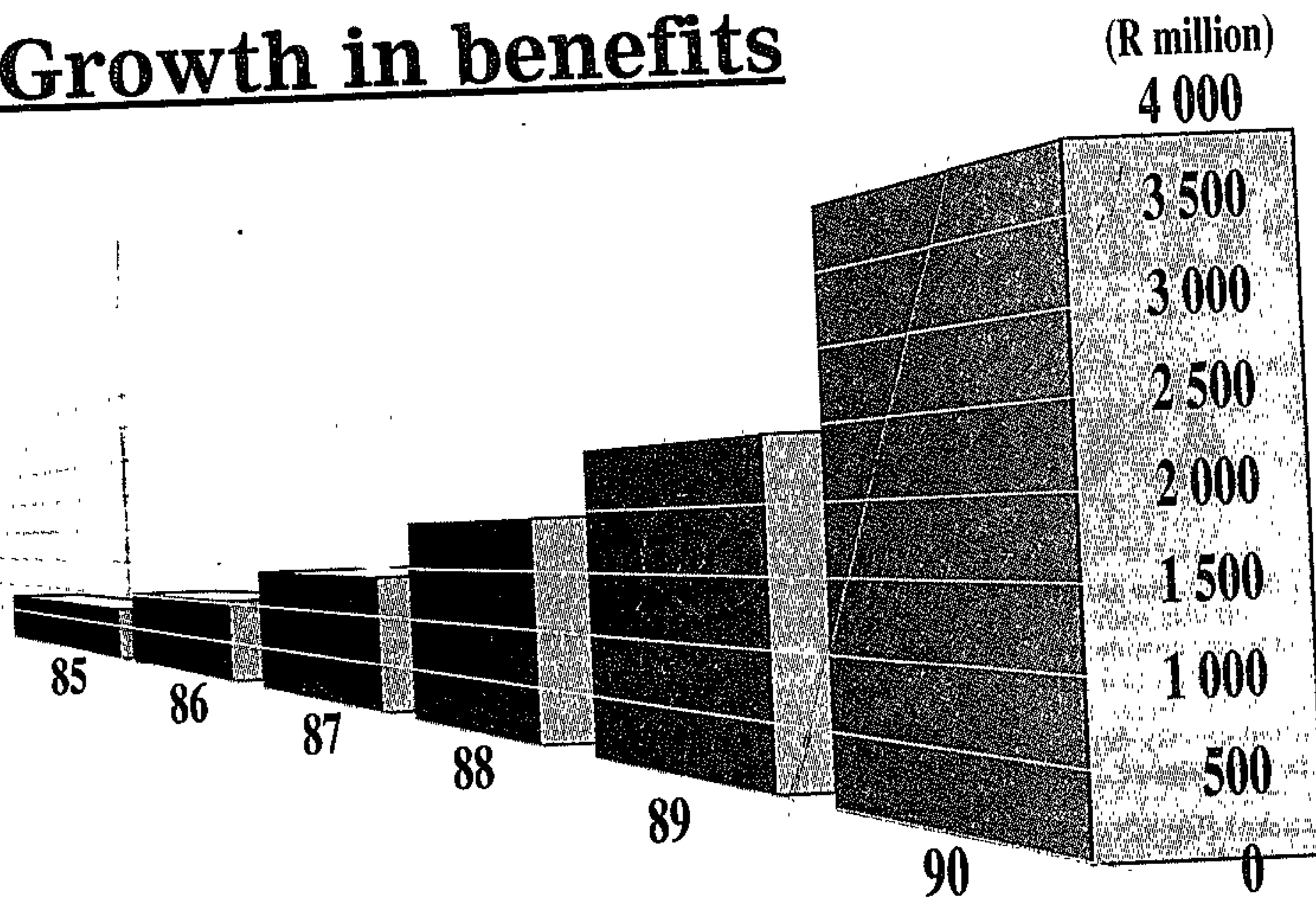
continued

 FM 22/2/91 (58)

in the short term, be determined largely by local economic and political developments rather than its own policy or strategy.

Immediate prospects don't look encouraging. Interest rates will probably remain high, despite expected cuts this year, and unrest in the townships is likely to continue for some time. Disa has scaled down its involvement in black housing projects until conditions stabilise and more bond finance is forthcoming. Scrapping of group areas legislation, he says, is unlikely to improve prospects.

Investors are also taking a cautious view. At 19c, the share is close to its lowest level since listing in 1987. While Disa could benefit substantially once large-scale mass housing projects get under way, that boom could be a long time coming. *Simon Cashmore*



Sanlam paid out R3,9 billion in policy benefits during 1990. Policy-owners and their beneficiaries received about R15 million per weekday in benefits. The above table shows the growth during the past six years in the amounts paid out by the company.

Savings effort is a must

Star 22/2/91. (58)

A DETERMINED savings effort to help supply the necessary capital is a prerequisite for development, peace and prosperity for all South Africans, said Dr A J van den Berg.

One of the greatest problems facing South Africa is the provision of sufficient jobs for its rapidly increasing labour force. In addition, the provision of housing, educational and training facilities, and hospital services is placing heavy demands on our limited capital resources.

Unfortunately, personal saving in South Africa has declined sharply since 1981. In the past decade personal saving has decreased to an average of about four percent of personal disposable income, as opposed to a savings rate of some 10 percent in the previous decade. In 1989 it reached a level of just more than one percent.

There are those who would argue that this trend is no cause for concern, since an increase in company saving has offset the weaker personal saving. But it must not be forgotten that company saving often mirrors the fact that companies do not see their way clear to making investments because of the unfavourable business environment. In fact, investment – the strongest and most desirable driving force in the economy – has been far from satisfactory during the past few years.

People also forget that company saving must provide for inflation, and it is a pity that inflation accounting is not recognised for income tax purposes by the government. By not making allowance for inflation, a distorted view of company profits is often created, especially if insufficient provision is made for the replacement of equipment.

Company saving can never replace personal saving, and a determined personal savings effort is therefore of supreme importance.

It should be borne in mind, too, that because of its inherently long-term, stable nature, contractual saving is an invaluable source of financing for fixed investments.

Discretionary saving is nevertheless also an important source of risk capital – as long as the level of these savings is high enough. So, other institutions do play a role in the provision of long-term investment capital, but their contribution can never replace that of the life assurers and pension funds.

Life assurers perform an essential task as providers of security benefits. They relieve the government of the financial burden of providing certain social benefits – like pensions – for its citizens.

Along with their function as mobilisers of long-term savings in South Africa, life assurers clearly have an important function as providers of long-term capital. The total funds available to life offices for investment annually amount to about 30 percent of gross domestic investment.

These institutions specialise in the provision of long-term funds to the public and semi-public sectors, thereby making no mean contribution to the development of the economic and social infrastructure of the country.

Sanlam's pay-outs soar to R15 million a day

(58)

Results, stringent control lead to record year

By Our Representative

BELLVILLE – A record figure of almost R3,9 billion was paid by Sanlam to policy-owners during the 1990 financial year. This means that policy-owners and their beneficiaries received more than R15 million every working day.

Dr A J van den Berg disclosed these figures here on Wednesday in his chairman's address at Sanlam's 72nd annual general meeting.

position as the foremost underwriter of pension and other group benefits in South Africa.

Dr van den Berg also highlighted the following Sanlam achievements during the past financial year:

- The total income per year passed the R10 billion mark for the first time.
- An income of almost R3 billion was earned from investments for policy-owners and other clients.
- Assets (at cost price) increased by 24 percent to R28 billion [illegible] value of these in[illegible] was already proving to be of great value.
- Bonuses had again been declared at high rates to the benefit of the owners of with-profit policies. In this way Sanlam helps its policy-owners to beat inflation.

Besides these financial highlights, Dr van den Berg said the company had also excelled in other areas.

Sankorp, the wholly-owned subsidiary that looks after Sanlam's strategic investments, was still making good progress although the weaker econom[illegible] complete confidence in the new management and envisaged a successful future for the group.

"Apart from Sanlam's dominant position in the Afrikaans-speaking market, the support from English-speakers and other groups has grown even faster, relatively speaking. Recurring new premiums from English-speakers were 39 percent higher than in the previous financial year, while premiums from the black market increased by 74 percent.

"In Namibie [illegible]

Assets, profits belong to policy-owners

(58) Star 22/2/91.

ALL Sanlam's assets and profits belong to the policy-owners – who jointly have the final say – and are applied for their benefit alone. As the company has no shareholders, there can be no question of control by an outsider, said Dr A J van den Berg in his chairman's address at Sanlam's annual general meeting on Wednesday.

He said Sanlam fulfilled the role of trustee in managing this money on behalf of millions of individual policy-owners. It fell to the trustee to ensure that these funds were utilised as effectively as possible in the best interests of the policy-owners.

In this way, the wider interests of the country were also served. That part of Sanlam's income which was not paid out was ploughed back into the economy by means of investments on behalf of policy-owners. There, inter alia, it helped to create jobs. The greater Sanlam group was not only able to maintain existing jobs in a time of sluggish economic growth and extensive unemployment, it also created additional jobs.

"Sanlam belongs to its policy-owners. We are pleased therefore that such a large number of individuals are able to be co-owners of so many South African assets, and can be part of a large and successful business group that also benefits the country as a whole," he said.

Over the years, Sanlam had grown to be a big company in whose financial strength thousands of policy-owners find security and peace of mind.

Dr van den Berg said large companies were indispensable to our country's development.

With their great capital resources, large companies were also necessary to enable private initiative to achieve what would otherwise have been unattainable.

Dr van den Berg said that it was nevertheless equally clear that small businesses also had a role to play in the South Africa of the future. In fact, the large companies supported the small ones and were dependent on them in many respects.

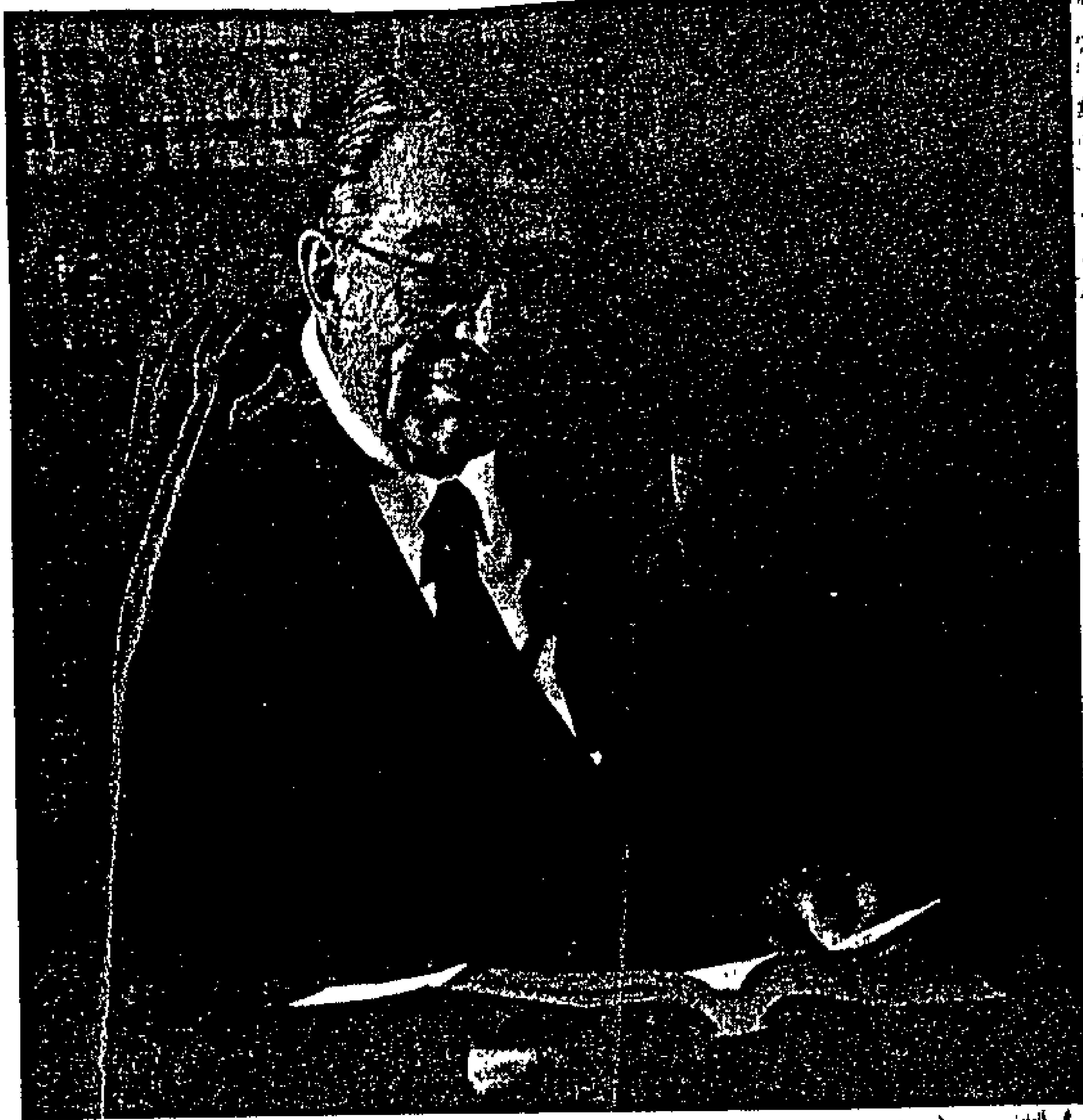
"I also believe that great challenges will await financial institutions with regard to providing loans to small businesses, including the informal sector.

"We are grateful that Sanlam, together with its associated companies, has succeeded in creating, managing and controlling assets to the benefit of all in this country. We are also pleased that nowhere in its total organisation has it been necessary for the Sanlam group to establish a monopoly in order to reach its goals."

Dr Simon Brand, chief executive and chairman of the board of the Development Bank of Southern Africa, who delivered the seconder's address at the general meeting.

Prof Flip Smit, rector designate of the University of Pretoria, who became a director of Sanlam after the company's previous annual general meeting.

Welfare of community improved



Dr AJ van den Berg, chairman of Sanlam.

IT has long been part of Sanlam's philosophy that it should put something back into the community which supports it, and make a contribution to improving the quality of life of all, said Dr van den Berg.

"Consequently, Sanlam gives financial support to the Urban Foundation, the Small Business Development Corporation and the South Africa Foundation, among others. We also support the youth, since they are our future. So, universities, technikons and colleges receive considerable contributions.

"Likewise, the welfare of the wider community should be promoted; we therefore support the SA Heart Foundation, the Medical Research Council, the South African National Council on Alcoholism and Drug Dependence, anti-Aids campaigns, welfare organisations, nature and culture conservation, and a few selected sports."

Dr A J van den Berg, chairman of Sanlam.

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BOND MARKET FM 22/2/91

ASSET TEST (58)

In recent weeks, there has been a surge of activity in the gilts market, with volumes traded on the JSE each day rising to over 1bn, up from earlier levels of about 650m-720m.

The activity came in anticipation of and in response to President F W de Klerk's speech on February 1, along with some frenzied purchasing of financial rands. If optimism remains, levels of trading in the months ahead may be higher than in the past — but can this development halt the decline which has been taking place in the bond market for at least two years?

With the exception of the months between October 1989 and January 1990, when gilts attracted the attention of foreign investors anticipating political change, activity in the bond market has slowed sharply — some say it has braked.

Exact dimensions of the change are unknown because the only transactions recorded are those directed through the JSE. These represent only an estimated 30%-50%. But those involved in the market say there has been a significant shift to other types of investment.

First National Bank's Mike Law says the bank's bond desk has been cut from a staff of 10, 18 months ago, to only three. "I know many of the other banks have also reduced their involvement in this market or withdrawn altogether."

A senior member of Nedbank's treasury confirms the bank pulled out of the market about three years ago when "it was perceived as a high-risk area."

The trend is seen also in stockbroking activity, where many of the cost-saving exercises have included closing of gilts divisions. Large corporates have withdrawn, as have large life offices. Says Sanlam GM investments Henry du Plessis: "Since prescribed asset requirements were abolished, there has been a retreat from the markets."

Many date the decline in the market to this event. Previously, insurers and pension funds were obliged to direct a large portion of their cash into long bonds issued by government and semi-government organisa-

Continue →

tions. Now gilts have largely to rely on their own merits. Some say they failed the acid test with portfolio managers shedding fixed-interest investments.

But there have been many other developments which have inhibited trading. Transnet deputy treasurer Peter Jordaan suggests regulations introduced by the Bond Market Association have restricted the market. "Legislation and regulations, pending, are proving a disincentive."

He suggests also that the Deposit-taking Institutions Act has taken its toll. By bringing, on balance sheet, a variety of transactions which were previously below the line, it has increased the levels of liquidity which deposit takers must hold against their liabilities to the public.

Japie Jacobs, special adviser to the minister of finance and the man behind the Financial Markets Control Act, says the SA experience is in line with the international one. "A few years ago, it was a fast-growing industry. But there has been a contraction of financial markets worldwide over the past two years, including the bond and derivatives markets. Risks and costs are high and, more recently, the prospect of recession has also dampened interest. Many players, some less experienced, burnt their fingers in the market, which forced them to retreat."

Du Plessis is reasonably optimistic about the future. "The strict monetary policy of the past 18 months may succeed in bringing down the rate of inflation from its earlier levels. This will make gilts a more attractive investment relative to equities, which are traditionally inflation hedges."

Jordaan points out the prescribed investment requirements were replaced by guidelines and suggests that many portfolio managers may have reached the limits they are allowed to hold in other types of investment.

"These limits may, however, be revised during the course of the year," says Jacobs. ■

New challenge to Takeover Panel

S Times 24/2/91

THE NEW Securities Regulation Panel meets tomorrow to hear an appeal against its ruling in the Allied Group takeover battle.

The appeal has been lodged by First National Bank which is competing with a UBS-Volkskas-Sage Financial Services consortium for control of the Allied. The panel has come under heavy fire for the secrecy surrounding the first test of its powers to protect minority shareholders.

By IAN SMITH

A renewed surge of buying Allied shares followed the panel's ruling at its first meeting last week that UBS and its consortium partners Volkskas and Sage Financial Services were not "concert parties" operating in co-operation with one another.

The UBS alliance's offer of 100 shares in a new banking giant to be called Amalgamated Banks of SA (ABSA) for every 320 Allied shares values them at 240c — the price of a cash underpin for half the Alied shareholding.

FNB countered with a share swop offer valuing Allied shares at 262,5c, or 250c cash.

While the legal issues were being hotly debated confused minority shareholders in Allied became sellers again as the share price rose on Friday to 290c, not far short of the 300c at the height of the stock scramble. The shares later traded at 287c.

The effect of the panel's ruling would enable the ABSA parties to continue buying Allied shares at higher prices in the market without having to offer the top price to other minorities.

The original UBS application was heard by three members of the 18-man panel — chairman Mr Justice Cecil Margo, executive director Doug Gair and JSE president Tony Norton.

Tomorrow's appeal will be heard by five members of the panel, but the three who made the original decision will not be among them.

It has been authoritatively learned that the panel consulted the London Takeover Panel about the problem and its view is that the ABSA partners are indeed "concert parties" — directly contradicting the decision of the three-man executive committee last Friday.

This raises the question of what will happen if the panel reverses its decision tomorrow. If the ABSA partners have exceeded the 30% stake they they were allowed to buy on the market without needing to increase the offer to all minorities in Allied they could be reqauired to raise the general offer.

Even if only 100 shares were bought at the top price the ABSA partners would have to offer the same price to every shareholder.

At one stage Allied shares changed hands at 300c. If ABSA paid that price, the cost of acquiring Allied would rise from about R720-million to nearly R900-million.

However, the alliance could claim it acted in good faith, opening the way to lengthy litigation between it and the panel.

Block

Allied shareholders who did not follow managing director Kevin de Villiers' example by selling their stock will be courted as the protagonists seek their proxies for the meeting due on March 21.

The resolutions on which shareholders will have to vote will be sent by Allied in a few days.

A decision on an ordinary resolution approving the sale of Allied's assets to ABSA can be carried by a simple majority.

However, a special resolution to reduce the Allied's capital so that it can be absorbed by ABSA requires 75% approval of "shareholders present in person or by proxy".

Many analysts believe that FNB has sufficient Allied shares to block this resolution.

This would effectively fragment the ABSA offer and leave shareholders with a mix of Allied and ABSA shares and a reduced cash offer from ABSA.

FNB managing director Barry Swart said the bank would deal with this issue in its formal response to the Allied board's takeover document issued last weekend.

Until then, he said, Allied shareholders should be careful about signing proxy documents.

Life offices backed

ST Times 24/2/91

(58)

By IAN SMITH

A NEW REPORT makes a case against life assurers being directed to invest in economically or socially desirable areas.

The report, prepared by Geert de Wet and Niek Schoeman, of Pretoria University's economics department, says it is life assurers' task to invest where they can generate the highest possible return for investors.

Professor De Wet and Professor Schoeman say. "If it turns out that investment in shares offers a lucrative return, but these funds then remain in the financial circular flow instead of going to large employment-creating areas, to infrastructure-creating areas or to actual capital formation, the fault lies with the economy which sends the wrong signals."

Symptom

Incorrect signals may be caused by uncertainty or high taxes on productive enterprises.

But the problems should be tackled instead of acting against those intermediaries whose activitities disclose problems in the economy.

"Suppressing the symptom will not heal the problem. In fact, obscuring the problem will aggravate it."

The report says life assurers added stability to the economy when personal savings were declining.

"Through long-term contractual obligations, they ensured that the ordinary consumer continued to save positively when short-term considerations induced him to dissave."

The report says that since 1971 the compound growth rate of funds flowing to life assurers has been higher than that to banks and building societies.

New salvoes in baffling bank war

Star 24/2/91 (58)

John Spira

EVENTS in the Allied takeover saga are still moving at bewildering speed, with United, Sage and Volkskas yesterday releasing a tough statement to counter First National Bank's claims that the United-led bid for Allied contained a major pitfall.

"Nothing could be further from the truth," states the joint announcement.

To be successful, the United-led ABSA (Amalgamated Banks of SA) bid would require a capital reduction in Allied for which approval of 75 percent of shareholders would be required.

Implied

FNB had implied that it could block such a resolution, in which event Allied shareholders would end up with less cash and shares than they would have received in terms of the ABSA offer.

But United now points out that should the special resolution authorising the capital reduction not be approved:

- Allied shareholders would receive a dividend in the form of 56 ABSA shares for every 320 Allied share held, and Allied would retain as its only asset the remaining 44 shares relating to each holding of 320 Allied shares it would otherwise have distributed to shareholders.
- Allied shareholders would retain their existing Allied shares.
- Allied would become an investment holding company with an important block of ABSA shares.

Such a situation, says the statement, may actually be to Allied shareholders' advantage.

In addition, they would own the 56 ABSA shares which they would receive and hold directly for every 320 Allied shares held. And those who opted to retain their Allied shares could sell them on the JSE.

Such an eventuality would only arise if FNB voted against the special resolution.

The United-led consortium goes on to suggest that the FNB counter offer is flawed and adds that should the ABSA bid be defeated, the major shareholders in Allied would be deadlocked, "thus frustrating long term development prospects for Allied within either ABSA or FNB".

Further, there would be no potential for rationalisation benefits.

Meanwhile, furious behind-the-scenes activity is taking place following the publication in a Johannesburg morning newspaper of allegations relating to contraventions of the Companies Act by Allied's chairman, Norman Alborough.

The allegations relate to his 500 000 shares in Allied.

Mr Alborough was not available for comment but Joe Pamensky, an Allied non-executive director, told the Sunday Star that the Allied board was taking a "very serious" view of the comments.

Sources close to Allied suggested that the information, drawn from confidential minutes, was leaked to the paper.

In another development, the Sunday Star learned that Allied staff were informed on Friday that the board had decided to allow them to exercise their share options immediately.

This effectively means:

- An immediate increase in the number of shares in issue and, therefore, a higher target for a takeover participant.
- The possibility that the share price will drop if Allied staffers decide, as did managing director Kevin de Villiers, to sell their newly-acquired shares into the market.

The number of shares involved are believed to be in the region of 13 million which the employees holding options would be entitled to buy at average price of around 180c each.

Tidy profit

They would then be free to sell them in the market (current price 290c), in the process making a tidy profit.

Many of the options could not otherwise have been exercised until 1992.

As the JSE closed on Friday evening, brokers noted that renewed heavy buying of Allied shares was taking place. The identity of the buyers was a mystery but some dealers speculated that the buying could have come from Standard Bank.

If so, another spoke would be thrown into a wheel which has emerged as the largest, most hotly contested and confusing takeover bid in South African stock market history.

DOING A BOOGIE songstress Mara Louw finally met ANC leader Nelson Mandela face-to-face, and immediately got him on the dance floor at Friday night's Press Club dinner. Winnie Mandela claps her hands in the background. Picture: Alf Kumalo

Marike, Winnie not too friendly

THE personal chemistry evident between State President F W de Klerk and ANC deputy president Nelson Mandela did not seem to filter across to their wives when the couples met at a banquet hosted by the Johannesburg Press Club on Friday night.

While the political leaders warmly greeted each other and exchanged laughter, before their addresses to a select crowd at the club venue, Marike de Klerk and Winnie Mandela kept a palpable distance from each other.

At a pre-drink session before the entourages of both parties moved into the dining hall, Mrs de Klerk merely greeted Mrs Mandela, exchanged a few words and promptly moved to meet other guests.

Emerging from the private room, Mrs Mandela and Mrs de Klerk remained about 10 paces apart as they strolled to the banquet hall.

On entering the hall, Mr Mandela and Mr de Klerk constantly smiled and chatted to each other, but their wives were shown to their places independently.

Up until the delivery of the speeches Mrs Mandela and Mrs de Klerk did not speak to each other — they were seated about five paces apart.

It was the first time the two women had met publicly. — Sapa

VAT turmoil could raise insurance premiums

Duma Gqubule

VAT threatens to throw the insurance industry into turmoil, leading to substantial increases in premiums.

And this prospect is being exacerbated because the insurance industry is failing to address the problems, says Bob Arnold, technical director at insurance broking firm First Bowring.

The main issue facing the short-term insurance industry is whether or not premiums will have to be increased.

Some believe VAT should be paid by the insurers while maintaining premiums at current levels. Others say insurers' bottomline profits would be severely affected if they had to carry the cost, and the strain would therefore have to be taken in premiums.

Two problems

Mr Arnold says there are two potential problems relating to claims:

- Claims under personal accident policies will require VAT to be paid by the recipient in some cases but not in others.

The questions are: Will insurers pay VAT in addition to the sum insured? Should the sum insured be increased? If so, which parts of the sum insured?

- Many claims take months or years to settle. If part of a claim is outstanding after October 1, VAT will be payable.

The questions are: Will insurers pay this in addition? If the sum insured including VAT is then exhausted, will they apply the average to the whole claim?

Mr Arnold points to two anomalies:

- Performance guarantees on contracts and Supreme Court bonds will seemingly attract VAT if signed by an insurer but apparently not if signed by a bank.
- Credit Guarantee Insurance Corp issues insurance policies covering money owed. It is not clear whether both claims and premiums will involve VAT.

"The answer," suggests Mr Arnold, "is that VAT should be paid by the insurer on whatever claim or part of a claim the law requires but no additional premium will be charged."

But a tax partner of a leading audit firm says these issues do not deal with the real problem.

Guidelines

"What is needed is for the industry to produce a set of agreed guidelines. This need not neccessarily mean regulation — it could be in the form of an agreement in principle.

"Otherwise, you will have the situation where each insurer does his own thing. Although the market would eventually iron out these problems, in the meantime widely differing practices would develop which would create confusion for everyone."

HAROLD FRIDJHON in the Money Markets

Even Stals's sphinx smiled

THE inscrutable sphinx in the Reserve Bank tower must have permitted himself the wisp of a smile on Friday when the financial markets eagerly discounted all rates in anticipation of a Bank rate cut that night from 18% to 17%.

Friday's Treasury bill (TB) rate came out at 16,98%. This was eight basis points lower than the previous week's 17,06% but, more significantly, it discounts a 17% Bank rate by two basis points.

The rate for 90-day liquid bankers' acceptances (BA) is down to 17,25%.

The markets' high was buoyed by "irrefutable" reasoning: the release of money supply data, due out on Friday, had been delayed so as not to steal the Governor's thunder. Similarly, the producer price index (PPI) had been held up. Both these key indicators were "understood" to be favourable.

Anticipating a rate cut, the major institutions, financial houses and assurers had been dealing heavily, mopping up paper and taking positions — to such an extent that their surplus liquidity had been run down, forcing the overnight call rate to 18,5%. The big banks, sellers of assets, were comfortable, but peripheral banks mainly responsible for the modest market shortage of R2,2bn — the market's aggregate debt to the Reserve Bank — were under strain.

The market had made up its mind that Governor Chris Stals would appear on TV news at 8pm to make his announcement. The "experts" said he did that on October 9 1989, when Bank rate was raised to 18%.

Assuming the money supply and the PPI numbers were favourable and Stals was prepared to make his move, was he restrained by the uncertainties in the Gulf situation?

That hardly seems likely.

The January trade figures could have had an influence on his decision-taking, particularly with the present bleak outlook for gold.

And there is always the possibility that the money supply data have revealed another hiccup and that Stals has demanded a recheck before he takes any decisive action. A statistical surge in the January money supply cannot be ruled out.

The new Deposit-Taking Institutions Act came into effect on February 1. January 31 was the deadline for the banks to get their balance sheets in shape in terms of the new Act. This would certainly involve their bringing on to balance sheets transactions previously off balance sheet. This could involve additional billions of rand.

The markets will feel let down today, but the sphinx sits with his inscrutable smile.

BD 25/2/91 (58)

FNB hopes to turn tide against UBS bloc

Bday 25/2/91 (58)

GRETA STEYN

FIRST National Bank (FNB) hopes advice from the London Takeover Panel will reverse the UBS-led camp's recent good fortune in the takeover battle for the Allied, a source said yesterday.

The hopes are based on the outcome of an appeal hearing by the Securities Regulation Panel (SRP) due to start today, and it is understood a key element in the hearing will be advice from the London Takeover Panel. But a confident UBS says in an advertisement in today's paper that the prospect of being defeated is "remote".

The SRP will consider an appeal by FNB against the earlier, secret SRP descision which gave the UBS-led camp the go-ahead to purchase a substantial block of Allied shares in the market — without triggering the shareholding limits that require a mandatory offer to minorities at the highest price paid in the market.

The SRP's three-man executive committee — executive director Doug Gair, chairman Mr Justice Cecil Margo and panel member Tony Norton — who took the UBS decision, will not have a say in today's appeal. Gair said yesterday five members of the 18-member panel would convene today. Panel members with an interest in the issue had recused themselves.

A new legal wrangle, concentrating on the implications of advice by the panel's executive committee, could follow if the original decision is overturned today.

If the decision is overturned, FNB will want to see the UBS make an offer to minorities at 300c a share — the highest price paid in the market. But the UBS is expected to argue it cannot be forced to make such an offer as it acted on a panel decision in its favour. FNB is expected to counter by arguing the panel's decision

□ To Page 2

FNB

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□ From Page 1

was advice and not a formal ruling.

The UBS has returned fire after FNB launched a new offensive in the war of words last week. The UBS disputes FNB's claims that the ABSA offer contained a major pitfall in the event of a special resolution (requiring a 75% vote in favour) not being passed at the shareholders' meeting next month.

"It is important to note that this eventuality which FNB describes as a 'major pitfall' is only likely to arise if FNB and its concert parties vote against the special resolution," the UBS said. It also said that rejection of the ABSA offer could result in deadlock between the Allied's major shareholders, "frustrating long-term development prospects".

Bank launches new investment product

Sowetan 23/4/91. By ALI MPHAKI (58)

VOLKSKAS has launched a new investment product, Spiral Plan, aimed at encouraging clients to invest their funds.

With this new product, the client's interest rate increases by 0,05 percent every month. So, the client starts out with a minimum investment of R2 000 at a competitive interest rate. This rate then increases monthly until it reaches its maximum after 12 months - the higher the balance, the higher the interest rate.

Interest is calculated daily and paid out monthly, and can be transferred to any other account.

No investment term is specified when the account is opened, and funds may be withdrawn at any time on 32 days' notice. Additional funds may also be deposited at any time.

Belgian bank to set up shop in S Africa

Star 25/2/91

By David Canning

DURBAN — Belgium's Banque Belgolaise plans to open an office in South Africa in the wake of last week's Belgian trade mission.

Michel Israelson, chief executive of Belgolaise, said in an interview at the weekend that one of the bank's main objectives would be to finance the growing flow of trade between SA and other African states.

Belgolaise, a deposit bank specialising in bankrolling trade between Europe and Central Africa, has operations in Zaire, Rwanda and Burundi and agents in other African countries.

Initially, the bank's office will be small and located in Johannesburg.

It is associated with Banque Generale, one of Belgium's leading banks. Banque Generale and competitor Banque Bruxelles Lambert also sent representatives on the mission. Both groups were caught in South Africa's "debt standstill net" in the mid-80s.

Max Osterrieth, an executive with Banque Bruxelles Lambert, said his bank had taken a long-term view of ties with SA after the standstill.

Ironically, it had placed a large sum in a one-month investment shortly before the standstill was imposed.

However, the bank had not been enticed into selling its debt because of the discount involved and the fact that it took a long-term view of relationships with South Africa.

● The South African Chamber of Business (Sacob) and the Federation of Belgian Industries signed an agreement on economic co-operation on Friday.

The agreement provides for the promotion of bi-lateral trade relations, the distribution of information of mutual interest and the promotion of joint venture and investment opportunities and technology transfers.

SRP meets to hear FNB appeal

Finance Staff Star 25/2/91

The Securities Regulations Panel (SRP) meets today to hear an appeal by First National Bank against an earlier secret SRP ruling.

The earlier ruling apparently allowed the UBS and its associates to buy more than 30 percent of Allied shares without making a mandatory offer to other minority shareholders at the highest price previously paid on the JSE, 230c a share.

In the wake of recent criticism of the secret ruling, the SRP's executive committee, consisting of chairman Justice Cecil Margo, JSE president Tony Norton and executive director Doug Gair, will be replaced by five other members of the 18-member panel for today's meeting.

In a full-page advertisement today the UBS said the prospect of defeat of its offer was remote.

Responding to an FNB ad over the weekend the UBS said "success for FNB" could pose serious problems for Allied shareholders as there would be no potential for rationalisation benefits.

Life assurers see slim chance of surplus tax

Star 25/2/91

By Derek Tommey

Life assurers do not expect any tax to be imposed on their capital surpluses in the next Budget.

And should the tax come in the 1992 Budget, they believe it will only be a small one, says a senior official of the Life Offices Association, Jurie Wessels.

So it would seem that for the time being life assurance policyholders need not fear any reduction in their bonuses.

Last week, Roy McAlpine, retiring chairman of the Association of Unit Trusts, reported some savings institutions were pressing the Government to impose a tax on the capital surpluses of life assurers in order to "level the playing field" for the two groups.

Life assurers use their capital surpluses to pay out bonuses to their policyholders.

Life assurance industry experts say that any proposal to tax their capital surpluses would be fraught with problems.

The move would also be tantamount to introducing a capital gains tax, which the Government for its own reasons seems to want to avoid.

Capital surpluses arise when the life companies sell shares or gilt-edged stock at prices higher than they paid for them.

At present, no tax is levied on these surpluses.

The Receiver could also have considerable difficulty determining whether a capital surplus was a genuine one or merely the result of inflation, said Mr Wessels.

This could be overcome by allowing insurers to link the value of their assets to an inflation index and only regard anything in excess of the index as a real gain.

But if the Receiver allowed indexation here, the Government would then be under heavy pressure to allow indexation in several other areas.

This could lead to such items as public service salaries and benefits being indexed, as well as personal tax deductions and tax allowances.

Overall indexation could cost the Government a large sum of money — and far more than it could hope to recover from the insurance industry.

Taxing an insurer's capital profits could also inhibit its investment decisions and lead to a lower level of performance.

Investment managers could become more concerned with avoiding tax than with making the best investment decisions.

A tax on insurers' capital surpluses could also affect their trading in gilt-edged stock.

When interest rates fall, the value of such stock rises. The result would be real capital profits caused by a change in economic conditions, said Mr Wessels.

FNB waits for panel verdict

Star 26/2/91

By Derek Tommey

First National Bank will have to wait until later today — and maybe longer — before it knows whether its appeal to the Securities Regulation Panel last night to overturn its ruling on what constitutes a "concert party" is successful.

After hearing argument from FNB, UBS and a third party, the panel adjourned last night to consider the matter and said it would either make an announcement today or call for further evidence.

FNB and UBS Holdings are fighting a takeover battle for the Allied.

Each is entitled, together with their "concert parties", to hold up to 30 percent of Allied's shares.

Should FNB, UBS or their concert parties exceed this figure, they will be obliged to offer to all Allied shareholders the highest price they have paid for Allied shares in the past six months.

FNB alleges that some of the buyers of Allied shares are in effect UBS "concert parties". The UBS claims this is not the case.

The panel meeting of five SRP members yesterday was chaired by UAL's Mike Farrell.

Allied shares . . . a most taxing problem

BDay 26/2/91. (58)

JIM JONES

THE controversy over the allocation of 500 000 Allied Group shares to non-executive chairman Norman Alborough grew over the weekend as Allied shareholders and employees questioned the allocation, Alborough himself told the weekend Press that any comment had to come from the Allied board, and Joe Pamensky went in to bat for his co-director.

No sooner had Alborough returned to his office yesterday after a week's break on his Natal Midlands farm than he was closeted with one of Allied's senior investment managers. His task was, in part, to advise on strategy after JSE chairman Tony Norton was reported on Radio 702 last Thursday as saying the JSE would be referring the matter to the Registrar of Companies.

According to company insiders, Alborough remains undecided about how to handle his share allocation, though he has said he will accept the UBS merger offer. Accepting UBS's offer seems to have been a recent decision, apparently based on tax considerations. The first public disclosure of Alborough's shareholding came in the February 16 takeover statement by Allied.

Early that week Alborough had been advised by Pamensky to sell his shares in the market, as Pamensky has said, because the market price was right and sending a strong message. Midweek he sought the advice of tax consultant Eddie Broomberg, among other things to estimate his likely tax liability if he sold.

The main tax determinant in these types of transactions is whether the taxpayer is classified as a sharedealer. Normally in takeover situations the Receiver of Revenue takes a lenient approach to inadvertent profits made by participants in corporate share option schemes. And this is likely to be the case with the hundreds of Allied employees who participated conventionally in their company's share option scheme.

Allied's employees can reasonably expect a favourable response to their legitimate argument that they should not be taxed if they have to accept one or other of the UBS or FNB bids. The rules of Allied's share option scheme made them long-term investors in their company — a takeover by Absa or FNB makes them inadvertent sellers which is justification for not being taxed as sharedealers.

Tax experts say the situation is less clear-cut in Alborough's case. Unlike the general public, he was aware of the pending UBS merger bid on September 24 when the Allied board voted him his shares. This, in turn, raised the question of whether he would be an inadvertent seller of Allied shares or deemed to be dealing in shares and therefore taxable. Certainly, had he followed Pamensky's advice and sold in the market his tax liability might have been very uncertain. He would be better advised, tax experts believe, to hang on and accept UBS's offer. The profit, in that case, might not be taxable.

Alborough was not contactable last week and did not return telephone calls to his office yesterday. However, in a statement to the Sunday Times at the weekend, he said he had nothing to add and that it was up to the Allied board to respond to Business Day's article of last Thursday. The Allied board is not planning to make any statement, putting the ball in Alborough's court.

In the Sunday Times report, Pamensky justified the allocation by saying Alborough was entitled to the shares as he was an executive director of Allied Holdings. Pamensky made the point that Allied Holdings is destined to be one of the group's principal holding companies with completion of a current restructuring made possible by the stamp duty moratorium. The newspaper appears to have misquoted Pamensky by saying Allied Holdings was established in terms of the stamp duty moratorium restructuring of the Allied group.

That was not altogether correct. The stamp duty concessions were first granted in the Budget of March 1988. Allied Holdings was incorporated with a capital of R6 (not R2 as a typing error had us saying last week) on August 17 1987 with the registration number 87/03847/07. In other words, Allied Holdings was not established as part of the moratorium restructuring, as the Sunday Times reported Pamensky as saying.

Alborough became executive chairman of Allied Holdings only on October 1 1990 — Hugh Boonzaier was appointed Allied Holdings' chairman at its inception on August 17 1987 and was still in the chair in June 1990 when Alborough was appointed chairman of Allied group. Boonzaier had to step down before Alborough could be installed.

Pamensky was also reported as saying the explanation for a R30 000 dividend being paid to Alborough six weeks before he paid for the shares was that it took time to process the share issue. That might be misleading — the shares were allotted to Alborough as fully paid up on November 19, the very day Allied declared its 6c interim dividend.

There were few bureaucratic delays. The allotment return was in the hands of the Registrar of Companies on November 27 and the application to have the shares listed on the JSE was in the hands of the JSE on November 19. The only major delay was in Alborough's payment for the shares.

Now the question to be answered is whether the share allocation was intended to give Alborough a tax-free benefit. That will be for the Receiver to decide.

LETTERS

Millions of shares in Allied freed up

GRETA STEYN

THE number of shares chased in the Allied takeover battle between First National Bank (FNB) and a UBS-led camp rose by a substantial 13,3-million after Allied executives this week got the right to exercise their share options.

The prices at which the options can be exercised vary from about 140c to just over 200c. The share peaked recently at 300c and has been trading in a band between 265c and 285c.

The potential profit margin for executives who want to sell in the market narrowed yesterday as the Allied share price shed more than 5% to 265c and volumes dwindled to their lowest levels since the takeover battle started.

The market is waiting for a crucial Securities Regulation Panel decision on FNB's appeal against the panel's earlier finding placing the UBS in a favourable position.

An announcement is expected before the close of the market today.

With Allied trading at 265c yesterday, speculation that the panel might force a UBS offer to minorities at 300c faded.

In terms of the original employee share option scheme, executives would only have been able to exercise a quarter of their options in June this year.

The decision to bring forward the exercising of the options is understood to be because the scheme was not carried over to the UBS-led ABSA takeover proposal.

The new bloc of shares held by the executives represents a substantial 4% of the capital. It immediately dilutes the holding of the two predators with FNB's stake falling below 25% of the shares in issue. But FNB has made no move to pick up the new block, saying such action would depend on the outcome of the panel meeting.

FNB is understood to have asked for the panel to consider "the spirit and not the letter" of the Takeover Code, whose ambit is bypassed by the UBS offer's structure.

In terms of the UBS offer, all that is needed is a majority vote by shareholders present at next month's shareholders' meeting in favour of selling all the assets — regardless of the number of shares represented at the meeting. FNB opposes this, saying "the substance of the deal, and not the form" should be the crucial issue.

Yesterday the JSE approved the terms of the ABSA merger agreement, details of which are in the process of being prepared and sent to all relevant shareholders, an announcement today says.

(58)

Business Day 27/2/91

Bad debts up sharply at Merhold

Finance Staff Star 27/2/91 (58)

The Merhold group reported a 4 percent increase in net income (including associates) to R12,7 million (R12,2 million) for the year to December.

The group suffered a 39 percent increase in bad debts to R3,7 million (R2,7 million).

Attributable income rose marginally to R8,7 million (R8,4 million), equivalent to earnings a share of 47,7c (46,4c).

A final dividend of 9c has been declared, making an unchanged total of 17c.

The group expects a continuing weak economy in South Africa in 1991 and accordingly projects only a marginal increase in earnings for the year.

The balance sheet at end-December shows bank advances and loans of R266 million (R249,3 million) and finance advances of R297,3 million (R283,4 million).

Markets expect interest rate cut 'after Budget'

BDay 27/2/91

(58)

SHARON WOOD

MONEY and capital market rates hardened yesterday as markets shifted their interest rate horizons to after the Budget.

Markets had expected a reduction in interest rates for weeks, with both capital and money market rates moving down in response to Reserve Bank Governor Chris Stals' statement that he would let markets preempt a reduction in the prime overdraft rate.

But a bankers' meeting at the Reserve Bank this week combined with disappointing inflation figures and expectations of high money supply growth to push rates higher.

The benchmark Eskom E168 closed at 15,49% yesterday from Friday's close of 15,37%. In the money market, the key three-month BA rate firmed to 17,35% after falling to 17,25% on Monday.

Money supply figures to be released today are expected to surge with the inclusion of off-balance sheet lending in the figures.

Bankers said off-balance sheet lending had been estimated at between R8bn and R10bn, which would cause a quantum leap in January's M3 monetary aggregate.

This amount would not be included in on-balance sheet figures at once.

Reserve Bank deputy governor Jaap Meijer said money supply figures would not be a "crucial and decisive" factor in determining when interest rates would come down.

Bankers said Stals was unlikely to use the expected jump in the M3 money supply figure, the monetary aggregate used to formulate official interest rate policy, to determine the near-term direction of interest rates.

Instead, Stals would have to use another aggregate, perhaps M1A, to decide whether money supply had slowed down sufficiently to justify an interest rate cut, they said.

This would create problems because there were no targets with which to judge M1A growth.

Bankers said there would be no reduction in interest rates until after the Budget on March 20, because Stals was waiting to see market reaction to what was believed to be an expansionary Budget.

Allied battle: 13,3m more shares freed for the chase

Cape Times 21/2/91

By GRETA STEYN

JOHANNESBURG. — The number of shares chased in the Allied takeover battle between First National Bank (FNB) and a UBS-led camp rose by a substantial 13,3-million after Allied executives this week got the right to exercise their share options.

The prices at which the options can be exercised vary from about 140c to just over 200c. The share peaked recently at 300c and has been trading in a band between 265c and 285c.

The potential profit margin for executives who want to sell in the market narrowed yesterday as the Allied share price shed more than 5% to 265c and volumes dwindled to their lowest levels since the takeover battle started.

The market is waiting for a crucial Securities Regulation Panel decision on FNB's appeal against the panel's earlier finding placing the UBS in a favourable position.

An announcement is expected before the close of the market today.

With Allied trading at 265c yesterday, speculation that the panel might force a UBS offer to minorities at 300c faded.

In terms of the original employee share option scheme, executives would only have been able to exercise a quarter of their options in June this year.

The decision to bring forward the exercising of the options is understood to be because the scheme was not carried over to the UBS-led ABSA takeover proposal.

The new bloc of shares held by the executives represents a substantial 4% of the capital. It immediately dilutes the holding of the two predators with FNB's stake falling below 25% of the shares in issue. But FNB has made no move to pick up the new block, saying such action would depend on the outcome of the panel meeting.

FNB is understood to have asked for the panel to consider "the spirit and not the letter" of the Takeover Code, whose ambit is bypassed by the UBS offer's structure.

In terms of the UBS offer, all that is needed is a majority vote by shareholders present at next month's shareholders' meeting in favour of selling all the assets — regardless of the number of shares represented at the meeting. FNB opposes this, saying "the substance of the deal, and not the form" should be the crucial issue.

Yesterday the JSE approved the terms of the Absa merger agreement, details of which are in the process of being prepared and sent to all relevant shareholders, an announcement today says.

VAT relief for short-term reinsurers

CAPE TOWN — Reinsurance of short-term insurance would contribute to the fiscus and would not be liable to VAT, Vatcom said in its report released yesterday. B/Day 28/2/91

A request from short-term insurers that their services be exempt from tax, led Vatcom to recommend a premium tax of 1,85%. On an assumed VAT of 10% this would generate about the same amount of revenue as would be gained from taxing services.

"The imposition of VAT on short-term insurance will not require any increase in premiums, although the sums insured will have to be increased to take account of those goods and services not previously subject to GST.

"This is due to the input tax credit granted to insurers on claims paid."

Vatcom also recommended that stamp duties on short-term insurance contracts be abolished as they would be inappropriate if VAT was to be imposed on this form of insurance. (58)

There were difficulties in the taxing of marine insurance due to the zero rating of cargo. Claims would have to be split between zero-rated and standard-rated portions.

The services of brokers formed part of the cost of short-term insurance and added value to the economy and it was recommended that the services of brokers not be exempt from VAT. — Sapa.

UBS makes Allied consider its options

BDay 28/2/91

JIM JONES

ALLIED's employee option holders — all 247 of them — will not know until today whether they will be allowed to exercise their options as agreed to by the board executive committee (exco) last Friday.

Director Louis Shill and non-executive chairman Norman Alborough did not attend Friday's meeting. The decision that options over 13,3-million shares could be exercised was taken in their absence by MD Kevin de Villiers and directors Joe Pamensky and Rod Monthe, who chaired the meeting.

The decision was taken on the advice of senior counsel David Fine who had been briefed by Howard Bulborough of Cliffe, Decker & Todd. Counsel and the attorneys believed the board had every right to allot the option shares and that it would be wrong for the board to refuse to do so.

Shortly after the meeting, Allied's personnel department started on the paper work needed to inform the option holders. Some option holders jumped the gun and sold their options forward, presumably to whichever side they favoured in the current takeover battle for Allied.

However, according to company insiders, the final decision was put on ice at Monday's exco meeting when Shill, whose Sage Financial Services forms part of the proposed Absa merger, insisted Friday's decision was only provisional.

At Monday's meeting a letter from UBS's attorneys Bowman, Gilfillan was presented, saying that unless Friday's decision was reversed by late Tuesday afternoon the UBS would seek a Supreme Court interdict to prevent the Allied board from allotting the option shares.

UBS's letter argued that allotment could prejudice the UBS bid and that Allied staff who made windfall profits might be tempted to quit the company. Allied insiders believe that the UBS fears most of the

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Options

BDay 28/2/91.

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option shares could be sold to FNB because, as De Villiers himself said publicly some weeks ago, Allied employees tend to side with FNB.

Ahead of the deadline an urgent exco meeting was convened on Tuesday afternoon. The meeting was addressed by a Bowman, Gilfillan partner acting for the UBS. UBS was persuaded to extend the deadline as a full Allied board meeting had been called for yesterday morning.

Yesterday De Villiers, who is entitled to more than 300 000 shares in terms of the option scheme, and company secretary Harold Donn, who is also an option holder, recused themselves, leaving deliberations to Shill, Pamensky, Alborough, Monthe, Hugh Boonzaier, G T Ferreira, Jeff Bortz, Alan Tindall and Rowan Hutchison.

The board was in a dilemma. If it reversed its apparently bona fide allotment decision taken on Friday, it might have laid itself open to actions by option holders, particularly those who had legitimately sold their options forward.

The board was able to persuade UBS to hold off its interdict until today when a full board meeting is scheduled for 11am to reconsider the entire matter. By then it might be possible for the board to make up its mind in the light of the decision of the Securities Regulation Panel expected officially by 8.30 this morning.

☐ GRETA STEYN reports that UBS chairman Herc Hefer said yesterday that a report in Business Day this week was wrong in claiming the share option scheme had been brought forward because it would not be continued in terms of the Absa offer.

"The Absa employee share option scheme is no less advantageous than the Allied scheme," he said.

He questioned whether the early exercise of the options was in keeping with the intention of the Allied Group employee share incentive scheme. He noted that the purpose of the scheme was to provide employees with an incentive to "advance the company's interests" and promote "an identity of interests between such employees and the shareholders of the company".

Ruling on takeover battle out today

(58)

Bday 28/2/91

GRETA STEYN

THE Securities Regulation Panel is keeping secret until this morning its key decision in the Allied takeover battle between a UBS-led camp and First National Bank.

The panel heard FNB's appeal this week against its earlier decision that put UBS in a favourable position. It effectively meant the UBS could buy substantial blocks of Allied shares without triggering the obligation to make a mandatory offer to minorities at the highest price paid in the market.

Bankers speculated last night that the two parties might be working on a deal or a settlement.

Panel chairman Mike Farrell said the decision would be announced before the market opened for trade at 8.30am today.

Reuter reports a prolonged legal wrangle, ending in court, could be on the cards. FNB MD Barry Swart said this was possible if the panel upheld the secret ruling. Swart, who warned before this week's hearings that a "legal minefield" lay ahead, declined to go into detail on FNB's appeal. UBS sources have also indicated that if the ruling is overturned, the group might take legal action.

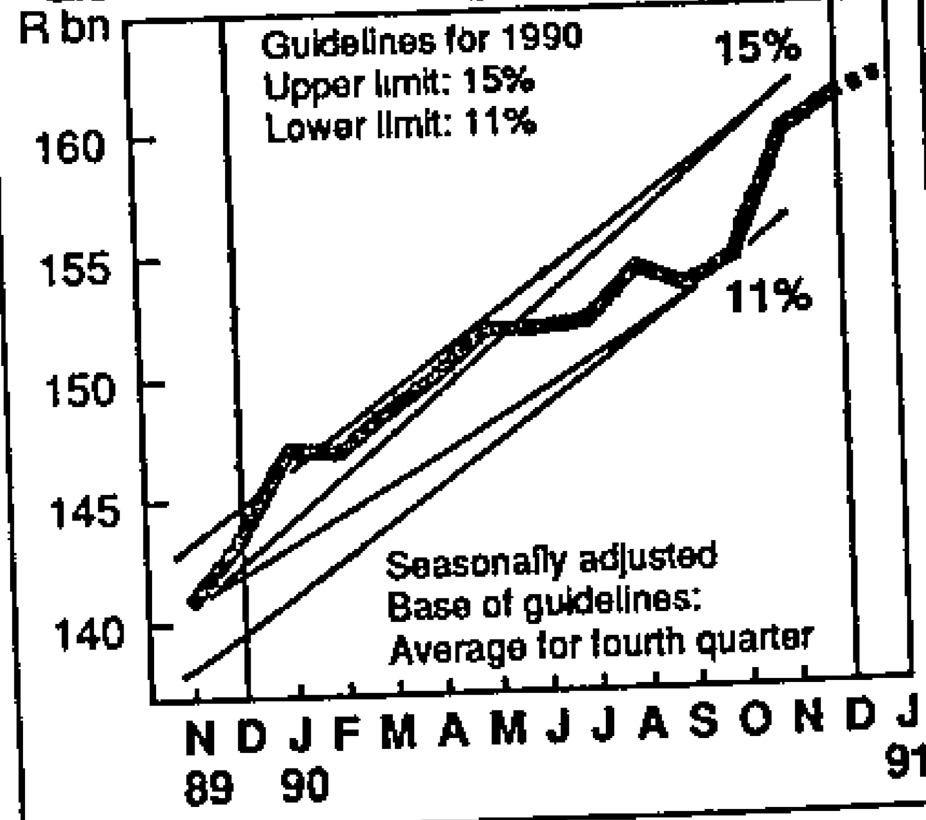
FNB offered 250c cash or a 50-50; cash-share package then worth 262c per Allied share, but after FNB's share price rise it is valued at 298c. FNB's offer to shareholders closes tomorrow.

Money supply figures surprise

SHARON WOOD

BETTER-than-expected money supply figures surprised economists and markets yesterday.

Slowing money supply growth confirmed that credit demand was weakening rapidly in line with a recessionary economy, but conflicted with the disappointing inflation figures released on Monday, economists said.



Graphic FIONA KRISCH Source SA RESERVE BANK

The money supply figures left room for a near-term reduction in interest rates, but Reserve Bank Governor Chris Stals was still looking for a positive downward move in the inflation rate before easing monetary policy, they said.

Economists welcomed the year-on-year drop in the broad M3 monetary aggregate to 10,25% in January from 12,38% in December, shown in figures released by the Reserve Bank yesterday.

The M3 rate of increase eased to 12,57% (seasonally adjusted and annualised) in January from 12,99% in December.

This figure, used by the Reserve Bank to determine monetary policy, remained within the Reserve Bank guidelines of 11%-15% for 1990.

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Money supply

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Simpson McKie gilt analyst Marilyn Visser said capital market rates fell sharply within five minutes of the release of surprisingly low money supply figures.

Nedcor chief economist Edward Osborn said Stals would probably wait until after the Budget and the almost simultaneous release of February consumer price index figures before considering a possible interest rate cut.

Rand Merchant Bank chief economist Rudolf Gouws said the annualised figure which the Reserve Bank focused on had not slowed sufficiently to justify an immediate interest rate cut.

Standard Bank chief economist Nico Czypionka said: "The latest money supply figure is encouraging enough to enable the Reserve Bank to set lower money supply growth targets for 1991 with confidence that these will be achieved."

FNB, UBS request extra time

(58) Star 28/2/91

By Sven Lünsche

The Securities Regulations Panel (SRP) further delayed publicising its key ruling in the takeover battle for Allied between the UBS and First National Bank.

The panel said in a press release this morning that the two parties had requested until Monday morning to work out a deal with a view to resolving their differences.

Both UBS and the FNB had requested that details of the decision by the panel be kept confidential until the outcome of a meeting between the SRP and the parties to be held on Monday.

The panel has been meeting over the last four days to hear an appeal by FNB against an earlier finding which apparently favoured UBS.

Analysts say that the earlier ruling allowed the UBS in conjunction with a "concert" party to buy more than 30 percent of Allied shares without making a mandatory offer to minority shareholder.

In the meantime Allied employees have not yet been informed whether they can excercise their options over 13,3 million shares. A decision is expected today, it was reported.

Allied shares closed slightly lower yesterday, shedding 5c to 260c, as over 500 000 shares changed hands.

Healthy rise in earnings at M&R

By Ann Crotty Star 28/2/91 (69)

Construction, engineering and industrial group Murray & Roberts has reported a six percent increase in earnings to 208c (197c) a share for the six months to December.

A dividend of 46c (40c) a share has been declared.

The interim performance was helped by a number of acquisitions effected in the review period.

In financial '90 the group spent R86 million on acquisitions. Despite the steady rate at which assets are being purchased, the end-December balance sheet shows gearing of only 22 percent.

The group has cash resources of R130 million.

Turnover rose 14 percent to R2,2 billion (R1,9 billion) and operating profit nine percent to R143,4 million (R131,4 million).

Interest payments were little changed at R10,9 million (R11,2 million).

The tax rate was marginally down at 40 percent (41,7 percent).

Attributable earnings were 10 percent ahead at R74,7 million (R67,6 million).

A divisional breakdown shows significant changes in the contribution to group operating profit.

Industrial interests still made the largest contribution.

In the review period they provided R39,2 million, or 26,5 percent (28 percent), of the R147,5 million group profit.

Construction was next largest, with R35,9 million, or 24,3 percent (25,3 percent).

Suppliers & Services which, at the last interim accounted for 25,6 percent of group operating profit, this time provided only 17,5 percent, or R25,9 million.

By contrast, engineering, which accounted for only 13,7 percent at the '90 interim, chipped in with 23,5 percent, or R34,7 million.

The directors say management responsibility and accounting for M&R Foundries was transferred from the industrial division to engineering with effect from October '90. But they say the comparative figures were restated to reflect this change.

Properties provided the remainder of operating profit

The directors expect the deterioration in economic conditions to continue, which will make it difficult to achieve an increase in attributable earnings or the full year.

But because of the strength of the balance sheet, a real increase in dividends for the year will be paid, they say.

Mixed performances at AVI

By Ann Crotty (80) Star 28/2/91

Mixed performances from Anglovaal Industries' various divisions combined to produce a 5 percent increase in earnings to 363c (346c) a share in the six months to end-December.

A strong performance from Consol (which had been held back by strike activity in the comparative interim period) accounted for much of the 19 percent increase in turnover to R3,655 billion (R3 billion). Operating profit was up 7 percent to R331 million R308 million so overall margins were squeezed from 10 percent to 9 percent.

This change may also reflect the change in relative contribution from the various divisions to group operating profit.

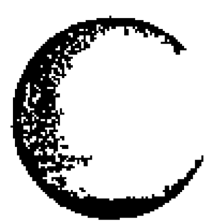
Again indicating the impact of the Consol developments, the packaging and rubber division accounted for a massive 40 percent of group pre-tax profit — up from 26 percent in the financial '90 interim.

Income from investments shot up 26 percent to R27,3 million (R21,7 million). Interest payments were down 10 percent to R43 million (R47,6 million).

After providing for tax and associates, profit was up 11 percent to R172,2 million (R154,7 million). There was a 22 percent increase in outside shareholders' interests to R69,1 million (R56,6 million) which left attributable earnings showing a 5 percent advance to R103,1million (R98 million).

Management notes that most of its served markets were subject to reduced margins and that group returns on both total assets and ordinary shareholders' funds were lower. Profit gains in Consol's rubber division and in National Brands were offset by substantially reduced contributions from Grinaker and the Artex textile businesses. Irvin & Johnson performed soundly and maintained its contribution to group earnings.

Although the current recessionary trading conditions are expected to continue, the directors are expecting full year earnings to at least match those of financial '90.



Old Mutual (58) chasing a front runner?

BDay 28/2/91.

JIM JONES

AS THE Old Mutual and the JSE maintain diplomatic silences over suspected improprieties in the life office's share dealing operations, talk on the Diagonal Street floor centres on the question of when, not if, corporate membership will come to the stockbroking fraternity.

The view among some brokers is that if any improprieties at Old Mutual are fully uncovered, the Mutual and, possibly, other major institutions will cut business ties with any affected broking firms and seek more formal, possibly equity ties with others.

The Old Mutual has so far made no public statement on the amounts which might have been involved in the suspected scam, but it is caught between a rock and a very hard place. It has promised full disclosure and the public will get it from chairman Mike Levett. But when that disclosure comes, there is also the matter of what the Mutual will do to punish any offenders.

Seasoned floor traders, who know all about these things, ask: "How are they going to prove anything?" It seems the Old Mutual's auditors have uncovered trading patterns that will form the basis of a complete clear out. And as one broker put it: "It's time someone with boots as big as the Mutual's came in here to kick up the fuss needed to clean this market up."

For years it has been suspected that some stockbrokers have made presents to dealers in the major institutions in hopes of having business directed their way. It may have been nothing more than a bottle of Scotch, split commissions, a brown envelope full of cash, valuable postage stamps or lavish entertainment — but the cost, in theory at any rate, would have been borne by the broker concerned. That might hardly warrant any major investigations or action by the institutions whose employees were accepting gifts. There may have been tax implications for the recipients, but that's another matter.

Trouble is that the suspected scam at Old Mutual seems to have been a great deal more sophisticated and more difficult to nail down than the acceptance of a simple gift. Talk is that it may have taken the old concept of "front-running" to the nth degree using offshore brokers.

One possibility suggested by skilled traders — the use of offshore brokers or market makers — would be extremely difficult to prove. Classically, though, and simply by way of example, a front-runner scheme could operate something like this:

The first actors are investment managers and dealers inside the institution. The investment manager plans the institution's investment strategy, but the actual acquisition of shares is the responsibility of the institution's dealer. The next actor is their chum, the front runner, who is a broker abroad with lots of experience at washing money through exchange controls. When the institution buys shares, the purchases can be directed through the front runner.

Markets move fast overnight as US traders come in and share prices and the financial rand exchange rate gyrate rapidly. That provides the opportunity for the two to land the shares on the institution at a higher price than they might have been acquired by the front runner. In other words, the institutional dealer, investment manager and foreign broker together act as principals, split their ill-gotten profit and, if necessary, leave that profit abroad.

That's the simplest device, though it does involve the partial and possibly inadvertent collaboration of a Johannesburg broker. All foreign purchases by local institutions have to be booked through the market by a local broker. That tidies the affair up and, in some cases, it is possible that quite innocent local brokers might have been used for the booking.

Taking things a step further, it is not inconceivable that the individuals in the institution could communicate the SA institution's buying programme to the foreign broker days or even weeks before the buying programme is to be completed. That gives an added incentive for impropriety. The foreign broker can accumulate the relevant shares steadily abroad and, because the buying order is comparatively large, his buying will move the share price ahead. The foreign broker accumulates the shares on the way up and they are simply booked to the institution at a price high enough to generate a fancy profit for the two scammers but not so high as to arouse the institution's suspicions.

There are, of course, other options possible because of the relatively poor marketability of SA shares. Shares in particular companies can remain untraded for days or weeks and suddenly trade with a sharp registered price change.

That presents an obvious opening for the scammer — to accumulate the shares at lower levels and land them on the institution when the sudden trade shifts the price.

Another, if the institution has spread its buying order, is for the foreign broker to buy in competition with the institution. That forces other brokers operating for the institution to become more aggressive in their buy-in, pushing the share price up. Suddenly, hey presto, the foreign buyer lands his purchases on the institution at top prices.

A gift from the institutional dealer to the foreign broker does not cost the institution, its shareholders or its policyholders a measurable cent. However, front-running represents a fraud on them.

So what now?

Levett is not the man to sweep things under the carpet. If he finds anyone in the Old Mutual acted against the assurer he'll prosecute, as far as jail if necessary. He could not nor would not do less.

But he also has to deal with the brokers who might have been slipping gifts large and small to Mutual staffers. They will be consigned to oblivion. They are unlikely to see another penny of Mutual business. And if the Mutual cuts them off, can it be long before the other life assurers and institutions follow suit? They cannot afford to ignore the outcome of the Mutual's case.

The majority of brokers have been aware that some rotten apples might have been using less-than-ethical means of generating business. A shake-out on the scale only the Mutual and its competitors can manage might do more for the JSE's long-term image than any amount of regulatory panels.

LETTERS