MANUFACTURING – BEVERAGES

1998

UNBUNDLING

Partners waiting for speedy action from SAB

(182) CT(BR) 13/1/98

Ann Crotty

Johnnic does not look the empowerment disaster that JCI has quickly become, but it is certainly not looking like a very attractive deal for the cash strapped members of the National Empowerment Consortium (NEC) who scratched together to get the necessary funds to finance their stake

Just over one year later, most of them are losing money on the deal — not as much money or face as Mzi Khumalo's team, but enough for it to feel more disempowering than empowering The NEC members have four years to go before they take possession of their shares

To give Anglo American the benefit of the doubt, it probably did not realise how quickly the straw pyramids that underpinned Johnnic would begin to fall apart But right now Premier Group is on the verge of a major unbundling exercise and SAB should be

How these processes unfold will be critical to the value of the NEC's assets and will determine whether they will be able to take possession of their shares or will instead have to pay in for the dubious pleasure of being, for a brief while, empowerment partners.

While Premier has declared its intention, SAB has been much more coy In November it was announced the OK Bazaars was sold to Shoprite/Checkers for the princely sum of R1 This for a retail group that in the '60s and '70s had been the star of the South African retail sector

While the sale was highly significant in its own right, what was almost as important was that this was the first real indication that SAB head office was prepared to dispose of assets Throughout the '80s and into the first half of the '90s, the beer giant had seemingly only known how to acquire anything from textiles to glass to clothing retailers, it had even acquired the odd brewery

The acquisition drive had more to do with ill-considered and short-term perceptions within the financial sector than with SAB's own strategic drive Cash flush institutional managers used SAB as a hold all for all manner of industrial and consumer assets seemingly without considering the negative effect it would have on the focus of SAB's management

By the mid '90s it had become apparent that even SAB's excellent management team could not add value to such a wide array of assets In the absence of focused direction, casualties were emerging throughout the portfolio

The greatest fear was that SAB head office would stretch itself so much in a futile effort to patch up the problems, that it would lose the edge in its most important business — brewing Given the competitive changes in SAB's domestic and international brewing operations, it was becoming increasingly important that head office stuck to the knitting

Despite growing rumbles of disquiet among investors and analysts and despite the fact that the share price rating belied its position as the fourth largest brewery in the world, SAB head office continued to coyly remark that they had no plans to sell off assets

Within weeks of the announcement that OK had been sold, analysts had unleashed months of pent-up analysis about how the whole portfolio would be trimmed back to the beer essentials By the time management faced the media and analysts to discuss the September interim results, it was apparent that the main areas of interest were the plans for asset disposals

Graham Mackay, the chief executive, made several efforts to dispel speculation, but eventually said the only categorical statement that could be made on when and what assets SAB would sell was "analysts can rule out any disposal of any kind of the group's beer and soft drink activities"

The market immediately interpreted this to mean that everything apart from Amalgamated Beverage Industries, Appletiser and domestic and international beer operations would be up for sale or would be unbundled in the foreseeable future

In brief, here is what the market is expecting Because of its size and the possible difficulty of attracting a buyer, SAB will unbundle Edgars, leaving the retailer without any controlling shareholder Analysts said this would be good for management, which might have become accustomed to a comfort zone but had obviously benefited little in the past from being under the direction of SAB head office

For reasons of size it is also likely that the Plate Glass stake will be unbundled and the shares distributed to SAB shareholders This would again result in a no-control situation, but analysts point out that as there has been little drive from SAB and the best performing parts of the group are the overseas operations, which are closely watched by the Lubner family, a no-control situation would not necessarily be a disadvantage

Most of the other listed investments are of such a size that disposal to an existing or new international competitor would not come up against Competition Board opposition nor present too great a financing burden Indeed, many could present useful opportunities for further empowerment exercises

For the time being, the hotel interests will have to stay where they are but analysts are expecting a separate listing in the not-too-distant future

Another important consideration is that the SAB financial muscle is needed to strengthen Southern Sun's Tsogo Sun bid for casino licences Gaming analysts are emphatic that one of Tsogo Sun's strongest assets in the battle for licences is the backing of SAB

At the recent Gauteng gaming board hearings, Tsogo Sun indicated that it would not seek a listing for at least three years It would not make sense for SAB to carry the development costs of Tsogo Sun and then not wait until it could reap the full benefits of licence allocations

For the benefit of NEC partners, SAB needs to act with a little more haste to generate value from its conglomerate of assets

SPIRITS (182) ET (BR) 13/1/98

Consumers warned of illegal tequila

South African consumers should be aware of illegal tequila in the market, Aldo Aldama, the secretary for economic and cultural affairs at the Mexican embassy, said recently

The Tequila Regulatory Council, a Mexican government body, has also issued a public notice outlining tequila's international protection status Aldama said recent moves by local businessmen to build tequila distilleries in South Africa, and marketplace speculation that illegal tequila was entering South Africa, had prompted the notice.

Tequila is internationally regarded as an appellation of origin that belongs to the Mexican government and which is registered and protected according to the Treaty of Lisbon This protection is administered by the World Intellectual Property Organisation. Aldama said tequila was one of the fastest growing spirits in South Africa — at least eight brands are sold here "But with so many brands on the market it is easy for the consumer to be fooled into buying illegal products," he said. — *Ravin Maharaj, Durban*

Businessman has plans to export tequila

(182) ~~74G~~

Shareen Singh

BD 14/1/98

SA BUSINESSMAN Gawie Venter has given up his battle with the Mexicans to produce locally made tequila, but he has found another way to produce the drink legitimately.

Venter established a company called Tequila & Mascal last year to produce tequila at a distillery in the Eastern Cape. This did not go down well with Mexican tequila makers, who said they had sole rights to the name. Tequila, they said, was a geographic name and belonged to Mexico

Venter said yesterday "it was useless fighting with the Mexicans — we did not want to continue a costly battle so instead we will go about doing business another way". A "type of tequila" would be produced in SA and exported Buyers would market the drink under a name they chose

The distillery, which is being established in Graaff-Reinet, would be ready to start production late this year

But South Africans would not be getting a taste of the alcoholic beverage locally

"We decided to go for the export market because it is more commercially viable for our shareholders. We can get more returns on our investment and claim better dividends"

Markets targeted would be Russia, Africa south of the Sahara, and Europe. Venter said potential buyers had tasted samples of the product and were satisfied.

Water bottlers expect 35% growth

Louise Cook (182) BD 16/1/98

PRETORIA — The natural bottled water industry was likely to grow 35% a year over the next five years due to the growing number of tourists and foreigners in the country demanding to buy the product.

SA Natural Bottle Water Association chairman John Weaver said 20-million litres a year were sold locally. Following an expansion drive the industry ended last year with a turnover of R84m.

"The industry's growth of between 30% and 40% over the past three years have made farmers realise there is money to be made," he said

"They mostly do it on the side to supplement their incomes. Farmers with a source of unpolluted water invest in a small bottling plant of about R100 000 to R200 000."

Eastern Cape producer Danie Erasmus said he started up a factory on his cattle farm a year ago. He has had enquiries for export from the US and Pakistan and his best sales came from 2l and 5l bottles going to Eastern Cape supermarkets and cafes

SA producers were at a disadvantage to European producers due to high packaging costs in SA and subsidies paid on bottled water in Italy.

Most competition came from Italy, but local producers would "ultimately" fight back, Weaver said

Midrand-based Waterval Minerale water and cattle farm manager Essop Moosa said the farm recently invested in a warehouse as part of its plans to expand over the next two years.

SAB seeks court order to stop probe

(182) BD 20/1/98

Shareen Singh

THE Competition Board is to oppose a high court application by SA Breweries (SAB) to halt an investigation into whether the group is "operating in a monopolistic way".

Competition Board chairman Pierre Brooks said the reasons for the board's investigation, which were announced in July last year, were valid and the probe was justifiable. The board was determined to proceed with the investigation and was involved in a legal process to challenge SAB's application, which has been filed in the Pretoria High Court. A date for the hearing has not yet been set.

SAB, which controls almost 98% of the local beer market, argues that the investigation is too broad and ill-defined, and does not fall within the ambit of the Maintenance and Promotion of Competition Act.

"We don't know what we have to prepare for because we don't know exactly what the case is against us," a group employee said.

The investigation as set out by the Competition Board was to cover, among others, SAB's distribution system and licensing agreements; the launching of brands by SAB; agreements, arrangements or understandings not to compete with any other participants in the alcoholic beverage industry; threatening or acting improperly against any potential or existing competitor and whether the group imposes discriminatory conditions on those in the industry with whom it does business.

SAB MD Graham Mackay recently described the investigation as "a fishing trip". Yet the group has welcomed the probe. In July SAB beer division MD Norman Adami said: "We are convinced that a thorough investigation of these issues is almost overdue.... SAB has been subjected to rumours, innuendoes, unfounded allegations and orchestrated misinformation."

It is understood that the corporation had a change of heart after studying the parameters of the investigation and seeking legal counsel.

Awethu exceeds its profit forecast

(182)

Business Day Reporter

AWETHU Breweries has posted attributable income of R1,8m in its debut results for the six months to December, exceeding by more than 20% its forecast for the period

However, turnover at R16,2m was 11% below expectations Awethu MD Daryl Sahli said reduced turnover was mainly due to "the result of price and product mix variations from the budget"

He said the results were satisfactory and he was not concerned by the lower turnover figures as market penetration had set a strong base for future growth.

The company's distribution network was working well and the rollout of franchisees was expected to exceed the targeted 330 by June.

Aggressive pricing combined with expanded distribution network saw mageu (sorghum beer) sales volumes rise above expectations.

BD 27/1/98

NEWS

ABI bids to swallow Suncrush

(182)

RAVIN MAHARAJ CT(MA) 29/1/98

Durban — The proposed acquisition of Suncrush by Amalgamated Beverage Industries (ABI), the leading bottler of Coca-Cola and allied products, was consistent with the international trend of consolidation within the soft drink industry, analysts said yesterday

They said the acquisition also marked the first step in a five-year plan to rationalise Coca-Cola's R6 billion-a-year franchise bottling network

It was also the first part of a restructuring programme to prepare the company to be run by black South Africans by 2000.

The deal would result in ABI having a 60 percent share of the Coke bottling market and facilitate Kunene Brothers' acquisition of a controlling stake in Kilimanjaro, the Coke franchise bottler

ABI said it would buy Suncrush's business for about R1,9 billion, to be paid for through cash and new shares A portion of that would come from South African Breweries, ABI's parent company

The acquisition is conditional on approval from the Competition Board — which would make a decision next month — and shareholders in ABI, Suncrush and Dalys

One analyst said that at the international level Coca-Cola bottlers were increasingly being merged into large-scale operations based on the company's business philosophies, aggressive marketing plan and the benefits derived from the economies of scale

He said ABI's acquisition of Suncrush, the Coca-Cola franchisee, meant that an enlarged ABI would have increased critical mass and geographic spread in Gauteng, North West Province and KwaZulu Natal

It would also make easier the achievement of operational synergies resulting in long-term financial benefits, he said

He said the acquisition was also a strategic step for Coca-Cola's bottling network, which could lead to ABI becoming a key bottler in southern Africa and moving aggressively into the African market

The analyst also said the Suncrush acquisition could result in further moves to consolidate smaller bottlers Benefits included increased efficiencies, achieving economies of scale, and enabling bottlers to lift sales volumes and focus on margins

Another analyst said the acquisition would increase ABI's penetration in South Africa, even though it had no competition

New bill threatens to pull plug on SAB's right to free water

ANN CROTTY

Johannesburg — South African Breweries' Newlands brewery is likely to be one of the corporate casualties of the new water bill announced earlier this week by Kader Asmal, the water affairs and forestry minister.

The Cape brewery has been able to operate with minimal water costs because of a right the forerunners to the brewery secured more than 100 years ago

The brewery was situated in Newlands largely because free water was available from the Liesbeek River and its tributaries. Ownership of the brewery passed through numerous hands but, through early arrangements which involved the granting of land to local authorities, the right to free water was secured. It is this sort of right that the new bill seeks to end.

"To ensure that economic development is promoted, the bill contains far-reaching ... measures to reform the legal basis on which water is used. It ends the creeping privatisation of water by previously privileged land owners . " the department of water affairs and forestry said in a statement.

Provision would be made to "ensure that water for basic needs is given first preference in allocation", it said.

The Newlands brewery produces over 3,6 million hectolitres of beer a year, considerably more than the original holders of the rights could ever have anticipated.

An SAB source pointed out that water was no longer a sizeable factor in the overall cost of the production and distribution of beer.

The bill also has ramifications for the mining industry. A spokesman for the Chamber of Mines, who said he had only seen the fifth draft of the bill, said the industry's chief concern related to the right to pump water out of mines.

In terms of the proposed legislation this could become a highly expensive exercise.

An additional concern was that, in terms of definitions in the draft legislation, mines could be classified as dams and therefore the operation of mines could fall within the ambit of the department of water affairs and forestry, the spokesman said.

(BR) CT 29/1/98 (182)

Bottler rejects monopoly claims

(182)

Sowetan 30/1/98

Another bottler argues that deal is in interests of blacks

By Isaac Moledi

AMALGAMATED Beverage Industries (ABI) yesterday denied the allegations by Coca-Cola Kilimanjaro that the bottler was still holding a 20,9 percent in Suncrush Limited

This follows a cautionary announcement in which ABI said it was acquiring the entire business of Suncrush

The move, the company said, would be followed by ABI selling 20,9 percent of Suncrush interest in Kilimanjaro to another black-owned Coca-Cola bottler, Kunene Brothers

The move, however angered Kilimanjaro, which claimed that the 20,9 percent interest was still owned by the company's original owners. The company threatened to take ABI to the Competition Board, saying ABI was monopolising the soft drink market

In an statement yesterday, ABI denied that Kilimanjaro still owned the 20,9 percent shareholding it claims

The company said Kilimanjaro, chaired by Soweto businessman Richard Maponya, had over the years been selling its shares on the Johannesburg Stock Exchange

This led to Suncrush, another Coca-Cola and Schweppes bottler and distributor, buying some of the shares

The selling spree of Kilimanjaro shares, allegedly by the company's original black shareholders, left the original black directors with less than majority shareholding

Of the 39 percent control that the black shareholders had in Kilimanjaro, only about 24,5 percent is left in the black directors' hands

Old Mutual is said to be holding about 16 percent while another white-owned company, Deltrade, holds 34 percent This leaves Kilimanjaro completely in white hands

ABI said it believed that its proposed ABI-Suncrush deal would ensure that Kilimanjaro bottling returned to black hands

Chairman Mike Simms said "The 20,9 percent interest in Kilimanjaro bottling which ABI had agreed in principle to sell to Kunene Brothers was legitimately acquired by Suncrush after being put on public sale by the shareholders of Kilimanjaro bottling on the JSE"

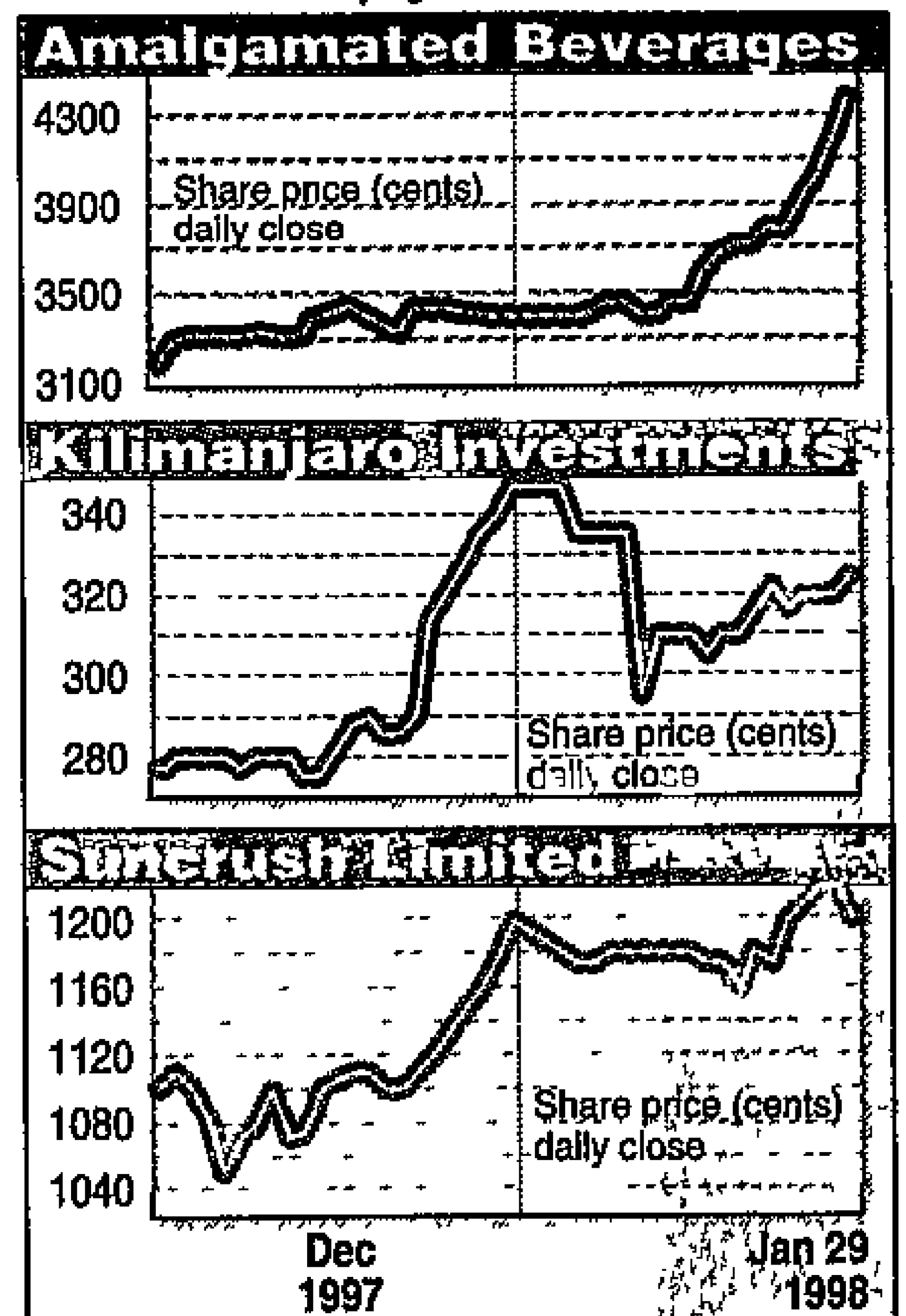
Kunene Brothers chairman Keith Kunene said "As a Coca-Cola bottler committed to driving long-term profitable sustainable volume growth, the proposed transaction is a legitimate business deal that would ensure that family silver is returned from white-owned and managed companies to Kilimanjaro."

Kunene Brothers chairman Keith Kunene will soon have a controlling share of Kilimanjaro.

Black bottlers in bitter row over Suncrush sale

(182) BD 30/1/98

Patrick Wadula



Graphic: RUBY-GAY CAETANO Source: I-NET

TWO major black-owned Coca-Cola bottlers, Kilimanjaro Investments and Kunene Brothers Holdings, are engaged in a bitter squabble over the recent sale of Suncrush to Amalgamated Beverages Industries (ABI)

The sale of Suncrush to ABI had prompted ABI to enter into an agreement with Kunene Brothers with a view to the Kunenes buying Suncrush's 20,9% stake in Kilimanjaro.

Kilimanjaro chairman Richard Maponya urged the Competition Board yesterday to intervene in the deal which would see Kilimanjaro reduced to a minuscule player in the soft-drink market. "If the Competition Board has to approve the deal, there must be a meaningful participation of a black group and not a family," he said

Maponya said Suncrush was being given to a group that already had a monopoly of the cola market It was not genuine empowerment if ABI and Coca-Cola SA were going to kill one company to support another He suggested that ABI sell Suncrush's bottling franchises around the country to black entrepreneurs in those areas

However, KBH chairman Keith Kunene said the proposed ABI transaction with KBH was a legitimate business deal that would ensure the family silver was returned from white-owned and managed companies to Kilimanjaro Bottling

ABI chairman Mike Simms said: "The 20,9% interest in Kilimanjaro, which ABI had agreed in principle to sell to the KBH, was acquired legitimately by Suncrush after being put on public sale by the shareholders of Kilimanjaro Bottling "

SAB plans Russian investment as locals turn to beer

(182) BD 5/2/98

Stephen Laufer

SA BREWERIES (SAB) is considering a multimillion dollar investment in Russia following similar forays into the Hungarian and Polish markets, SAB International group financial director Niall O'Hagan said this week.

The move would capitalise on a potential market of 145-million people whose beer consumption is expected to grow 5%-10% for the next 15 years. SAB-owned breweries are already the market leaders in Poland

O'Hagan said SAB conducted detailed studies of the Russian market, which appeared ready for a revolution in its drinking habits.

With government campaigns aimed at limiting vodka consumption and young consumers showing an increasing preference for beer, the time was ripe to develop the market.

The studies suggested that markets in the northwest, including St Petersburg, and in the Moscow central region, which alone accounted for 45-million inhabitants, would be the logical place to start.

Tastes were more sophisticated, incomes higher, and social mobility and the propensity to buy branded products greater in western Russia.

It was also easier to establish operations west of the Urals, particularly those needing expatriate staff

Beer was not classified as an alcoholic product Brewing licenses were not required and there were no restrictions on advertising.

The plan was to develop local brands before considering the introduction of an international premium beer

Any brewer aiming to be a major player needed to invest "hundreds of millions of US dollars". Thorough preparation of the market could cost as much as $10m.

Except for Danish brewer Carlsberg, which has invested in Russia via a Finnish company, none of the big international brewers had taken the plunge, O'Hagan said. Baltica, the Swedish-Finnish joint venture, rapidly became the market leader in St Petersburg.

Asked when SAB might make its decision, O'Hagan declined to be specific. The international brewing community was poised to invest, he said, as "the timing is right"

Doing business in Russia was nevertheless still very difficult.

Getting foreign brewing, financial and other experts into place was difficult and very expensive outside the main centres of Moscow and St Petersburg.

Logistics were a huge challenge in a country the size of Russia, and the existing distribution industry was crime ridden SAB was looking at the possibility of having to invest in its own distribution network, which meant "big money".

Dealing with crime and the Russian bureaucracy was "a harder job than expected" But companies with experience in Russia such as Procter & Gamble, Cadbury Schweppes and Mars were "not unhappy".

Currently there were 168 separate taxes which with to contend, and reform proposals by President Boris Yeltsin last year have not passed the Duma, the Russian parliament

The reform was intended to do away with a host of local charges, including a pavement tax and a fire brigade tax which "can eat more than 100% of profits" if badly managed.

The Russian government pledged to push the tax reform through this year

On the bright side were a slowing inflation rate, growing stability of the rouble, and reasonable investment guarantees and profit repatriation rules, O'Hagan said.

Younger Russians were optimistic about the future, and had good technical skills.

Increasingly, potential employees with financial and marketing skills were emerging from the multinationals already operating in Russia

SOUTH AFRICAN BREWERIES

FM 6/2/98

New project to brew better business

Perfection the driving force behind re-engineering project

Russell Roberts

Andy Andreani *drinking a toast to improved productivity*

SAB's Beer Division is re-vamping its IT infrastructure to help squeeze a few more precious percentage points of productivity from its already super-productive plants

Improvement programmes have already ensured that SAB is the lowest-cost producer of quality beer in the world Not satisfied with that, SAB is implementing a multipronged programme to improve productivity by a further 50%

To realise this goal it will

- Reduce waste and duplication in its breweries by streamlining administrative systems, and
- Shift the business culture even further away from focusing on individual productivity to one of teamwork

These elements are present in manufacturing systems manager Andy Andreani's current project — to implement a software product called rtPM — an abbreviation of real-time Production Management The system will reduce waste and duplication in the individual breweries by detecting faulty product early on

"Each of our brands has a number of 'aspects' that make it unique," says Andreani "Colour is one example The beer might have the right taste, but if the colour is wrong, that batch of beer will have to be re-processed

"With rtPM, we're able to detect an out-of-specification colour as the beer is being processed, and correct it on the spot "

The system models a perfect factory and compares this model with data from the real factory It measures everything it can If it finds any aspect deviating from accepted norms, it alerts a process operator who will quickly correct the problem before the whole batch of beer is spoiled

"The systems reinforce the mindset that we have a plan and we have standards," says Andreani "We are aware that the plant will deviate from the norm, but the system helps to minimise that deviation "

Managers can monitor the plant's performance in real time using standard Web-browsing software, thus reducing the administrative burden of producing daily or weekly reports which are out of date as soon as they're printed In world-class manufacturing this swift report producing, which underpins productivity is called "the hidden factory" In the interests of efficiency managers want it not so much hidden as eliminated

Another initiative that will streamline the administrative function is tighter integration between the Beer Division's different computer systems Like many other breweries around the world, SAB predicts demand for its products using advanced planning models It has separate computer systems for beer distribution, for sales, marketing and enterprise resource planning (ERP) which takes care of the complicated business of running each brewery

"We're refining our product management philosophy by tying the demand prediction, the costing, the delivery and the supply-side of each product with production "

In a slow-moving environment, all this can be handled manually But the more competitive an organisation becomes, the faster it must react SAB's planning is now done centrally, and paper schedules are passed down to each brewery for execution The new system will integrate the brewery's planning system and the central system so tightly that when the central system changes, the brewery will react straight away No more paper

If there's a run on a particular brand, the brewery will know immediately and will be able to produce more without having to wait for instructions

"The goal of any manufacturing company is minimal inventory," says Andreani Delays in information transfer cause uncertainty about what is the best stock level

The company has elected to install SAP software for many of these functions including ERP, but whether it elects to use SAP for its sales and distribution systems is a decision that has yet to be made

Finally, the more integrated computer systems are giving individuals on the shop floor a glimpse into processes which precede and follow their own "Instead of having individuals who operate bottling machines, we're moving to teams who are responsible for bottling beer We can do that, because the teams are aware of what's happening upstream and downstream from them "

The rtPM software system is being piloted in three of SAB's seven breweries Business strategy will determine if the product is deployed in SAB's plants outside SA Significantly, Andreani says the greatest challenge has been posed by managing change in the organisation

One of the rtPM's subprojects is a management project which looks at transformation and retraining which Andreani says is nothing new for the company "We are constantly changing This is just the latest in a series of projects that has been running for many years

"To get the kind of productivity improvements we're looking for, we need to constantly shift the business culture That's the biggest challenge The technology is simply there to underpin the vision "

The rtPM implementation project has been in operation for eight months It still has another four years and four months to go Andreani isn't saying what will follow in SAB's quest for 100% efficiency and absolute market control Erich Viedge

Takeover of Coke business comes under investigation

ST(BT) 15/2/98 (182)

The Competition Board is to probe a R2-billion bottling deal, writes JABULANI SIKHAKHANE

THE Competition Board is set to announce this week a full investigation into the R2-billion takeover of the Coca-Cola bottling and distribution businesses of Suncrush by Amalgamated Beverage Industries (ABI), sources said on Friday

The full probe is expected to test the deal's impact on competition in the softdrinks market This is in line with Board chairman, Pierre Brooks's comments to the Financial Mail last month "Prima facie there are indications that it could have an effect on competition ABI is already a major bottler and there are not many bottlers in SA"

The deal will increase ABI's share of the Coca-Cola bottling market to 60%

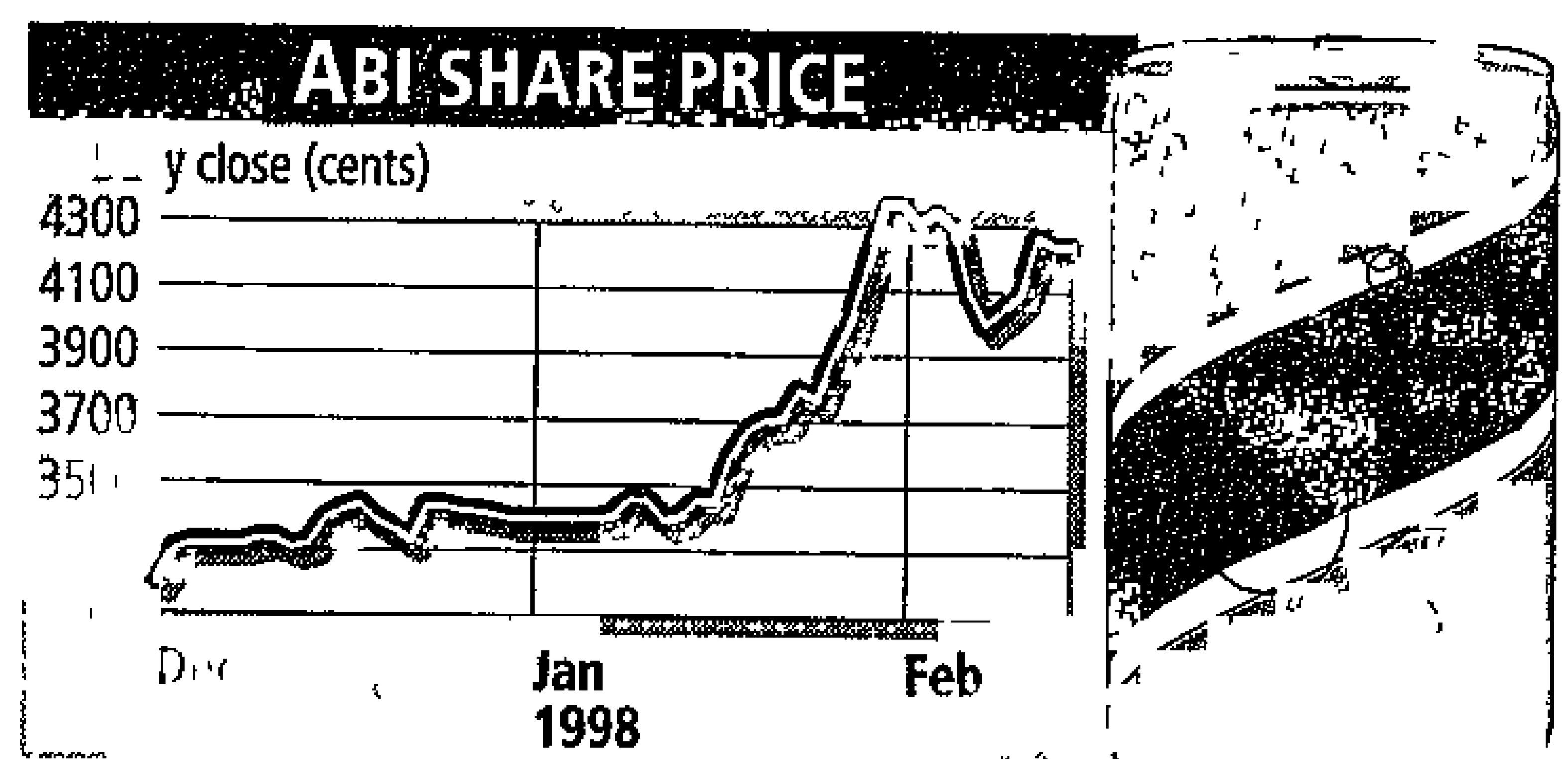
In determining the deal's impact on competition, the board may also look into ABI parent South African Breweries' ownership of fruit juice and mineral water producer Appletiser SA, sources said

The board will ask ABI and SAB to submit detailed information on the Suncrush transaction

The probe is also expected to delay the implementation of the deal which was conditional on the board's clearance

Brooks would neither confirm nor deny the full investigation

"I cannot say anything on the board's decision until it has been conveyed to the parties concerned," Brooks said, adding that ABI and SAB would be notified of the board's decision tomorrow or on Tuesday



Graphic FIONA KRISCH
Source I NET

Sources said the board, which took the decision to launch a full investigation at its meeting on Thursday, would also probe the black economic empowerment aspects of the transaction

ABI intends selling Suncrush's 20 9% stake in East London-based Coke bottler Kilimanjaro Investments to Kunene Brothers Holdings, which holds the Coca-Cola franchise for the Mpumalanga province

The Kilimanjaro deal is being opposed by Richard Maponya, the chairman of Kilimanjaro, who argues that the Kilimanjaro stake should be sold to "a black group and not a family", in reference to the Kunene Brothers, a family-controlled entity

Maponya, who made a submission to the board, also wants Suncrush's businesses to be sold to black empowerment groups

ABI said in December it would buy Suncrush's businesses for a combination of cash, new ABI shares and 3 3-million new SA Breweries shares

Since the deal was first announced in December, the ABI share price has risen 27%

The probe may heighten tensions between the board and SAB, which has sought a court order to stop the board's probe into whether the beer giant is "operating in a monopolistic way"

SA Breweries controls about 98% of the local lager beer market

Distillers lifts earnings, forecasts further growth

CT(BR) 17/2/98 (182)

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — Distillers Corporation, the liquor wholesaler in the Rembrandt stable, lifted its interim headline earnings a share by 9,3 percent from 76c to 83,1c in the six months to December 31, the company said yesterday

Despite a slow economy and an unexciting outlook for consumer spending on wine and spirits in the second half of the financial year, the group still expected real growth in earnings a share for the full financial year.

"Consumer spending on wine and spirits would not improve significantly in the second half of the year," the company said

Attributable income was up from R108,05 million in the second half of the previous financial year to R118,6 million in the first half of the present financial year

A dividend of 22c a share (21c previously) was declared

Distillers warned that uncertainty about the way the Liquor Act might be amended had a dampening effect on investment activity in the liquor industry

The department of trade and industry had still not finished revising the draft liquor bill, which was shot down by almost all interested parties in the liquor industry as "unimplementable".

Recently, a Cape Wine and Spirits Institute spokesman said the industry was concerned about speculation the industry's objections to the draft had not been fully taken on board by the department in the revised draft

The first draft called for the "unbundling" of liquor groups with retail, wholesale and distribution interests by the introduction of new licensing rules

The Distillers share dropped 20c to close at R11 yesterday

Virgin territory for a 'different' cola

CT (BR) 20/2/98 (182)

MPHO MANTJIU

Johannesburg — Virgin Cola, the soft drinks arm of the Virgin group, was already on supermarket shelves two weeks ahead of its official launch, Tracy Meaker, the group's director of corporate affairs, said yesterday

She said Virgin Cola, which was "a little different" from other colas, would be officially launched on March 4

"We will have both regular and diet cola in 340ml cans and 2l bottles, and they will be distributed nationwide"

Although Virgin was not looking for a price war, its cola would be competitively priced, she said

Meaker said Virgin would introduce more flavoured carbonated drinks later in the year

Elandsfontein Bottling company would manufacture the product for Virgin Cola while TFD, the food and drinks distributor, would distribute Meaker said the two companies had geared up their operations to keep up with the workload

She said Virgin Cola had recruited a small management team to be based in South Africa

Steve Pattinson, Virgin Cola's managing director, was upbeat "We expect to become the most exciting cola in 1998"

Richard Branson, the founder of the Virgin group, last year announced plans to expand into the US cola market In the UK, Virgin holds 1 percent of the cola market

DRINKING ARM *Steve Pattinson, the managing director of Virgin Cola, endorses the product* PHOTO JOHN WOODROOF

Cadswep is looking to exports for growth

(182) BD 4/3/98

Nicola Jenvey

DURBAN — Cadbury Schweppes (Cadswep) CEO Peter Bester said yesterday export contracts could bolster sales growth and believed the industrial food group's longer-term export potential should touch 15% to 20% of turnover.

Releasing the results for the 53 weeks to January 3, he said the ground work had been laid for export contracts to the Canadian and South American chocolate markets, which would come to fruition in the current year

Last year the group had targeted opportunities in Africa and exported sugar confectionery to Mozambique, Angola, Zambia, Kenya and the Democratic Republic of Congo.

Bester said SA economic growth this year was not encouraging as consumers remained under the burden of high real interest rates and low levels of job creation However, Cadswep was determined to grow market share and improve efficiencies through increasing new product launches and a broader consumer base, including exports

Attributable income grew 26% to R159,9m, strengthened by higher margins and share gains across the group's carbonated and concentrated soft drink and sugar and chocolate confectionery markets

Headline earnings increased to 40,1c (34,5c) and a 12,5c (10,9c) final dividend was declared, bringing the total to 16c (13,8c) Shareholders have been offered a scrip option

The five-year compound 20% annual growth represented 11,6% in real terms

Turnover grew 16% to R1,5bn and operating profit increased 17,7% to R166m, indicating the dual effects of share gain in all market segments and higher margins

The dividend and equity accounted earnings, representing Amalgamated Beverage Industries' contribution to group performance, increased 31,6% to R29,1m

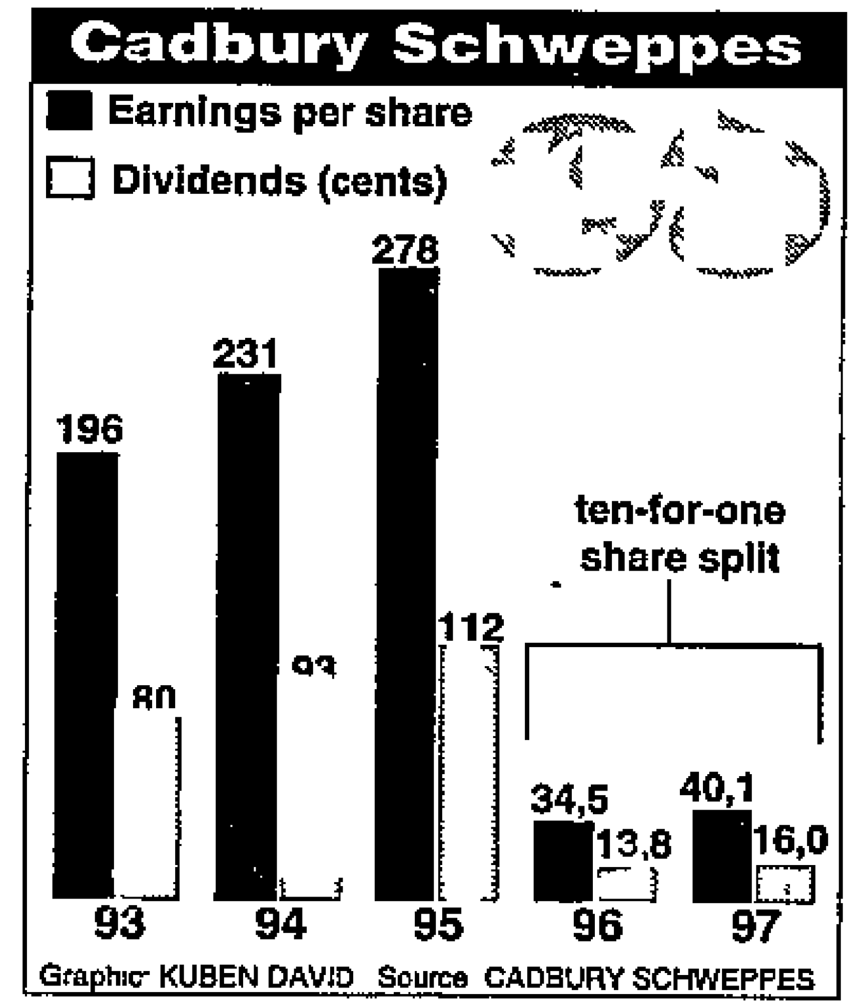
New products boosted confectionery volumes in a declining market, but consumer demand weakened in the second half of the year

Bromor performed strongly in the concentrated beverage market, which recovered from declines over the past few years

Cadswep also benefited from good growth in the carbonated soft drink market

Bester said the Port Elizabeth chocolate factory and the Bromor plant in Durban were completed last year and increased volumes and greater efficiency would filter through in the near future

Last year the group invested about R180m in expansions and significant capital was earmarked for the current year



New cola drinks fool some virgin palates

Star 6/3/98 (182)

By Victor Strugo

To some, it really was a case of vergin' on the ridiculous The occasion was the arrival in South Africa of Richard Branson's much-touted Virgin Cola, launched in Cape Town on Wednesday night

Mere hours later, yours truly, (author of the Le GastroGnome food-review column in Saturday Star), assembled an independent gourmet consumer panel to compare the new products, Virgin Cola and Diet Virgin Cola, with the market leaders, Coca-Cola and Diet Coke, in a blind tasting

Amid hushed suspense, Le GastroGnome sat down with his two guests, Ursula Stapelfeldt of SABC *Top Billing* and 5FM fame, and Josef Eder, executive chef and director of food and beverage at the Park Hyatt Johannesburg, in the hotel's flagship restaurant, No 191.

Senses attuned, the bubbling sounds were carefully listened to Visibility restored, tasting began. Glasses were held up to the light to detect berry reds, brick browns, and the odd flash of gold Then came taste and smoothness

Not forgetting the three Big B's: body, bubbles and burp The drinks were then marked, and the identity guesses handed to the adjudicator.

There was no fooling Eder's sensitive palate, as he correctly identified all four drinks

Stapelfeldt and Le GastroGnome distinguished the diet drinks correctly, but thought Coke's fruitier taste belonged to the newcomer.

On the scoreboard, the old products came up trumps over Virgin's newcomers Coke scored 24 points against Virgin Cola's 21, and Diet Coke came out with 22 against the lowly 11 of Diet Virgin Cola

Ah well, perhaps new experiences require an acquired taste .

THYS DULLAART

Ad lipping ... Saturday Star food critic Victor Strugo (left), *Top Billing's* Ursula Stapelfeldt and the Hyatt Hotel's chief chef Josef Eder taste the colas.

SAB shelves plan for R750m Eastern Cape plant

Quentin Wray (182)

GRAHAMSTOWN — SA Breweries (SAB) has shelved plans for construction of a R750m brewery in Byngdor near Mdantsane in the Eastern Cape until "early in the new century"

Karl Lippert, GM of SAB provincial operations, says the group has bought land for the brewery, but construction will start only once SAB's medium-term national sales forecasts indicate the extra capacity to be provided by the new plant is required

Eastern Cape industry sources said SAB planned to open the new plant in 2007, but Lippert said he "cannot and will not" comment

Former SAB southern regions operations director Rob Childs, who now heads Portnet, announced in October the new plant would centralise the brewer's Eastern Cape operations, replacing the East London, Port Elizabeth and Butterworth facilities

The Butterworth plant has already been closed with a loss of about 160 jobs A further 190 jobs are expected to go when the Port Elizabeth plant closes — ECN

BD 11/3/98

SFW-MFB joint venture may beat govt's proposed wine industry policy

A new wine joint venture signals real rather than symbolic empowerment, writes **Michael Fridjhon**

(182) BD 12/3/98

THE announcement last week of a joint venture between Stellenbosch Farmers Winery (SFW) and Maluti Foods and Beverages (MFB) heralds a new stage in empowerment in the wine industry.

Previous ventures — with the exception of Charles Back's Fair Valley project — have tended to be symbolic rather than significant both in conception and in the number of direct and indirect beneficiaries The SFW/MFB deal involves the symbiosis of a mutual back scratch as well as numbers on a scale which has hitherto eluded most other players

The scheme is misleadingly simple The joint venture has bought a 975ha west coast farm with the unlikely name of Papkuilsfontein for about R15m While there are just more than 100ha of vineyards on the property, most of the plantings will in time need to be replaced. The cost of the vineyard renovation will add another R15m to the project The purchase price and capex will be guaranteed by SFW, which will in turn purchase 80% of the production from the joint venture at "market-related prices"

The remaining 20% of the crop will go to Maluti, though in reality it may be supplied to SFW either for processing or for product of equivalent value which can be traded by Maluti in the ordinary course of its business. The sale of grapes from Papkuilsfontein is expected to bring the project out of debt within 12 years

SFW holds 50% of the project equity, MFB has 35% and the Maluti Groenekloof community trust owns the remaining 15%

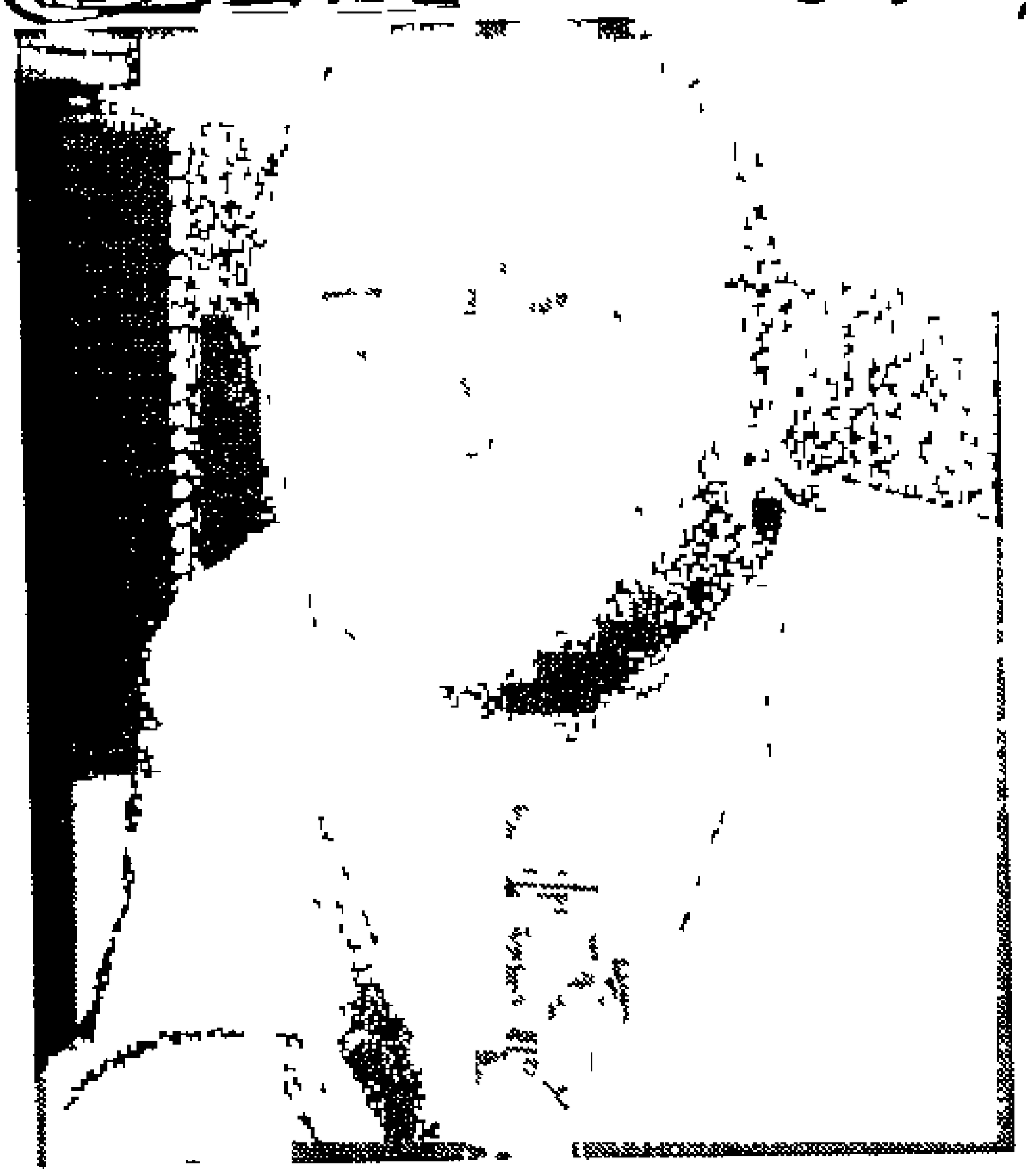
SFW has offered its partners its shares — at market-related prices — once the project is free of debt. It is clear that SFW is not at risk its management will deal with the day-to-day running of the farm, and its access to the farm's grapes ensures that its liability will be met from production; at worst it is bringing an outside shareholder into a project it could quite easily manage itself.

This is where the scheme reveals its genius SFW is not doing this without a sound financial motive — Maluti is not some handout recipient giving the Ruperts a cosmetic empowerment partnership.

MK Malefane, who put Maluti together more than a year ago, has delivered to SFW a consortium including many of Soweto's top liquor traders. Their clout as retailers makes them particularly useful allies in this project.

True, the Ruperts, through SFW and Distillers, control the country's major wine and spirit brands and can afford to ignore any retailer grouping. But given the long-term prospects for the liquor industry, a Soweto-based trading alliance must be worth the almost nonexistent risks of the joint venture.

In the ordinary course of a year's trading SFW would have to spend some money cultivating relationships with major customers. The Maluti partnership means that a significant portion of this expense can be committed to the more or less self-liquidating Papkuilsfontein project at the cost of just the 50% equity SFW surrendered upfront



MALEFANE

Papkuilsfontein could be the pilot scheme for many such joint ventures, each one bringing other significant retail players into an alliance with SA's most important wine and spirits producer

Each time SFW (or Distillers) sacrifices future profit for present goodwill it will be weaving a web that will strengthen its brands and enhance relationships with the retail sector In so doing, it will make a mockery of the trade and industry department's strategy to isolate SA's monopolistic producers by forcing a clear segregation between production, distribution and retail

The various liquor licensing proposals published by the department in the past year — which have caused widespread consternation in the industry — all involve imposing on the SA trade the same three-tier structure which has been in place in the US since the prohibition era.

The drive behind this draft legislation has been empowerment coupled with antitrust sentiments The department's thinking has been muddled, if not inept.

Now that the country has been presented with a scheme which fulfils empowerment criteria — not simply for a privileged few, but for a widely dissipated shareholder base and for the beneficiaries of a community trust — the department will be hard-pressed to proceed with its ill-thought-out agenda. Nothing is more likely to sound the death knell of the three-tier structure than the Papkuilsfontein project and its many clones we can expect to see in the next six months

It has been fashionable in SA to speak of win-win situations. For sheer genius, however, it is hard to imagine anything more elegant than the way SFW's Frans Stroebel has put a significant deal to bed while poisoning the department's wells.

10c/l fuel levy hike will boost revenue by R1,7bn

Samantha Sharpe

CAPE TOWN — The fuel levy has been increased by 10c/l, which is expected to boost government revenue by R1,7bn in the new financial year

Finance Minister Trevor Manuel said the levy was one of the largest components of retail fuel prices, being fixed at 76,6c/l in respect of leaded petrol, 70,4c/l for unleaded petrol and 66,1c/l for diesel

However, in the context of the recent slide in international oil prices, the hike will not necessarily translate into a commensurate increase in petrol prices

It was more likely to provide a soft revenue source for the finance ministry

Manuel said in his budget speech the fuel levy increase would come into effect from April 1, coinciding with the monthly fuel price adjustment, if any

While the levy constituted 7,4% of total revenue collections accruing to the national revenue account, the latest increase would bring the total to 8,1% of national revenue

Manuel said this would add less than 0,5% to consumer price inflation, making it a good means of improving revenue

The 1998/9 budget also includes a R662,1m allocation to the department of transport for national road maintenance, translating into a 4c/l share of the total fuel levy rate

The allocation followed a cabinet decision at the end of last year that the National Road Agency would in future receive appropriations for road construction and maintenance, converted to a dedicated assignment of part of the existing fuel levy

BD 12/3/98

Government is to clamp down on evasion of value-added tax, particularly prevalent in the export of cigarettes to neighbouring countries

BD 12/3/98

Duties on luxury consumer goods reduced by 5%

Linda Ensor

(182)

CAPE TOWN — Ad valorem duties on a range of consumer goods were reduced from 15% to 10% in yesterday's budget with immediate effect

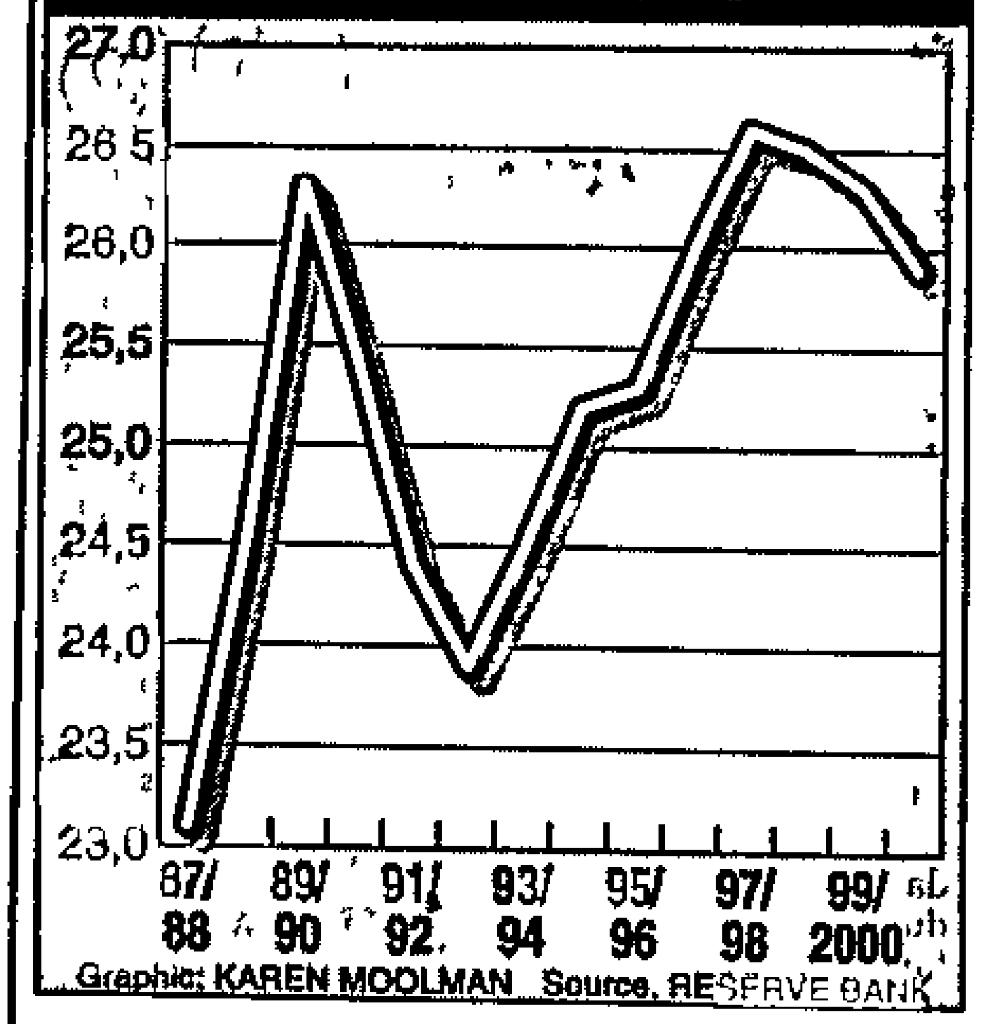
Goods including perfumes, beauty products and electronic, camera and sound equipment would be cheaper and the temptation to avoid paying tax by undervaluing imported goods would lessen, the budget review stated.

The duty on computers and related equipment was cut by 1% to 5% To counteract the effects of a single rate of VAT, the range of luxury items subject to ad valorem duties was extended to goods such as cordless telephone sets, cellular phones, video cameras, caravans, boats and dishwashers

The addition of new luxury items was kept to a minimum in line with a finding of the Katz Commission that to extend it excessively would result in ad valorem excise duties having to be administered alongside VAT

The net effect of broadening the consumption tax base by adding to the list was offset by the lowering of rates on existing products The overall effect would therefore be revenue-neutral.

Total revenue as a % of GDP



Officials plans to clamp down on VAT evasion

Samantha Sharpe

BD 12/3/98

CAPE TOWN — Government intends clamping down on "serious VAT evasion", which the finance ministry said yesterday was taking place through the false declaration of exports into neighbouring countries

Finance Minister Trevor Manuel said in the budget review that VAT evasion, particularly prevalent in the export of cigarettes and liquor to neighbouring countries, cost the country R150m in lost revenue

The severity of the problem had forced government to propose the exclusion of liquor and tobacco products from the current export incentive scheme, he said

The proposed measures meant traders from neighbouring countries would not be able to buy these products free of VAT in SA or obtain a refund of the tax at a land border post.

"The zero-rating in respect of such products will only apply in relation to exports where an SA vendor consigns or delivers goods to purchasers outside SA," Manuel said

The proposals enjoyed the full support of the liquor and tobacco industries, with implementation to take place with immediate effect, and a Government Gazette published to announce the necessary changes in the scheme

However, Manuel said if the proposals did not curb current evasion levels, additional measures could follow

"Advisory notes in this regard were also posted to vendors with their returns," he said

Convicted tax offenders face public exposure

BD 12/3/98

Samantha Sharpe

CAPE TOWN — Taxpayers failing to furnish annual tax returns could find themselves blushing in the glare of public scrutiny following a proposal in the 1998/99 Budget to publish the names of convicted tax law offenders

While the receiver of revenue has the power to release the names of guilty VAT Act offenders, those flouting the Income Tax and Customs and Excise Act have, so far, remained nameless.

Finance Minister Trevor Manuel warned that guilty parties would no longer be awarded the privilege of anonymity, with all those convicted of tax law offences to be publicly exposed as part of government's drive to improve tax morality

"It is only right that those who pay their due should know whose tax default they are paying for It is accordingly proposed that the tax laws should be amended to provide for the publication (of the names) of persons convicted of offences in terms of these laws," Manuel said.

In keeping with reforms in other countries and SA's more open new democracy, government also intended examining the current secrecy provision contained in various tax legislation, Manuel said

This would include an investigation into how these secrecy provisions could be amended to enhance tax morality and effective revenue collections, which remained the driving force behind tax reform in SA, he said

Improved tax collection and a broader tax base would net the fiscus an estimated R2bn in revenues in the new financial year, with government firmly committed to broadening the tax net Teams had already been established in each revenue office under close supervision by SA Revenue Service regional offices to undertake this task.

This project was a long-term measure to decrease the default rate, change the culture of nonpayment and attain acceptable levels of tax compliance, Manuel said

"Activities have included information-gathering, cross-checking tax information and business-to-business inspections and street walks using up to 1 500 revenue service personnel at a time"

As at October 1 last year, about 33% of the entities evaluated for income tax purposes were unregistered

Comparing Coke habits

(182) FM 20/3/98

SA one of top 10 Coca-Cola drinkers

It's official. Iceland is the world's biggest consumer of Coca-Cola Its population knocks back 417 220 ml bottles a year per capita That's about eight a week each

"We don't look at markets as developed and underdeveloped in terms of GDP but in terms of per capita consumption," says Coca-Cola Greater Europe group president Neville Isdell in the *Financial Times*

By that criterion, Europe's most underdeveloped countries include Italy, which drinks only 95 bottles/person/year

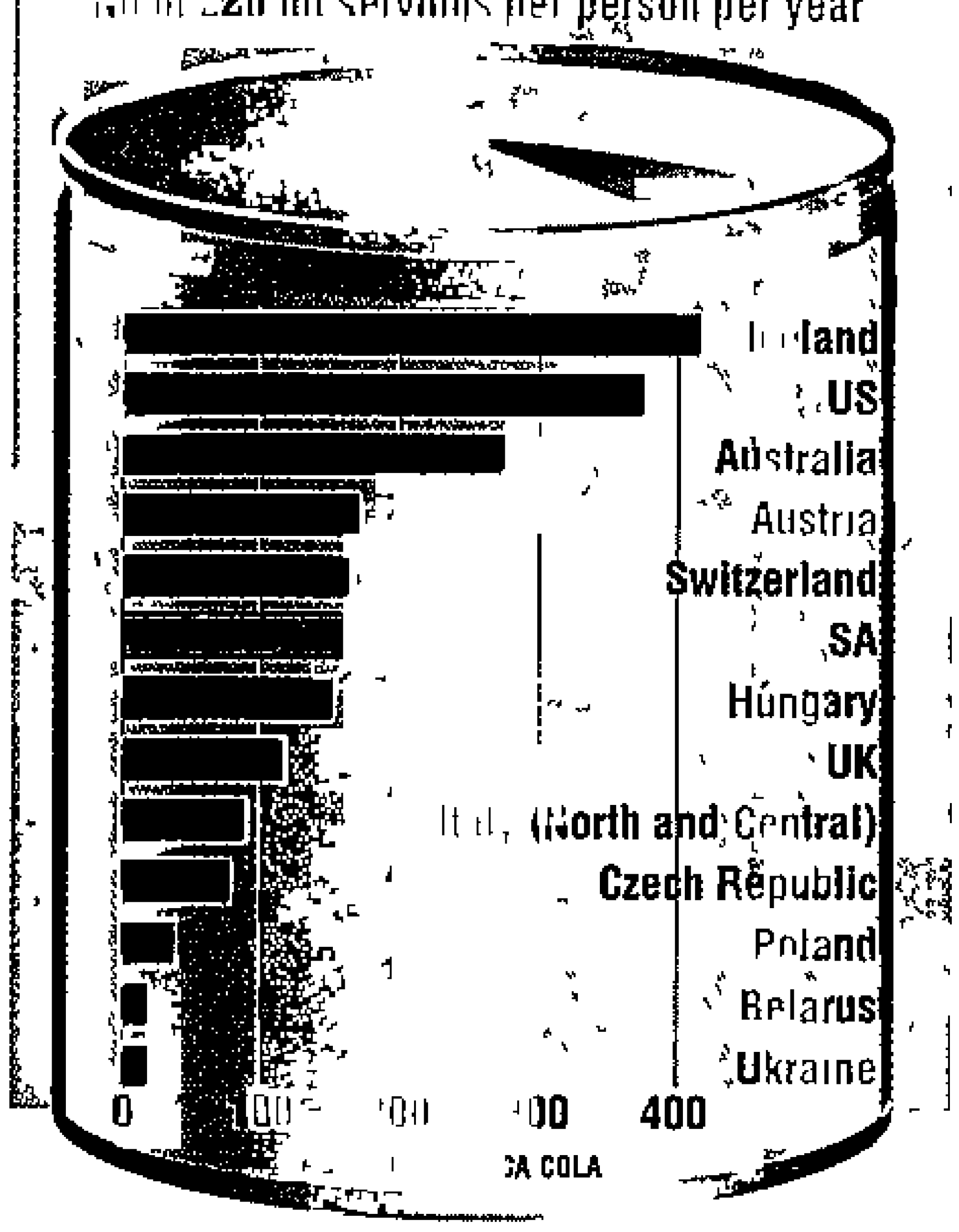
Former Soviet Union countries Belarus and the Ukraine consume only about 20 bottles per capita, and Poles drink only about 45 bottles each

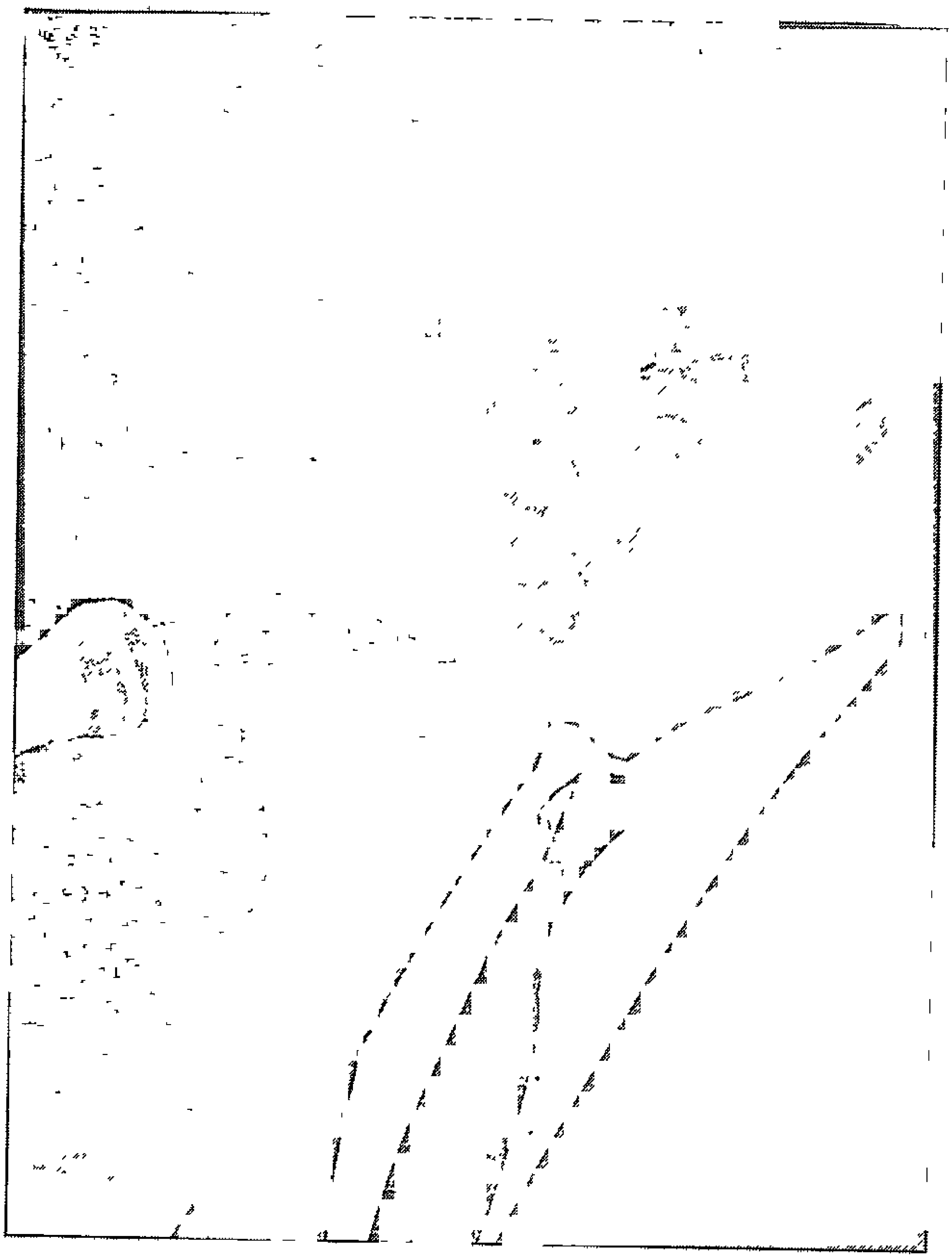
By contrast, SA is among the world's top 10 Coke consumers — out of 200 countries Divisional director of communications for Coca-Cola Southern Africa S'bu Mngadi says South Africans drank 164 220 ml bottles each in 1997 That's more than either the British, at 118 bottles each, or the Japanese at 150 Coca-Cola still has a big market in its country of origin The average American drinks 376 220 ml bottles/year

Mngadi says SA's Coca-Cola consumption increased 11,2% from 1996 to 1997 But there's plenty of room for improvement, carbonated soft drinks account for only 5% of liquids consumed in SA ■

THE WORLD'S COKE DRINKERS

220 ml servings per person per year





ONLY RECEIVED A PORTION OF HIS PENSION . . *NAB chief executive officer Khehla Mthembu*

NAB employees want their pensions

(182) CP 22/3/98

By ZOLILE NQAYI

A GROUP of former employees of New Age Beverages (NAB), the liquidated distributor of Pepsi Cola in South Africa, is up in arms against the company in regard to Provident Fund benefits

These employees accuse the company and Alexander Forbes, which administered the fund, of contriving to deny them their full benefits.

NAB was liquidated in the middle of last year.

According to Mandla Tshabalala, former shop steward at NAB, when workers were retrenched the fund paid out to workers only what they had contributed monthly through deductions from their salaries

"The payments we received did not include any interest and the company (NAB) was also supposed to have contributed an amount equal to that which we were contributing to the fund," Tshabalala said.

The workers also accuse NAB of deducting monies from their salaries for a period of six months from February 1997 while the company was undergoing liquidation but failing to submit these to Alexander Forbes

Alicia Barlow of Alexander Forbes dismissed the workers charges against Alexander Forbes and said the workers had were paid more than half of what was due to them and this included interest and NAB's contribution to the fund.

She said that what workers received from the fund included deductions which were made by NAB for the period March to May 1997.

"I understand that these workers are angry because it is impossible for them to contact their former employers We are the only people that they can talk to and they are therefore directing their anger at us," Barlow told City Press

Barlow said what the workers received from the provident fund last year was only an interim payment. She said the final payment would be made at end of this month or in April

"Liquidations are very formal and therefore are lengthy procedures We had to wait for a letter for the final liquidation and we have recently received that," said Barlow

She said letters have been sent to all employees informing them that they will be receiving the rest of their provident fund benefits.

Stax Masango, a former human resources manager at NAB and principal of the fund, said all former employees, even those in management, had been treated the same way "Everyone, including the chief executive officer, Khehla Mthembu, only received a portion of their benefits," Masango told City Press.

According to Masango, an agreement was reached with the union that Alexander Forbes should pay out a portion of the fund as the Receiver of Revenue was likely to delay in issuing a directive for the payment of the benefits. The delay in the payouts was likely to affect workers in the low earnings group who were still unemployed, he said

Coca-Cola SA thirsty to meet growth target

ET(BR) 23/3/98(182)

RAVIN MAHARAJ

Durban — Coca-Cola Southern Africa (CCSA) was poised to meet its growth rate target of 14 percent in 1998 and a minimum of 12 percent in 1999 on the appointment of senior managers in South Africa and abroad, Doug Ivester, the chief executive officer and chairman of the Coca-Cola Company, said yesterday

The Coca-Cola Company announced the appointment of Charlie Frenette, the president of CCSA, as the new global chief marketing officer

Don Knauss, who was the senior vice-president and general manager of marketing for the US division of Coca-Cola subsidiary The Minute Maid Company, will become CCSA's new president

Four southern Africans, three of them black, have also been appointed at senior management level These appointments were consistent with the company's commitment "to develop a world-class cadre of business leaders in South Africa", Ivester said

He said the positions would become effective on April 1

Rute Moyo, who is the Johannesburg-based senior operations manager of Botswana, Namibia, Lesotho, Mozambique and Angola, will become the deputy divisional region manager

BIG SELLER *Charlie Frenette, who heads Coca-Cola SA, is to be Coke's new global chief marketing officer* PHOTO JOHN WOODROOF

Rush Lehutso, the operations manager in KwaZulu Natal, will become deputy region manager for the ABI-Suncrush territories

Paul Fourie will become the deputy region manager of Kilimanjaro-PenBev-Coca Cola Sabco and TJ Holdings territories, while Nathan Kalumbu will become the deputy region manager of Zambia, Zimbabwe and Malawi

Frenette said the appointments represented the company's commitment to leading the company into a double-digit growth future over the next five years

It was also part of the company's worldwide General Management Talent Initiative South Africa was increasingly becoming the global training ground for the company's best talent

Frenette, who has been the president of CCSA for the past two years, has driven the company's renewed commitment to South Africa, catapulting the country to Coke's tenth largest market

In 1997, CCSA's volume grew 11,2 percent, raising South Africa's consumption per head to 164 220ml cans

Recent investments in Mozambique, Zimbabwe and Angola promised to unlock the huge growth potential of the southern African soft drinks market, Frenette said

COMPANIES *Lion Match, Conshu, Da Gama stakes to go*

(182)

SAB's dominoes about to fall

CT(BR) 27/3/98

ANN CROTTY

Johannesburg — Plans for the disposal by South African Breweries (SAB) of its controlling stakes in Conshu, Da Gama and Lion Match are expected to be announced within the next few weeks

Analysts said yesterday that these disposals would eventually be followed by the sale of Amrel and the unbundling of Edgars, Plate Glass and even Southern Sun

The share prices of Lion Match, Conshu and Da Gama rose sharply on the release of cautionary announcements this week referring to proposals being considered by controlling shareholder SAB

On Wednesday this week Conshu shot up to 315c from 201c, Da Gama ended at 350c from 300c, and Lion Match rose to 900c from 800c The major move in the Lion Match share price occurred more than a week earlier when it increased from 685c to 715c and then to 900c

Trading in Da Gama also reflected an interesting pattern The share price dropped from 310c to 260c in the first few weeks of March, then on March 16 did a U-turn, moving back to 300c, and from there to its current 360c

Afcol shareholders who sold earlier this year at as low as 600c will be feeling put out by the fact that investors who bought from them are now looking at an offer price of R19,25

Market sources had speculated that the Afcol deal would be pitched at around R17,50 a share and have suggested the higher price reflects the last-minute entry of another interested party

"Even R17,50 was a remarkably generous price for this company," said one analyst, who referred to Afcol's dismal earnings record in recent years

The price at which the Afcol deal has been struck has encouraged bullish estimates for the valuation of the three proposals currently on the drawing board

None is particularly attractive in terms of profit generation, but some analysts reckon SAB will hold out rather than sell too low

Others feel they may be worried about a repeat of the OK scenario where a delayed sale resulted in SAB getting a price of just R1

First disposals to be followed by Amrel sale, and unbundling of Edgars and Plate Glass

At the top end, Lion Match has about R240,1 million in cash, but nothing substantial in terms of operational assets. At the bottom end is Da Gama, which has little to offer.

Lion Match, which is 70,5 percent-held by SAB, reported its net asset value (NAV) at 674,2c a share at the end of March 1997 The share price has since eased back to 825c

This level looks more realistic in relation to the likely current NAV, but the Afcol deal has encouraged analysts to punt an even more attractive premium for control, with talk about a price in excess of 900c

Conshu, of which SAB holds 67 percent, and which is South Africa's largest shoe manufacturer, has had a dismal time in recent years but turned in encouraging results for the six months to September 30 1997

At March 31 1997 the group's NAV was 488c a share This and the encouraging interim figures suggests some upside in the current share price

Da Gama, once the most profitable and fastest-growing textile company in the country, was acquired at 700c a share in 1989.

The purchase marked a change in fortune for the group and the industry Its NAV at March 31 1997 was 542c a share, but analysts reckon a deal will be struck at considerably below this level

The financial proceeds of these sales will be pitifully small But SAB needs the management time and effort that has been devoted to them, with dismal returns, over the years. For this reason there must also be some proposals for other subsidiaries

The sale of Amrel is complicated by its substantial debtors' book But shares in Edgars and Plate Glass could be distributed to SAB shareholders Then SAB could focus on what it does best — make and distribute beer and beverages

□ Business Watch, Page 2

Unpopular draft keeps three-tier licensing

State keeps hardline liquor bill

ET(BR) 28/4/98 (182)

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — The department of trade and industry would push ahead with its controversial plan for a three-tier licensing system in the liquor industry despite industry-wide opposition, Alistair Ruiters, the department's chief director responsible for drafting the new liquor bill, said in parliament on Friday

The system would force big players like South African Breweries, Distillers and National Sorghum Breweries, to restrict their distribution and retail activities and open the door for foreign investors and black empowerment groups to enter the industry

Ruiters said regulations in the new liquor bill would specify a cut-off date for all groups in the industry to shed businesses for which they were not licensed

"Big players would be given a short period to unbundle "

He said the department had received "numerous inquiries from businesses in America, Britain and Canada about investment in the local liquor industry"

An industry source said Anheuser Busch, the world's biggest beer producer, could be the first to jump at opportunities opened up by the new bill

Industry sources said yesterday that Alec Erwin, the minister of trade and industry, still had to decide whether the new licensing system would be implemented in "a rigid or forgiving way"

A rigid three-tier system would prohibit producers, wholesalers and retailers from being active outside their sub-sectors, while a forgiving system would allow "some cross-border activities", the source said

The industry would try to convince Erwin to opt for a forgiving system when it met him again in the next week, he said

"A rigid system would be impractical For instance, it would prohibit a wine estate such as Backsberg from delivering a crate of wine to a restaurant in town A wholesaler would have to collect and deliver the case."

Ruiters told parliament the department was putting the final touches to a liquor bill that did not differ much from the highly criticised draft bill published last year The bill would be handed to the Cabinet within weeks and tabled in parliament before June 30

The administrative machinery was already being built in the provinces to ensure the speedy implementation of the new dispensation, he said

The bill provided for six types of licences while the draft only provided for three types, he said

"There would be producers, wholesalers (distributors), on-consumption retailers, off-consumption retailers, special event licences and a licence which allowed both on- and off-consumption," Ruiters said

The bill would decriminalise transgressions and the police would not enforce compliance

"We would employ an inspectorate to enforce compliance and punish transgressors," he said

"Easy in-easy out would be the best way to describe the new approach It would be easy to get into the industry but transgressors would also be kicked out quickly One warning and you would be out of the industry."

Milestone as Coke sells billion drinks a day

(182) Sowetan 30/4/98

By Shadrack Mashalaba

GIANT soft drink producer Coca-Cola says there are considerable opportunities for sustained, profitable growth of its operations

The company says it firmly believes that the strength of its brands, its unparalleled distribution system, global presence, strong financial condition and the skills of its staff will give it the edge to capitalise on growth opportunities

In its 1997 annual report for the year which ended December 31, the group describes the previous year as a good one for the company Its operating income topped R25,25 billion – representing an all-time high

Net income was R20,705 billion and was also an all-time record and up 18 percent over 1996 Earnings per share grew by 19 percent, following similar increases in each of the last two years

Milestone

Chairman and chief executive Douglas Ivester says the company has achieved a milestone as it is now selling a billion drinks a day

"We are already working on our next billion servings a day and we don't expect to take 112 years to get there," says the company's report

"As we mark that milestone, and as we look back at another year of record sales, profits and healthy returns on directors investment, two key thoughts stand out – the many pioneers who brought us to this point, and the steps we are taking to go after the next billion," Ivester says

Formed 112 years ago, Coca-Cola South Africa is the 10th largest market in the world

Across the Southern Africa region, the company says, strong marketing campaigns and media efforts have spurred sales, with solid growth for soft drinks such as Coca-Cola, Sprite, Fanta and Powerade

In Latin America, which Coke calls "one of our mature markets", the company generated strong growth with Mexico accounting for 39 percent China is now one of the company's top 10 volume markets in the Middle and Far East

"By mid-1998 27 Coca-Cola production facilities will be up and running The group's mission is to maximise share-owner value over time," says the report

Liquor stores body 'not worried' by rivals

CT (BR) 1/5/98 (182)

CHRISTO VOLSCHENK
ECONOMICS EDITOR

Cape Town — The South African Liquor Store Association (Salsa), the voice of 550 retail liquor store owners, said it was not concerned about the prospect that national supermarket chains would soon be competing head on with them for the sale of spirits, beer and wine

Len Pfister, executive director of Salsa, said he did not expect the new dispensation to threaten bottlestore owners "because supermarkets would have to operate from separate premises to control sale of liquor to minors and intoxicated customers

"In our view, the new dispensation would restrict the sale of liquor by supermarkets rather than give them wider powers," Pfister said

The existing Liquor Act limits supermarkets to the sale of natural wine A new liquor bill, to be handed to Cabinet for approval within weeks, would put supermarkets in direct competition with bottlestores by allowing them to sell the same liquor under the same conditions

Bottlestore owners in shopping centres housing one or more supermarkets said this week that the new dispensation would put them out of business They feared that national supermarket chains with superior financial muscle would enter into price wars

"Salsa opposed the sale of liquor with other products in supermarkets, but had no objection to supermarkets selling all types of liquor from separate premises," said Pfister.

The new liquor bill provided for six types of licences Every company in the industry would only be allowed to own a single licence The licences were for producers, wholesalers retailers, special events licences and licences which allowed both on- and off-consumption

Pfister said Salsa was concerned by the last-minute inclusion in the bill of the sixth type of licence, which allowed both on- and off-consumption to accommodate shebeens and taverners

COMPANIES

Sunday Times Business Times
May 3 1998

New bill leaves industry with a three-tier hangover

The Liquor Bill, increased competition from imports and higher excise duty have put a damper on the wine and spirits industry, writes MARCIA KLEIN

ST (BT) 3/5/98 ~~WINE~~ (182)

THE Competition Board will suspend its investigation into the liquor industry until the new Liquor Act has been published

This week, the Department of Trade and Industry told Parliament it would go ahead with the controversial Liquor Bill, which will affect a number of major industry players who are vertically integrated The major objection to the new Bill is its introduction of a three-tier system which does not allow vertical integration between producers, wholesalers and retailers Many liquor companies are involved in two or more of these activities, and say they will find it difficult to separate them

Alistair Ruiters, the department's chief director responsible for the Bill, told parliament it would go ahead, but did not indicate how flexible the Bill would be with regard to this three-tier system

KWV chairman Lourens Jonker said at the company's AGM this week the Competition Board investigation was still pending, but agreement had been reached with the board that no submission would be made until the new Liquor Act had been published.

"Considering that the new Act will possibly determine guidelines and prescriptions regarding competition, the investigation will be meaningful only after it has been passed "

Jonker said 1997 was dominated by negotiations with the Department of Agriculture, which resulted in the September decision to transform from a co-operative to a company, a move which was achieved in December The negotiations also led to agreement on a Wine Industry Trust, which would be concerned with future regulation of the industry

The industry experienced shortages during the year, and on a few occasions it was necessary to import spirits "When focusing on the domestic situation, we have a market requirement of approximately 30-million litres The local wine industry supplies slightly less than half the market requirement A relatively bad crop in the most important supply districts added further pressure in 1997."

He said there was tough competition, and KWV had to fight against decreasing prices, particularly from Argentinian products He said 1998 production and transferred stocks from 1997 had been sold out

It is expected the 1998 wine crop of 914-million litres will be about 9 3% smaller than the 1997 crop

"Another very interesting trend is the increase in volume of certified wine."

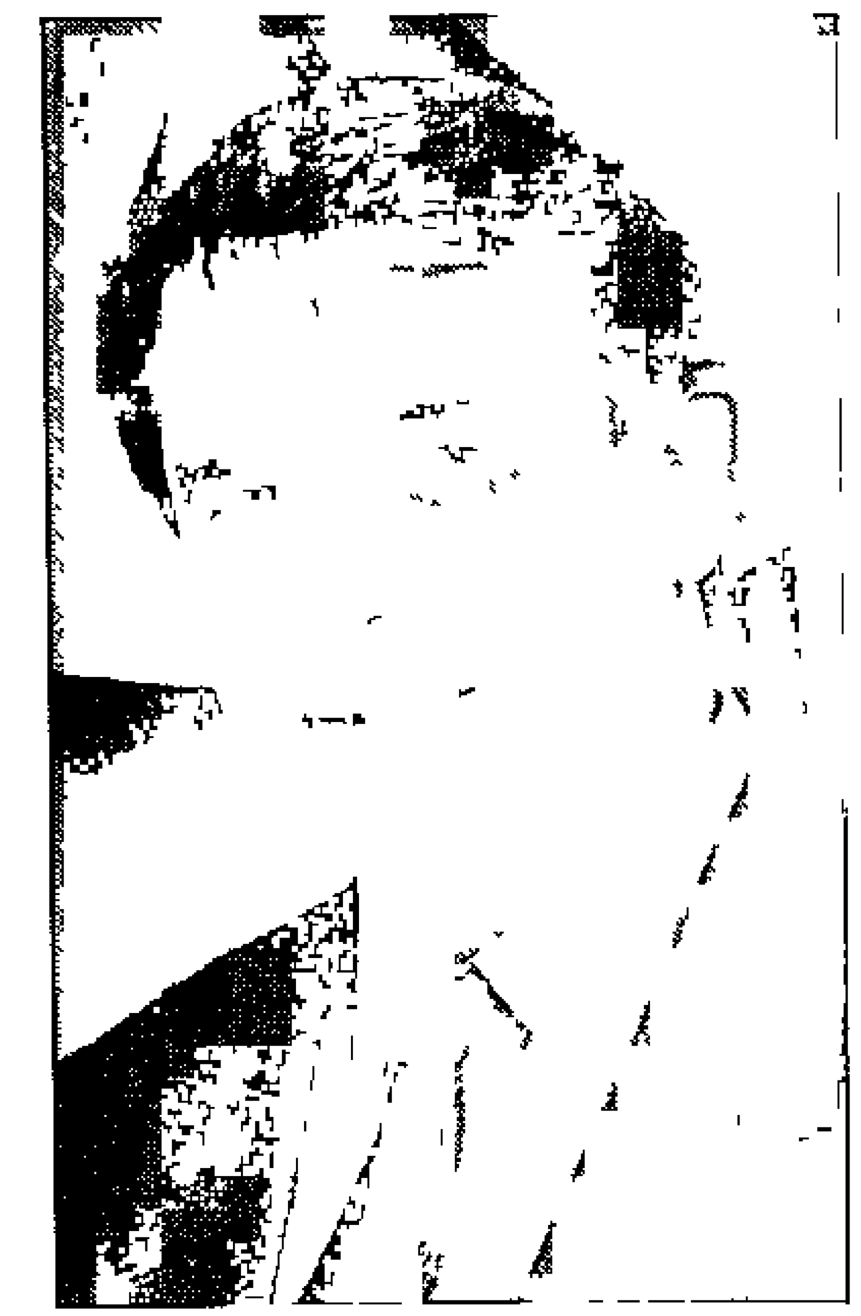
Currently 123-million litres of wine are certified, compared with 89-million in 1995 and 36-million in 1990 Expressed another way, last year 22% of the total good-wine production was certified, against 18% in 1995 and 10% in 1990. This means the Wine of Origin system adds a lot of value

Commenting on excise increases in the latest budget, Jonker said the budget did not reflect the points of view of the KWV delegation which met the Department of Finance in January

The latest increases were expected to bring government's income from excise and VAT on wine grapes to over R2-billion, while wine producers' total income will amount to about R1 45-billion

Jonker said the increases will slow down growth in the industry, which employs 215 000 people. It may hamper its ability to finance empowerment projects and have a negative effect on government income and wine product sales

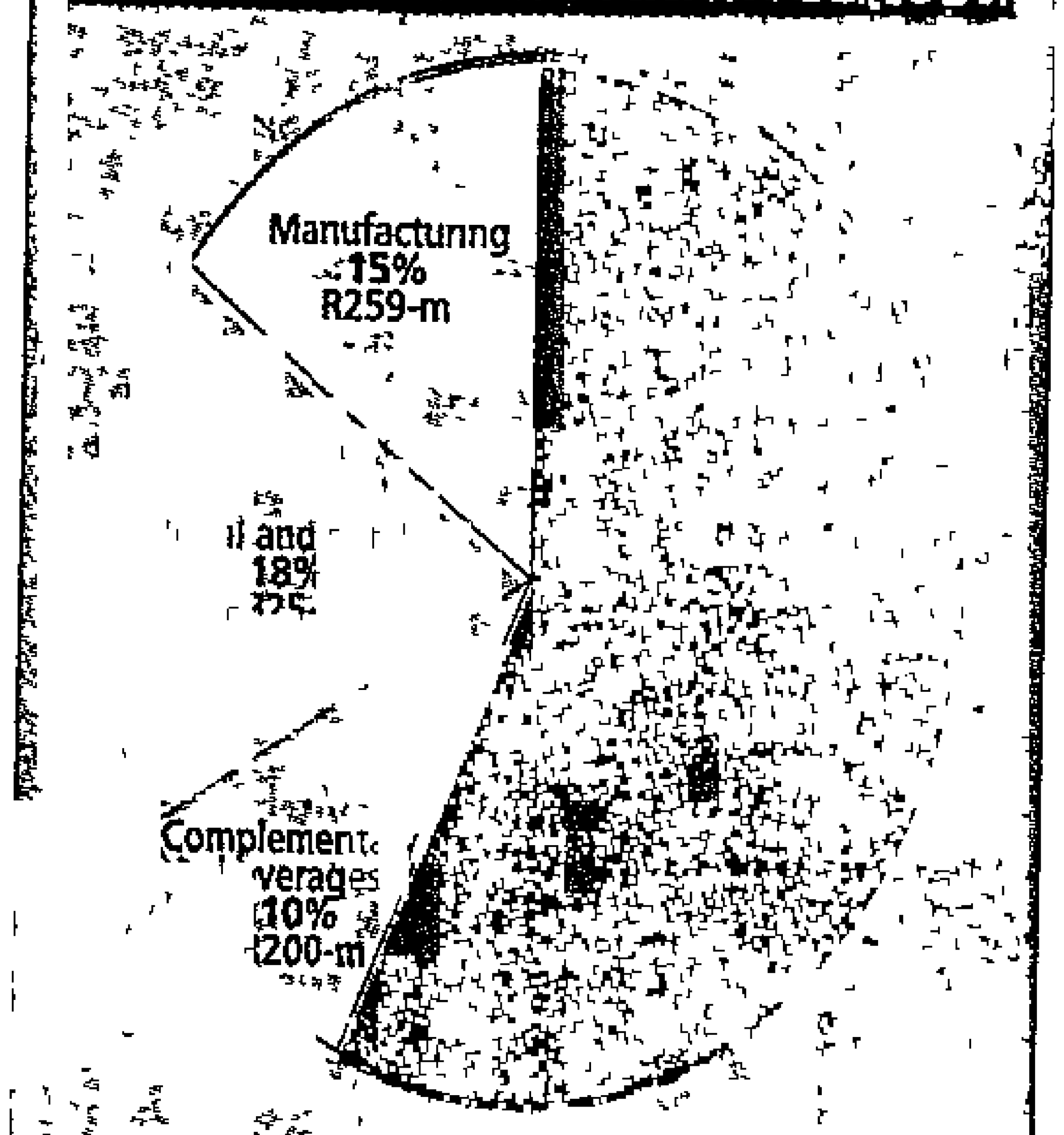
He said it was "incomprehensible that this natural agricultural product, with proven health benefits enjoyed with moderate consumption, is targeted year after year for higher excise duty, which may seriously harm the economic position of the wine producer". Since 1992, excise on natural wine has increased 259%.



KWV's LOURENS JONKER

Beer will show health of SAB's crown

ST (BT) 10/5/98 (182)



	1997	1996	1995	1994	1993
Turnover	R36 9-bn	R32 6-bn	R27 9-bn	R24 1-bn	R21 8-bn
Earnings	R1 9-bn	R1 7-bn	R1 3-bn	R991-m	R825-m

Graphic FIONA KRISCH

Source SAB

RESULTS FORECAST

By MARCIA KLEIN

WHILE most of SA Breweries' listed investments have already reported results for the year to March, they offer little insight into how the group as a whole will perform because SAB's figures are more than ever dependent on the performance of its local and international beer interests

For the last financial year, SAB reported earnings of R1 9-billion, of which beer made up R1 4-billion, complementary beverages R200-million, and all the other interests, including Edgars, PGSI, Afcol, Amrel, Da Gama, Lion Match, Conshu and Southern Sun, the rest

The past financial year has seen the first of a number of disposals of these peripheral interests, notably OK Bazaars and Afcol — all the better for SAB's bottom line in years to come Cautionary announcements are out relating to the disposal of SAB's interests in Lion Match, Conshu and Da Gama. Analysts are expecting further disposals in the coming year, leaving SAB as a focused international beer and beverages group

This week SAB announces its results, and analysts expect earnings to increase by 8-10% This, they say, will be achieved against a backdrop of almost no volume growth in the local beer market, but significant achievements offshore

"In SA, beer has experienced no volume growth, so any improvement will be from the international side," an analyst said Forecasts indicate that the group's earnings are slowing down, retarded to some extent by its non-core interests.

The big shock this year was retailer Edgars, which fared much worse than expected.

Last week Edgars reported a 28% drop in earnings to R230.5-million, which it blamed on the pressure on credit spending, lower than expected sales (retail sales were only marginally higher at R5 6-billion), pressure on margins and costly new retail space

Edgars management said the group's revitalisation programme was "aggressively under way," but analysts were a little less happy, saying the group "has lost it"

The Edgars and Sales House chains fared poorly, while Jet reported an increased and worrying loss of R18 4-million

Edgars management said the results reflect a dramatic swing from credit and a quest by customers for low prices They assured shareholders efforts would be directed at regaining market share.

However, interim earnings for 1998 are forecast to be well below the previous year The situation is expected to improve in the second half, and Edgars is expecting sales and earnings growth for the full year, with costs streamlined and more customer value

Analysts indicate it will not be that simple. They say Edgars has lost valuable market share and its merchandising and stock control are poor.

"Jet is a disaster which needs to go And Sales House, formed as an ethnic retailer, is no longer appropriate."

Analysts say its results indicate that Edgars, which for many years was considered a jewel in SAB's crown, would certainly be for sale, along with many other non-core assets.

The jewel, apart from beer, is now ABI The Coke bottler, which recently announced the acquisition of KwaZulu-Natal-based Suncrush, reported an impressive 45% rise in attributable earnings to R207 7-million, with headline earnings increasing 43% to 182 6c a share on the back of volume growth, good weather and productivity gains.

MD Trent Odgers said volume growth "substantially outperformed both economic growth and the soft drink industry average and helped turnover surge 25% to over R2 2-billion". Productivity improvements are evident in the 39% increase in trading profit to R254.7-million

Cash balances, more than doubled to R400-million.

The results give a clear indication why SAB would want to retain ABI in its stable.

Results of the soon to be sold Lion Match, Da Gama and Conshu were generally solid.

Export growth and a stable local match market saw **Lion Match's** revenue from product sales grow 9% to R201 5-million. But margins were squeezed and trading profit dropped 3% to R29.5-million.

Higher dividend and interest income (it has liquid resources of R239.4-million) enabled it to lift attributable earnings by 4% to R43 5-million

Da Gama reported sales revenue growth of 12% to R331.9-million on the back of market share gains and a slowdown in fabric imports

The 51 3% rise in trading profit reflects the benefits of cost containment programmes This, together with R10 3-million interest earned in interest on its surplus cash resources (of R85 6-million), saw it report 16 6% higher earnings of R25 3-million

The company is expected to grow earnings in 1999, but not at the same rate as this year

Rationalisation of activities and cost controls saw **Conshu** report a 119% rise in earnings to R16 7-million despite a marginal 4% rise in turnover to R803.1-million

Retail group **Amrel** reported poor results for the 12 months with attributable earnings slumping to R16 1-million from R38 4-million in 1996/97.

Turnover rose by R64-million to R994-million and pre-tax profits were up 18%, but the closure of Crown Furnishers, which cost R36-million, had an adverse impact on the bottom-line

One of SAB's largest subsidiaries, **Plate Glass and Shatterprufe Industries**, also reported a decline of 11% in headline earnings to 255.1c a share. The results are analysed on page 10

Global brewers thirsty for a deep draught of SAB

ST(BT) 10/5/98 (182)

BEER INTERESTS

By MARCIA KLEIN

RUMOURS were rife this week that at least two global brewers wanted to buy as much as 25% of SA Breweries

It is believed that US brewer Anheuser Busch and UK-listed Diageo, formed through the $33-billion merger of Guinness and Grand Metropolitan a year ago, are interested in buying a significant minority stake in SAB, the world's fourth-largest brewer

It is believed that there have been no formal discussions to restructure or collapse Bevcon, which holds 29% of SAB and whose major shareholders are Liberty Life, Anglo and Johnnic

However, it is well known that while both Liberty and Johnnic have benefited from SAB's contribution, they do not view SAB as a long-term strategic investment

Market sources said this week there were strong rumours that the two had expressed an interest in selling, and that certain shareholders were open to the suggestion

"Anheuser has been eyeing the SA market for years and would not want to come in directly and take on SAB on its home turf For SAB, the Budweiser brand would augment its premium range," one analyst said

For the foreign investor, SAB offers an entry into the local and African market, but also a strong springboard into international developing markets, particularly in Eastern Europe and China, where SAB has been successful

Anheuser, like many US brewers, has not been aggressive in its international expansion and derives most of its revenues from the US. But now the US market has reached maturity and it needs to diversify

SAB is the fourth-largest brewer in the world. It is one of the only foreign brewers in eastern Europe and China to have experienced a level of success

SAB's results, which will be released this week, could show a 30% increase in earnings from its international beer operations An analyst said Anheuser had tried its luck in China, "but it has been a disaster"

SAB has for some time had a relationship with Guinness, brewing Guinness stout under licence When Guinness tied up with SAB some years ago, it chose to enter SA in conjunction with SAB rather than in competition with it The relationship over the years may have prompted investigation into further investment.

At the time of the Guinness/Grand-Met merger, Diageo said the two companies' strengths lay in developing markets and they would focus on pushing "aggressively into markets like Latin American and Asia which are growing much faster than the static drinks markets of Europe and North America". Diageo brands include Johnnie Walker whisky, Burger King and Guinness

An analyst pointed out that SAB's real strength is in distribution rather than brands Although its brands dominate in Africa, they are not internationally recognisable like Anheuser's Budweiser, for example SAB may want to use these brands in some of the countries it enters, and there may be demand in China for an international brand

SAB is in the throes of a number of disposals in order to focus on its beverage interests One analyst suggests that SAB could look at issuing shares in specie to shareholders instead of selling its companies to other parties.

Lion Match, Conshu and Da Gama have been earmarked for disposal, and analysts say that other disposals (of Amrel and its strategic interest in Distillers and Stellenbosch Farmers' Winery) could follow quite swiftly Edgars dismal results (its earnings fell 28% in the year to March), could see SAB try and sell it sooner than anticipated

● See Page 4

Coke cooks up R100bn for Africa

INVESTMENT (182)

By THABO KOBOKOANE and SVEN LUNSCHE

COCA-COLA this week launched a new Africa strategy which it estimates will add R100-billion to the continent's economy by the year 2003

The Africa strategy will require a multibillion rand investment programme, now being finalised by the Atlanta-based multinational SA will receive a significant proportion of this capital outlay

The strategy is in addition to the R1 25-billion investment in infrastructure announced last year to boost Coke's presence in SA townships

The announcement of Coke's Africa strategy coincides with the appointment of Don Knauss to head the 10-country southern African operation, run out of Johannesburg Knauss takes over from Charlie Frenette, who has been promoted to chief marketing officer worldwide at Coke's Atlanta head office

Coke's Africa strategy has been formulated over the past two years after the group conducted an economic impact study, which is ongoing

"Our future capital investment will be extrapolated from the study, which shows that Coca-Cola, its bottlers and distributors add R13 5-billion to the SA economy at present," says S'bu Mngadi, communications director for Coke SA

Picture: JON HRUSA

AMBITIOUS ... Don Knauss, Coke's southern Africa man

ST(BT) 10/5/98

"If we are to sustain and grow our contribution we need to invest substantial amounts in our operations," Mngadi says The investment impact in SA this year is forecast to amount to R561-million, growing with inflation of 6% a year for the following five years

For sub-Saharan African the 1998 the figure is R1 4-billion, rising gradually with inflation to reach R1 878-billion by 2003

Mngadi stresses that the current estimate for sub-Saharan Africa is based on SA infrastructure levels However, since most other African countries are still underdeveloped, they would require far greater capital outlays than is expected for SA

"We believe we can double our business here over five years Our investment — in capacity, people and marketing — follows that belief," says Knauss, who joins Coke SA after two years as head of Coke subsidiary Minute Maid

Knauss's ambitious target requires sales growth of 15% a year until 2003

Over the past two years Coke has achieved significant volume growth SA sales were up by 11 2% last year, after a modest growth of 3% in 1996 For the southern African region as a whole, growth in 1997 was 11 3% and 5% in 1996

Sales volume in 1998 is estimated at 400-million cases, with SA accounting for 300-million This ranks SA as the 10th largest country in the Coke hierarchy

In the last two years the company invested R1 25-billion in infrastructure in SA and spent almost $150-million in three countries in southern Africa — Zimbabwe ($60-million), Mozambique ($50-million) and Angola ($35-million).

In 1997 sub-Saharan Africa accounted for 5% (745-million cases) of the group's global sales

Beverages will add sparkle to SAB's results

(182)

ANN CROTTY

CT(BR) 11/5/98

Johannesburg – This week's release of SAB's results for the year to March 31 is expected to reveal an earnings increase of about 10 percent to about 695c a share, but the effect of the results is likely to be overshadowed by moves by management to cut back the group's activities to focus on beer and beverages

The beer and beverage interests will again provide the sparkle in the earnings growth, with Amalgamated Beverage Industries reporting the strongest percentage increase in the group In financial 1997 the beer division enjoyed the benefits of two Easter holidays. In financial 1998 there was no Easter which, combined with an expected sluggish volume increase in beer demand, is expected to keep a lid on contribution from the local beer interests

At the halfway stage the beer division reported a 12 percent increase in earnings on a beer volume increase of only 0,5 percent Offshore operations reported a 33 percent increase in contribution This contribution is likely to be boosted by the comparative weakening of the rand.

If recently sold Afcol is treated as a discontinued operation for the full-year, as OK was for the interims, the bottom line will appear stronger Certainly the absence of OK will enhance SAB's earnings

Beverage division boosts SAB results

BD 13/5/98 (182)

Shareen Singh

SA BREWERIES' (SAB's) beverage division's solid performance added 83% to the group's headline earnings which advanced 15% to R2,3bn in the year to March, despite low volume growth in the beer division

Results released yesterday showed beer volume grew only 1% In view of the 1,5% rise in private consumption expenditure in an overall sluggish economy, the group said the results were satisfactory Subdued consumer spending expected for the first half of this financial year might be overturned by a decline in inflation and interest rates and the demutualisation of Sanlam and Old Mutual

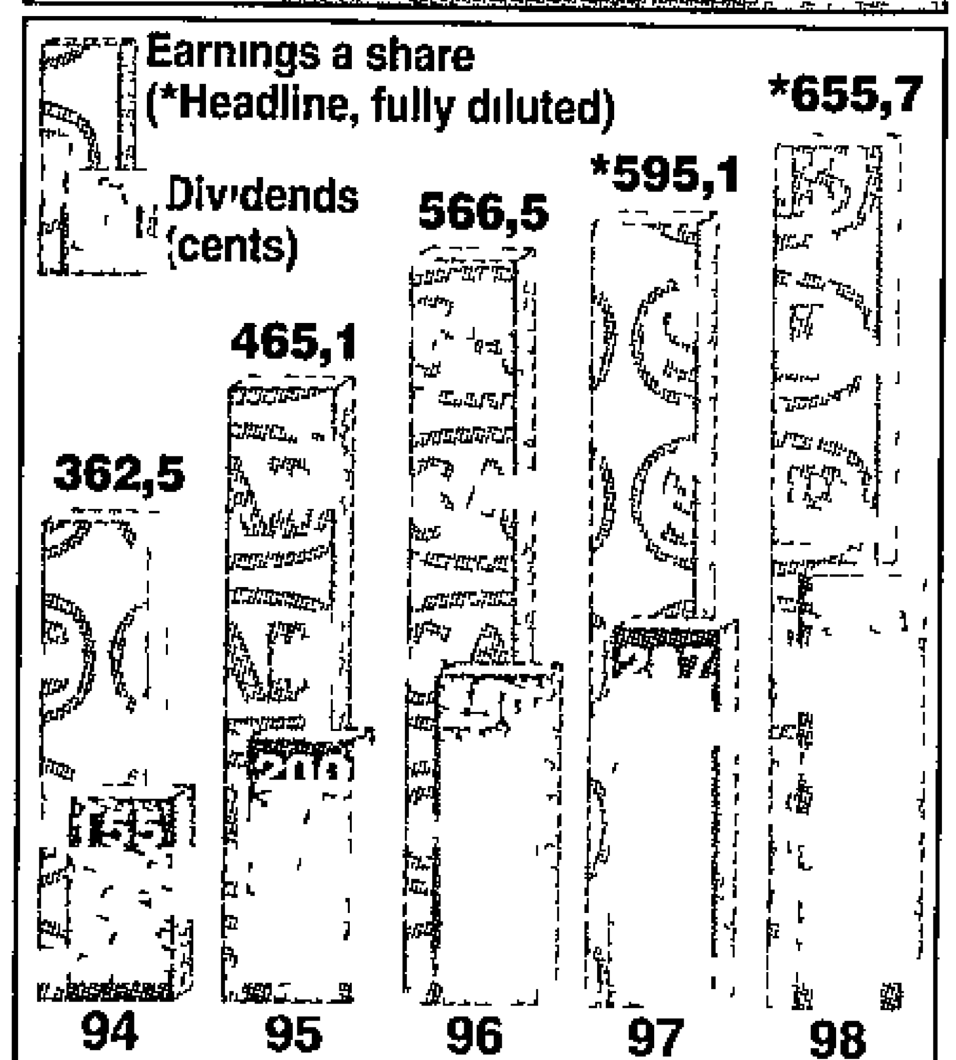
Attributable earnings dropped to R1,2bn from R1,9bn as the group set aside R1,1bn for the disposal of noncore assets, including R600m for the disposal of OK Bazaars to Shoprite Holdings last year

A dividend of 257c a share was declared bringing the year's total to 330c, 15% higher than the previous year

Analysts said the results were in line with their expectations of a 10% rise in headline earnings to 655,7c a share They were optimistic of prospects for this year, saying there would be improved growth in beer volumes and soft drinks Offshore earnings would again contribute substantially to the group's coffers

MD Graham Mckay said SAB would continue building its core businesses both in SA and overseas It started disposing of noncore assets last year including the OK Group, Afcol and CFD,

Continued on Page 2



Graphic KAREN MOOLMAN Source SAB

SAB (182) BD 13/5/98

Continued from Page 1

its footwear and clothing division

SAB's diversified interests were not star performers. However, hotel group Southern Sun staved off stiff competition, pushing up its headline earnings 16% Amrel, Da Gama, Conshu Holdings and Lion Match are trading under cautionary and analysts said the group might sell its interests in these companies PG Glass and Edgars, which suffered a tough year, could be sold in time, they said. SAB said it planned to focus attention this year on restoring Edgars to profitability.

Mckay said the group's southern African interests were solid and some of its eastern and central European interests were performing well while others were facing tougher conditions

The group would spend R4,4bn in capital expenditure, of which R3,7bn would be invested in southern Africa

McKay said he would not rule out the possibility of an acquisition in a first world country The group denied it was in talks with Guinness as market talk suggested

SAB relaxed about liquor legislation

(182) CT (BR) 13/5/98

ANN CROTTY

Johannesburg — The government's plans to restructure the liquor industry would not be as draconian as initially feared, Graham Mackay, the chief executive of South African Breweries (SAB), said yesterday.

Mackay said at the release of SAB's financial 1998 results that after extensive interaction with the government and interested parties, he was confident the legislation would be constructive and "would allow us to develop the efficiency of our distribution system"

Mackay said he believed the liquor bill would provide SAB with opportunities rather than threats

Players and analysts have been expecting the liquor bill to focus on a three-tier licensing system throughout the industry The system would force groups like SAB, Distillers Corporation and National Sorghum Breweries to cut back on their distribution and retail activities

Beer and beverages buoy sluggish SAB

Ann Crotty CT (BR) 13/5/98 (182)

Johannesburg — A strong showing from SAB's beer and beverage interests made up for sluggish performances in its diversified interests

This enabled the group to report a 10 percent increase in headline earnings to 655,7c a share for the 12 months to March 31 1998 from 595,1c A final dividend of 257c a share was declared

The company's management said yesterday it was undertaking a comprehensive strategic review of SAB The review would cover all concerns and related financing requirements

Graham Mackay, the chief executive, played down market speculation of approach from a leading foreign brewery interested in acquiring a stake in SAB However, analysts said the comprehensive strategic review could include such a move

Earnings from group operations in the review period were up 15 percent to R2,3 billion from R2 billion, but the group has set aside R1,1 billion against discontinuing operations The setting aside of R1,1 billion resulted in a 38 percent decline in attributable earnings to R1,2 billion from R1,9 billion

About R600 million of the R1,1 billion relates to OK Bazaars, which was sold during the first half The remaining R500 million is a provision for costs from the disposal of other non-core interests by SAB

During financial 1998 SAB also disposed of its stake in Afcol and wholly owned clothing and footwear division It is now in the process of disposing of its interests in Conshu, Da Gama, Lion Match and Amrel

The R1,1 billion does not affect headline earnings, but analysts said yesterday it did hit short-term investor sentiment towards the share, which shed 700c before the figures were released and closed 900c lower at R152,20

The segmental analysis shows the extent to which beer and beverage interests dominate group earnings from operations Earnings from the domestic beer division were up 14 percent to R1,3 billion and accounted for 57,4 percent of the total R2,3 billion This increase was achieved on a 1 percent increase in beer volume

□ **Foreign Investment and Business Watch, Page 2**

STRATEGIC PAUSE *Graham Mackay, the chief executive of SAB, at yesterday's results briefing* PHOTO JOHN WOODROOF

FOREIGN INVESTMENT

History brews behind SAB ferment

(182) CT (IOR) 13/5/98

ANN CROTTY

The possibility that a foreign group could succeed in getting hold of a 25 percent stake in South African Breweries (SAB) is a strong indication of exactly how much things have changed in this country over the past five years.

Details remain sketchy SAB's top executives were cagey when questioned about a foreign buyer at yesterday's results presentation But they certainly left room for speculation

Individuals who appear to be key to such a move have indicated that, at the right price, a foreign buyer is a distinct possibility Leading JSE analysts agree that the sale of a substantial stake in the 102-year-old South African asset could be on the cards

Indeed, they argue that such a move would have beneficial spinoffs by unlocking considerable value for some of SAB's major shareholders

The sale of a group that has tracked much of the industrial development of South Africa for over a century would mark one of the most dramatic developments in corporate South Africa in decades

In May 1895 South African Breweries was registered in London According to SAB's own recorded history, this move was the outcome of bold initiatives by a syndicate of entrepreneurs in Johannesburg "With initial capital of £350 000 the fledgling company took its first confident step into greatness," SAB says

More objective observers point out that it wasn't all greatness The diversification into mass market consumer goods, which picked up considerable pace in the late 1970s and early 1980s, viewed with the benefit of hindsight, looks flawed This strategy is now being unwound at some cost

The greatness of the group rests in the fact that not only did it grow but, in more recent decades, time and again it managed to sidestep the strictures of apartheid government to become ever larger, ever more efficient and ever more profitable.

In 1955, when the National Party

government introduced punitive and highly discriminatory excise duties to protect wine farmers, SAB, Ohlssons and Chandlers merged to establish a more resilient and viable entity The enlarged SAB was also encouraged to diversify into wines and spirits

In 1962, the prohibition on the consumption of beer by blacks was lifted For SAB the full benefits of this action were curtailed by government interference in support of the interests of wine and spirits groups This sort of interference encouraged the beer giant to develop interests outside the beer and liquor industry

During the 1980s, sanctions and foreign exchange restrictions fuelled SAB's policy Management was restricted in avenues for investing the massive cash flow generated by its increasingly profitable beer operations So it chased the limited, locally available consumer related assets

One such transaction was the highly controversial acquisition of 65 percent of Edgars in 1983, funded by the issue of 30,6 million SAB shares At the time SAB shares were trading at around 800c, putting a value of about R250 million on the share deal

Until three years ago Edgars generated sparkling results for the beer group Then Edgars' management let slip the strategic advantage it had previously enjoyed in the market place Significantly, at today's price 30,6 million SAB shares would be worth R4,7 billion, while 65 percent of Edgars' equity at today's price is worth R3,2 billion

For SAB shareholders the sad thing is that Edgars was probably one of SAB's more successful non beverage acquisitions The purchase of Da Gama in the late 1980s seemed to mark the downturn in that industry

For years Afcol, Amrel, OK Bazaars and Southern Sun merely drained the resources — management expertise, time and shareholder monies — built up by the beer assets And because of these disappointing performances, no matter how fast non-beer assets were acquired their earnings would never match that of beer — failing one of the stated objectives behind the diversification strategy

SAB also provided the stage for a number of high-drama performances by key actors in corporate South Africa The assault on Edgars certainly stirred up an environment in which corporate acquisitions were generally made by prearrangement with the big institutional investors

Very soon after came a deal that effectively shafted Old Mutual out of any significant role in SAB ownership The daring plan — that nearly didn't work — resulted in SAB control resting firmly in the hands of a triumvirate: Liberty, Johnnic and Anglo Bevcon was formed to house their combined 34 percent stake.

And, to ensure that nobody would do to them what they had done to Old Mutual, they tied up Bevcon in what seems to be a tamper-proof joint control agreement The key to unlocking it is an offer price 25 percent above the ruling share price

The supposedly interested foreign party is reportedly looking at a stake of about 25 percent and a say in certain defined areas of operation This could not be comfortably achieved without Bevcon onside

Who is likely to be on the list of interested parties? Anheuser Busch, Diageo (the merged Guinness and Grand Met) and Heineken

At this stage analysts seem to favour Anheuser Busch It has developed credible justification to support a R15 billion to R18 billion investment for a minority stake in the fifth largest brewery in the world

Much of the justification hinges on SAB's dominance in Africa and its ability to generate attractive profits in emerging markets These are areas in which Anheuser Busch on its own has so far been unsuccessful For this reason it has taken minority stakes, with varying degrees of success, in groups outside the US For SAB, a tie-up with the US giant would help develop its international interests

Five groups are expected to dominate the global market in the next five to 10 years Such a tie-up may be essential to ensure SAB remains on that shortlist.

And for South African investors, the fact is that if SAB can be sold to foreigners, surely everything is up for grabs at the right price.

SAB was right to return to its beer barrels

(18A)

Despite poor growth in consumer spending, SA Breweries came up to market expectations, writes MARCIA KLEIN

ST (BT) 17/5/98

SA BREWERIES' results for the year to March reinforce the wisdom of its decision to focus on core beer and beverage businesses, which contributed 47% of group turnover and 72% of profits

The group reported 10% higher headline earnings of 655 7c a share, in line with analysts' expectations

And in line with the cautionary announcements issued by Conshu, Lion Match and Da Gama, and more recently Amrel, SAB said this week that the balance of smaller non-core subsidiaries would be disposed of shortly. The future of Edgars, Plate Glass, Southern Sun and SAB's strategic liquor investments remains unclear

SAB has already sold its interests in OK Bazaars, Afcol and a wholly owned clothing and footwear division. SAB set aside R600-million against discontinuance of the OK and a further R500-million on discontinuance or disposal of non-core businesses.

The group's results were achieved in a year in which real private consumption spending grew a mere 1 5% and beer volumes grew only 1%.

> *'Favourable trends in inflation and interest rates could induce a recovery in private consumption'*

Group beverage sales of 60-million hectolitres included lager beer production of 43-million hectolitres, with the rest being accounted for by carbonated soft drinks and sorghum

Despite low beer volumes, a strong performance from international beer interests (in beer output and earnings) and the excellent results of Coke and Schweppes bottler ABI saw beverage interests' profits grow by an average figure of 20%

Group turnover excluding discontinued operations grew 12% to R32 4-billion (R28 8-billion), but operating profit was only 6% higher at R3 9-billion from R3 7-billion previously on the back of competitive trading conditions and downtrading by consumers

Lower financing costs and tax saw headline earnings grow 15% to R2,3-billion. Headline earnings increased 15% to R2 3-billion, but were 10% higher on a fully diluted basis

Despite overcapacity in the hotel industry, Southern Sun maintained occupancies above 70%, outperforming the industry It increased headline earnings by 16%.

Management said the group's other diversified interests in SA "did not fare particularly well". Edgars earnings, which dropped 28%, were described as "disappointing", but SAB indicated that much effort would be devoted to restoring Edgars "to its place as a value-adding component of the group".

Analysts believe this could take some time, particularly considering the significant losses in subsidiary Jet.

SAB's share of the SA beer division's earnings were R1 3-billion, up 8% from the previous year's R1 2-billion. SAB International, which houses the international beer interests, turned in a sterling performance, contributing R337-million to SAB's bottom line, up 37% from the previous year's R246-million

Complementary beverages also performed well, with earnings up 26% at R251-million (R199-million) SAB's share of hotel and gaming earnings was R165-million (R142-million) Its share of Edgars' lower earnings was R149-million, down from R207-million in the previous year, while its share of Plate Glass earnings was R173-million (R200-million). Belron, the international auto-glass repair and replacement business, is the leading player in its field

SAB expects further real growth in earnings and dividends in the coming year Although it is expecting a sluggish first half, management indicated that favourable trends in inflation and interest rates could induce a recovery in private consumption expenditure later in the year SAB directors have reportedly downplayed the possibility of an international brewer taking a stake of up to 25% in SAB. Anheuser Busch and Diageo are said to be the frontrunners

SAB was right to return to its beer barrels

(182)

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ST (BT) 17/5/98

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Lower financing costs and tax saw headline earnings grow 15% to R2.3-billion. Headline earnings increased 15% to R2.3-billion, but were 10% higher on a fully diluted basis.

Despite overcapacity in the hotel industry, Southern Sun maintained occupancies above 70%, outperforming the industry. It increased headline earnings by 16%.

Management said the group's other diversified interests in SA "did not fare particularly well". Edgars earnings, which dropped 28%, were described as "disappointing", but SAB indicated that much effort would be devoted to restoring Edgars "to its place as a value-adding component of the group".

Analysts believe this could take some time, particularly considering the significant losses in subsidiary Jet.

'Favourable trends in inflation and interest rates could induce a recovery in private consumption'

SAB's share of the SA beer division's earnings were R1.3-billion, up 8% from the previous year's R1.2-billion. SAB International, which houses the international beer interests, turned in a sterling performance, contributing R337-million to SAB's bottom line, up 37% from the previous year's R246-million

Complementary beverages also performed well, with earnings up 26% at R251-million (R199-million). SAB's share of hotel and gaming earnings was R165-million (R142-million). Its share of Edgars' lower earnings was R149-million, down from R207-million in the previous year, while its share of Plate Glass earnings was R173-million (R200-million). Belron, the international auto-glass repair and replacement business, is the leading player in its field.

SAB expects further real growth in earnings and dividends in the coming year. Although it is expecting a sluggish first half, management indicated that favourable trends in inflation and interest rates could induce a recovery in private consumption expenditure later in the year. SAB directors have reportedly downplayed the possibility of an international brewer taking a stake of up to 25% in SAB. Anheuser Busch and Diageo are said to be the frontrunners.

SAB to start Kenyan production in August

(182)

NAIROBI — SA Breweries (SAB) will begin beer production in Kenya at the end of the third quarter of this year, company officials said yesterday.

The $40m brewery situated in Thika, 40kms from Nairobi, will begin production with an initial 500 000hl a year, but that could easily expand to 800 000hl, said Geoff Ings, project manager of SAB in Kenya.

"We plan to start production around August, September, at the end of the third quarter of this year," Ings said

The SA brewer has a 51% controlling stake in the new company, Castle Brewing Kenya, while 34% is held by a consortium of Kenyan investors and 15% by Dutch company FMO.

BD 28/5/98

Their entry into the Kenyan market is seen as part of the wider expansion of SAB in east Africa.

In 1995, they acquired a 46% stake in Tanzania Breweries and 1997, bought a 40% stake in Nile breweries in Uganda.

SAB has also bought into breweries in Ethiopia and Eritrea.

Analysts say that it will be an uphill task for the world's fourth largest brewer. At present their leading Castle lager brand is limited mostly to the capital Nairobi and accounts for less than 1% of Kenyan beer consumption.

They say SAB will have to build a distribution network across the country as well as shed an image that it is an upmarket product to become an effective player in the market

SAB's penetration into the Kenyan market has been cautious.

Company officials say they want to take it slowly and estimate it will take them about five years to be considered a major player in Kenya.

"Right now, we're not even a player," said marketing director David Twycross.

Beer consumption in Kenya at present is an estimated 2-million hectolitres a year but SAB says the market has been up to 4-million hectolitres in previous years. — Reuter.

Final draft of Liquor Bill unveiled

CT (BR) 11/6/98 (182)

LYNDA LOXTON
PARLIAMENTARY CORRESPONDENT

Cape Town — The final draft of the controversial Liquor Bill made concessions to wine farms but would result in unbundling by large corporations, mainly to black empowerment groups, Alec Erwin, the trade and industry minister, said yesterday

Unveiling the final draft of the bill approved by Cabinet yesterday, Erwin thanked the liquor industry for its "very constructive" contribution

"We are not going to please everybody, but I am pleased to say that in our interaction with the industry there seems to be a high degree of acceptance that this now is a workable and far better body of legislation than what we had before," he said.

The bill still separates manufacturers, wholesalers and retailers of liquor, but allows for four categories of retailers to cater for wine farms or small-scale brewers who sell their own wine for consumption on or off their premises, and for special events

Erwin admitted the new regulations could result in the sale of certain assets by large corporations such as SAB.

PLEASED AS PUNCH *Alec Erwin, the trade and industry minister, yesterday*

PHOTO ANDREW BROWN

"But it is premature to speculate on that because the industry must make a range of choices We have had constructive discussions with all the major suppliers around empowerment initiatives and where they could assist them enter the industry"

In a concession to large manufacturers, licences for manufacturing and wholesaling would be issued at a national level, while retail licences would still be dealt with provincially

Large supermarkets would continue to be restricted to wine sales, while Sunday liquor sales would be allowed subject to local authority conditions

The laws would be enforced by a new unified inspectorate in the department of trade and industry It would cover gambling, lotteries, consumer affairs, competition policy and liquor

□ Business Watch, Page 2

LIQUOR BILL

SAB is still sitting pretty on its distribution machine

(182) ~~(186)~~ eT (MR) 12/6/98

ANN CROTTY

Earlier this week, Alec Erwin, the trade and industry minister, set the scene for the beer industry when he noted that the draft Liquor Bill "has been thoroughly amended in response to submissions made to government and as a result of widespread consultation with the liquor industry"

A short while later Erwin demonstrated just how thoroughly the draft bill was amended. He stated that in terms of the revised draft legislation "manufacturers will be enabled to sell liquor to registered wholesalers and retailers only"

The final draft of the bill has still to be tabled, but as this remark indicates the draft legislation is a long way from prohibiting South African Breweries, as a liquor manufacturer, from distributing beer. SAB executives are meeting the government today to discuss the bill, and have been asked to hold off on comments to the media until after this meeting

But indications are that comments by Graham Mackay, the chief executive, to the effect that the proposed legislation would require no dramatic change in the group's method of distribution and no change in the status of its depots were spot-on.

At a later stage, when the detailed regulations are put into place, SAB's holdings in SFW and Distillers Corporation will probably be up for grabs

Executives at SAB seemed remarkably calm when discussing the draft bill's implications over the past 12 months Given that the essence of the bill was believed to be aimed at the heart of SAB's powerhouse — the efficient manner in which it combines its manufacture and distribution operations to secure a firm hold in the market — this reflected impressive restraint, a lack of understanding of what the group was up against, or a belief that it had sufficient political muscle to ensure the final product would be watered down.

In May Mackay said. "I don't believe that government action in the restructuring of the liquor industry will be as draconian as once thought.

As a result of extensive interaction with government and other parties, we believe that what will emerge will be constructive and will allow us to develop the efficiency of our distribution system."

This week's press conference, held to publish details of the revised Liquor Bill, confirmed that the beer giant's relaxed stance was appropriate. Full details will not be available for some time, but initial indications are that there is little in the bill that threatens SAB's position.

The group most threatened by the draft legislation are the many individuals who sell liquor to the public without a licence. The bill appears to be aimed at tightening up on the required registration of these outlets and includes penalties for those who supply liquor to such operators.

Given that it is probably easier to do business with legal entities, this is likely to be positive for SAB And given that about 50 percent of beer consumed in this country is sourced from an unlicensed — and therefore non-taxpaying — outlet, any success on this front will be a boost for the Receiver of Revenue.

As for the much-touted introduction of a rigorous three-tier system, there is little indication of anything onerous in this regard for SAB

As one leading JSE analyst pointed out yesterday "The proposed legislation is far from draconian In clamping down on illegal outlets it probably does more to benefit than harm SAB.

"The only part of the legislation that appears to infringe on SAB's operations relates to the current exclusive arrangement with the owners of the trucks that deliver about 40 percent of SAB's output," the analyst noted.

In terms of an exclusive arrangement with SAB, these so-called owner-drivers are only allowed to distribute products supplied by SAB

"These agreements, and others like it, are known as tie agreements and will be illegal in terms of the proposed bill" Erwin said on Wednesday.

But even this structure will have a limited effect on SAB's operations The owner-drivers have been set up in business by SAB, and a competitor would have to make a powerful case to persuade the owner of an SAB delivery truck to carry other products.

Still, to some, it may be of comfort to know that there is a law that supports Anheuser Busch's access to distribution facilities in this country.

What the earlier draft bill and general public discussion overlooked was that SAB has not wasted its years as what Meyer Kahn referred to as a "temporary sole supplier of beer"

In that time it has built up a formidable machine that would require aggressive legislation to dismantle. There is little doubt the dismantling process would, at least in the short and medium term, result in a less efficient distribution system and higher costs to consumers.

While the mass production of beer may be an easy enough task, the real challenge is to get it to consumers, particularly in remote urban areas, at a reasonable price. Imaginative sales and marketing campaigns have helped, but the real key was the management of the link between manufacturing facilities and distribution.

It has allowed development of a just-in-time production system as well as encouraged the development of owner-driver schemes.

Even SAB's most vigorous opponents would not challenge Mackay's comment last month that "beer distribution in South Africa is extremely efficient". The Liquor Bill does not appear to threaten this.

Govt puts squeeze on liquor monopolies

Trade and Industry Minister Alec Erwin caused an uproar with the first version of the liquor bill. Political correspondent Wyndham Hartley reports on the revised bill which was approved by the cabinet last week

CT (BR) 17/6/98

(182)

THE major players in the liquor industry have been in intensive negotiations with the trade and industry department since the first draft liquor bill was published in the middle of last year

Of concern to them was vertical divisions which Trade and Industry Minister Alec Erwin intended to introduce which would prohibit the holding of licences in more than one category — production, wholesale distribution, retail and on-premises consumption

Two other categories for retail consumption — on or off premises and retail at special functions — are planned in the new bill

Also controversial were provisions in the first draft which would allow the large supermarket chains to establish full liquor outlets in their stores

The small liquor traders cried blue murder because they could see their livelihood being taken from them by supermarkets which would be allowed to sell beer and spirits At present they are allowed to sell only wine

There were also cries of dismay from those who sought to empower emerging black entrepreneurs as licensed retail or wholesale operations The new bill provides a five year cooling off period before this can happen

The obvious implications of the creation of the licence categories are that the huge liquor monopolies like Stellenbosch Farmers' Winery (SFW), Distillers Corporation and South African Breweries (SAB), will have to sell off their operations in the retail trade and halt their distribution direct to the retail sector if they want to retain their production licences

Intertwined cross shareholdings and ownership will have to be sold or modified. As such both SFW and Distillers will have to sell all or part of their 50/50 holding in Western Province Cellars

Even a cursory look at the shareholdings demonstrates a tight monopolistic control of the industry, basically by SAB and the Rembrandt group, which owns both SFW and Distillers For example SAB has a 30% share holding in both SFW and Distillers

Erwin is giving notice that he will try to break up past practices in which the large corporations dominated across a number of the licence categories Whether or not this legislation will achieve that remains a moot point

Exactly how the bill has been changed is not yet clear The legislation has not yet been tabled in Parliament and while the players in the industry have been given advance copies of the bill approved by the cabinet, they were asked not to distribute it further than that The request has apparently been respected

The trade department declined to supply a copy of the bill to the press until such time as it was tabled in Parliament

Spokesmen for some of the companies said they were confident the bill was vastly improved from their point of view

Key to this was an interpretation of what Erwin meant when he said distribution from certain "specified" depots would still be allowed The assumption is that the practice of selling direct to the retailer from the depots would remain untouched

The major groups argue that it is unnecessary to shut their distribution operations because, with shebeens legalised, there will be a big demand for distributors It has been claimed there will not be the capacity in the industry to meet the demand and huge entrepreneurial opportunities will arise without touching their distribution networks

Ian Schietekat, the head of public relations for Distillers, said "Our interpretation is that we will still be able to sell to the retail trade" Their argument, he said, was that distribution was an integral part of production

SFW's Andre Steyn said their interpretation was similar Steyn also said SFW was more than happy to sell its holding in Western Province Cellars

SFW had only become involved in the retail side of the industry in response to their competitors doing so They would like to use the sell off as part of a black economic empowerment venture

The department's Ajay Sooklal said the intention was not to allow the big three to sell to the retail industry indefinitely

The idea was to promote the creation of a wholesale class and as this grew, cutbacks would be made to producers' distribution privileges In time any exceptions to the rule that producers may not distribute would be on specific grounds, for instance geographical or other issues that precluded efficient distribution through wholesalers In short, Sooklal's interpretation differs from those of SFW and Distillers

Sooklal also insisted that the provision which precluded controlling interests in more than one licence level would be enforced As a result, SAB would have to divest itself of the hotel and casino bars it owns as a result of its 100% shareholding in Southern Sun and the 50% it holds in Tsogo casinos

As a producer, SAB would not be allowed to control a company which has a licence in the "consumption on the premises" licences category

He said elements of the competitions bill, also scheduled to go through Parliament this year, would be used to review casinos with a view to preventing a monopoly in the industry

Liquor industry analyst and consultant Michael Fridjhon insisted the legislation would fail to break up the liquor industry monopolies Government's obsession with trying to break up the monopolies would not work in this instance Describing the bill as "bizarre, insane and poorly conceived", he said SAB, SFW and Distillers would not be terribly worried about having to sell off their retail holdings or any on-premises consumption outlets simply because they were insignificant in terms of where the industry made its money

He said the measures designed to address monopolies in the industry would not work because they did not in any way address the brand domination enjoyed by the big players

In addition, he said, the legislation would be inflationary by introducing another layer for which the consumer would have to pay and this at a time when the industry was on the verge of recession

The conditions for new entrants to the retail sector of the industry would fail because of the complicated net of business licences required

Fridjhon insisted there was absolutely no incentive for the present illegal traders to become legal retailers because the conditions were too stringent.

"This bill in its treatment of the retail trade is prohibitionist." The legislation, he said, did not address the key concerns and made it far too difficult for new entrants to the industry

Erwin is on record as saying supermarkets wanting to enter the full liquor trade in five years' time will have to create a "shop within a shop" that conforms to a complex set of rules

Industry sources said some were having second thoughts because of the stringency of the rules If the supermarkets cannot do it, what chance is there for a township shebeen owner?

It appears the department's intention is still to implement resolutely the multitiered licensing system to force some form of sell off by the big monopolies and to use the threat of really tough sanctions as the mechanism for enforcing the law

The punishment for selling to unlicensed outlets, or to under age youths, for example, is the permanent loss of a licence

However whether the threat of such punishment will be sufficient to create a climate for self-regulation is questionable.

It seems clear that the space in which the big liquor players can continue to operate across licence conditions will slowly shrink. The muted response of industry spokesmen tends to indicate some sort of deal, in what Fridjhon describes as a diluted three-tier system, between the department and the monopolies, at least in the short to medium term

This could involve undertakings for black empowerment in return for some concessions

Only time will tell whether the bill can break the apartheid-era domination of the market and encourage the advancement of black entrepreneurs

The new liquor bill is geared to give smaller brewers a chance

SAB boss says new laws stifle business

BD 1/7/98 (182)

Nicola Jenvey

DURBAN — The draft Liquor Policy and Liquor Bill are the latest additions to a long line of pending and recently enacted legislation which will stifle the ability of business to create jobs and wealth, says SA Breweries group MD Graham Mackay

He said in his annual report there was "a disturbing pattern" of national legislation — including the Labour Relations Act, the Basic Conditions of Employment Act, the Skills Development Bill, the Employment Equity Bill and the Competition Bill — and the cumulative effect of this legislation would be to stifle business

Under the draft legislation, the costly and inefficient mechanisms proposed would not meet the original intentions of the Liquor Policy and Liquor Bill

Mackay said "fortunately" the government had recently displayed a willingness to confer with business to find a solution that ensured sustainable empowerment, market accessibility and efficiency

"No matter how noble the intentions of these bills, the effects will be intrusive bureaucracy, added cost, inflexibility and thus uncompetitiveness," Mackay said

He urged that, against the background of poor service standards and routinely under-delivered state programmes, government "arrest this corrosion" by emphasising performance standards and delivery ahead of political considerations

The solid performance from the beverage division of SA Breweries added 83% to group headline earnings, which advanced 15% to R2,3bn in the year to March, despite low volume growth in the beer division

Attributable earnings dropped to R1,2bn from R1,9bn as the group set aside R1,1bn for the disposal of non-core assets, including R600m for the disposal of OK Bazaars to Shoprite Holdings last year

The 257c final dividend boosted the total to 330c — an increase of 15% from the previous year

Determination

Mackay said SA Breweries had approved a record R4,4bn capital expenditure programme, as well as a gaming industry commitment of about R3,5bn.

This meant that the group would invest more than R7bn in southern Africa over the next few years, "underlining SA Breweries's determination to prosecute further substantial growth opportunities"

Mackay believed that as the group concentrated on core beverage businesses, its positioning for real earnings growth was increasingly apparent

Consumer spending in SA remained subdued, but demutualisation would ease household debt and so release incremental consumer spending later in the year

(182)

So WHAT if there's death in the brew?

STILL FIT AND VIRILE Molokoane Molokoane and sweetheart Mpho Ramaisa

■ Pics. MIKE MZILENI

Township hit by sensational drink

CP 5/7/98 (182)

By DAN DHLAMINI

NO BATTERY ACID IN THIS BREW A group of men relish the ill-famed "jwejwe" brew alleged to have claimed the lives of many

KHUTSONG township near Carletonville has been hit by a new craze – a sensational brew that has allegedly claimed lives but is still a favourite flavour with the locals

The concoction is hilariously named "fufulanko" (sweaty nose) or "jwejwe"

Some consumers of this controversial home-brew claim it is "good" while others say it has contributed to their ill health and the death of their beloved ones.

A "jwejwe" victim, Ms X said she was saved by a local doctor who treated her

She said after her admission to Sybrand van Niekerk Hospital in Carletonville she was transferred to Chris Hani Baragwanath where she spent six weeks.

Ms X said more than 12 of her close drinking mates, including a well known Khutsong academic, died as a result of drinking "jwejwe"

Imbibers of the brew said it was called "fufulanko" because after drinking a litre of the brew, one's nose would start sweating

Ms X, who is still recovering from liver cirrhosis told City Press that a ' bomb" – two litres of "jwejwe" which cost R4 – is enough to knock one out.

She said the drink suppressed appetite, and after prolonged intake of the stuff, one is bound to lose weight.

Ms X said she had seen shebeen queens brewing the stuff using bread, brown sugar, malt, a lot of yeast and water

However, others claim that the real killer in "jwejwe" was the addition of battery acid, malt, a lot of yeast, brown bread, brown sugar and horse-shoe pipe tobacco for extra kick.

They also claimed that at some shebeens, the owners would not sell the brew before one bought a plate of food

Oumaki Mkhoma (38), a mother of two and a regular at a "jwejwe ' joint seems to have given up hope in life

Showing the symptoms (thin legs, darker skin fluffy hair) she told City Press the brew was making her sicker by the day but she was addicted to it

However Molokoane Molokoane and his darling Mpho Ramaisa said they enjoyed "jwejwe' and there was nothing wrong with it as long as you do not drink it on an empty stomach"

Molokkoane said he had been drinking the home brew for two years and that he was "fit and still virile '

Drinking her favourite stuff from a plastic container, Kedibone Kgaje (39) also showing symptoms of the effects of "jwejwe" said she was addicted and there was no way she could stop

"Jwejwe" shebeen queen Nthabiseng "Maqwala'nge bath ' Mosia defended her brew and dismissed as rubbish and jealousy allegations that her home brew caused death and illness

"The rumour has been spread by our opposition " said Mosia

She dispelled the notion that ' jwejwe was a mixture of poisonous substances which caused disease and subsequently death

"The recipe for my mbamba or magasman is brown bread malt, brown sugar, yeast and water, nothing else

"It is just like the sorghum beer sold in shops

Another "jwejwe shebeen queen Mmakatiso Mmusi, said she had heard rumours about people who had died because of drinking the home-brew

A local medical practitioner confirmed that he treated between five and seven patients a month, most of them already acute

GETTING SICKER BY THE DAY Oumaki Mkhoma imbibes her favourite stuff at one of the "jwejwe" joints while her baby watches

CAN'T WAIT FOR THE BREW TO MATURE ... Kedibone Kgaje addicted and showing the side-effects of the brew, drools next to the alleged killer "jwejwe" brew

Maluti Foods joins forces to produce wine, brandy

BD 9/7/98 (182)

Patrick Wadula

MALUTI Foods and Beverages is involved in a project in the Northern Cape, together with the Industrial Development Corporation (IDC) and KWV, to produce raw materials for fruit juices, wine and brandy.

Maluti head MK Malefane said his group had managed to acquire more than 1 000ha of land provided by the Northern Cape government for the cultivation of vineyards.

The IDC would participate in the project, based in Douglas, while KWV would provide the technical assistance.

Malefane said a trust enabling farm workers and communities to participate in equity ownership directly would also be set up for those residing around the project.

He said a similar trust called the Maluti Groenkloof Trust was created in the Western Cape to enable local participation in the wine production.

Malefane said that his group would soon set up an empowerment scheme at a national level that would target liquor traders from the previously disadvantaged communities.

"We have been approached by a major producer of cognac in France which is prepared to supply Maluti with the raw materials, in bulk, for the blending of new cognac brands in SA for the local and export market," he said.

Malefane said the group was involved in talks with a foreign partner for a possible joint venture in the production of wine.

The group was looking for strategic foreign and local partners to participate in various ventures in the wine and brandy industries.

Malefane, who recently visited the Middle East, said there was potential for SA to export wine, spirits and fruit juice to that region.

Bursting the bubble of bottler's books

CT (BR) 5/8/98 (182)

MELODY PETERSEN

The Coca-Cola money machine has whirred along for years, producing extraordinary profits for investors. What helped set it in motion was management's decision in the late 1980s to remove the capital-intensive bottling factories from the books and place them in a separate company.

The manoeuvre has proved so successful that archrival Pepsico, a perennial also-ran, recently announced that it, too, would consider spinning off its bottling unit.

But a growing chorus of financial analysts and accountants are trying to strip the gears of Coca-Cola. They say Coca-Cola and its bottling company, Coca-Cola Enterprises, are one business and should consolidate their financial statements, an argument not lost on the US accounting rule makers.

A consolidation would cut hundreds of millions of dollars from Coca-Cola's earnings, the analysts say. And Coca-Cola would be forced to reclaim billions of dollars of debt that now resides with Coca-Cola Enterprises.

"The numbers look wonderful," said Albert Meyer, an accountant and investment analyst, about Coca-Cola's financial reporting system. "It is almost too good to be true."

To him and others, the system is not the real thing. "It is pretty fake, actually," he said recently.

Accounting rules leave some room for interpretation, and Coca-Cola has not been forced to consolidate accounting, because it owns less than 50 percent of the bottling company.

But the Financial Accounting Standards Board, which sets the nation's accounting rules, has long been concerned that some companies, among them Coca-Cola, may be skirting the spirit of the rules.

So it is now discussing a new rule that would force companies with close ties to consolidate even when there is a minority ownership — a rule that would force Coca-Cola's hand. Though the board moves slowly, a proposal is scheduled for release late this year.

The Securities and Exchange Commission (SEC) could require Coca-Cola to consolidate. SEC officials said they look at corporate relationships and stock ownership in determining control, but could not comment on Coca-Cola's accounting in particular.

In select cases, they have forced companies to consolidate their financial statements after finding that one company clearly controlled many parts of another's business.

Without a doubt, the fates of Coca-Cola and its bottler are inextricably linked. Coca-Cola recorded $18,9 billion in worldwide sales last year, compared with $11,3 billion for Coca-Cola Enterprises, which accounts for much of domestic US Coca-Cola sales.

But the global giant has a market value of $203 billion, dwarfing the $13 billion market value of Coca-Cola Enterprises. That divergence reflects a decade of superior returns for investors in Coca-Cola and a heavy debt burden at Coca-Cola Enterprises.

Critics of the accounting practices say Coca-Cola can bolster its bottom line through sales to the bottler.

Coca-Cola sells billions of dollars of soft-drink concentrate each year to Coca-Cola Enterprises. It has also sold entire operations to the bottler. Such sales could not generate profits if the accounting books were consolidated.

Coca-Cola stands behind its accounting. Randal Donaldson, a company spokesman, said the company was "absolutely in accordance" with all accounting rules. Federal securities regulators were informed of the accounting system in 1986, when Coca-Cola Enterprises became a separate company, and they did not object.

The two companies were independent, he said, pointing out that Coca-Cola had a minority stake, now 44 percent, in the bottler. He also said that because Coca-Cola did not control the bottler, it did not have the option of consolidating financial statements.

"This is an old, worn-out point of view, totally without merit," said Laura Asman, a spokesman for Coca-Cola Enterprises, "and our company's performance for our share owners speaks for itself."

Meyer and Dwight Owsen, a doctoral student at the University of Portsmouth in the UK, have written papers criticising Coca-Cola's accounting.

They compare the approach with one used by companies in the Depression, when a parent company and related entities would sell items to one another to inflate revenues and raise the parent's stock price. Those abuses led to changes in accounting rules, intended to eliminate profit on sales between closely tied companies.

"One can't transact business with itself," said Meyer, an investment analyst with Martin Capital Management. "It is not real. If you consolidate, then everything collapses."

Meyer and Owsen say the board of Coca-Cola Enterprises is controlled by people with strong ties to Coca-Cola.

To Coca-Cola's credit, the makeup of the board has changed recently. Until late last year, Douglas Ivester, then Coca-Cola's president, was chairman of the bottler.

He stepped down after being promoted to chairman, and chief executive of Coca-Cola. Neville Isdell, a senior vice-president of Coca-Cola, also stepped down. But the board includes two former Coca-Cola executives and Joseph Gladden Jr, Coca-Cola's general counsel.

There are others with a stake in Coca-Cola. Howard Buffett, the son of Warren Buffett and a director of Berkshire Hathaway, Coca-Cola's largest stockholder; and two directors of Sun Trust Banks, Coca-Cola's second-largest stockholder. That accounts for six of the board's 13 members. Another director is a consultant who has contracts with Coca-Cola and the bottler. — New York Times News Service

☐ *Coca Cola is one of world's most widely recognised companies. Business Report is compiling an index of South Africa's global companies. For details of how to enter your company contact Theresa Lee of PricewaterhouseCoopers on (011) 498 4371*

New beer index could embitter SA's tipplers

ARG 22/8/98 (182)

ALIDE DASNOIS

If you're looking for a beer, you'll get much better value for your money in most African countries than in South Africa

A dedicated team of Investec researchers has come to this conclusion after extensive fieldwork in Botswana, Ghana, Kenya, Malawi, Mauritius, Namibia, Zambia and Zimbabwe, as well as in South Africa.

The results of their work are published in the Investec Beer Index, a quarterly measure of the purchasing power of some of Africa's major currencies

John Clemmow, of Investec Securities in London, says the Beer Index is an "unashamed rip-off" of the famous Big Mac index devised by the Economist But it's much more useful, he says "First, most of Africa has not yet had the chance to sample the toothsome delights of a Big Mac and secondly, our researchers like the on-the-spot fieldwork required when we compile a beer index."

The Investec Beer Index, started as a light-hearted exercise 15 months ago, has now shown "phenomenal forecasting accuracy", Clemmow says

The hard-working Investec researchers are asked to drink a 375-millilitre beer in a bar and note the price They are instructed not to frequent hotel bars used by tourists where prices are not typical and where Investec expense accounts are too easily breached, but bars used by ordinary citizens

"For example, we do not frequent the up-market Gabarone Sun in Botswana but rather the next-door establishment known to us as the 'Hoof Bar' where not only can you enjoy Castle for 2,10 pula a shot, but you are able to sample stewed cow's hoof for a reasonable 15 pula a leg"

By the end of July the price of a Castle in the Hoof Bar had gone up to 2,20 pula but at 0,48 US dollars this was still much better than the 0,61 dollars the same brew cost in South Africa or Namibia, the Investec Beer Index shows.

Best of all for beer drinkers was Zambia, where the price of the ubiquitous Castle fell from 1 000 Zambian kwacha to 800 Zambian kwacha, or 0,44 US dollars, possibly because the researchers had "discovered the joys of the Rumba Club in Lusaka"

Over the past three months South Africa had the worst performing currency in the region, closely followed by Botswana, Clemmow says

Three months ago, he says, Investec cautioned that the South African rand was looking increasingly expensive in the region. The drop in its value has helped to rectify the most glaring examples of over-valuation, he says But Botswana, Zambia and Zimbabwe still have a competitive advantage over South Africa.

Kenya, on the other hand, is on the way to becoming one of the most expensive countries in Africa, with the local (Tusker) beer costing the equivalent of 0,70 US dollars, even in the bar chosen by the Investec researchers which, says Clemmow, is "even more disreputable" than their previous Nairobi haunt.

Though Clemmow admits the Beer Index does have some drawbacks – "for example our Botswana correspondent seems to be incapable of remembering the price of just one beer and prefers to sample 10 units at a time" – the overall approach is valid, he says.

"The price of a beer in a bar is set by a host of factors of which the most significant are the cost of production, the country's taxation policy and the price of retail premises and labour It is thus far more representative of the overall state of the economy than just the retail price of a commodity in a shop"

THE INVESTEC ALL BEER INDEX

Country	Beer	Price (local currency)	Price ($)	Price (R)
Botswana	Castle	2.20	0.48	2.93
Ghana	Star	13.00	0.57	3.49
Kenya	Tusker	41.25	0.70	4.29
Malawi	Carling Green	16.00	0.60	3.69
Mauritius	Phoenix	14.00	0.58	3.54
Namibia	Windhoek	3.75	0.61	3.75
South Africa	Castle	3.75	0.61	3.75
Zambia	Castle	8.00	0.44	2.69
Zimbabwe	Castle	9.00	0.44	2.71

Sorghum price war dampens Awethu

(182) CT(BR) 25/8/98

MATT GETZ
MARKETS EDITOR

Johannesburg — A price war in the sorghum market had knocked Awethu Breweries behind its forecasts in the year to June 30, its first year as a listed company, but it managed to lift earnings 90 percent from the pro forma figures, the company said yesterday

In May, Awethu said it had "come under sustained attack from its largest competitor" and profit would not match forecasts Rather than enter into a price war, it said it would increase its number of franchise outlets

It had forecast 337 outlets by the year end but ended the year with 695

Awethu said it had matched earnings forecasts in the last quarter But the expansion of the franchise network put a strain on the balance sheet, which looks far less healthy than it did 12 months previously

Long-term liabilities rose from R3,3 million to R7,3 million, though only R4,3 million of that bore interest Cash fell from R3,3 million to R1,3 million The company is still liquid, though, with a current ratio of 2,7 times

Sorghum brought in 43 percent of profit, mageu 33 percent, food products 21 percent and other income 3 percent About 40 percent of sales were achieved through the franchise network

Attributable income grew 90 percent to R3,5 million on turnover 24 percent higher at R37,8 million

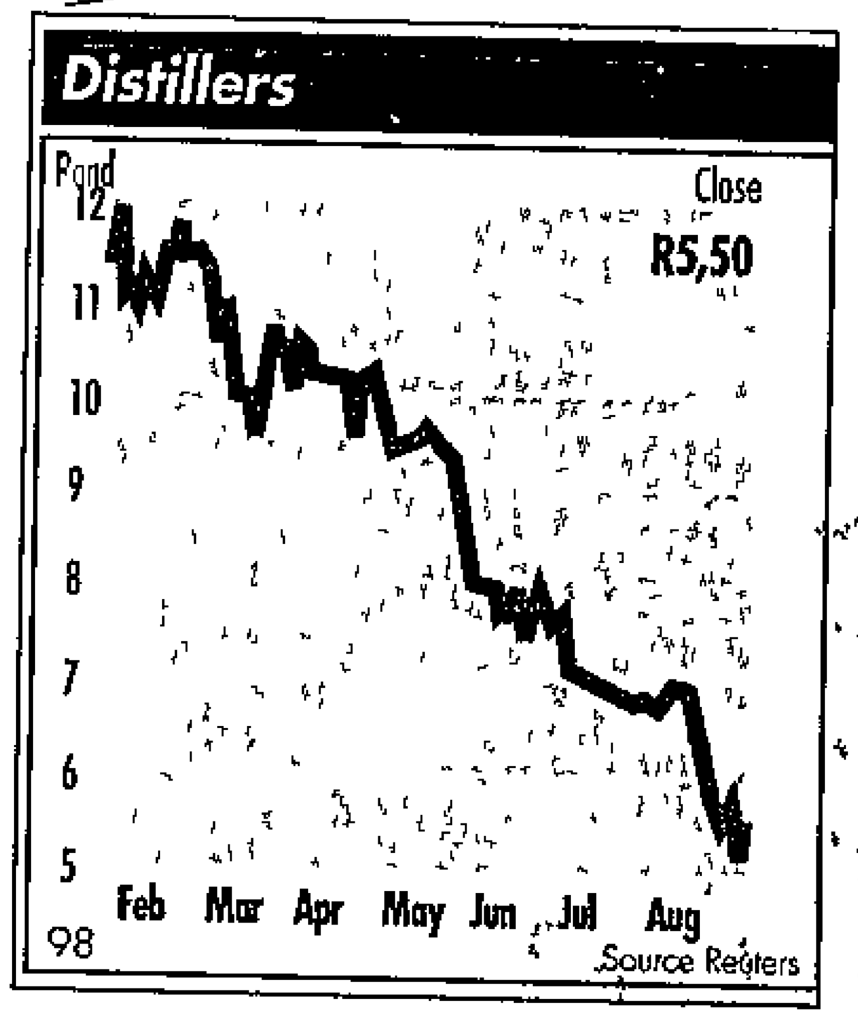
Forecasts were much higher at R4,2 million and R42,3 million The company ascribed the higher margins to "the efficiencies of integration and tight cost control measures" Earnings a share rose 75 percent to 7,9c

Awethu shares were unchanged at 80c yesterday They have lost 57 percent since their February peak of R1,85

Distillers achieves 4% rise in earnings

CT(BR)26/8/98 (182)

Marc Hasenfuss



Cape Town — Distillers Corporation, the Rembrandt-owned spirits and fine wine producer, managed a 4 percent increase in earnings to R175,6 million in the year to June as trading conditions got tighter in the second half, the company said yesterday

A Distillers spokesman said the company had managed a slight increase in its trading margins from 13,9 percent to 14,2 percent by virtue of improved profitability of products sold on international markets This offset increases in raw material prices and the exceptional increase in excise duties

"International demand for our trademarks continued to improve, and exports increased 32,5 percent to R158 million "

The spokesman said exports were contributing increasingly to Distillers' total turnover, which topped R1,9 billion in the period under review

Turning to the domestic market, the spokesman said successful marketing of trademarks and value added through the supply of quality products saw a continued improvement in the company's local market share in all product categories

Looking ahead, he expected unfavourable trading conditions to continue

"But our domestic and international investment programme is focused on ensuring earnings growth over the long term," the spokesman said

Distillers closed 40c higher at R5,50 on the JSE yesterday The share is well off its annual high of R12

New liquor law 'aims at effective control of industry'

(182)

CHARLES PHAHLANE
PARLIAMENTARY BUREAU

ARG 16/9/98

Opposition to the Liquor Bill's proposed three-tier structure of regulating the liquor industry was by people who sought to maintain the status of lack of competition and socio-economic problems, said a trade and industry department official.

In an address to a National Assembly subcommittee, trade and industry deputy director-general Ajay Sooklal said the objections denied the uniqueness of liquor as a "legal, although potentially harmful substance" and sought to dilute or remove any attempts to address liquor policy issues

"Ultimately, they deny the socio-economic problems faced by our people as a result of past legacies and work towards denying them the basic right to improve their socio-economic, developmental and human conditions which is the object of the bill," said Mr Sooklal

The Liquor Bill's three-tier system of regulation divides the industry into three categories – manufacturing, wholesalers and retailers

Mr Sooklal said the three-tier system was the "most logical structure" because industry players would be effectively regulated to comply with their respective categories

It also prevented the ability of players to exert undue influence across categories

ANC 'used steamroller tactics' on liquor bill

(182) CT(MR) 22/9/98

LYNDA LOXTON

PARLIAMENTARY CORRESPONDENT

Cape Town — The ANC was yesterday accused of steamrollering the controversial Liquor Bill through the national assembly

"This is legislation by exhaustion," said David Graaff, a National Party member of the portfolio committee on trade and industry

He was speaking after Enver Daniels, the chief state law adviser, had said the Constitutional Court could rule the Liquor Bill to be constitutional

Hennie Bester, the Western Cape trade and industry minister, last week told the committee he had been advised the bill was unconstitutional as it impinged on provincial powers

Daniels said the bill, if passed and found by the court to be constitutional, would not deprive the provinces of the right to legislate on liquor issues

Graaff and Colin Eglin, of the Democratic Party, said they needed time to consider Daniels's memorandum on the bill, but Rob Davies, the chairman, and other ANC members said they accepted Daniels's opinion and would go ahead with the bill

The committee spent the rest of the day considering amendments to the bill

Davies said they had tightened up the provision banning the "dop" system, where the supply of liquor forms part of farmworkers' wages, and prohibited the granting of a liquor licence to any premises near a garage.

The committee also lengthened the lifespan of registrations under the bill to 25 years from the the eight to 15 years previously set down. The liquor industry had argued that setting any time limit on registration could inhibit investment

National Party member David Graaff said: 'This is legislation by exhaustion'

The conditions retailers have to meet when registering had also been eased slightly to make it easier for new entrants and to encourage currently illegal operators to register For example, they will no longer have to publish details of their application in the provincial gazette

It rejected an appeal by Woolworths to amend the bill so that it could continue to import wine from Marks & Spencer, with which it has an exclusivity arrangement, under the new three-tier structure of the industry Woolworths had submitted that bringing a third party into its arrangement with Marks & Spencer would be unproductive.

SA BREWERIES (182) fm 29/9/98

MANY WAYS TO BREAK UP A SIX-PACK

It could start with another bloody battle

Liberty Life moved quickly to pour cold water on media reports last Friday that the financial services group had put the "for sale" signs on its stake in SA Breweries But the prospect of such a sale raises a number of interesting permutations

One is the possible remake of the 1983 battle for the control of SAB In that bloody corporate battle, the trio of Liberty, Johnnic and Anglo American Corp crafted a plan which cut Old Mutual out of any significant positions in the affairs of SAB

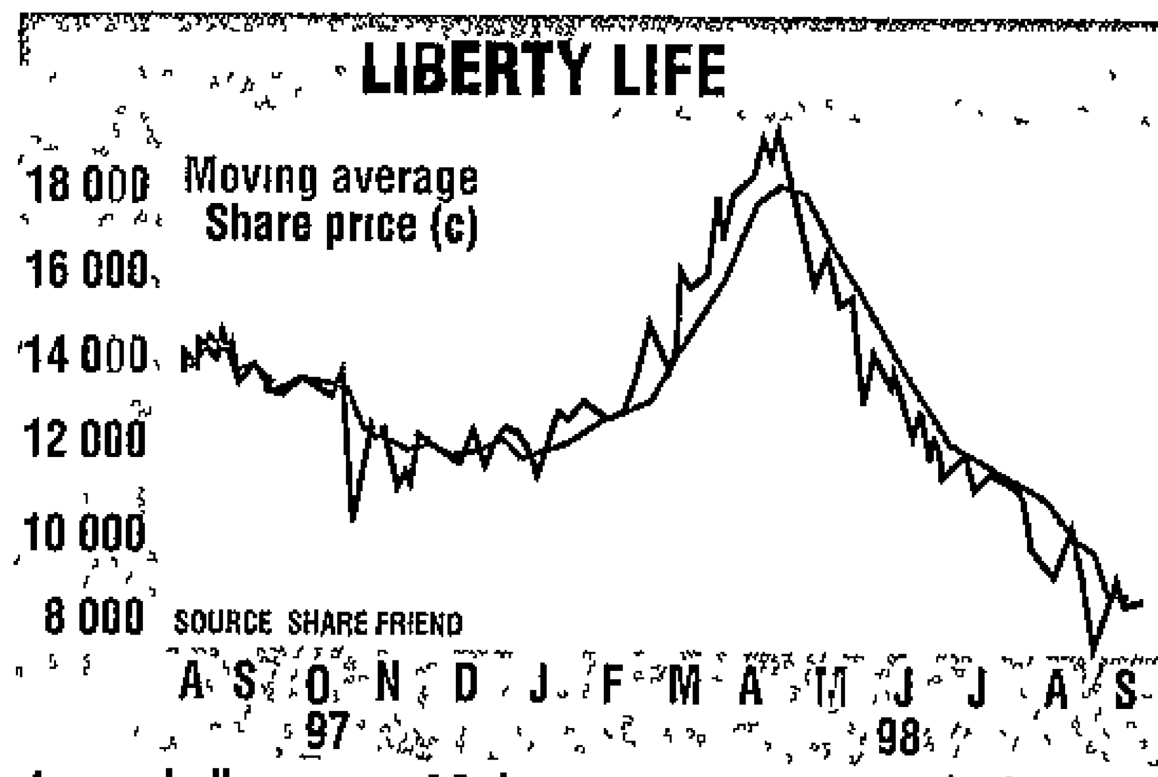
Though the trio emerged with de facto control of SAB, the battle resulted in SAB having to shed its hotel interests, which were sold to a management team led by Sol Kerzner

Now the prospect of Bevcon, through which the three groups own a 28,7% stake in SAB, coming under the hammer opens the door for a hotly contested bid for control of the beverage, retail and industrial group

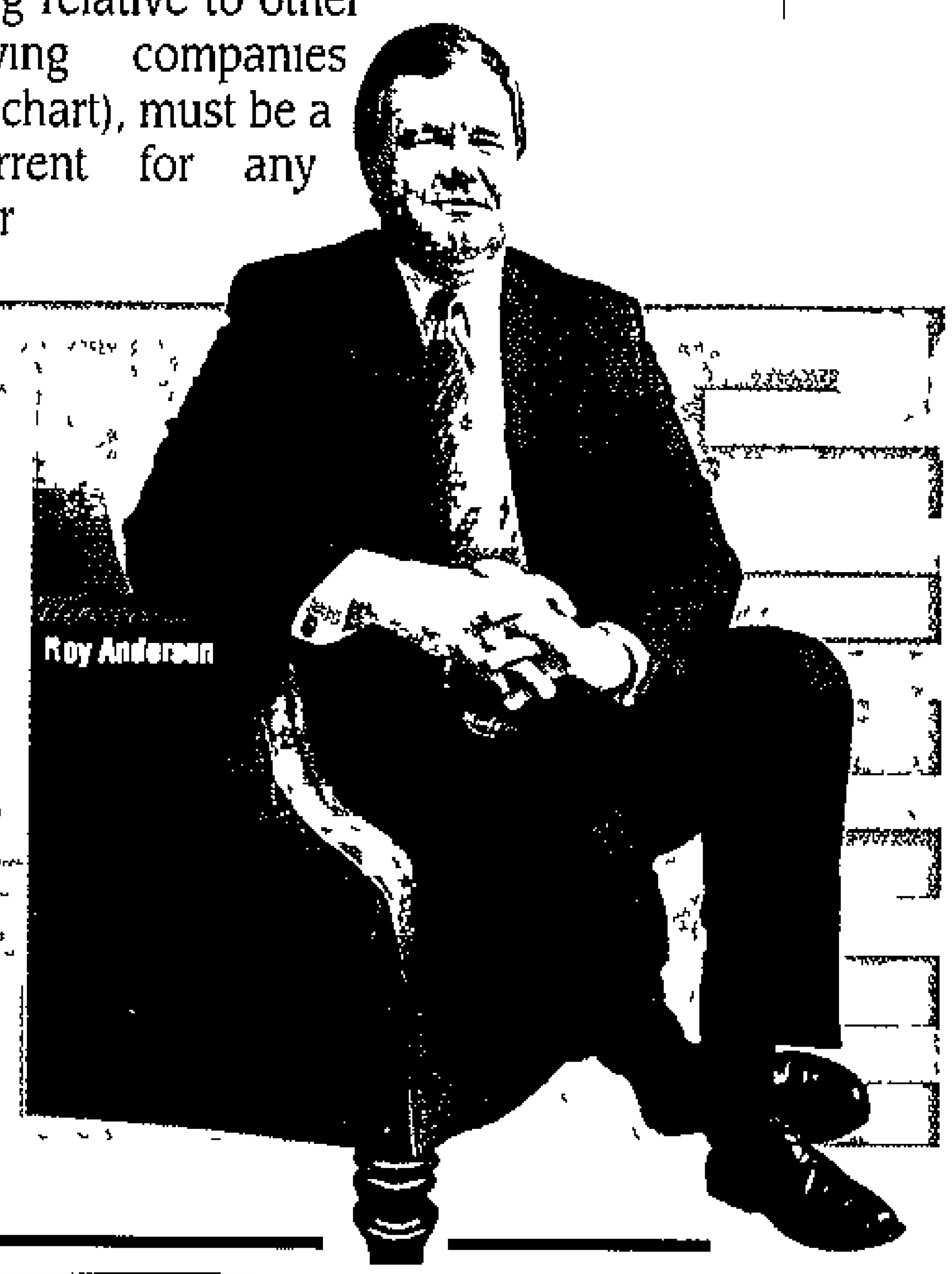
Liberty Life executive chairman Donald Gordon told an investors' conference in London last Thursday (September 17) that given Liberty's determination to focus more on financial services, the SAB investment could no longer be considered a strategic one

Subsequently, Liberty CE Roy Andersen explained that the SAB stake was not for sale "We are happy with our investment in SAB and its future prospects," he said

The current market prices, and SAB's rating relative to other brewing companies (see chart), must be a deterrent for any seller



Again challenging its 15-day moving average, a further push on continued good volume will result in a short-term buy signal.


Roy Andersen

But if Liberty were to sell its stake, it would make practical sense for any possible buyer to make a bid for the whole of Bevcon

"It would be the most efficient way," Andersen said, adding that in deciding to accept any offer, Liberty's priority would be to achieve maximum value for its policyholders and shareholders

In addition, it would take into account the interests of SAB shareholders and the interests of SA

A full bid for Bevcon would almost be guaranteed success because Johnnic, Liberty's other partner in control of Bevcon, has already indicated its intention to sell its Bevcon shares

Johnnic has said it would sell its direct and indirect SAB stakes and use the proceeds to fund the refocusing of the industrial holdings group into media, entertainment and information technology industries

Being the minority partner in the triumvirate, Anglo American would almost certainly join Johnnic and Liberty in selling its Bevcon/SAB stake

Among brewing groups being mentioned as possible bidders for the more than 30% stake in SAB (if one combines 100% of Bevcon and Johnnic's direct shareholding in SAB) are US-based Anheuser-Busch, which is the world's largest brewer in production volumes, and Heineken, the second-largest

For Anheuser-Busch, SAB's attraction lies in its businesses in eastern Europe, where the US brewer has been battling to gain a foothold That market has already been carved up between Heineken, SAB and privately owned Belgian brewer Interbrew

In Poland, Europe's sixth-largest beer market, SAB controls two brewers which have a 21% share of the 18,8m hl market, compared to Heineken's 37%

Anheuser-Busch's efforts to buy Czech brewer Budejovicky Budvar Narodni Podnik were stymied by the Czech government The Czech brewer uses the same "Budweiser" brand name as the US company

But if Heineken were to buy Bevcon, the Dutch brewer would most likely be forced by competition authorities in most of the eastern European countries to sell some of the breweries to avoid gaining a domineering position

Besides other brewing companies, there is also the possibility of SAB management arranging for the Bevcon stake in SAB to be sold to institutional investors both locally and overseas

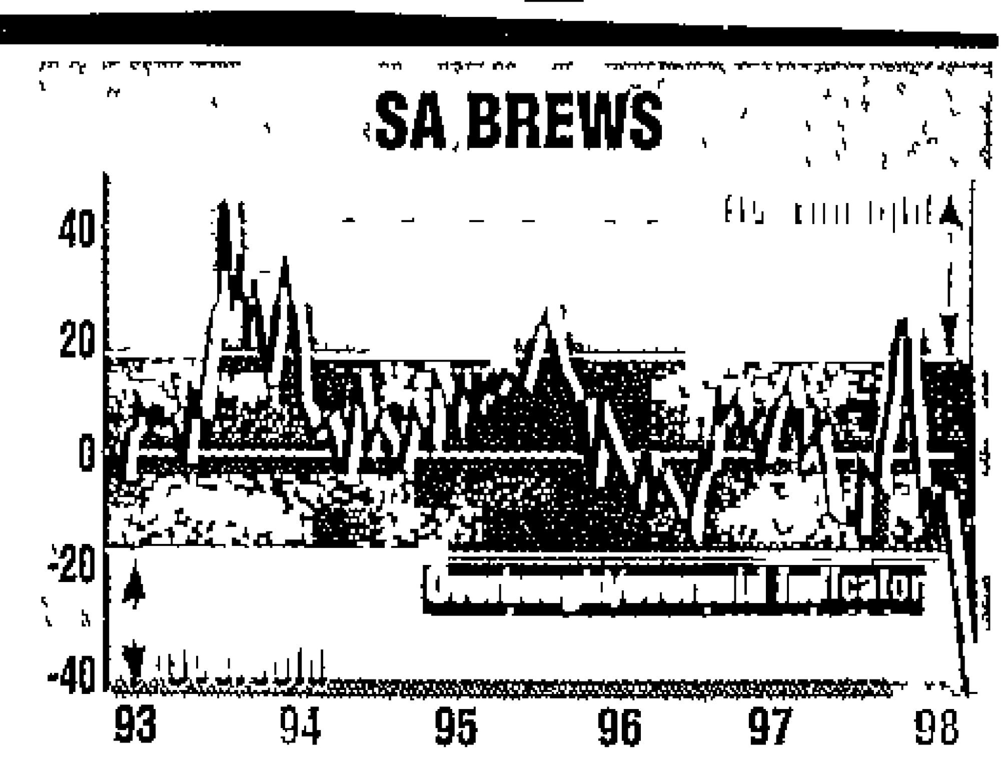
Such an outcome would suit SAB management, given their proposed plans to place more focus on SAB's core beverage businesses, locally and internationally

Jabulani Sikhakhane

P/E RATIOS FOR BREWING COMPANIES

Carlsberg A	22,4
E[illegible]	25,9
Heineken	30,2
Grolsch	16,9
Unicer	25,7
[illegible] Breweries	65,3
Sapporo	39,3
Firin	14,4
Lion Nathan	18,4
Fosters	11,2
Anheuser-Busch	22,0
SA Breweries	11,0

SOURCE FINANCIAL TIMES (17/09/98)



At an historic oversold level, with no hint of an upward reversal, the outlook for SA Breweries is bleak.

Wine producers bitter

(182) ST (CM) 27/9/98

BOBBY JORDAN

THE controversial Liquor Bill, passed by the National Assembly on Wednesday, could spell disaster for the wine route and the wine industry in general, producers said this week.

Producers are calling for an urgent meeting with the Department of Trade and Industry next week in the hope of amending sections of the Bill, which is expected to be signed into law before the end of the year

The Bill might also end up in the Constitutional Court, judging by comments made during this week's parliamentary hearings by Western Cape Trade and Industry MEC Hennie Bester, who pointed out that liquor licensing was exclusively a provincial matter

Wine producers said the Bill in its present form prohibited the largest wine producers from selling direct to the public. This would apply to many of the estates on the wine route and, if approved, could damage tourism and lead to job losses.

"We feel the Bill hasn't been clearly thought out," said the chairman of the Paarl Vintners producer's association, Jeff Grier "It's critical that wineries are allowed to sell directly to the public because that's an important part of Western Cape tourism and the economy"

The problem would hopefully be resolved during next week's talks with the department, according to the executive director of the Cape Wine and Spirit Institute, Riaan Kruger.

He said the Bill had not specified a cut-off point for manufacturing companies most affected.

"We're convinced that (the oversight) wasn't done on purpose and we'll easily be able to sort it out," Kruger said.

Producers also raised concern about a "technical flaw" in the Bill's liquor licensing system which meant some of the industry's biggest wine companies would no longer be able to manufacture their product.

Some retailers welcomed the Bill's aim at empowerment

"The whole idea behind the Bill is to create jobs, but nobody is sure whether it'll actually do that," said Cape Town wine trader Vaughan Johnson

"The idea to free up the industry should be welcomed but the Bill might just end up increasing liquor prices"

Business Day

DAY, SEPTEMBER 28 1998 · www.bday.co.za

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BDFM A BDFM publication

Maluti brewing a deal with Anheuser-Busch and Heineken to net SAB

BD 28/9/98 (182)

Patrick Wadula

MALUTI Food and Beverages head MK Malefane is believed to be creating an empowerment group to form a partnership with an international brewer that could take over SA Breweries.

A source in the brewing industry said yesterday two international brewers, US-based Anheuser-Busch and Dutch brewer Heineken, had shown a keen interest in SAB.

The two companies are said to be coveting Beverage and Consumer Industry Holdings' (Bevcon's) 29% stake in SAB. They are holding talks with Liberty Life Group, which has a 29% stake in Bevcon and a direct 5,7% interest in SAB, making it the largest single shareholder of SAB.

It is believed New Africa Investments (Nail) is no longer interested in Johnnic's shareholdings in Bevcon and SAB as it lacks finance after the battering its shares took during the recent Johannesburg Stock Exchange plunge.

Sources said one of the international brewers stepped in after Nail's withdrawal from talks. Nail could not be reached for comment.

Research conducted by Deutsche Morgan Grenfell indicated the recent fall in SA's equity markets and currency had made it more attractive for foreign companies to hold controlling interests in local groups.

The source said it would be logical for the winning international party to tie up with a local black partner to make inroads into the SA market.

Malefane declined to comment on his group's interest in SAB, but said his interest in the beverage industry was well known. Earlier this year Maluti entered a R30m joint venture with Stellenbosch Farmers' Winery in the wine sector's first empowerment deal.

Liberty Life CEO Roy Andersen said at the weekend that local and foreign firms had shown an interest in SAB. "All contact with the different groups has only been preliminary, and negotiations have not yet begun."

Andersen said Liberty ideally would focus on its core business, financial services, and SAB was no longer a strategic focus. "We are happy about the way our SAB investment is performing and are in no hurry to sell our stake."

Liberty's three main investments are 26% in Stanbic, 29% in Bevcon and 23,6% in Premier Group. International players are said to be waiting anxiously for new liquor legislation that will allow foreign brewers full access to SA.

Taxing times for shebeen owners

(187)

By Pamela Dube
Political Reporter

MORE than 250 000 shebeen owners countrywide are unlicensed and therefore not paying tax, the National Council of Provinces was told yesterday

With the ratification of the Liquor Bill, which was passed by the National Assembly last week, shebeens will be legalised and regulated, the NOCP committee on economic and foreign affairs was told

The Bill will also ensure that 250 000 people running shebeens in the black townships are brought within the tax bracket and pay their dues to the Government.

According to Mr Ajay Sooklal of the Department of Trade and Industry, the Bill provides better regulatory mechanism for the liquor industry – which has an annual income of R10 billion

In addition to regulating the manufacturing, distribution and sale of liquor, the proposed legislation attempts to facilitate the entry and empowerment of new people into the industry

However, the Bill has not had a smooth passage through Parliament.

The industry has accused the department of attempting to over-regulate those in business.

Church groupings and other civil organs also argue that the Government is creating immoral laws and social denigration

Speaking in Parliament last week before the adoption of the Bill, Trade and Industry Minister Alec Erwin argued that while consciously addressing the negative socio-economic consequences of liquor abuse, the Bill also intended finding a "balance between the promotion and improvement of life and the promotion of economic development"

The NOCP is expected to ratify the Bill by this week, before it is taken back to the National Assembly for enactment

DISTILLERS CORP

OVERFLOWING WITH SPIRIT

(182)

FM 16/10/98

- **ACTIVITIES:** *Produces and markets wines and spirits*
- **CONTROL:** *Rembrandt-KWV Investments 60%, SAB, 30%*

Year to June 30	'95	'96	'97	'98
Debt equity ratio	—	—	—	0,34
Int & leasing cover	367	263	37	14
Return on cap (%)	16,8	17,1	18,9	19,7
Turnover (Rbn)	1,25	1,53	1,78	1,92
Pre-int margin (%)	13,5	13,4	13,9	14,2
Earnings (c)	71,8	93,5	112,6	125,5
Dividends (c)	49	59	66	67
Tangible NAV (c)	420	462	516	576

Liquor is not the road to riches it once was Most retailers are no more than marginally profitable Distillers' 50% holding in Western Province Cellars produced dividends of only R0,36m Distillers' 8,1% annual growth in earnings since 1992 reflects equally tough conditions at producer level

In total, the liquor industry experienced a no-growth year as economic pressures and Excise duties took their toll Distillers fared well, increasing its brandy, white spirits and wine market shares

Deteriorating conditions caused turnover growth to slow to 6,9% in the second half of financial 1998 compared to 9,5% during the first six months Operating margin, pre-depreciation, remained steady at 13,5%

As a major brandy producer, Distillers faces maturation lead times of three to five years Strong growth necessitated heavy investment in maturation stocks and equipment Financial manager Wim Bierman notes this was the main reason for a 22%/year increase in inventory levels since 1994 This reversed the strong net cash flow patterns of earlier years Total net cash outflow of R417m over the past two years moved the company into a net R275m borrowed position during the second half of financial 1998

Bierman sees a slowing in the inventory build-up this year, particularly with sales volumes declining A return to positive net cash flows is vital Failing this, year-end net borrowings indicate a 150% increase in interest payments at current rates Other things being equal, the negative impact on earnings would be about 11%

It's not going to be an easy year A p e of 4 and a dividend yield of 13,5% speak for themselves

Stafford Thomas

AFRICAN BEER WARS

GUINNESS SQUARES UP TO SAB (182)

(SIB)

Guinness Breweries has positioned itself for a head-on confrontation with South African Breweries in Tanzania in a bid to gain market dominance

Tanzania Breweries, in which SAB has a 45% shareholding, holds sway in the local market But Guinness's parent company, the branded food and drinks group, Diageo, has served notice it wants a bigger slice of the action

Guinness and SAB are already locked in a battle for control of Uganda's beer market, where Kenya Breweries, in which Guinness has a 46% stake, turned the tables on SAB, gaining the lead in beer sales Previously, SAB had a dominant share of Uganda's market through its 40% stake in Nile Breweries (*FM Focus* October 9)

In Diageo's review of trading activities for the year ended June 30 1998, the directors report Guinness increasing its Tanzanian sales of the Guinness Foreign Extra Stout (FES) brand by 58%

Guinness and Kenya Breweries will "step up" their activities in Tanzania with the opening later this year of a new US$30m brewery in Moshi, near Kilimanjaro The brewery has annual capacity of 450 000 hectolitres.

"Once the new brewery starts to produce FES locally, the assault on the Tanzanian beer market will continue in earnest," Diageo directors say

They describe Tanzania as one of the three fastest growing markets for Guinness The other two are the US, where sales of Guinness rose 28% during financial 1998, and Chile, where Guinness introduced its product in April 1997

Jabulani Sikhakhane

FM 30/10/98

BATTLE OF THE BILLBOARDS *A hoarding for Castle beer along a highway in Nairobi, where several outdoor ads have been sabotaged in a row over trading turfs between Kenya Breweries and SAB* PHOTO REUTERS

Beer war brews as SAB challenges in Kenya

(182).

CITIZEN 18/11/98

MATTHEW BIGG

Nairobi — A new African war is brewing, but not about borders or ethnic animosity This time it's about beer

Kenya Breweries (KBL) dominates Kenya's lucrative beer market with its flagship Tusker brand It also controls around 60 percent of the east African market

Enter SA Breweries (SAB) and Castle beer The southern giant opened a plant near Nairobi in October and now threatens to encroach on KBL's home turf

"The perception is correct We are fighting," said KBL group managing director Michael Karanja

Two factors intensify the competition — a mysterious battle-of-the-billboards and a decision by Kenya Breweries to launch its beers in South Africa

Somebody, somehow, has been sabotaging advertisements for beer

Both companies are quick to deny responsibility for a recent spate of attacks on KBL and Castle billboards in Nairobi, buying newspaper space to highlight that they are being victimised

And both companies have moved to seize the moral high ground, pointing out that they alone have refrained from accusing the other of doing the damage

"Truth and Reconciliation· Let the facts be known," KBL said in a full-page advert in the East African Standard that pointed to events at the southern end of the continent

Below were a series of pictures of defaced KBL hoardings and the words "Persistent insinuations in the press regarding damaged and defaced beer billboards compels us to respond "

"Defaced but not demotivated," countered Castle above a similar picture of a damaged Castle advert

A deeper point of conflict is the Kenyan brewery's attempt to sell Tusker in South Africa

Karanja accused SAB of deliberately blocking its entry into the South African market by registering a brand that features Tusker's logo He said his company would go to court

"They must be reasonable We don't use those tactics to try and stop them If we wanted to we would have registered Castle (in Kenya)," he said

Allen McInnes, Castle Kenya's sales and distribution manager, denied Castle engaged in unfair competition, arguing that Kenya Breweries had registered around 100 names on its turf in an apparent attempt to block other brewers

SAB controls 98 percent of South Africa's domestic beer market and dominates the African industry

SAB has been market leader in the Tanzanian market since 1993 when it bought the state-owned brewer It now expects rapid expansion in Kenya, having opened a plant in Thika as Castle Brewing Kenya Ltd in partnership with local business men

The Thika plant can produce up to 30 percent of the 2,2 million hectalitres consumed annually in Kenya, said McInnes

Castle's distribution and marketing are aimed at the Nairobi area, which accounts for 60 percent of the Kenyan market

"If you take over a yearly volume (in Kenya), we have perhaps only got about 2 percent," said McInnes "But if you just take our volume for last month only on a monthly basis we have perhaps got between 5 and 7 percent

"Any business would like to have as much of the cake as possible, and fortunately the market is big enough for two breweries to enjoy a decent slice of the cake," he said

KBL says it has 97 percent of the Kenyan market and 50 percent of Uganda In Tanzania, KBL controls 9,5 percent, a figure it hopes will rise now it has opened a plant in the northern town of Moshi earlier this year

Bright yellow billboards are a vital weapon in the war

Tusker's ads — captioned "my country, my beer" — are a naked appeal to patriotism

Castle's ads feature an ice-cold can, tipped temptingly to one side

Lack of disposable income stops many Kenyans from touching the demon drink Only 10 percent quaff beer while another 10 percent drink cheaper home-brew such as "chang'aa"

The irony for KBL and SAB is that the majority of the population are innocent bystanders to the beer war Most Kenyans are teetotallers —Reuters

SAB keeps expanding despite speculation

ST(BT) 29/11/98

(182)

FOREIGN BUYER POSSIBLE

By DON ROBERTSON

DESPITE speculation that foreign brewers are eyeing SA Breweries, the group has its eyes firmly on the ball as it continues to expand internationally and introduce new products to the local market

This week, the company expanded its African interests with the purchase of Lonrho Africa's brewery operations in Zambia and Malawi In the past three months it has launched six new beers on the SA market

The Lonrho purchase, at an estimated cost of $4.8-million, will consolidate the group's interests in the area as it takes on Kenya Breweries.

SAB's future as a locally owned company, however, appears to be in the balance Anglo, Liberty Life and Johnnic have indicated that they are ready to sell their shares in Bevcon, which in turn has a controlling stake of around 30% in SAB Possible buyers are Holland's Heineken and the world's largest brewer, Anheuser Busch of the US.

In spite of these developments, SAB is intent on gaining an even bigger share of the local market with the introduction of additional premium beers

First of the new brews were three beers produced by the "experimental" Fransen Street brewery, part of the Chamdor brewery on the West Rand Fransen Street is a micro-brewery, able to produce smaller quantities of up to 500 litres at a time and is suitable for experimental production.

Three months ago, SAB introduced a Winter Ale, an alcoholic ginger beer, and a wheat beer which were sold, in draught form, through a combined three-tap dispenser The Winter beer did not survive as the weather warmed and was replaced by the world-famous India Pale Ale.

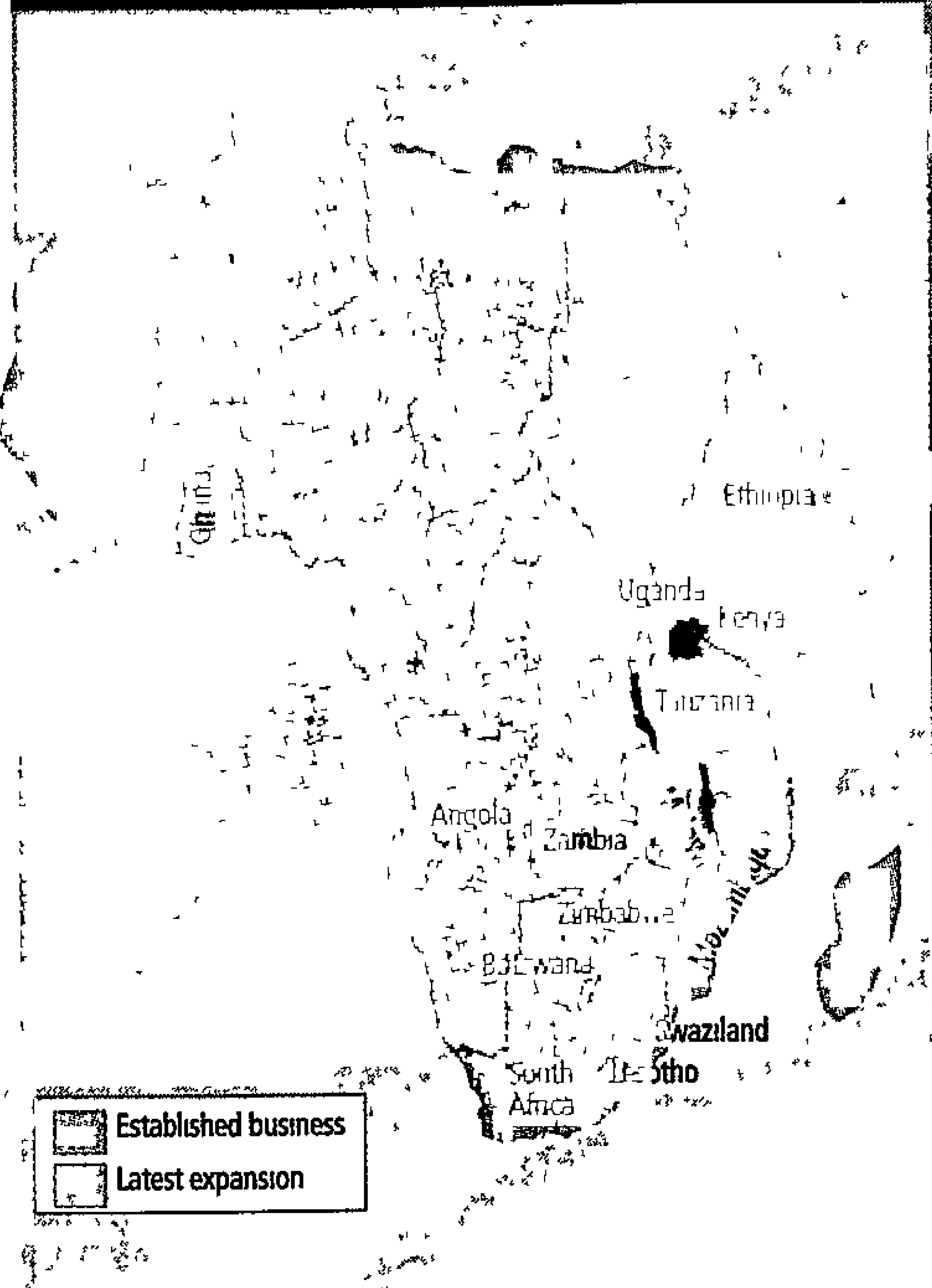
More recently, a test batch of a malt-based beer, Kingswood Superior Amber Malt, was released at selected bars in Durban and Pretoria.

An SAB spokesman said the price is about 30% more than for traditional beers and because of a higher alcohol content of 7%, it is sold in 340ml bottles.

The only nationally launched beer is Dakota Ice

Spokesman David Williams says SAB aims to offer as many tastes as possible to the beer drinker.

SAB BUSINESS IN AFRICA



Graphic FIONA KRISCH

SA BREWERIES (182) FM 20/11/98

BEER SCORES HIGHEST AGAIN

Offshore operations in focus

Ho hum It's the same old story SAB's core beer operations save the day and its noncore interests rag-tag behind As the fifth-largest brewer in the world by volume tots up 10% headline EPS growth yet again, the one thing to prevent investors nodding off, safe in the knowledge that the same will happen next year, is SAB's plan for international expansion

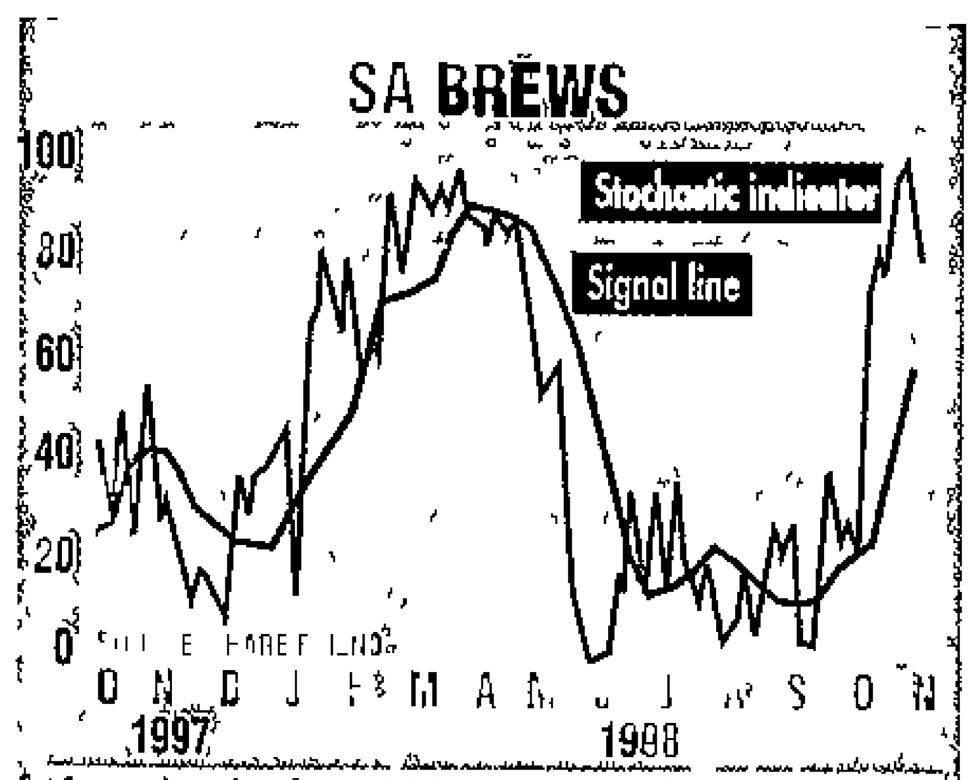
It is well-known that the group is examining the option of a primary listing overseas, most likely in London, which will require the disposal of as many noncore assets as possible

Voices within SAB are calling for a separate listing of hotel and gaming operations "But you know, a company is not a democracy," says MD Graham Mackay, so SAB should keep its leisure interests It is not an uncommon pairing — UK brewer Bass also has hotel interests As for Edgars, management says it would be sold if a buyer stepped forward, otherwise next interim earnings could see some improvement PGSI, suffering from depressed local consumer spending, is on the block but it's a bad time to sell

Despite the disclaimer the group adds that previous disposals and acquisitions mean results aren't strictly comparable, SAB has shorn off only about 5% of its earnings In turn it realised about R1bn on the sale of Lion Match, Da Gama, Afcol and Amrel However, reduced earnings from Edgars and PGSI cut margins from 10,9% to 9,5% In contrast, ABI's contribution was up by R15m with Suncrush, a mating that is expected to win strong returns in the next three to four years

But performance still boils down to beer Foreign volumes were up 17%, 9% from acquistions After winning market share from wine and spirits, and a warm winter and Easter, local beer volumes were up 4% and profits up 18%, indicating further cost and efficiency improvements The second half, where SAB earns 70% of profits, won't' enjoy the same growth

"SAB can take market share locally from wine and spirits, but falling consumer spending is shifting away from liquor and it's difficult to grow volumes with a lager market share of 99%," says ING Barings analyst Stuart Thompson



After a short lived rise, SA Breweries', stochastic plotting is rushing towards the signal line. A break through that line will confirm a new selling position

The London listing ("possible listing", says SAB) could raise the capital required to fuel SAB's foreign operations, which are expected to take the responsibility for future profit growth In contrast to other world-class brewers, foreign exchange regulations prevent SAB funnelling the gushing cash flow from its local beer brewing operations according to its economic imperatives "There's not much more we can do in SA," says Mackay, "and as a brewer of our size and somewhat global competitiveness, we need the firepower, the cash and the brands to compete among the top three or four brewers in the world and there are deals we need to do to facilitate that" So SAB lacks the necessary cash flow — does it have the brands and firepower? "To some extent, but not enough," says Mackay

Analysts say the group also needs to make a large foreign acquisition to have a stream of cash on hand offshore The group has a wide portfolio of markets in its international operations, "mainly in fragmented or underserviced markets where they can achieve high market share," says Thompson "Africa (analysts estimate 12% of beer profits) brings quick returns, but low per capita income markets mean demand will flatten fairly fast European markets (analysts estimate 7% of beer profits) require big investment and are more competitive but enjoy sophisticated consumption levels," says Mackay

On a 15,3 forward p e SAB is inexpensive compared with its international peers, particularly emerging market brewers racked by distressed markets However, most analysts call the share fully priced The group's low-risk earnings base keeps it a blue chip, but it hasn't delivered vastly exciting earnings growth Nevertheless, this year SAB exposes itself to the international arena, the best site for prime time viewing

Tammy Lloyd

MORE BRAND NAMES TO BE RELEASED

Bootleg booze still on sale

(182) CT 3/12/98

THE LACK OF regulation in the liquor industry means you can't be sure what you are drinking — except that if you buy cheap you can expect nasty. Health Writer **JUDITH SOAL** reports.

SUSPECT STOCK This Elsie's River bottle store removed the offending bottles from the shelves after being contacted by the *Cape Times* yesterday Police say shops with these brands should stop selling them immediately and contact the Department of Agriculture on (021) 809-1702 *PICTURE: A K ADAMS*

THOUSANDS of bottles of cut-price alcohol are still in bottle stores around the country today, despite police appeals to the sellers to take them off the shelves because of health risks.

Bootleg brands of cane, vodka and brandy containing the industrial solvent methanol were discovered on sale on Tuesday, leading to a series of police raids on bottling plants Police said a number of business people were being questioned last night

"Samples bought at the Jumbo Liquor Market in Bellville showed methanol concentrations far in excess of legal limits," said the Liquor Industry Combined Investigation Taskforce (Licit), which represents the industry, the police and the Department of Agriculture.

The group was set up to investigate the growing corruption and fraud in the industry

"I am not surprised at all," said Mike Kovensky, the managing director of a chain of liquor stores "So many products are being sold for crazy prices and this explains why No one knows what is really inside those bottles."

The maximum legal amount of methanol is 2 000mg per litre of pure alcohol The brands that have been identified as contravening this limit so far are:

- Blue Marlin cane, with 19 000mg per litre
- Oakwood brandy, 34 000mg/l.
- Rasputin Vodka, 18 000mg/l
- Breakers cane, 17 000mg/l
- Eikenhout Brandy, 18 000mg/l
- Outeniqua Brandy, 15 000mg/l
- Magersfontein Gold Brandy, 113 000mg/l

More brand names are expected to be released over the next few days as more samples are tested.

"Anyone who has any of these bottles should throw them down the drain," said UCT clinical pharmacologist Mark Blockman.

"Methanol is toxic and it can kill. We don't exactly how it will react together with the alcohol, which acts almost as an antidote, but it is dangerous Methanol is far more dangerous than methylated spirits."

In large doses methanol causes headaches, tiredness, nausea, blindness, convulsions, circulatory collapse, respiratory failure and death.

Licit's Ernest Roberts said there were many other brands under investigation.

"This is just the tip of the iceberg. There are other brands, including whiskies, which we will name as soon as we get definite results."

Roberts said the methanol was added to avoid paying the duties and taxes on pure alcohol.

"The taxes alone on a bottle of cane add up to about R11, so how can these guys be selling cane for R12,50 or R13? They will do whatever they can to keep the prices low so they can make money"

When the *Cape Times* visited bottle stores yesterday we found that these brands were still widely available. Shops had not been contacted by the police or the Department of Agriculture, which administers liquor laws "We can't do anything until there is an order from the attorney-general," said the commercial crime unit's Johan Basson. "All we can do is appeal to the retailers through the press to do the right thing"

> *"All we can do is appeal to the retailers through the press to do the right thing."*

After hearing about the illegal mixtures from the *Cape Times*, many manufacturers removed bottles from the shelves.

"We are removing them immediately," said Kovensky Some large retailers said they would only remove the bottles if they were notified by the police "We can't react to every rumour," said the manager of one large chain of shops, "but if we see proof of course we will remove them."

Jumbo Liquor Market, which sold the bootleg bottles to investigators, refused to speak to the *Cape Times*.

Police have now conducted raids at three bottling plants in the Western Cape in the past two days. On Tuesday they raided the Bedida Distillers Plant in Montagu, where they confiscated 64 drums of methanol Yesterday they raided Magersfontein Trading in Goodwood, where they found six empty drums that are being tested for traces of methanol.

Owner Mike Pallett denied adding the solvent to his Magersfontein Gold Brandy Asked how the high levels of methanol had got into bottles sold to investigators, Pallet said "We are not the only ones who distribute under these labels."

Another raid in Stikland yesterday afternoon yielded more drums of the chemical.

Roberts, a private investigator who has been hired by Licit to investigate fraud, export scams and illegal cutting of alcohol, said he had been alerted to the scam by the manufacturer of the methanol.

"He noticed a sudden surge in sales over the last while and was concerned that something like this was happening," he said "We would have preferred to have waited longer before the raids to get our homework straight but we realised the urgency because of the health risk. That is why we went ahead immediately"

There are no identifying names on the labels of the bottles, which just say "produced and bottled in South Africa" Trying to pin down the origin of the bottles exposed the secrecy and corruption in the industry People named on invoices denied ever supplying those brands, bottlers swore that they weren't the only ones using those labels, and the entire industry remained tight-lipped.

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UK brewer completes takeover of Mitchells

CT (BR) 3/12/98 (18a)

Marc Hasenfuss

CAPE EDITOR

Cape Town — Scottish & Newcastle Breweries, Britain's biggest brewer, yesterday completed a takeover of Mitchells, a South African micro-brewer, for an undisclosed sum

Scottish and Newcastle started its association with Mitchells Breweries in 1994 when a 49 percent stake was secured The stake was increased to 74,5 percent last year

Mitchells operates breweries in the Cape Town Waterfront, Knysna and Johannesburg and markets the Bosuns and Foresters brands

Peregrine Solly, the managing director of Scottish and Newcastle's South African operations, said the strong relationship with Mitchells over the past four years meant it was a natural step for the UK brewing giant to take over the remaining shareholding

"While we are operating in a niche market and against formidable monopoly opposition, we believe that, with the growing interest in premium natural beers, we can continue to develop our market share"

Solly said Scottish and Newcastle aimed to develop and expand Mitchells' brands of traditional, natural draught ales

"In addition, we wanted the infrastructure to bring our international brands, McEwans Lager, McEwans Export, John Smith's Yorkshire Bitter and Newcastle Brown Ale, on to the South African market as part of a worldwide drive"

Solly stressed that Lex Mitchell, who developed Mitchells' Bosuns and Foresters brands, would remain on the board and would continue to oversee the hands-on approach to the brewing activities. "The last thing we want is for Mitchells to lose its identity"

Scams cost millions

THE government has lost millions of rand through schemes to avoid paying "sin taxes" on alcohol, a joint government-industry task team said yesterday while investigating the latest scam — "cutting" alcohol with industrial solvents.

The team, known as the Liquor Industry Combined Investigative Taskforce (Licit), was set up two years ago to combat this fraud and corruption.

"Mixing industrial solvents into alcohol is just their latest trick," said investigator Ernest Roberts "It is the most serious because lives are at risk, but actually we were set up to protect the fiscus, not the public's health."

Seven brands of cut-price spirits have been removed from bottle store shelves around the country after chemical analysis found they contained more than 50 times the legal limit of methanol, an industrial solvent that is toxic in large doses.

One of the brands — Magersfontein Gold Brandy — contained 30ml of methanol, an amount that can be fatal

Roberts and his team believe there are two syndicates operating in the city One uses methanol, which looks and tastes similar to ethanol (alcohol), the other acetone, which is added to some cheap whisky brands

"The Department of Agriculture is still testing more samples," said Roberts — Staff Writer

(182) ET 4/12/98

LONDON LISTING *Brewer may shed Edgars and Conshu first*

SAB joins exodus to greener fields

ARGT(?BR) 5/12/98 (182)

ANN CROTTY

Johannesburg — South African Breweries (SAB) said yesterday it would transfer its primary listing from the JSE to the London Stock Exchange in an attempt to get cheaper access to capital to fund further significant international growth opportunities SAB is the fourth largest brewer in the world

SAB's announcement follows fast on the heels of Anglo American's announcement that it would be restructuring its local and international interests and transferring its primary listing to London

With SAB's move, six of the top 10 companies on the JSE will now have their primary listing in London.

The SAB share price closed 200c firmer at R91 yesterday following the release of the news At R91, the group has a market capitalisation of around R33 billion, which places it fourth in terms of size on the JSE Anglo, the largest, Richemont, Anglogold, Billiton and Minorco all have primary listings outside South Africa

At its present market capitalisation, SAB would rank at around 70 on the FTSE-100 Graham Mackay, SAB's group managing director, said that during the almost year-long process of investigating a London listing, the group's notional ranking moved from the low 40s into the 80s

Ahead of the transfer of the listing, proposals are being considered for the possible disposal of SAB's interests in Edgars and Conshu

If it is not possible to dispose of these interests before the listing, SAB intends to distribute all of its shares in Conshu and a substantial proportion of its shares in Edgars to its shareholders by way of a dividend in specie Significantly, if discussions to dispose of SAB's 68 percent stake in Plate Glass and Shatterprufe Industries (PGSI) are not successful, SAB intends to retain this stake in the medium term

Mackay said that SAB would seek opportunities to maximise the value of PGSI's various businesses, "particularly its international automotive repair and replacement glass operations, prior to an eventual disposal"

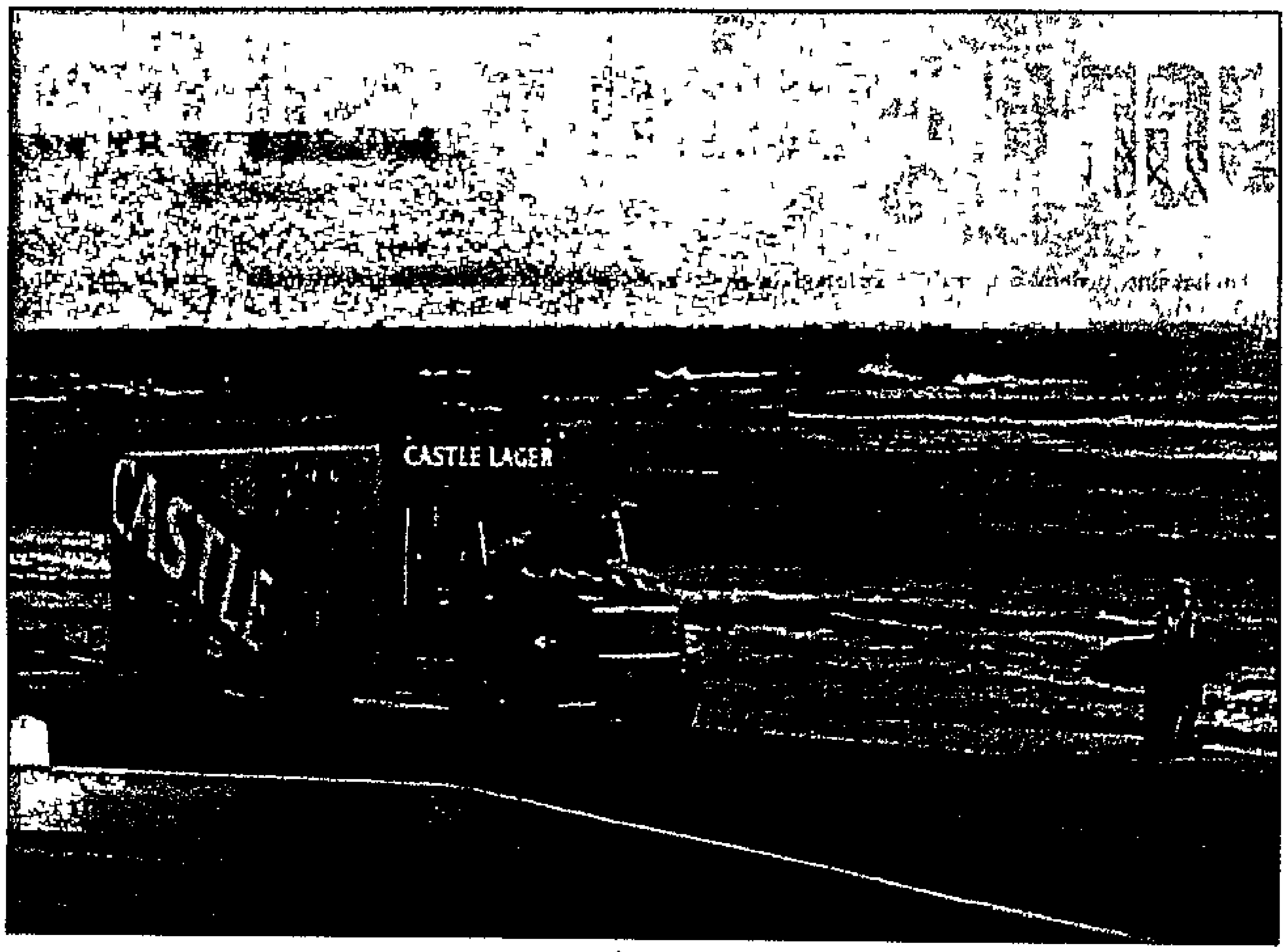
Mackay added that he believed the investment community in the UK would accept the logic of including PGSI under these circumstances

Commenting on the transfer of the listing, Mackay said· "The new structure will allow us to build on our international beverage operations and accelerate international expansion, while continuing to invest in and strengthen our existing operations in South Africa "

The London listing is expected to take place during March next year It is envisaged that the first non-executive chairman will be Meyer Kahn

TAKING THE PLUNGE *Graham Mackay, SAB's group managing director, announce's the move to London* PHOTO JOHN WOODROOF

On the move: South African Breweries is to list on the London Stock Exchange next year, but analysts predict the company may be in for a rude awakening as market conditions overseas are much more hostile than in South Africa



SAB: No more a home brew

M+G 11-17/12/98 (182)

The government had little choice in bidding farewell to another South African giant, writes **Donna Block**

In the days before South African Breweries (SAB) announced it was moving its primary listing to London, managing director Graham Mackay and top company officials presented their case to Deputy President Thabo Mbeki and a select group of Cabinet ministers, including Minister of Finance Trevor Manuel and Minister of Trade and Industry Alec Erwin.

According to government sources and SAB officials, while Mbeki and company gave a nod and a wink to SAB, support for the move among the politicians present was far from unanimous.

Although no one would say who specifically objected to the second Johannesburg giant moving offshore in as many months, it is understood that the muted hostility to the transfer stemmed from a perception in some African National Congress circles that the country's big corporations want to abandon the post-Mandela South Africa.

Mackay, reflecting on the government's decision to allow SAB to list in London would only say "They're being remarkably mature about it " But the reality is that the government really had little choice in the matter

SAB's reasons were not only compelling but, from a market perspective, they were vital. Mackay said not only would the move result in money flowing back into South Africa over time but, even more importantly, it would not result in any job loses in South Africa — arguments which ultimately won the day

Manuel has understood better than most the needs of local corporations with global aspirations and has supported the decisions by SAB and, earlier, Anglo American to relocate to London. Not everyone, though, shares his views

"Although I think Trevor's [Manuel] position was correct, there are a lot of people in the organisation who see an ulterior motive to these moves," said one senior ANC member

Mike Schussler, an economist at FBC Fidelity Bank, described the SAB move as a "morale breaker" for people who want the country's best companies to remain in South Africa. He said despite the sound reasons behind the moves, they added to negative sentiment from local shareholders who feel they're being abandoned.

Ultimately, however, most market analysts think the government did the right thing

"I think it's very positive that the government has agreed to let these types of companies do this," said one New York trader, who specialises in South African securities.

"It has been an opportunity to tell the world that South Africa is not another Malaysia," he said, referring to the Asian nation's recent decision to close itself off from the global economy

SAB is unlikely to be the last South African blue chip to undertake what some critics of the relocation trend are calling the "chicken run" from a falling rand and weak local share prices Proclaiming their need to expand globally and to source cheaper capital, other heavyweights considering a move include Sasol, Dimension Data Holdings and Old Mutual.

But it remains to be seen if the government will support every application that comes its way According to Joel Netshitenzhe, the chief government representative, an ANC government "should not open the door for everyone, but for some companies it is an unavoidable necessity"

'An ANC government should not open the door for everyone, but for some companies it is an unavoidable necessity'

Manuel's office maintains there is no blanket policy governing corporate migration, saying that each application to move abroad will be judged on merit. But he has already made it clear to many people that Old Mutual is going to find the door closed if it tries to move its listing.

The main difference between SAB, Anglo American and Old Mutual is that the government recognises SAB and Anglo have legitimate global aspirations and a need for capital that outstrips what is available to them here. But in the case of Old Mutual, whose business is primarily based in Southern Africa, the government is convinced the insurance giant wants to list in London to escape the rand.

SAB feels justified in moving to London because it has been unable to raise locally the kind of money it needs to compete with international rivals like Dutch brewer Heineken or Irish Guinness Both brewers have been aggressively involved in trying to muscle SAB out of markets elsewhere in Africa and in eastern Europe But unlike SAB, Heineken and Guinness are unfettered by currency controls or a weak currency

By being listed in South Africa, SAB has failed to attract the big money it needs as many foreign investors are reluctant to pour dollars or pounds into a rand denominated stock. Foreign exchange controls and high local interest rates have also hampered SAB to a some extent.

By moving to London, SAB will be included in London's premier stock index, the FTSE 100, and will be able to raise money in hard currency with few constraints

"We need access to London capital markets for funds to pursue our internationalisation of our beer business and that is very difficult to do from South Africa," Mackay said this week. "Our strategy is to be one of the top brewers in the world and to compete successfully and to do that we need the ability to raise capital "

But there may also be another key reason why SAB was so keen to leave home in such a hurry fear of a hostile takeover

With the rand sliding again in value and Johannesburg Stock Exchange shareprices fluctuating unpredictably, SAB is at serious risk of becoming the target of an easy buyout by richer foreign companies In comparison with other larger brewers like United States giant Anheiser Busch, SAB's current market value is low Mackay said he was unconcerned about a takeover, but with reports of foreign brewers nibbling at SAB's heels, the possibility must have been taken into consideration when deciding on the move

Going to London, however, is not going to be easy and SAB may be in for a rude awakening. One US analyst noted that market conditions in London are so much more hostile and indifferent, that Mackay might one day wish that Mbeki had stopped him from moving in the first place

One of the difficulties SAB is likely to encounter, say analysts, is that no matter how hard it tries to portray itself as an international brewer, it will be viewed as a backwater South African company This might be a little tough for SAB to swallow But its pride will have to be the first thing to go if the company hopes to make it in the big leagues

"South African corporations have always been arrogant. All they need to do is have that kind of arrogance once with a European or American fund manager and that will be the last time they see them," said one US broker "Whereas before they were a big fish in a fairly small pond, now they are going to be a small fish in a huge global pot."

At the end of the day SAB is going to have to prove itself in the market place Analysts and fund managers will keep an eagle eye on SAB. It will have to submit to stringent reporting and disclosure requirements, the likes of which companies are unaccustomed to in South Africa Fund managers will also look for SAB to produce and will want to see that growth not in rands, kwachas or rubles, but in pounds and pence.

Mackay remains undaunted. "I think South Africa should be proud of SAB It's going to be a world leader," he insisted.

MANFACTURING - BEVERAGES

1999

Castle Brewing fails to lift Kenyan injunction

James Macharia

NAIROBI — SA Breweries (SAB) has failed in its attempt to lift an injunction brought against its subsidiary, Castle Brewing Kenya, preventing it from selling Ranger Special Lager

The injunction was brought by East Africa Breweries, which said Castle Brewing had infringed its patented processing formula

East Africa Breweries claims it is the first brewery in the world to produce beer using unmalted barley

Castle Brewing, however, has said it carried out independent research prior to the launch of its product

Judge Richard Kuloba of the Nairobi High Court dismissed Castle Brewing's argument that its brewing plant in Kenya could be forced to wind up if the injunction was not lifted

He said Ranger, which was launched 10 days prior to the injunction, was still in its infancy and would not have such repercussions on the firm Castle Brewing launched the disputed lager on December 11

" To close down is far-fetched because even if pushed out of the (brand) market this is not all that Castle Brewing in Kenya does Ranger is just an infant and this cannot possibly cause the demise of the mother," the judge said

The injunction against Castle Brewing was initially granted after East Africa Breweries, formerly Kenyan Breweries, sued Castle Brewing alleging infringement of its patented beer processing formula used to make its Citien Lager brand

East Africa Breweries alleges that Castle Brewing infringed a patent by brewing Ranger using a formula researched and created by East Africa Breweries

On the issue of monetary losses, the judge said on Thursday "Castle is not likely to suffer any further monetary losses in the marketing campaign Expenses so far incurred are recorded and are quantifiable, which (East Africa Breweries) may be called upon to make good if they lose the case," he said

The judge said the company produced various other products and its temporary stoppage in producing the lager would not necessarily force the firm to close its operations in the country

He said a judge should not be invited to speculate on probability of success by merely being asked to look at the grounds on which the appeal was based, because these could be altered and amended before trial

The judge said the orders sought could have been granted only if East Africa Breweries had delayed in prosecuting the case or if the injunction would result in substantial losses that could not be fully compensated for through other means

BD 4/1/99 (182)([illegible])

FM FOCUS

Edited by Peter Honey

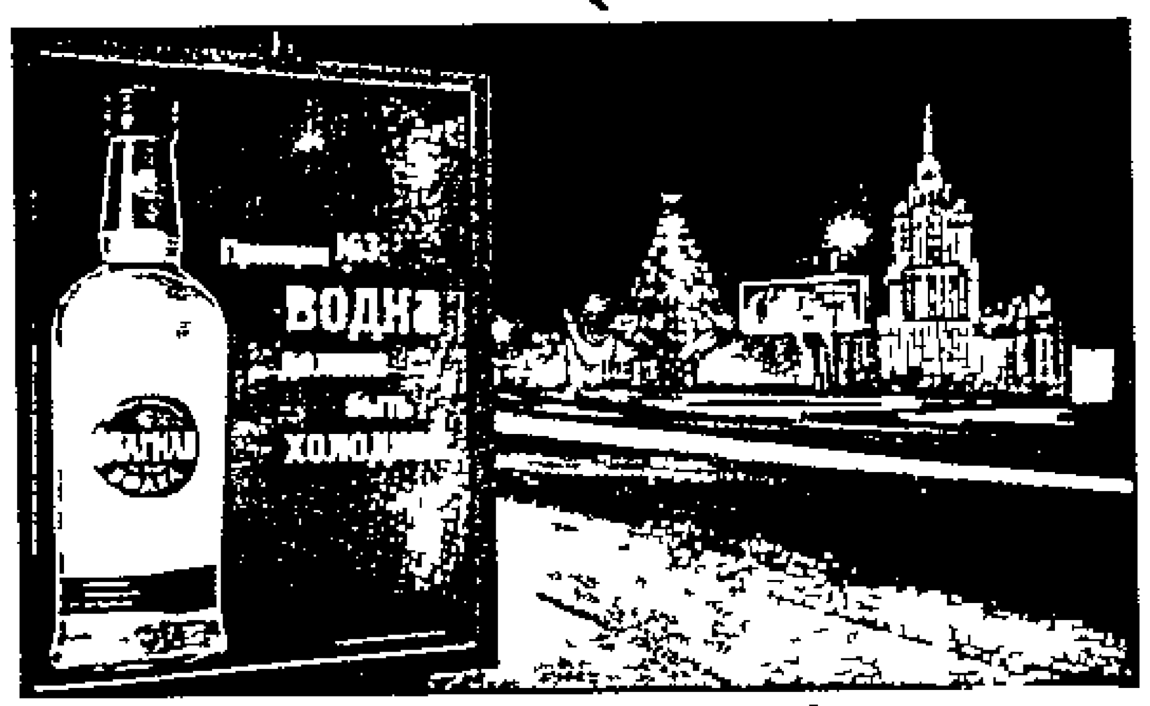
(182)

SAB IN RUSSIA

NAZDAROVYE! SAB STARTS BREWING BEAR

South African Breweries (SAB) is understandably reluctant to say much about its newest and most expensive acquisition a brewery in Kaluga 180 km southwest of Moscow

The brewery itself is an unfinished structure, abandoned by its previous Russian owners And SAB hasn t decided yet what to call its new Russian brew According to SAB spokesman Dunbar Bucknell the launch of the new brewery and beer isn t likely to happen before next summer starts to parch Russian thirsts



Liquor billboard *waiting for Charles Glassky?*

Moscow director for Transmark Alan Richards SAB s European affiliate says the company doesn't want to disclose too much to its competitors in what was until recently one of the fastest growing and most competitive beer markets in the world

After the crash of Russia's financial markets and banking system in August trade has seized up, the rouble has lost 300% of its hard currency purchasing power and imports to Russia have dropped by more than 40% That may seem to make spending more than US$40m now on a Russian brewery risky

In fact, the Russian crisis gives domestic brewers a much needed fillip in the contest against imports

The risk, therefore of SAB's exposure in the Russian market has actually diminished since August

It's been the opposite for Australia's big brewer Fosters Last year, the Australians turned down the opportunity to do what SAB is doing, and opted instead for a strategy of promoting fully imported beer Fosters has been unwilling to invest in foreign brewing, unless the Fosters brand is on every bottle or can

SAB which has breweries in Hungary, Poland, Rumania, Slovakia Spain, and China is coming into the Russian market, intent on providing a quality beer Russians can consider their own

For Russia's beer drinkers, the old days weren't good ones Beer was cheap, but the *pivnye* (pubs) that served it usually added water mixed with detergent to create the impression of beer suds Genuine beer was in maddeningly short supply until the Soviet Union ended in 1991

Since then however the Russian thirst has been frustrated in a new way Genuine imported beer of every type taste and source has flooded into the country — but now the average Russian beer drinker can't afford to drink it

When the Russian Market Research Co surveyed consumers nationwide two years ago, asking what alcoholic beverage brands come to mind those who could named a dozen vodkas cognac champagne wine and liqueur before beer got a mention In theory the Russian beer market should be mouth-watering for big Western brewers with international marketing clout like Heineken, Guinness Holsten and Bavaria According to a recent study Russian beer consumption in 1995 was 17 *l* per capita one of the lowest in Europe During the Soviet period this figure was 25 *l* a person/year

What happened in Russia says Stanislav Tsyrlin the Boston Consulting Group's expert on beer was that cheap Soviet beer was replaced by beer that was expensive As prices shot up real incomes fell and a 40% excise tax was added to beer in 1992 so Russian beer drinkers switched to vodka Uncontrolled imports of pure spirit made it much cheaper to get drunk on vodka

The group s research for domestic and foreign brewers looking for ways into the Russian market shows that beer consumption has begun to climb back towards the 35-40 *l* per capita that was the average in the Eighties This is well short of Germany where drinkers average 138 *l* of beer each year or Denmark with 120 *l* Still as Oleg Ponomarev an executive with investment bank Kreditanstalt points out if European consumption is close to peak or falling brewers must look to Russia to fill the biggest unsatisfied thirst for beer still left in Europe

That s why SAB, with its extensive experience in developing countries where it has focused on acquiring and expanding local brands, may just have stolen a march on its international rivals

John Helmer Moscow

WEEKLY QUOTE

'Someone once said that before buying shares you should satisfy yourself that the company could be successfully run by chimpanzees because sooner or later it will be " — Alistair Blair *Investors Chronicle* December 4 1998

PROPERTY

WEST CAPE'S GLAMOUR BUBBLE BURSTS

Sales of prime residential property in Cape Town's glamour suburbs fell by 30%-40% over the festive season compared with the previous year

Though international and upcountry interest in Cape properties was stronger than ever in December few potential buyers actually put pen to paper And with a surplus of top-priced properties on the market prices have softened by as much as 20%, making it an attractive market for those who have a spare R1m-R2m to spend on a holiday home

It's worth asking whether the escalation of violent crime — highlighted by two recent bomb blasts at the V&A Waterfront — is turning buyers away from the once-envied province

Property moguls admit that crime in general is having a negative impact on consumer confidence, but say the real culprit is the global and domestic recessionary climate, which has cut disposable incomes at home and abroad.

Prices have fallen about 10% across the board in the Western Cape since the middle of last year, when the first interest rate hikes were made

Pam Golding Properties' flagship southern suburbs branch reports that despite unprecedented interest sales were down 33% by volume and value in December 1998 compared with December 1997

"It s horrific " says Pam Golding Properties regional director Roger Gallagher who expects these disappointing figures to be much the same for PGP s branches across the rest of the province

The top end of the market, which was heading for a "necessary correction" having boomed for the past three years, was the worst hit says Gallagher "The value of sales of top-priced properties in the Atlantic seaboard, Camps Bay, Clifton and Fresnaye has been deadly, almost zero, though Hout Bay and Llandudno have matched last year's figures "

Seeff Property Services MD Samuel Seeff says that though sales of top-priced homes could be down by 30%-40%, it is too early to despair as most foreigners visit Cape Town in the first three months of the year

"International buyers are showing more confidence in SA property and the economy than locals, and we have had a tremendous amount of international interest since our two European expos."

Claire Bisseker

Cape vista *a market that is seeing its limits*

Y2K

SA'S JUM

SAB gets ready to take on the world

(182) BD 18/1/99

Analysts say the group's focus on beverages and beer gives it a chance to become an acquirer on the global market

Nicola Jenvey

DURBAN — SA Breweries' (SAB's) sale of Conshu Holdings and unbundling of Edgars ahead of its London primary listing in March has positioned the local group as a focused beer and beverage company well poised to tackle "the tough international market", analysts say

Last week SAB disposed of its 67,4% holding in Conshu to international group Daun & Cie for R38m and revealed it would distribute 45,6% of its 65,1% shareholding in Edgars via a dividend in specie The moves formed part of the group's strategy to refocus on its core beverage, hotel and gaming interests and leaves only the 68% stake held in Plate Glass & Shatterprufe Industries (PGSI) for disposal

However, if talks were not concluded ahead of the new primary listing, SAB would retain PGSI in the medium term, largely due to its significant international asset base

Restructuring during the past year has seen SAB dispose of its interests in Amalgamated Retail to a consortium aligned with the Beares Group, The Lion Match Company to empowerment group Fasic Investment and OK Bazaars to Shoprite Checkers, as well as Da Gama Textile Company and Associated Furniture Companies

BOE Securities analyst Wynand van Zyl said SAB would find the international market "tough", but its new focus on core competencies in which the group had sustainable competitive advantage, would be reflected on the balance sheet.

US-based Anheuser-Busch and Dutch brewer Heineken were entrenched in positions one and two of the international pecking order, but Van Zyl believed that over the next five years, a power struggle of consolidations and acquisitions would develop from the third spot downwards.

"SAB's concentration on beer and beverages means the group will be poised to become an acquirer and not one of the acquired," he said.

Most of the opportunities for SAB's international beer division — presented by the fall of communism, virgin territories, privatisation initiatives and weak players — had already been taken and the remaining markets in Russia and central Asia, were high risk

Acquisition opportunities existed in southeast Asia and Latin America and should SAB play its cards correctly, it could become the leader of the group behind Anheuser-Busch and Heineken

SAB forced to reinstate 52 workers

(182)

RONNIE MORRIS

Cape Town — SAB was required to reinstate and pay several months' backpay to 52 workers it had sacked in December 1997 following a strike when wage talks broke down earlier that year, the labour court ruled last week

The workers, all members of the Food and Allied Workers' Union, went on strike in August when wage talks deadlocked.

The company then launched a labour court action to interdict and restrain the workers from engaging in alleged misconduct and breaching strike rules

The strike was settled the following month and the workers returned to work, but after a disciplinary hearing 18 were suspended and 52 later dismissed

The union and SAB agreed to private arbitration David Woolfrey, the arbitrator, found the dismissals were unfair Instead of dismissal, he ruled, the company should have issued the workers with final written warnings

He reinstated them retroactively but imposed suspensions without pay for three and four months, respectively.

SAB took the matter on review to the labour court, on the grounds that Woolfrey did not have the power to impose the sanction of disciplinary suspension without pay and that the sanction would be in breach of the provisions of the Basic Conditions of Employment Act

Judge D Mlambo said the imposition of suspension without pay as a disciplinary penalty was for an employee who had committed some form of disciplinary breach

An employer was entitled to take action against an employee who misconducted, he said Once the employer had decided that instead of terminating the contract of employment it would simply suspend it for a period, it was not acting unlawfully

Mlambo said he found nothing reproachable in Woolfrey's award and SAB's application was dismissed with costs

BD 20/1/99

SA Breweries relaunches its controversial Kenyan lager

James Macharia (BD)(182)

NAIROBI — SA Breweries subsidiary Castle Brewing Kenya has relaunched its controversial Ranger Special Lager in Kenya, reformulating it to avoid violating a restraining order issued in December

Castle Brewing Kenya MD Roger Smith says the new product includes malted barley, which should not transgress the court order secured against it by rival East Africa Breweries BD 20/1/99

East Africa Breweries won a temporary injunction barring Castle Brewing from manufacturing the beer, saying it infringed its patented brewing formula which uses unmalted barley

East Africa Breweries claims to be the first company worldwide to use 100% unmalted barley when making its Citizen Beer The company says it launched the formula to reduce the high customs duty paid on imported malt

In December, Kenya's High Court ordered Castle Brewing Kenya to stop producing and marketing its new lager until East Africa Breweries' patent suit had been heard in court.

A date for the hearing of the patent infringement suit against Castle Brewing is still to be set

Bills sent back to Parliament

Slap in the face for Zuma, Naidoo and Erwin as Mandela sends tobacco, broadcasting and liquor legislation back to drawing board

BD 22/1/99 (182)

Wyndham Hartley

CAPE TOWN — President Nelson Mandela has referred the tobacco, broadcasting and liquor bills back to Parliament to have their constitutionality examined

Mandela has rejected only one other piece of legislation, the Remuneration of Public Office Bearers Bill, during the course of his presidency

Legal advice to the president was that all three bills, approved by Parliament late last year, were vulnerable to constitutional challenge and should be modified before he could sign them into law

Mandela said his decision to send the bills back was not taken lightly The legislation should be on the firmest constitutional foundation

His action is a slap in the face for Health Minister Nkosazana Zuma, Broadcast Minister Jay Naidoo and Trade and Industry Minister Alec Erwin It means that the legislation is likely to be enacted only after the election

All three bills passed through Parliament after considerable protest in both public hearings and the relevant committees All three were threatened with Constitutional Court challenges

The advice to the president that the Liquor Bill was framed unconstitutionally indicates it is in the deepest trouble The bill attempts to legislate in the area of liquor licensing, an exclusive provincial competence Central government is constitutionally allowed to interfere in the exclusive powers of the provinces only for reasons of national security, economic unity, or to prevent a province from violating the rights of another

This is first time legislation has been rejected by the president because it tampers with the powers of the provinces

Mandela was also advised that if a nation-wide system of licensing was implemented and later found unconstitutional, it would cause confusion and uncertainty in the liquor industry as the legality of the licences would be in question.

Western Cape Business Promotion Minister Hennie Bester, who petitioned Mandela to reject the Liquor Bill, welcomed the decision He said he had warned Parliament that it usurped provincial powers

Mandela said the Broadcasting Bill's purpose was not unconstitutional, but some of its provisions violated the constitutionally guaranteed independence of the Independent Broadcast Authority.

Inkatha Freedom Party MP Suzanne Vos, who with Democratic Party MP Dene Smuts petitioned the president on the Broadcasting Bill, said yesterday that the bill in its present form was not good law and should be redrafted.

The Freedom of Commercial Speech Trust, which was poised to launch a constitutional challenge to the Tobacco Products Control Amendment Bill, said its objections did not centre on the bill's restrictions on smoking but its ban on certain kinds of advertising It applauded Mandela's decision

Mandela's advisers found that the intention to ban tobacco advertising was not unconstitutional, but where the legislation impinged on fundamental rights it should not be "overly broad" The prohibition of "organised activities" financed with tobacco money was so wide it could infringe on the freedom of association The clause which could allow prohibition of smoking in private dwellings was also considered too broad

The bill's return has been welcomed by DP health spokesman Mike Ellis and his counterpart in the New National Party, Kobus Gous

BEVERAGES *Strong local operation weakens rationale for global deal*

(182)

Coca-Cola and Cadschweppes talks exclude SA

C7 (BR) 29/1/99

ANN CROTTY

Johannesburg — The brief announcement that the global agreement between Coca-Cola and Cadbury Schweppes (Cadschweppes) did not cover the operations in South Africa gave little indication of what is likely to be a long-drawn out, complex and heated dispute between the various local parties affected by the deal

None of the parties — namely Cadschweppes, Coca-Cola and Amalgamated Beverage Industries (ABI) — is talking, other than to refer to the publication of a second cautionary earlier this week

It stated that the local company and its UK parent, Cadschweppes plc, were "reviewing the strategic position of Cadschweppes' carbonated softdrink business in South Africa within the context of the global agreement".

The reasons for the exclusion of South Africa are understood to be the presence of minority shareholders in Cadschweppes, the inevitable involvement of the Competition Board and the fact that the local operation is strong, weakening the rationale for a global deal An additional complicating factor is that Cadschweppes has a 15 percent stake in ABI, the country's most powerful Coca-Cola bottler and distributor

But analysts believe that Coca-Cola is keen to get its hands on Cadschweppes' local carbonated business and the only reason a deal has not been done is because Coca-Cola is not prepared to pay a sufficiently attractive price That is, a price that reflects that Cadschweppes has about 15 percent of the local carbonated soft drinks market, compared with the average elsewhere of about 2 to 3 percent

One of the main reasons for the strength of the local position is the acquisition some years ago of Lemon Twist Another reason is that Cadschweppes uses the so-called Coca-Cola system to distribute its products In most other countries Cadschweppes uses independent bottlers and distributors

According to one analyst, Coca-Cola believes it should not have to pay market value for the carbonated business because it helped create much of that value through its distribution system In addition, because Cadschweppes is already using the system, the additional benefits to Coca-Cola would not be as great

There are two glaring difficulties with Coca-Cola's line of argument one is that Schweppes has paid a fee for the use of the system and the other is that the system is actually not run by Coca-Cola itself but by independent bottlers such as ABI

Coca-Cola's role in the so-called Coca-Cola system is to provide concentrate, do some marketing and then sit back and police the manner in which the bottler operates Schweppes' role in the system is similar but because it only has 15 percent of the market compared with Coca-Cola's approximate 80 percent, it cannot use such a heavy hand to police the operations

In an industry that is all about perception, Coca-Cola's position and power is daunting Few realised that the multibillion-rand African expansion programme that was launched last year was in fact to be funded overwhelmingly by the independent bottling companies, with Coca-Cola itself contributing just a small portion of the funds.

If the Coca-Cola glitz is removed, then the Cadschweppes deal boils down to two concentrate producers negotiating a deal. It is, of course, impossible to remove the glitz and it would be unfair to Coca-Cola to do so

Although CadSchweppes has paid fees to its bottlers and distributors, some analysts say it has piggy-backed the Coca-Cola system as it does not invest anything proportionately close to Coca-Cola's investment in market development.

One of Cadschweppes' strongest arguments is certain to be the need to protect the interests of minority shareholders

FM 19/2/99

LATEST FIX FOR JOBS CRISIS

(182)

Drink more Coca-Cola?

A recent study on the economic impact of the "Coca-Cola system" claims the multinational softdrink company is not merely a thirst-quencher but "has a strong multiplier effect on job creation in transitional capitalist economies and political environments"

The study — commissioned by Coca-Cola — claims that for every job created by the system, 10 more were supported through backward and forward linkages

The system encompasses the core (the local office, its bottlers and canners) and a larger network revolving around that core, including suppliers, distributors, wholesalers and retailers Hence the employment network ranges "from plant managers to street hawkers"

The beneficiaries of the job-creation spin-offs cut across all races and skill levels — 63% are black South Africans, 16% whites, 14% Coloureds and 7% Asians And within the work force whose jobs are directly or indirectly supported by the Coca-Cola system, 24% are highly skilled, 43% medium-skilled and 33% low-skilled

The survey says the Coca-Cola system's total contribution to SA's GDP was R9,8bn in 1998, and direct expenditures were R5,6bn — implying a value-added multiplier of 1,75

And you thought it was just a soft drink

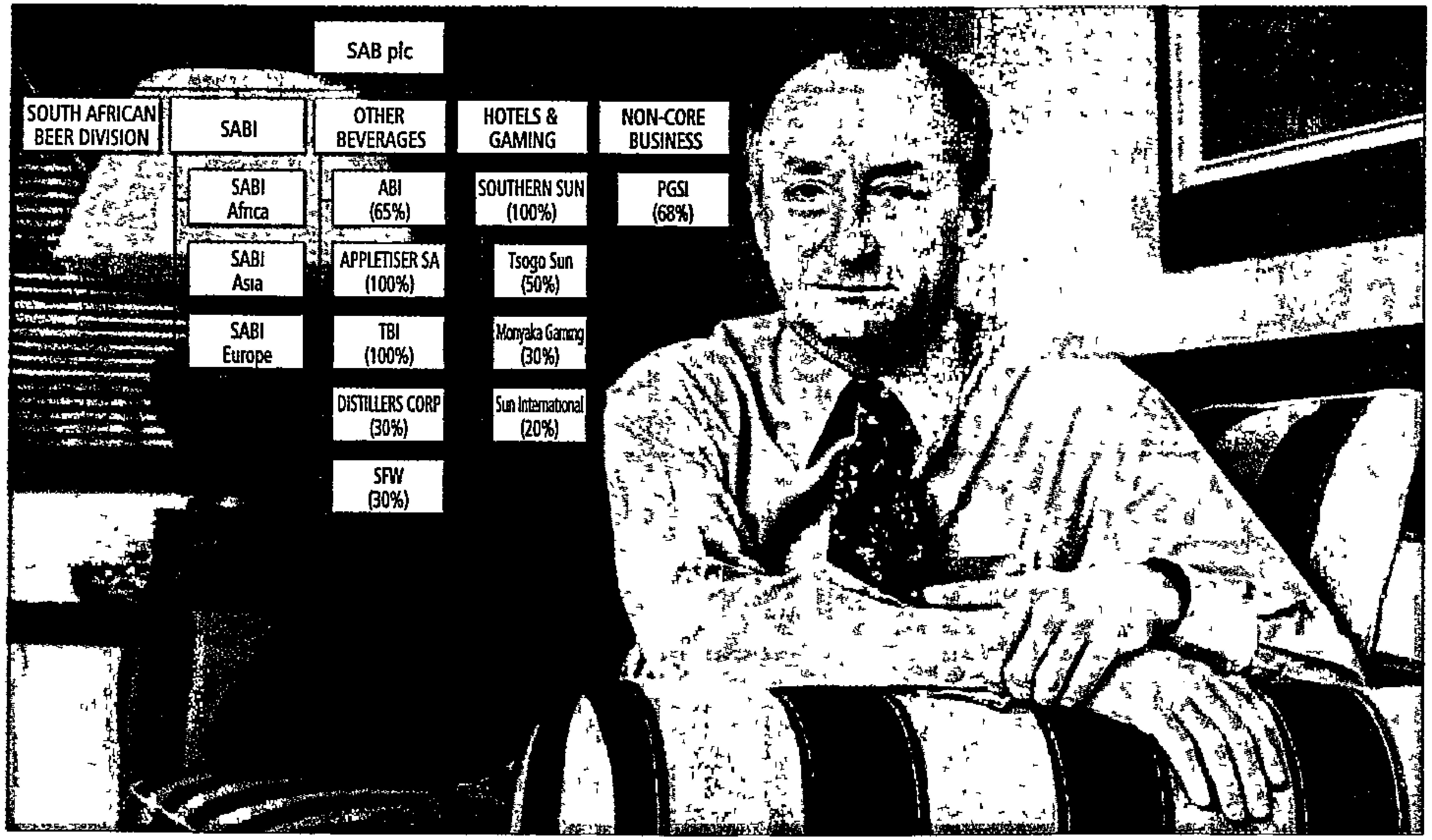
Sello Mabotja

SAB's billions in rands are small beer in Europe

(182) ST(BT) 28/2/99

MARCIA KLEIN

Looks at the implication of the beer giant's listing in London



FEELING FROTHY .. chief executive officer Graham Mackay says SAB's European road show has gone well, despite some concerns

WITH more than a century of history behind it, SA's long-term "temporary sole supplier" of beer, SA Breweries has established itself not only as a dominant force on the tip of Africa but also as a serious contender in the international beer industry

This is a huge and rare achievement But the performance of the SAB plc share after it lists tomorrow on the London Stock Exchange won t take past achievements into account The group will be judged purely on what it can deliver in the future, and it will have to work hard to stay on the FTSE 100 where it needs to be to attract major investment from overseas funds

The move of its primary listing from SA to London will see SAB raise £150-million to £200-million and, after a two-for-one split it is expected to trade at about £4 50 on listing

Executives have spent the past few weeks on a road show aimed at raising the funds and introducing SAB to a wider audience, including European analysts SA analysts say the road show has not gone as well as expected with executives having to answer the type of questions which South Africans are too polite or scared to ask.

CEO Graham Mackay says the road show has gone w ll, exceeding expectations

He admits there are some concerns over SAB's future, hinging largely on the risks associated with SA and uncertainty relating to ownership of SAB, with Bevcon SAB s largest single shareholder with 28 5%, reviewing its shareholding

Bevcon adviser Goldman Sachs has been in discussion with a number of international brewing companies Discussions will not be reopened until after the end of April and Bevcon has agreed not to sell shares unless under certain conditions until January next year Despite this assurance, the Bevcon stake remains a major source of concern about SAB

Mackay says although there are a few concerns, "both the directors and our advisers have the impression that the road show is going well indeed The book-building process is going well and the orders so far are at expectation or even better "

Although SA analysts say there are concerns in Europe that a large portion of profit is derived from SA (SA operations contributed 76% of operating profit in fiscal 1998), Mackay says that was not the concern per se, but rather about the rand itself as a currency The rand's depreciation has a significant effect on results translated into dollars, which will be its reporting currency Group turnover grew 43% in rand terms from fiscal 1996 to 1998 but by 11% in dollar terms, while operating profit grew 34% in rand terms and 4% in dollar terms

"This appears to be in the price already if one compares say, to a year ago," he says

"Obviously there is also concern about political stability, the state of the SA economy, the crime rate, and whether the SA economy can demonstrate the capacity to grow over the next decade Those are the concerns we hear "

He says he answers these concerns by saying "In our view, the rand seems to be undervalued Although we are also concerned about crime, we are positive about the future. We give reasons why we think the consumer economy will perform more strongly than in the past The economic picture is stabilising, macroeconomic policies are sound and government is doing a good job "

Mackay says SA is in some senses an emerging market, so investors cannot expect growth and no risk.

"The question is one of price and how much of that is already in the price," he says SAB was trading this week at R93 50 after coming down sharply off a high of R175

Always among the top five SA companies in market cap, it will probably list down in the 80s of the FTSE 100

The move to London sees the group go full circle It was registered in London in 1895 and transferred its head office to Johannesburg in 1951 The move was followed by diversification into various noncore areas, which has, in the past year, largely been reversed to enable it to list as a streamlined beer and beverages group

It is the fourth-largest brewer in the world by volume (43 1-million hectolitres in financial 1998), with brewing operations in 19 countries It is the major brewer in southern Africa, and is increasingly significant in central Europe and in China.

Beverages division ABI has 60% of the carbonated soft drinks market in SA and Southern Sun is one of the largest hotel operators in Africa.

In the year to March turnover was more than R24-billion and operating profit R3-billion

Looking forward SAB plans to develop and expand international beer and other beverage operations and to invest in the gambling industry in SA, where it is already a player through Southern Sun and its investment in Sun International.

It will continue to protect and develop its SA operations "while investing for growth in its international beer business" where it has critical mass and a profitable base in selected developing markets and regions

SA analysts are concerned that SAB has not been clear enough on what it will do with the money it raises, but Mackay disagrees, saying it is clear Its information document says the listing will give SAB greater access to world capital markets Proceeds of the placing will be used to continue the growth strategy worldwide, and in particular to continue investment in Poland and central Europe.

Analysts say future growth in SA may be limited — beer consumption grew just 1 1% in financial 1998 compared with some buoyant markets elsewhere. In China, the world's second-largest beer market in terms of consumption 187 hectolitres were sold in 1997, and consumption is growing at 10% a year

In central Europe, consumption in Poland grew 27% but dropped 2% in Hungary

A major area of debate is whether SAB needs to acquire a world brand if it wants to stay up there among the world's biggest brewers, which all own one.

An analyst says "One thing which differentiates it from its competitors is the lack of a global beer brand. On the one hand, it may be good to stay away from a premium brand, which requires big marketing spend

"This is a huge debate among analysts, and probably within SAB This is one of the issues they are exploring — whether they can acquire a company which is emerging as a global beer brand."

Mackay says a world brand "is not specifically our strategy This issue has been debated a lot, and is rooted in a misconception in people's minds about what a world brand is "

However, rumours persist that it is looking at brands like Carlsberg and others

One analyst says that the success of SAB's listing will depend on management's ability to improve the return on capital employed and to diversify the risk associated with its earnings base.

"Central Europe is also a soft currency base, it needs to reduce the currency risk profile," he says

"You should not look at the history but what the group can offer Management will have to deliver on its promises," Mackay says

One good thing about the recent penchant for companies to list offshore is that SA investors are given far more insight into SA companies than before as other markets demand more transparency out of directors and expect performance out of their investments

The information memorandum for shareholders reveals some nice titbits which we all love to hear about directors who are being paid handsomely to deliver on their promises

Mackay will be paid £420 000 for his services, as well as a car allowance of £44 000 and a relocation allowance of £100 000 a year for three years

His performance bonus can be up to 60% of his basic salary

Non-executive chairman and outgoing police chief Meyer Kahn will get £90 000 a year, small change compared with his holding of almost 1 5-million SAB shares With the share trading at R93.50 this week, he is worth R140-million in terms of his holdings in SAB alone

Breweries

Subdued British listing for SA

(18a) BD 2/3/94

Not much fizz at the coming-out as London's cautious analysts ponder the debutante's 'rather limited growth prospe

Nicola Jenvey, Dow Jones and Reuter

LONDON — Doubts about SA Breweries growth potential took the fizz out of the group's London debut yesterday, although the shares ended 19p or 4,4% up on the offering price at 447p

SA's dominant brewery and the world's fourth largest is seeking a primary listing in London, and will retain a secondary listing in Johannesburg Dealings in SAB shares are conditional on the LSE, at the sole risk of parties concerned, until March 8, when the group will be admitted to London's official list and trade in Johannesburg under a secondary listing

In Johannesburg yesterday, SAB shed 50c to R89,50, after losing 3% on Friday

Yesterday's placing of £300m worth of shares was oversubscribed Placement managers Robert Flemings, Cazenove and Goldman Sachs have one month to decide if an extra "green shoe" of £50m worth of shares will be allocated to institutions.

Ben Maitland, an analyst at Sutherlands, said market caution stemmed from SAB's "rather limited growth prospects" in the near term "SAB already has a 90% market share of the SA beer market (and) derives more than 75% of its operating profits from SA, which doesn't leave much room for expansion," he said. "The international brewing division, operating mainly in Asia, China and Eastern Europe, accounts for the rest of the operating profit The economy in these parts of the world is rather slow in the wake of last year's emerging markets crisis "

SA analysts said conditional share trading in London should be seen as a step in a process rather than a significant indicator of SAB's future on the LSE.

"Dramatic movements in the share price, especially when trading is not yet freely available, cannot be perceived as the trend SAB will follow in the future," said one. "Even next Monday, when genuine two-way trade becomes possible, the share will not yet reflect a fair price "

He believed the share needed "at least six months" before accurate trading patterns could be identified, outlining the international perception of the SAB share value and potential role on the FTSE-100

Meanwhile, Anglo American and Johnnic announced yesterday that they had sold their combined 5% direct stakes in SAB in separate transactions The price was struck to match the London listing level, taking into account SAB's planned two-for-one stock split on March 5

Anglo said it remained committed to divesting its other SAB holding, held through its 15% stake in Beverage and Consumer Industry Holdings (Bevcon), which owns 28,5% of SAB. Johnnic also holds 15% of Bevcon Both groups sold their shares at R85 each, raising R1,15bn for Johnnic and R347m for Anglo Johnnic said it would use the cash to repay debt.

London dealers said market participants were likely to show caution ahead of the FTSE International committee's March 10 meeting, which will decide on possible changes to the composition of the FTSE 100 index On the basis of SAB's share price yesterday, it will be included in the index with a market capitalisation of around £3,6bn

BREWING

(182) FM 5/3/99

SCRAMBLE FOR AFRICA

SAB and Guinness bludgeon it out for east African market dominance

When Danrie Niemandt left SA in 1994 to head up SA Breweries' operation in Tanzania his colleagues gave him a gift that in retrospect was rich in irony a caricature of himself surrounded by 16 beer brands, including Guinness brewed or distributed by SAB in SA Above his caricature was the SAB slogan "Making beer making friends'

At Tanzania Breweries Niemandt is still making beer but he ain't making friends particularly with Guinness

In fact across east Africa (Kenya, Tanzania and Uganda) SAB and Guinness, which is part of the London-listed Diageo group are slugging it out in a fierce battle for the lion s share of the region s beer market Soon Guinness, in a joint venture with French group Castel will challenge SAB's dominance in Mozambique

The allure of east Africa is the high growth rates in beer volumes achieved in Uganda and Tanzania Spurred by economic revival, Uganda's beer consumption

FM Cover Story

has grown by an average 30%/year since 1994 Tanzania's by an average 28%

Despite the high growth though, Tanzania s annual beer consumption is only 7 *l* a head and Uganda's 5 *l*, compared with SA s 60 *l* a head

Kenya has experienced a 30% decline in beer consumption since 1993 The reason sluggish economic growth and high excise duty on beer Excise duty in Kenya accounts for 48% of the retail price of a half-litre beer bottle compared to 30% in Tanzania and 35% in Uganda

Nonetheless, Kenya remains the region s most advanced economy and when its fortunes improve and government harmonises its excise duty on beer with the rest of the region, the country's beer market should also grow

East Africa's frothy battle has implications for both SAB and Guinness which owns 46% and has management control of East African Breweries Ltd (EABL, formerly Kenya Breweries)

SAB has made its mark in emerging economies — Africa eastern and central Europe and China — whereas Guinness comes into the east African fray with western European beer industry benchmarks

The expansion into foreign markets is key to the future growth of both brewers In common with all brewers particularly those in developed economies, SAB and Guinness have reached saturation in their domestic markets The fastest growth is in Asia where consumption grew by 37% between 1993 and 1997, followed by Africa and the Middle East (26%)

For SAB which is the largest brewer in Africa and so far has concentrated on emerging beer markets, the stakes are high The outcome of its battle with Guinness will be watched closely by analysts in London where it moved its primary listing earlier this week

The order of battle for east Africa s thirsty gullets (combined population of 80m) is as follows

In Kenya, East African Breweries produces 96% of the 400m half-litre bottles consumed a year (beer in east Africa is sold mainly in 500 m*l* bottles) and SAB through a 51% share in Castle Brewing Kenya, which began operating last October, is shoehorning its way into the market It aims to grab a 30% market share within two years

In Tanzania SAB which has a 51% share of Tanzania Breweries, controls about 82% of the market of 396m 500 m*l* bottles a year Guinness's EABL has a 15% market share and is gunning for more Last month EABL subsidiary Kibo Breweries opened a US$30m brewery in Moshi, in the foothills of Kilimanjaro

In Uganda SAB and Guinness have equal shares of the country's beer market of 223m half-litre bottles SAB operates in Uganda through Nile Breweries in which it has a 40% interest and management responsibility Uganda's leading industrial corporation, Madhvani Group owns 53,6% of Nile and the public holds the other 6 4%

The fight for the east African market began in 1993 when SAB bought a 51% share in Tanzania Breweries from government which still holds 29% At that time the brewer run down by decades of Tanzania s socialist economic policies had a 30% share of the market. The balance was made up of beer imports, most of which came from Kenya Breweries

SAB revitalised the brewer injecting management and technical expertise Within two years, Tanzania Breweries began regaining market share But SAB did not achieve the turnaround without some help from the Tanzanian government In 1996, in compensation for the punitive taxes Tanzania Breweries was obliged to pay on raw material imports, the authorities increased the excise duty on beer produced outside Tanzania giving the local brewer a price advantage

At its peak the Kenyan brewer was pumping up to 100m half-litre bottles of beer into Tanzania These exports had helped Kenya Breweries make up for declining beer volumes at home

The loss of a big share of the Tanzanian market exposed chinks in Kenya Breweries' armour It was forced to reconfigure its operations and retrench staff

To fund the makeover, Kenya Breweries asked shareholders in 1997 for 1,5bn Kenyan shillings in new capital The rights issue was underwritten by Guinness, which already owned 25% of the brewer

This was a disaster for Kenya Breweries Angry at the pricing of the rights issue at KSh53 against the prevailing market price of KSh47-KSh49, most Kenyan shareholders did not take up their rights, forcing Guinness to cough up 92% of the required funds, thus increasing its stake in Kenya Breweries to 46%.

Guinness then began injecting management expertise into Kenya Breweries, which was renamed East African Breweries last year in line with its structure as the holding company of the brewing operations in Kenya, Tanzania and Uganda

The arrival of Guinness management has introduced the region to the Irish brewer's way of doing business In particular Guinness is using strategies honed in western Europe

On the other hand SAB, the world's fourth-largest brewer with annual production of 46m h*l* comes to east Africa with certain strategies developed and perfected in SA.

Among these is SAB's "competitive pricing policy" of keeping the increase in beer wholesale prices at a rate lower than that of inflation, as measured by the consumer price index (CPI) In SA SAB has been true to this policy for more than 20 years

But in Uganda, that strategy is being challenged by Guinness On February 2 Uganda Breweries (Guinness) announced a 10% increase in the minimum price of beer from 1 000 Ugandan shillings to USh1 100/half-litre bottle The increase is five percentage points above Uganda's inflation rate

A month on SAB S Nile Breweries has not yet responded to the move Nile Breweries chief executive director Henry Rudd said that though he expected Nile to increase its beer prices, no decision had been taken on what the increase would be or when it would come into effect

Rudd, seconded by SAB to Nile Breweries, told the *FM* that Nile Breweries faced a dilemma. to follow Uganda Breweries lead would contradict SAB s strategy of keeping beer price increases below inflation. But, if Nile does not increase prices, or does so at a rate lower than 10%, it runs the risk of starting a price war with Uganda Breweries

Nile could hold off in the hope that consumers will force Uganda Breweries to reverse the price increase In that case Guinness would come out the loser

"All over Africa, SAB s strategy is to

Russell Roberts

GUINNESS VERSUS SA BREWERIES

Guinness*	SA Breweries†
(Financial year to 30/06/1998)	(Financial year to 30/03/1998)
Turnover $3,482bn• (£2,176m)	Turnover $3,982bn
Operating profit $395m (£247m)	Operating profit $664m
Operating profit margin 11,4%	Operating profit margin 16,7%

*Guinness is a subsidiary of Diageo, an international food and drinks group formed in 1997 through the merger of Grandmet and Guinness

•£1 = $1,6

†The figures exclude SAB's hotels and gaming interests and Plate Glass

SOURCE: DIAGEO 1998 ANNUAL REPORT SOURCE: SAB'S INFORMATION MEMORANDUM

MARKETING EXPENDITURE

Average marketing expenses as % of turnover 1996-1997

*SAB does not disclose its marketing expenditure; this is an estimate by analysts.

SOURCE: COMPANY REPORTS

SAB'S AFRICA OPERATIONS

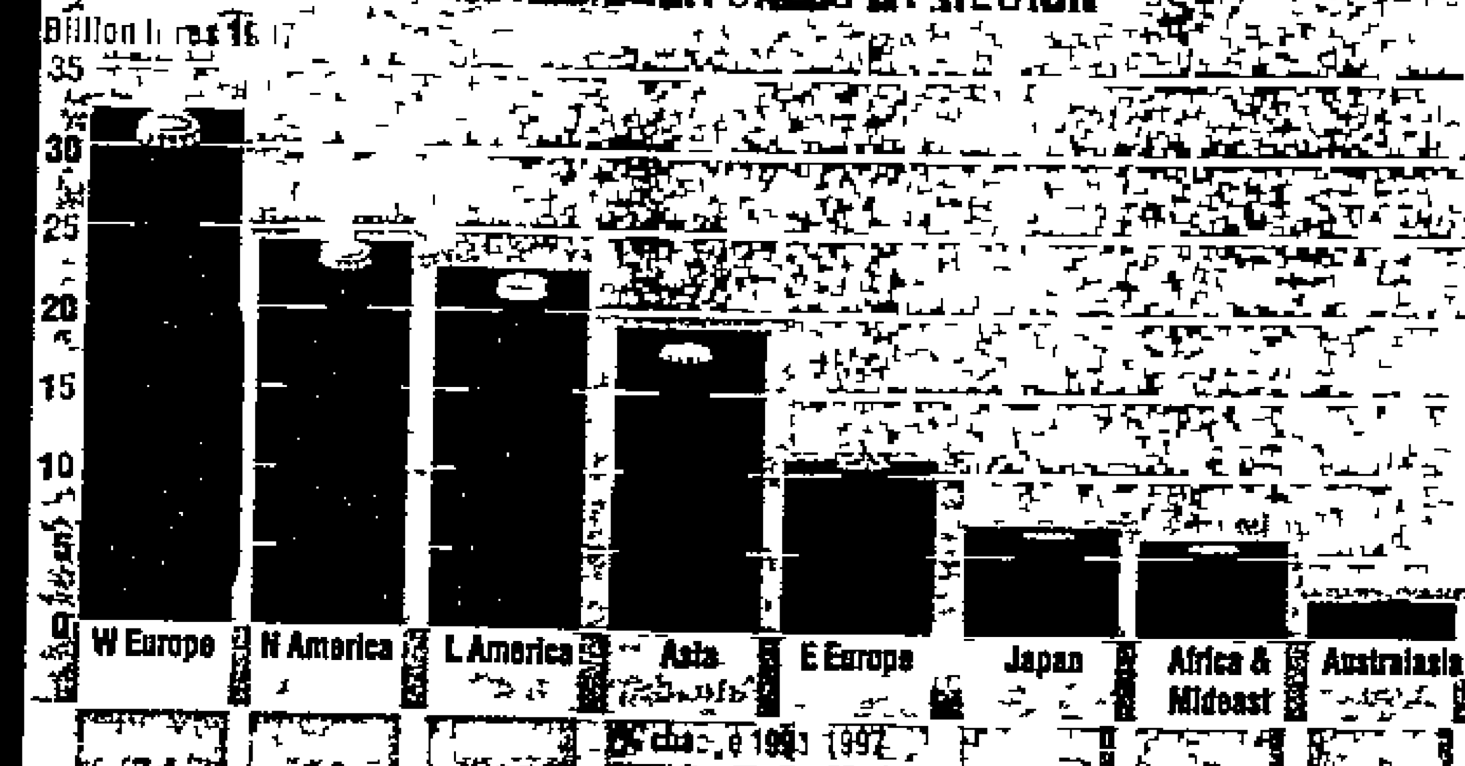
	Market share %	Approx volumes sold in 1998 (m h*l*)
SA	98	24,6*
Botswana	95	0 473
Lesotho	85	0 395
Swaziland	95	0,253
Zimbabwe	98	1,694
Tanzania	82	1,624
Mozambique	90	0,762
Zambia	90	0,629
Ghana	25	0,189
Uganda	50	0,557
Angola**		0,140
Kenya**		0,046

* SA production was 25 1m h*l*. The balance of 460 000m h*l* was exported. The SA figures are for the 12 months to March 31 1998 but the volumes for the other countries are for calendar 1998

* Operations established too recently for data to be meaningful. The Kenyan operation was in production for three months to December 1998.

SOURCE SAB INFORMATION MEMORANDUM

WORLD BEER SALES BY REGION



SOURCE: EUROMONITOR

BENEFITS OF E AFRICA BEER WAR

- $240m to be invested in East Africa beer industry between 1993 and 2000. Guinness to account for $140m
- Minimum monthly salary at Tanzania Breweries up from $21 (including housing and transport) in 1993 to $187 in 1998
- Tanzania Breweries excise duty and sales tax payments up from $17,6m (1993) to $66m (1997)
- SAB paid $22,5m for 50% share of Tanzania Breweries in 1993. Brewer now valued at $200m on the Dar Stock Exchange
- In Uganda Nile Breweries taxes up from $4m/year (1992) to $35m/year

SOURCES. COMPANY ANNUAL REPORTS

Highs and lows of pay at leading company

RICH MAN

Graham Mackay R7-million p/a

CAROL PATON

SOUTH African Breweries has for the first time disclosed the earnings of its top executives — revealing that chief executive officer Graham Mackay stands to earn a staggering R7-million this year, 218 times more than the lowest earner on the shopfloor

Mackay will earn a basic salary of £420 000 (about R4,2-million), receive a car allowance of £44 000 (about R440 000) and will stand to earn up to £250 000 (about R2 5-million) through a performance bonus

On the other hand, Abrahim Marimba — a weekly paid worker at SAB's Alrode brewery who earns slightly more than the minimum wage — will get R33 280 for the year Information about executive salaries has always been a closely guarded secret from shopfloor workers The disclosure — one of the first made by a South African company — was prompted by SAB's imminent listing in London where disclosure of individual directors' earnings is compulsory.

POOR MAN

ST 7/3/99 (182)

Abrahim Marimba R33 280 p/a

Marimba was speechless when told of Mackay's R7-million package

"It's shocking I think its a lot of money for one person," said Marimba, who has worked for SAB for five years

Trade union officials of the Food and Allied Workers' Union said they had made numerous requests for information on wages and salaries but had been refused

Victor Nzuza, Fawu's national negotiator for SAB, said workers would be horrified by the information Although operating profits had increased by 34 percent during the past two years, worker anxiety over job security had risen

Last year 600 jobs were lost at SAB as the company began to restructure itself along the lines of other world-class brewers More retrenchments are certain to follow this year

"We are definitely going to do something about this We cannot live with this wage gap and expect that somehow the economy will improve The rich are getting richer and the poor are getting poorer," said Nzuza

Part of the reason for the disparity is that Mackay's salary has been substantially increased this year to meet British standards when he relocates to London where SAB is planning to list later this month In addition to his salary he will also receive a £100 000 (about R1-million) relocation allowance a year for the first three years that he is in London

When compared to the earnings of a South African worker Mackay's salary is exceptionally large But independent remuneration experts said Mackay's package and those paid to other executive directors who would also be based in London were not out of line with international trends

By British standards, Mackay's salary was "middle of the range" for chief executives of large companies, said South Africa remuneration consultant Martin Westcott

"It is a fact that salaries in the United Kingdom are substantially higher In recent years executive salaries in the UK and US have gone up It is not unusual in the US, for instance, to get ratios of 200 to one between the chief executive and the shopfloor

"The main reason for this is the enormous performance bonuses that people earn," said Westcott

SAB spokesman Dunbar Bucknall said Mackay's salary and those of two other directors who would also be moving to London (both with potential packages of about R4,1-million) had been determined after a proper investigation to determine a market-related structure

But even when executive directors who will be based in South Africa are compared with SAB's shopfloor workers — who incidentally have one of the highest minimum wages in the country — the gap between rich and poor within SAB is still large

For instance, the managing director of the Beer Division, Norman Adami, stands to earn about R1,2-million if he meets all his performance targets — 36 times more than Marimba

The main reason for spiralling executive pay, particularly in South Africa, has been the shortage of top management skills

But the scarcity of management skills is not an argument that washes with trade union Cosatu, which since '94 has campaigned for the closing of "the apartheid wage gap"

Last year it seemed the unions had won the disclosure battle when the Minister of Labour, Shepherd Mdladlana, made a last minute amendment to the Employment Equity Bill, compelling companies to disclose their wage structures to the Department of Labour But, to the disappointment of unions, this information is to remain confidential

Cosatu General Secretary Mbhazima Shilowa said the salaries of both the London and South African directors of SAB could not be justified in a context where investment in training of the workforce was desperately needed

"We have always said that we need to look at closing the wage gap and how to use resources for training workers That money could be used by SAB for training SAB has a lot to account for to the South African public It is here where they have built their base and made their profits from selling beer," said Shilowa "Companies will always argue that this is the price of a director Mackay's salary is disproportionate, not only with workers but also with other managers," he added

Marimba is an unskilled worker whose job is to organise loads of beers into orders for customers When retrenchment comes around this year, it is people like him, who perform single manual tasks, who will be in the firing line

However, he believes people should be paid according to their skill and naturally bosses with knowledge and experience should get paid more. "But to pay one person R7-million? It is just too much"

SAB considers a move to the 'top tier'

(182) BD 8/3/99

Brewery's London listing could be a precursor to large and interesting deals, argues Hilary Joffe

As SA Breweries plc lists on the London Stock Exchange (LSE) today, two concerns dominate the responses of investors and analysts One is the fate of the 26,5% stake in SAB held by its largest shareholder Bevcon The other is the question of how the group will grow its dollar earnings in the next few years

It may turn out, in the end, that both are addressed simultaneously That will happen if SAB pulls off a deal in which it acquires, is acquired by, or merges with another brewing group so achieving its ambition of being in the "top tier" of global beer makers For despite its rapid international growth of the past five years and its rise to the number four slot among world brewers, SAB is still only "top of the second tier" says CE Graham Mackay

The right deal will give the group the bulk it needs to make it into that top tier It would balance the group's extensive exposure to emerging beer markets in Africa, China and central Europe, with operations in developed markets with strong currencies The right transaction could at the same time take out Bevcon whose shareholders want cash for their holdings A deal says one London fund manager, is what London expects

But there is some way to go before this happens And it is far from clear that it will, despite speculation in recent months which has linked SAB with several other international brewers

The London listing, however, may be an important first step And its timing — though it seems less than ideal given widespread negative sentiment to emerging markets — may not be coincidental Says one JSE analyst "A deal cannot be too far away I don't think they would have done the listing now if they didn t have something in their sights "

The rationale for SAB's transferring its primary listing to London is not immediately obvious The group wants to access capital to fund its international expansion drive. But from its Johannesburg base, SAB managed in 1996 to raise $413m in an international equity placing — at the time the largest emerging market issue. Mackay says that the group could not have done it again "When we went the last time emerging markets meant growth Now they mean risk. It was never easy to raise that sort of money Now it would be flatly impossible." Apart from the $150m in new capital it raised ahead of the listing, SAB s London-based treasury will be better positioned to raise debt to fund expansion The group does not expect to go back to the market for capital in the foreseeable future — unless it does so to fund "a major project" Mackay says

That touches on the other, perhaps more urgent reason for SAB's move The group believes LSE shares will be a more desirable currency in any deal it might do If it wanted to make a big acquisition using its paper, this would have to be London paper And for a merger, notes Mackay, "our (Johannesburg) scrip would not have been acceptable to counterparties"

Karel Vuursteen, chairman of Dutch group Heineken, noted recently that the world s beer industry was unusually fragmented with the top 10 players accounting for a mere 40% of global volume Says Mackay "We believe the beer market will consolidate globally There will be large and interesting transactions which we and others will be looking at " London positions SAB to participate on an equal footing

Hanging over it is Bevcon's block of shares With so large a percentage of the group's equity potentially flooding the market, a damper could be put on the share price "The issue is not going to go away And the way it gets resolved will depend on the share price," says Mackay, noting the latest share placing was at $12, compared with the $37 at which SAB shares traded a year ago

One option, "possibly the most likely", says Mackay, is that Bevcon s shares are disposed of in chunks via the market. This would probably follow an unbundling of Bevcon, whose shareholders — Johnnic, Anglo American and Liberty — would not then expect a control premium for their shares

For Mackay the worst scenario would be if one of SAB's competitors simply bought the Bevcon stake with no intention of doing more. "It could be value destructive. They would not have control, so it would be difficult for them to add value. But we would have to manage the conflicts of interest which would arise," he said

Management would be a lot more enthusiastic about a scenario in which the stake was a "catalyst for a strategic transaction" The kind of deal SAB seems to have in mind is one where it could, for instance, buy another brewing group for cash, which this group would then use to buy the Bevcon stake, making it the largest shareholder in a merged SAB-Brewer X new industry giant.

A straight acquisition of SAB by another player remains possible, although probably the only brewer with the financial strength to do it would be US-based Anheuser Busch It is more likely, though, that SAB would seek to tie up with one of the European brewers seeking geographical diversity Belgium's Interbrew has made it clear that it is not interested but Denmark's Carlsberg has not responded to speculation Carlsberg would not have the cash to buy control of SAB, nor could it use shares because it is family-held However, it must be high on the list as a potential merger partner

There has also been talk of SAB buying a smaller European brewer, such as Grolsch, or one in Czechoslovakia. More intriguing is Heineken Vuursteen recently took the trouble to outline his objections to SAB in a lengthy statement to the Financial Times Heineken might have been warning off other suitors, preferring SAB to remain independent, or it might have another agenda.

Analysts emphasise that any buyer of the Bevcon stake would have to have the blessing of SAB's management. They note that although emerging markets are seen as risky, they offer much higher growth potential than the mature developed markets Some of the diversified international brewing groups would be keen on the spread which SAB has to offer Conversely, SAB needs exposure to those mature markets, where there are better margins to be had, especially on premium brands, and the profit is in hard currency

Meanwhile, SAB's executives have been occupied with the roadshow and the listing And this was clearly a tough one to sell A couple of months ago, executives and advisers were talking of a share price of up to £5 The outcome was an issue price of 428p and market value of £3,4bn. Mackay says demand for SAB's shares matched expectations, but pricing was "tight" On the positive side, some high-quality institutions came in, which could be expected to be long-term holders of SAB's shares, and there was significant interest from index funds.

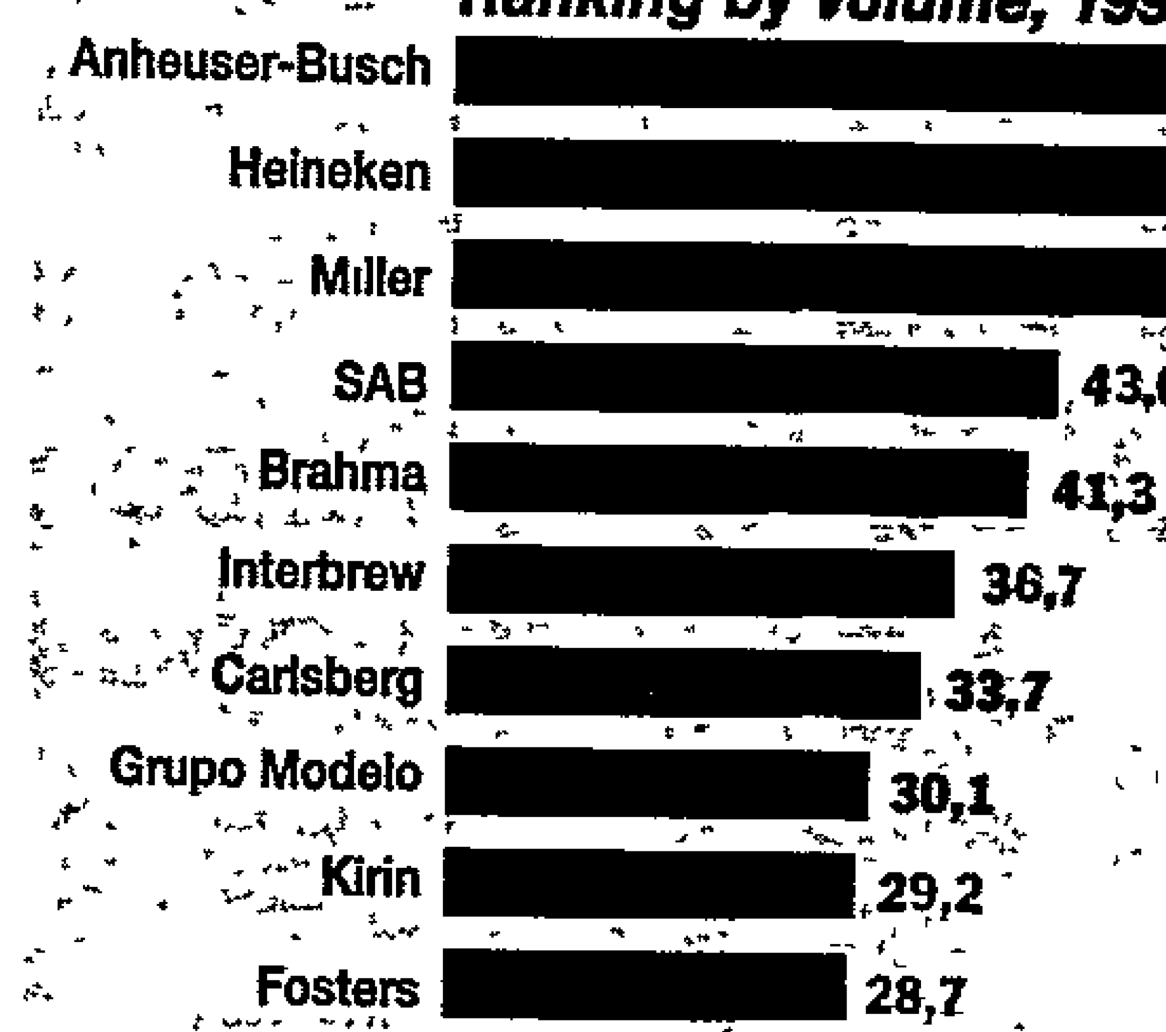
Of its $150m in new capital, about one third will go to relocation costs, with the rest earmarked for specific projects. The group plans to continue expanding its operations in Europe, Africa and Asia. And there is still some upside in SA, where beer could capture market share from other beverages and the group is involved in bidding for gaming licences. But to add a further big chunk of value, SAB will need a big deal.

Its March year-end results may increase the pressure for this Analysts expect minimal earnings growth in rands. After the rand s depreciation last year, that will mean a decline in dollars — a prospect which has helped to depress the share price.

□ *Steven Friedman's regular fortnightly column will appear tomorrow*

The world's biggest brewers

Ranking by volume, 1997 (million hectolitres)



From left to right: SAB's Nigel Cox, ...

KAREN MOOLMAN Source: IMPACT INTERNATIONAL 1997/98 STATISTICS

SAB makes its London debut

BD 9/3/99 (182)

Investors shrug off concern about exposure to emerging markets

Tim Cohen

LONDON — SA Breweries (SAB), the first company to list on the Johannesburg Stock Exchange, yesterday became the newest company to join the London Stock Exchange, putting in a solid performance and strengthening its claim to a place on the FTSE 100 index

CE Graham Mackay applauded its rising share price, which had climbed 13% since SAB shares started trading in the grey market last Monday to close at 485p yesterday, 4% higher on the day

Investors shrugged off concern about SAB's almost total exposure to emerging markets and the overhang of Bevcon's 28,5% stake, which might be sold after April With a total of 773,68-million shares now listed in London, SAB has market capitalisation of £3,75bn, making it a favourite for inclusion in the FTSE 100 index A decision is expected to be taken on this tomorrow

The company has indicated it intends to use the additional money raised prior to its London listing to improve its growing interests in central and eastern Europe, principally Poland and Romania.

Small acquisitions are foreseen by SAB, funded from the enlarged war chest

Nigel Cox, Meyer Kahn and CE Graham Mackay celebrate SAB's listing on the London Stock Exchange.

Mackay said in an interview that he was not upset by negative commentary about SAB, suggesting that a drawback to listing in London meant facing the demands of exacting investors

Critical commentary had centred on the company's focus in emerging markets, which Mackay pointed out was fashionable a few years ago Once the pendulum swung back, SAB's principal markets would appear attractive again.

On the possibility of SAB merging with another large European brewer, Mackay said "If the question is will there be consolidation in the brewing industry within the next five years, then my answer is yes If the question is do we want to be part of it, then the answer is yes

"But if the question is whether a single, spesific deal is on the table at the moment, then the answer is no"

On the Bevcon stake, Mackay acknowledged that the future of SAB's biggest single investor had caused uncertainty

Bevcon is seeking a premium price which would make a trade sale the most viable option. However, the basis for the sale of this stake would not be Bevcon's desire to see a cash sale alone, but what would be good for SAB as a whole, he said

Investors fear the overhang of Bevcon shares might depress SAB's share price

SAB denied weekend press reports that the sale of 68% of Plate Glass & Shatterprufe Industries for £400m was imminent. However, Mckay acknowledged that a deal was on the table

Comment: Page 13
Sharp words: Page 15

SA BREWERIES

(182)

FOR BRITISH TASTE IT COULD DO WITH MORE SALT

FM 26\3\99

Knotty problem of valuing a rand share in sterling terms

Not so long ago, currency risk and emerging-market stigma didn't enter the same universe as SA Breweries But since its London Stock Exchange listing, they've become planets obscuring the group's sun

These risks, rather than SAB's profits or size, are fine-tuning its share price SAB CE Graham Mackay says the market has overdone SAB's emerging-market exposure Still, that vulnerability crouches at the front of UK analysts' minds Several brokers, not involved in the listing, call the share overpriced at present levels of R58,10 ABN AMRO has priced the counter at 407p, HSBC at 385p and Dresdner Kleinwort Benson at just below 400p

To parcel the share's emerging-market and currency risk into the equation, HSBC and Kleinwort Benson have turned to the currency and bond markets "These markets have been valuing the SA market for years, whereas the UK market has been valuing SAB's share for a few days," say Dresdner Kleinwort Benson analysts Eddy Hargreaves and Robert Cumming This introduces a variety of arcane figurations into the valuation

For example, Kleinwort has compared the SA 10-year long bond (offering 14,5% returns) with the UK 10-year bond (4,5%) After crunching concepts like differential yields and implied total returns, Kleinwort concludes that the rand will be worth 38% of its present value against the sterling in 10 years' time (Ouch) That means SAB's 16,7 p e must be divided by 38% (or 0,38) to include its emerging-market risk, placing it on a 43 p e

"It is a struggle to justify taking the share at these prices," says HSBC analyst Charles Winston "Assuming long-term earnings growth of 8% in US dollars, most valuation tools suggest fair value at well below 500p This is particularly so if you examine SAB's EVA money spent on acquisitions like Suncrush, offshore breweries and capex over the last several years have all left SAB overinvested "

ABN AMRO estimates that annual returns on international beer capex spent since 1995 are only 7,1%, with cumulative returns at 20% That puts SAB in economic loss — a technical term meaning the returns on the cash invested are less than the average cost of its capital

Winston expects a strong performance from ABI and better consumption spending in SA to haul the group into economic profit in 2002 — when recent acquisitions will begin to pay for themselves

These brokers rate the share a sell, or a reduce However, certain FTSE-100 tracker funds, impervious to share valuations, are climbing in to the stock

So, should private investors follow the herd? "In our view, SAB management is doing the right thing," says Winston, "but investors don't need to join in the costs and risks attached to its present, early stages of international development It is worth looking at the share in two years' time, to see how SAB trades outside its monopoly in tough international markets and develops a track record "

Yet cries to sell are met equally by clamours to buy, admittedly mostly by brokers involved in the listing Values don't include the prospect of a deal, difficult to price, though the promise of it has lent a glimmer to other recommendations

Bullish analysts argue investors must look beyond the present structure of earnings, given SAB's active participation in the consolidation of the global brewing industry Merrill Lynch's Doug Ellish says "Local analysts are more optimistic about international growth than those in the UK, which is why SAB's share trades at a premium to the SA market Internationally, its medium-term growth in dollars has not been impressive "

WHAT SOME SAY IT'S WORTH

ABN Amro	407p
Kleinwort Benson	400p
HSBC	385p
Current Market Price (March 16)	570p

Much of the investment dilemma lies in SAB's dual nature, not a developed-market brewer, but ahead of developing-market brewers Its unknown position in a deal, acquistion or buyer, also adds uncertainty These values look low Local investors may be less reticent than those in the UK but they need to think medium-term — when offshore assets will start to gain weight

"Our experience is that most IPOs of this size have a good chance of running above fair value," says ABN AMRO analyst Andre Szczesniak "Then, after a few weeks, the share starts to drift, and underperforms for the rest of the year — Billiton is one example "

But analysts do agree on one thing — that demand from some purer FTSE-100 tracker funds will continue Demand from emerging-market funds which have a long history with the share, could also help However, some brokers argue that technical demand from FTSE-100 funds will begin to dry up once they settle weightings HSBC expects the share to return to fair value within six months Others, like Merrill Lynch, which expects the share to tip 530p or 560p by year-end, believe the share will rise or keep its value

SAB has said it doesn't intend to come to the market for funds in the near future and plans to sustain its historical strategy with cash flows and its balance sheet "We'll return only if there's a sizeable enough transaction — which isn't on the cards," says Mackay

Tammy Lloyd

Port makers may take EU deal to WTO

(182) BD 26/3/99

New world wine producers to meet in Montevideo

John Dludlu, Wyndham Hartley, Stephen Laufer and Reuter, Sapa-AFP

AS GENERAL euphoria greeted the SA-European Union deal yesterday, local port producers signalled their intent to put the brakes on with an approach to the World Trade Organisation (WTO)

Karel Nel, chairman of the SA Port Producers' Association, said his organisation would team up with fellow non-European port producers to challenge the EU's restrictive naming practices in the wine and spirits sector New world wine producers are to meet in Montevideo, Uruguay Sources believe a joint approach to the WTO on the issue of port and sherry denominations could be on the agenda

SA's government and the EU welcomed the deal.

While Nel said he understood government's rationale in accepting the deal, some of his members were unhappy with it Last week Nel, who said the association's 27 members represented 90% of SA's port producers, wrote to Trade and Industry Minister Alec Erwin, praising his hardline stance in talks with the EU

Responding to the possibility that the port industry could lose this label after the 12-year transition period, Nel said the international challenge would seek to ensure that all foreign wine producers were treated alike that none was forced to abondon its trade marks

A spokesman for KWV welcomed the prospect preferential access to the EU

Erwin, President Nelson Mandela and opposition parties have welcomed the conclusion of the negotiations However, Erwin conceded in Parliament yesterday that the new wording on port and sherry, a compromise on the Davos package, could see use of the terms lost in the domestic market in 12 years The Davos package allowed SA to use the names for 12 years, when names would be jointly agreed between SA and the EU The new deal is that after 12 years "new denominations that shall be used in SA will be jointly agreed" This has been interpreted as conferring a veto right to the EU on names after the transitional period

Erwin and Land and Agriculture Minister Derek Hanekom insisted, however, that the door on the wine labels was still "ajar" Erwin said the EU had intended to slam the door on port and sherry and that SA's concession kept hopes alive that the use of port and sherry in the domestic market might still be preserved

Hanekom stressed that the port and sherry market for SA producers was largely domestic, with R100m of an R800m market going in exports

EU ambassador to SA Michael Laidler said the EU leaders' unanimous endorsement of the agreement was an "irrevocable commitment" to the deal. He defended the changes, saying they were in the spirit of the Davos package The deal, expected to come into force next year, would reinforce the EU's dominant position as a direct investment and trading partner with SA

Erwin said the main beneficiary of the deal was agriculture, but SA's industrialists would also benefit substantially from duty-free access to European markets within three years

When the agreement comes into force there will be duty-free access to EU markets for 32-million litres of SA's wines and allowance for duty-free quotas of agricultural products to grow 3% a year

A Spanish diplomatic source said King Juan Carlos's state visit to SA in February had "helped establish a more sympathetic climate" towards the EU agreement

The deal will remove tariff barriers on 90% of trade between the two in 12 years

Rob Davies, chairman of parliament's trade and industry committee, said SA should not be over-euphoric as the tearing down of trade barriers would also pose challenges to business

FM FOCUS

Edited by Caroline Southey

GUINNESS

FM 2/4/99

UPSETTING THE BEER CART

(182)

The end of the beer distribution agreement between Guinness SA and SA Breweries on April 30 could pave the way for the creation of a more formidable competitor in the SA market, of which SAB has 98%

Guinness will decide within the next three weeks on its next course of action Its decision could set off a train of events that would change SA's beer landscape

One possibility is that the Irish brewer walks away from the SA market, in which case it would add to the long list of local and international brewers that have tried, and failed, to enter here

But it could tie up once again with Namibia Breweries, the only brewer to have successfully attacked the 25m h*l* SA beer market

Scared by the cost of building infrastructure similar to SAB's, international brewers like Guinness and Dutch brewer Heineken have sought alliances with SAB

But not Namibia Breweries It has tenaciously held on to its independence and clawed away from SAB a 33% share of the premium sector of the market, estimated to be 750 000 h*l* a year Amstel, brewed by SAB under licence from Heineken, leads in the premium segment

The main benefit for Guinness would be Namibia Breweries' distribution set-up Between 1990 and 1992, Namibia Breweries distributed Guinness's Foreign Extra Stout (FES) brand in SA FES didn't succeed here despite being a star performer in east and west Africa Guinness then joined forces with SAB and switched brands from FES to Guinness and Kilkenny

Guinness SA MD Eamon Murphy says the end of the SAB pact follows the failure to find a solution to the high cost of importing Guinness and Kilkenny from Ireland

These brands sell at premiums of between 100% and 300% on Castle, SAB's leader with a 50% SA market share

Murphy says SAB and Guinness considered creating a joint venture company that would have invested in the technology necessary to brew Guinness and Kilkenny in SA But then they would have had to sell 100 000 h*l* a year

"We are nowhere near that figure and at current sales volumes, it would have taken the joint venture about seven years to make money on its investment," explains Murphy

Guinness is looking at other options, including importing Guinness and Kilkenny brands from countries besides Ireland

Jabulani Sikhakhane

LAND OF -ISMS

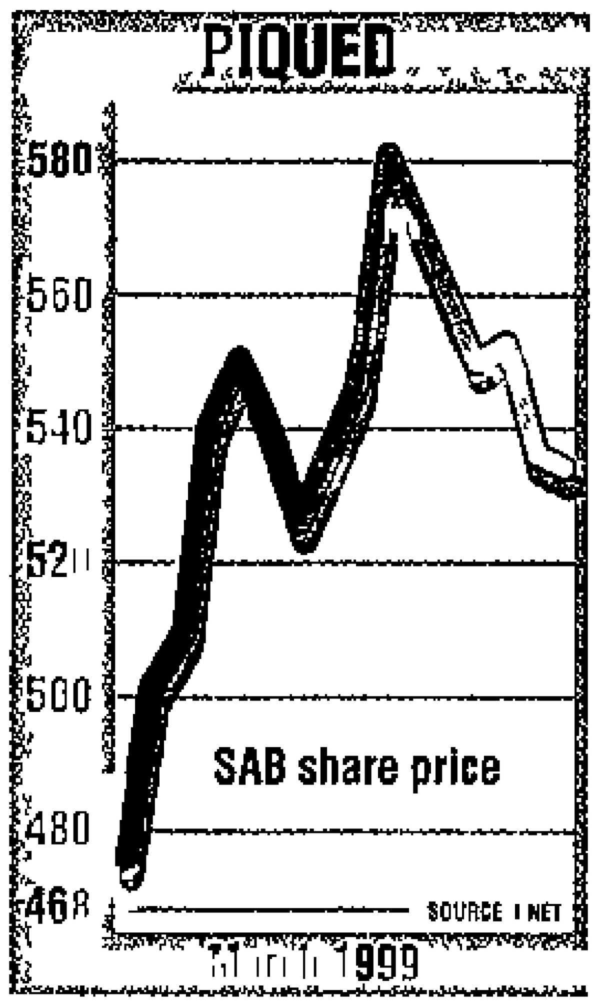
"Brazil still suffers from a malaise of -isms — nationalism, statism and populism (the art of distributing wealth before it is produced) " Veteran Brazilian politician Roberto Campos in *Financial Times* interview

SA BREWERIES

UK MAG SAYS ITS TIME TO SELL

SA Breweries is in the firing line from UK analysts (*Companies & Markets* March 26) as well as the financial media

The latest bullet has been fired by the *Investors Chronicle* which, in its issue of March 25, advises shareholders to sell It points out that though the share has performed well since its listing at 428p — its current price is around 530p or 5 350c — its major bear point is that Bevcon wants to sell its 26,7% stake Bevcon has agreed not to discuss a sale until April 30 That's just around the corner



Also worrying is that no-one seems interested in taking over SAB This means that, in terms of its strategy to help consolidate the worldwide brewing industry, SAB will probably become an acquisitor That means raising more funds on the LSE — more likely to depress than raise the share price

Another negative is the weak rand If, as analysts expect, the rand falls against the dollar by 8% over the next 12 months, then SAB's rand earnings must grow by 8% for dollar earnings to remain flat

The positives are its strong assets, but the *Investors Chronicle* concludes "It faces serious currency risks and its biggest shareholder Bevcon wants out Other investors should follow its lead Sell "

Ben Temkin

DEMOCRATIC PARTY

FINDING A HOME FOR THE DEFECTORS

The DP's slick, razzle-dazzle election campaign launch in Durban this weekend briefly fell off its well-oiled wheels with the walkout of a delegation protesting at having an ANC defector foisted on them as a candidate

The delegation of more than a dozen black DP supporters came from the Northern Province, one of the regions where leader Tony Leon says the party stands a big chance of making substantial inroads into the ANC support base They walked out of the function, attended by about 1 500 DP supporters, because they claimed they had had no say in the selection of Ezekiel Mphahlele to the DP's National Assembly candidates' list

Mphahlele, one angry woman complained, had been a member of the ANC until only three days previously "Now we are con-

SAB's Pilsener debut foments old rivalry

Brewery feud inflamed by SA's new tipple

CT(BR)7/4/99 (182)

ROBERT OTANI

Nairobi — The launch here last week of Hansa Pilsener by SAB's Castle Brewing Kenya was likely to worsen the abrasive relations between the South African company and East African Breweries, its only rival in east Africa

Castle Brewing, a SAB subsidiary, has had a rough time in Kenya since it stormed the regional market by opening a plant in Thika, about 30km northeast of Nairobi, in September 1998

There have been accusations and counter-accusations of unfair business practices, including the defacing and demolition of billboards and irregular advertising

East African Breweries has two Pilsner brandnames, Pilsner Lager and Pilsner Ice

Industry sources say East African Breweries may take Castle Brewing to court, claiming it has stolen its brand

Launching Pilsener at a Nairobi hotel, Roger Smith, Castle Brewing's managing director, said "The Hansa launch marks an important step in strengthening Castle's position in the Kenyan beer industry"

He said since Castle Brewing's launch last year, the company had sold over a million 25-bottle crates of beer despite fierce competition and a sluggish Kenyan economy

The Hansa Pilsner brand was first brewed in Swakopmund, Namibia, where the Heuscheider family established the Hansa Brauerei in 1932

Hansa Pilsener was launched in South Africa by SAB in 1975 SAB later acquired the right to use the brand name in exchange for part equity in Namibia Breweries

When Castle Brewing launched Ranger, its third brand after Castle Lager and Castle Milk Stout, last December, East African Breweries cried foul, claiming the South African firm had stolen its formula

East African Breweries later went to court, and Castle Brewing was restrained from making and selling Ranger However, it has since continued to manufacture and sell the brand

Last year East African Breweries tried to get its own back by exporting its Tusker range of beers to South Africa But a trade dispute ensued because SAB contended that East African Breweries would infringe a Tusker trademark already registered by Sabmark International of South Africa, which holds all trademarks licensed by SAB

The matter has not yet been resolved, so East African Breweries is restrained from selling its Tusker brands in South Africa

East African Breweries has argued the same trade restrictions should be imposed on SAB in Kenya, accusing South Africa of protectionism while Kenya has fully liberalised its economy

Although East African Breweries produces over 90 percent of the beer consumed in Kenya, SAB, through its 51 percent shareholding in Castle Brewing, hopes to grab 30 percent of the market in the next two years — Independent Foreign Service

Guinness SA gets new drinking partner

CT (BR) 9/4/99 (182)

Marc Hasenfuss
Cape Editor

Cape Town — Guinness, the Irish brewing company, yesterday struck an agreement with Namibian Breweries to distribute and sell Guinness and Kilkenny beer and draught in South Africa

The agreement, effective on May 1, follows the ending of Guinness's distribution arrangement with SAB, which controls 98 percent of the local beer market

Diederich Schutte, a stockbroker at PSG Online, said the agreement was another tactic in the scramble by the Irish brewer and SAB for African markets

Schutte said the distribution would have a minimal effect in South Africa in the short term, adding that the deal formed part of Guinness's longer-term strategy to challenge SAB's dominance in Africa

Eamon Murphy, the managing director of Guinness South Africa, said Guinness and Kilkenny had grown rapidly in the local market and showed tremendous potential

"Our agreement with Namibian Breweries will ensure this growth will be maintained and, most importantly, that the product will continue to be available to loyal customers "

Although Guinness was "not making a lot of money" in South Africa's premium beer sector, Murphy said the company's distribution agreement with Namibian Breweries showed commitment to staying in the country

"We believe that there's a very good chance of Guinness being commercially successful in South Africa with a distribution partner like Namibian Breweries," he said

He said Namibian Breweries was a rapidly growing southern African brewer with a proven distribution record

"We operate in very similar sectors, and it makes sense for us to tap into this existing infrastructure "

Murphy declined to estimate the collective market share that Guinness-Namibian Breweries would hold in the local market

Bernd Masche, the managing director of Namibian Breweries, said that over the past three years the company had achieved continued growth in its South African beer business, particularly the premium sector of the market

Board stops investigation into SAB and KWV

(182)

ROY COKAYNE

CT (BR) 19/4/99

Pretoria – The Competition Board had withdrawn its notice of investigation into SAB's business practices, Wouter Meyer, the director of the board, said yesterday

A notice of investigation into the affairs of KWV, the investment group, had also been withdrawn

The withdrawal of the SAB and KWV notices of investigation and six other investigations were published in the Government Gazette on Friday

Meyer said the majority of the notice withdrawals were related to the new Competition Act Many of the alleged offending practices, including abuse of dominance, could be better dealt with through the new act

The Government Gazette notice said the board decided to terminate a number of investigations announced in terms of the Maintenance and Promotion of Competition Act, because in some cases the need for an investigation had fallen away, and circumstances had changed in others

The board launched the SAB investigation to determine whether SAB had a monopoly in the alcoholic beverage industry and whether any agreements it had in the industry constituted restrictive practices

SAB subsequently challenged the board's notice of its investigation on the grounds that it exceeded the board's rights and power in terms of the act

Lourens Jonker, the chairman of KWV, said last year the board investigation into the liquor industry and the affairs of KWV had been put on hold until the new Liquor Act was passed

Jonker said at the time the new Liquor Act would probably contain guidelines and prescriptions regarding competition which could affect the outcome of the investigation

REPORTING STANDARDS *Criticism of brewer a wake-up call for local firms*

UK slams SAB accounting method

CT (MR) 20|4|99 (182)

Ann Crotty

Johannesburg – SAB's reporting standards when it was a JSE-listed entity have been slammed by a leading UK accounting expert in a recent issue of Accountancy International, an auditing journal

The extensive and severe criticism has disturbing implications for the standard of corporate reporting in South Africa, given that SAB has frequently won awards and accolades from the local accountancy profession for the quality of its reporting

For SAB shareholders, this poor quality of reporting is a thing of the past In future its annual reports will be published in accordance with the much more demanding UK standards

The beer giant recently gave the local investment community some insight into improvements that can be expected from these standards The information memorandum published in preparation for the transfer of its primary listing to the London Stock Exchange contained a substantial amount of useful and significant information previously unknown to shareholders

The document enabled the investment community to undertake a much more efficient analysis of the group

As a JSE-listed company, SAB stated that its accounting philosophy was "dedicated to achieving full and responsible reporting through comprehensive reporting and explanation of its financial results"

It also endorses the conceptual framework of the rigorous standards set down by the International Accounting Standards (IAS) committee, a fact which presumably provided comfort for international as well as local investors

Most South African experts seem to feel the group was close to achieving its lofty objectives

In its annual excellence in annual reporting competition, Ernst & Young placed SAB second in both 1997 and 1998

The UK article notes that SAB's practice of eliminating goodwill against reserves used to be followed by nearly all UK companies, although it has now been outlawed by Financial Reporting Standards 10 and is contrary to IAS 22

"This policy means that the company avoids an amortisation charge In doing so it boosts reported earnings as well as the apparent return on equity – which benefits both from the higher earnings and from the reduced shareholders' funds figure "

The article points out that, since 1989, UK companies have been required to disclose the cumulative amount of goodwill eliminated from the balance sheet

"This is significant because it reveals the capital actually employed in the business and allows an estimation of what the earnings might be had they been reduced by a goodwill amortisation charge "

This information is not provided in the SAB annual report Its absence has serious implications for the directors' claim in the 1997 annual report that SAB had delivered a seven-year average return on group equity of 25 percent compared with the long-term objective of 24 percent

"When the capital actually employed in the business is taken into account, it is clear this target has not been met in either 1998 or 1997 "

It also appears that much of the R1,5 billion spent by SAB on international acquisitions had been written off as goodwill "IAS 22 sanctions SAB's approach but requires disclosure of the nature and amount of provisions for restructuring and other plant closure expenses arising as a result of the acquisition and recognised as at the date of the acquisition," the article says

SAB has not made such disclosure, and the article states this lack of transparency does not help in assessing the quality of the international beer division's earnings, which have been surging ahead

Attention is also drawn to the unusual treatment of the losses at OK Bazaars, which were incurred after the decision to sell but before control was actually passed to the acquirer

The message for the local investment community is that it can look forward to a real world-class report from London-listed SAB for financial 1999 Meanwhile, there are many reasons we should not baulk at being treated with the disdain that is dished out to emerging markets

Local monolith's R4bn bid for Cruzcampo appears to hold trump cards

SAB heads race for Spanish brewer

ET (BR) 4/5/99 (18a)

ANN CROTTY

Johannesburg – London-listed SAB has been tipped as the front runner in an estimated R4 billion bid to acquire Cruzcampo, a brewer that controls 25 percent of the Spanish beer market Other bidders include Heineken and DAMM of Spain

A successful bid would fit in well with SAB's strategy of developing or acquiring beer interests outside the emerging market arena An additional advantage for SAB is that Spain is not entirely new territory for the group as it already has a 51 percent stake in Compania Cervecera de Canarias, the largest beer company in the Canary Islands, which is part of the Kingdom of Spain

Local analysts pointed out yesterday that proceeds from the share placement that accompanied SAB's London listing would be available to help finance such an acquisition

Diageo, which is the largest drinks company in the world and which owns Cruzcampo, recently invited offers for the beer company The drinks giant has also pulled out of the market for ouzo and put four European wines and spirits up for sale According to UK media reports, the moves follow a review of Diageo's portfolio and a decision to focus resources on the group's growth brands

Analysts believe Diageo, which owns the highly successful international beer brand Guinness, has not been able to generate a decent return on Cruzcampo and has now decided to focus its beer interests on Guinness Diageo is thought to have paid about £300 million for the Spanish beer company a few years ago

According to a recent report in the London Sunday Times, Diageo is looking for a "responsible" sale It is thought to be against selling Cruzcampo either to its managers or a financial buyer The paper reported analysts as believing the successful bidder would probably be a dedicated brewer

As an emerging market brewer SAB would not be faced with the same challenges from the European competition authorities as other bidders

SAB closed 120c weaker at R49,70 on the JSE yesterday

SIX MONTHS AFTER EXPOSÉ

Toxic liquor still on sale

CT 27/5/99 (182)

CAPE TIMES SPECIAL INVESTIGATION

SIX MONTHS after toxic liquor was found in Western Cape bottle stores, the police investigation has gone national. **FATIMA SCHROEDER** found some of the booze still on sale this week and discovered that no one in the industry seems to be monitoring the situation.

CONSUMERS have no guarantee that alcohol on bottle store shelves satisfies safety regulations, government officials said yesterday

Individual bottles of 19 brands of low-price alcohol tested by the Department of Agriculture in the past six months have been found to contain illegal levels of the industrial solvent methanol

A police team from the Special Projects Unit in Pretoria has taken statements from hundreds of bottle store managers around the country about the sale of contaminated alcohol in the past six months Three hefty police dockets were handed to the Director of Public Prosecutions, Frank Kahn, SC, on Tuesday

The country is now waiting for Kahn to decide whether three Western Cape bottling plants — Bebida Distillers, Magersfontein Trading and Van Nyathi Liquor Distributors — will be charged

The police team, which was working with a joint government and liquor industry unit known as the Liquor Industry Combined Investigative Taskforce (Licit), recommended that the companies be charged with attempted murder instructed them to remove the brands from the shelves

One of the managers of Midmar Liquors in Goodwood, Ivan Naidoo, said he immediately removed all seven brands published in the *Cape Times* six months ago, but he was unaware of the other 12 considered dangerous

"Nobody came to see us about this They didn't even give us a list The only way I found out about those seven brands was through the press We should be informed about this personally," he said

According to a second investigating officer, Inspector Christo van der Vyver, there is no legislation saying that the liquor should be taken off the shelves

Van der Vyver explained that most of the individual bottles tested during the six-month investigation were contaminated, but stressed that other bottles with the same brand names contained amounts of methanol within the legal limit

Each bottle therefore has to be tested before it can be removed from the shelf, he said

So what is being done to protect consumers?

The Department of Agriculture yesterday said it could not provide

TOXIC SPIRITS: Two of the 19 brands of alcohol contaminated with the industrial solvent methanol. The *Cape Times* found many of the poisonous brands in local bottle stores yesterday *PICTURE: JACK LESTRADE*

INDIVIDUAL bottles of liquor, tested by the Department of Agriculture six months ago, contained the following amounts of methanol measured in milligrams (mg) per litre of pure alcohol:

- Magersfontein Gold brandy — 113 300mg
- Blue Marlin cane spirit — 15 900mg
- Oakwood VO brandy — 34 800mg
- Rasputin vodka — 18 700mg
- Breakers cane — 17 000mg
- Eikenhout brandy — 17 700mg
- Outeniqua brandy — 15 400mg
- Vladinoff vodka — 18 100mg
- Royal Geneva gin — 18 900mg
- Royal Cape VO brandy — 15 200mg
- Grogan's rum — 9 100mg
- Don Lopez tequila — 15 800mg
- Wild Thing flavoured vodka — 16 600mg
- Green Ice peppermint liqueur — 15 500mg
- Donatello sambuca — 11 600mg
- Paparazzi schnapps — 17 000mg
- Arctic cinnamon liqueur — 15 500mg
- Prestige VOR brandy — 110 200mg
- Chesnikof vodka — 15 700mg.

statements from hundreds of bottle store managers around the country about the sale of contaminated alcohol in the past six months Three hefty police dockets were handed to the Director of Public Prosecutions, Frank Kahn, SC, on Tuesday

The country is now waiting for Kahn to decide whether three Western Cape bottling plants — Bebida Distillers, Magersfontein Trading and Van Nyathi Liquor Distributors — will be charged

The police team, which was working with a joint government and liquor industry unit known as the Liquor Industry Combined Investigative Taskforce (Licit), recommended that the companies be charged with attempted murder and fraud, as well as two other charges under the Liquor Act.

The maximum legal amount of methanol is 2 000mg per litre of pure alcohol, but the highest of 19 bottles tested contained as much as 113 000mg per litre of pure alcohol In large quantities, methanol can cause headaches, tiredness, nausea, blindness, convulsions, circulatory collapse, respiratory failure and sometimes, death

Investigating officer Johnny le Roux said the methanol is usually added so that companies can avoid paying duties and taxes on pure alcohol, which amount to about R25 a litre These chemicals, unlike ethanol, are not liable for government taxes

Le Roux said the manufacturers then sell the brands at cheaper prices than their competitors to boost profits, risking the lives of consumers He added that the investigating team applied to the Liquor Board for the confiscation of the manufacturers' liquor licences in March, but it has not yet received a response

The Liquor Board could not be reached for comment despite persistent efforts to contact officials

A *Cape Times* investigation this week found that several brands, priced between R20 and R60, are still being sold in local bottle stores Staff at some of the stores, who declined to be identified, said the Department of Agriculture has not about this personally," he said

According to a second investigating officer, Inspector Christo van der Vyver, there is no legislation saying that the liquor should be taken off the shelves

Van der Vyver explained that most of the individual bottles tested during the six-month investigation were contaminated, but stressed that other bottles with the same brand names contained amounts of methanol within the legal limit.

Each bottle therefore has to be tested before it can be removed from the shelf, he said.

So what is being done to protect consumers?

The Department of Agriculture yesterday said it could not provide assurances. "At this stage there's no guarantee that the market is clean," said Riaan Van Zyl, an inspector at the department in Stellenbosch, "but there's also no guarantee that the market is not clean."

He said the department took more samples from bottle stores a week ago However, the industry as a whole was last monitored in January, he said.

Asked about brands now available on shelves, Van Zyl said. "The bottles on the shelves at the moment can either be the clean ones manufactured last year or the contaminated ones. What we do is take samples of the bottles on the shelves and if they contain an illegal amount of methanol, we go back to the liquor store where we took the sample and ask them to remove that brand," he said.

> At this stage there's no guarantee that the market is clean.

Van Zyl said bottle stores are usually informed about illegal brands through the press.

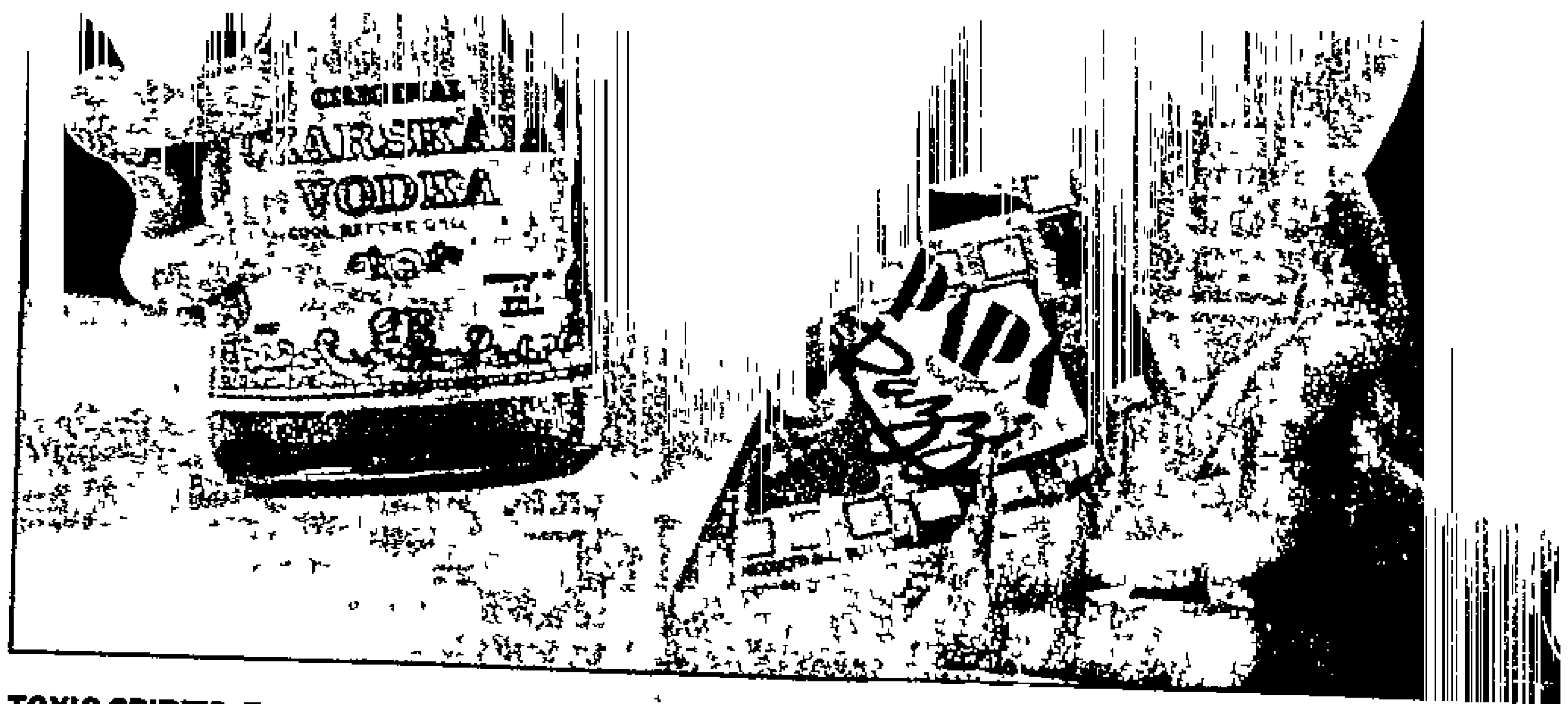
"What normally happens is that the information is given to the minister and he gives it to the press, meaning that at least 95% (of store managers) should know within a week. We don't have the time to write to each and every bottle store We can make use of the Department of Health, but that would take time," he said.

A partner in the Bebida Distillers company, Edmund Paulsen, said the brands being sold in stores are clean "They now contain the legal amount of methanol allowed. We are much stricter in the quality of spirits we produce There might be products on the shelves that are high in methanol, but this means that they haven't been sent back to us," he said.

The contaminated brands are confiscated, he said. "Products containing between 2 000mg and 5 000mg of methanol per litre of absolute alcohol were diluted down 10 times and then blended Those containing more than 5 000mg went down the drain," Paulsen said He added that the company's products are currently tested at laboratories every month.

Paulsen explained that Bebida does not only manufacture liquor but also bottles it for other manufacturers "We bottled unlabelled goods The boxes were then sealed and left the factory That's as much as we had to do with it," he said

Asked about the methanol content in brands his company manufactures, Paulsen said "I can't tell you how the methanol got in there We bought the stuff from a reputable spirits supplier "



TOXIC SPIRITS: Two of the 19 brands of alcohol contaminated with the industrial solvent methanol The *Cape Times* found many of the poisonous brands in local bottle stores yesterday PICTURE. JACK LESTRADE

Bad booze in 5 of 7 stores

MISCHA DE BRUIJN went to seven liquor stores in Cape Town and Bellville yesterday to find out if they stock brands containing illegal amounts of methanol He discovered that five of the seven are selling at least one listed brand.

MIDMAR LIQUORS, Bellville, stocks five of the brands listed Wild Thing flavoured vodka, Green Ice peppermint liqueur, Donatello sambuca, Paparazzi schnapps and Arctic cinnamon liqueur

Manager Marlin Naidoo said "I knew there was something about Oakwood, one of the brands listed, and I took it off the shelves a few months ago But I wasn't aware that other brands are dangerous too I will call the Department of Agriculture and check on it. According to the head office, Paparazzi is okay now They took it off the shelves a while ago and changed the content "

DIAMOND'S DISCOUNT LIQUORS, Salt River, stocks one of the brands listed Prestige VOR brandy "We took it off the shelves for a while and had it tested at the head office," said manager Neville Cupido

JUMBO, Bellville, stocks five of the brands listed Blue Marlin cane spirits, Rasputin vodka, Eikenhout brandy, Green Ice peppermint liqueur and Paparazzi schnapps

"These brands have been cleared by the Department of Agriculture", said owner Derek Carrol "The inspectors of the department took the dangerous brands a month ago And I have only owned this shop for one month — the former owner didn't tell me that the products were dangerous "

PICARDI, PAROW, doesn't have any of the listed brands on the shelves "We had some of the brands a couple of months ago, but head office told us to take them off the shelves," said the manager, who was unwilling to give his name

ULTRA WHOLESALERS, Goodwood Mall, has four of the listed brands in stock. Magersfontein Gold brandy, Oakwood VO brandy, Paparazzi schnapps and Arctic cinnamon liqueur "I wasn't aware that drinking these brands is dangerous," said an irritated assistant manager, Desirée, who was not willing to give her surname "You must speak to the boss I'm not going to mention it myself The Department of Agriculture must come and show their list "

DROP INN, Claremont, had three listed brands in stock. Royal Cape VO brandy, Grogan's rum and Don Lopez tequila "We didn't know that drinking these brands can be dangerous, but we took a few other brands off the shelves a few months ago," said an employee who declined to give his name "We are going to contact the head office about this "

PICARDI REBEL, city bowl, doesn't stock any listed brands "We don't sell cheap brands here," said assistant manager Charmaine Vlotman "I don't think they sell them in other outlets of the Picardi Rebel chain either "

16 200mg
- Grogan's rum — 9 100mg
- Don Lopez tequila — 15 800mg
- Wild Thing flavoured vodka — 16 600mg
- Green Ice peppermint liqueur — 15 500mg
- Donatello sambuca — 11 600mg
- Paparazzi schnapps — 7 000mg
- Arctic cinnamon liqueur — 16 500mg
- Prestige VOR brandy — 110 200mg
- Chesnikof vodka — 15 700mg

FACE THE PRESS *The SAB board in London speaks to journalists From left Malcolm Wyman, group chief executive Graham Mackay, Nigel Cox and Meyer Kahn, the chairman* PHOTO JOHN ROBINSON

Beer and rand buoy SAB's first UK results

CT (MR) 27/5/99 (182)

ADELE SHEVEL

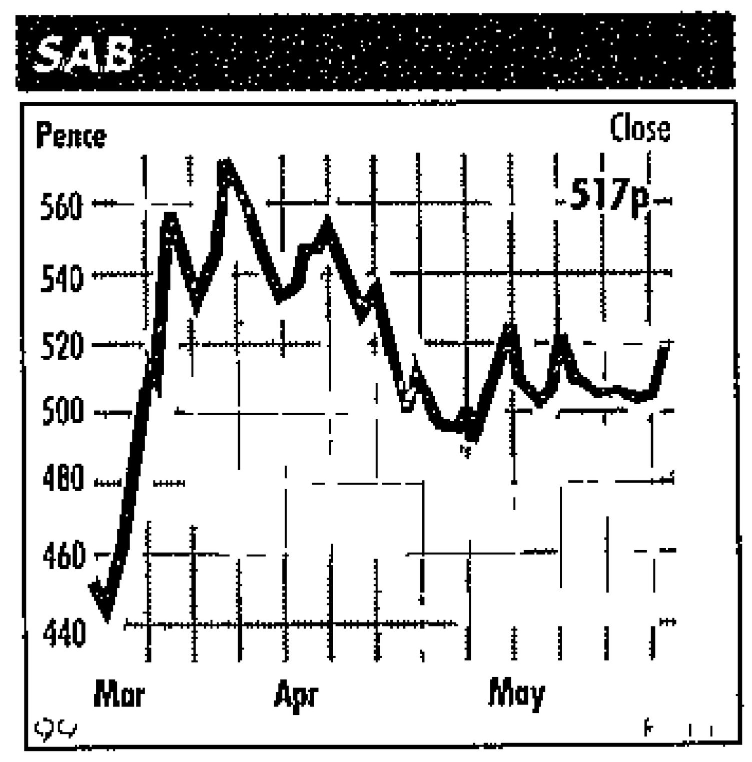
Johannesburg — Strong beer sales supported South African Breweries' first results as a London-listed company yesterday, although the effect of currency depreciation saw earnings fall in dollar terms but rise in rands

Group earnings a share of the world's fourth largest brewer (before exceptionals) rose 16 percent to 315,9c in rands but dropped 5 percent to 54c in dollar terms for the year to March 31

Analysts lauded the group for its better than expected growth and margin improvements in its beer operations Grant Swanepoel, an analyst at Standard Equities, said the results exceeded expectations

Volumes in the beer division rose 9 percent to 48 million hectolitres, with 2,2 percent volume growth in South Africa

South African operations contributed 70 percent to group earnings, and the rand slipped 22 percent against the dollar over the period



SAB moved its primary listing to London in March this year and entered the FTSE index of top 100 shares Peter Armitage, an analyst at Merrill Lynch, said it would be quite a while before the company would be viewed as a non-South African group by some European investors

The group yesterday warned of continued difficult trading as emerging markets struggle to recover, but was positive for its full year to next March

The company reported a 29 percent increase in turnover in rand terms to R36 billion, which equates to a 5 percent rise in dollar terms In rand terms, operating profit before exceptionals rose 25 percent, a 3 percent increase in dollar terms

Exceptional items comprised mainly the impairment of Russian assets, which the group wrote down by $71 million

SAB is discussing the disposal of its non-core plate glass business, Plate Glass Shatterprufe Industries

It has been speculated that SAB is a front runner in an estimated R4 billion bid to acquire Cruzcampo, a brewer that controls 25 percent of the Spanish beer market, as part of its move into western Europe

Malcolm Wyman, the group corporate finance and development director, said "I'll be surprised if we don't have about 50 percent of earnings from beyond South Africa over the next few years"

SAB closed 8p higher at £5,11 in London On the JSE it rose 2,21 percent to R50,90

☐ Business Watch, Page 2

CAPE TIMES
FRIDAY, MAY 28, 1999 ★

CAPE TIMES JOLTS AUTHORITIES

Stores selling toxic liquor will be charged

(182) CT 28/5/99

A DAY after this newspaper repeated its exposé of stores selling poisonous liquor, the Liquor Board and Agriculture Ministry have appealed for it to be taken from shelves. **FATIMA SCHROEDER** and **MISCHA DE BRUIJN** report.

IN response to a *Cape Times* report yesterday, the Liquor Board said it will take action against any liquor store selling contaminated brands

In a six-month police investigation, 19 brands of liquor were found to be contaminated with methanol exceeding the legal limit — about 2 000mg per litre of pure alcohol — and statements were taken from hundreds of outlets around the country

Three police dockets were handed to the Director of Public Prosecutions, Frank Kahn, SC, on Tuesday and the public is waiting for him to decide whether the bottling plants, Bebida Distillers, Magersfontein Trading and Van Nyathi Liquor Distributors will be charged

Yesterday, the Liquor Board requested that bottle stores take the brands off shelves

"The possibility exists that some of the other bottles of the same brands are contaminated and the consumer wouldn't know which to buy. This puts both the consumer and the bottle store owners at risk Therefore we appeal to bottle store owners not to sell the listed brands," said administrative head of the Liquor Board, Helgard Wagener

He stressed that "urgent steps" would be taken against any store selling contaminated liquor

Chairperson of the Liquor Board, Cedric Evertson, said the board will be holding a hearing next month to determine whether the licences of the three manufacturing plants will be withdrawn

Meanwhile, the Ministry of Agriculture said in a statement yesterday that it would implement procedures to control the market

"Effective implementation of control depends on the co-operation of the liquor industry," the statement said

HOLDING DOCKETS Frank Kahn

The ministry also said that the Department of Agriculture was placing all "incorrect products" under order and prohibited the sale thereof

If taken in large quantities, methanol can cause headaches, tiredness, nausea, blindness, convulsions, circulatory collapse, respiratory failure, and sometimes death

The methanol was usually added to avoid paying the duties and taxes on pure alcohol — about R25 per litre

These chemicals, unlike ethanol, are not liable for government taxes

The *Cape Times* yesterday interviewed five senior figures of liquor chains

Diamond's discount liquor MD, Michael Sternberg, whose chain stocked Prestige VO brandy, said the company had received a certificate from the manufacturer to prove that the liquor was now clean

"All the brandy was sent back to the Department of Agriculture, and only after the company received a clean certificate from the department, was Prestige Brandy returned to the shelves," he said

Former owner of Prestige VO brandy's bottlers, Mike Pallet, said the brand may have been confused with another "Prestige was never on the list with high amounts of methanol If you ask me, it has been mixed up with another brand"

MD of Midmar Liquors, George Naidoo, said he would remove the bottles from shelves if they are found to be contaminated

"We are meeting representatives of the department again this afternoon, just to be sure

"If there still appears to be anything wrong with it, I'm prepared to take these products out of the shops," he said

One of the managers of Drop Inn Discount Liquors, who declined to be named, said he would also remove the brands.

"I have to discuss this with the managing director But we are going to remove these brands from the shelves, without doubt," the manager said

Darren Swersky, marketing manager of Picardi Rebel, had none of the listed brands in stock, but expressed dismay at the state of the liquor industry

"We have been very concerned about what is happening

"Unfortunately, one of the side effects of the new government is a lack of monitoring," Swersky said

Colin Robinson, MD of Ultra Wholesale liquors, said he removed the products immediately after he had seen the *Cape Times* report

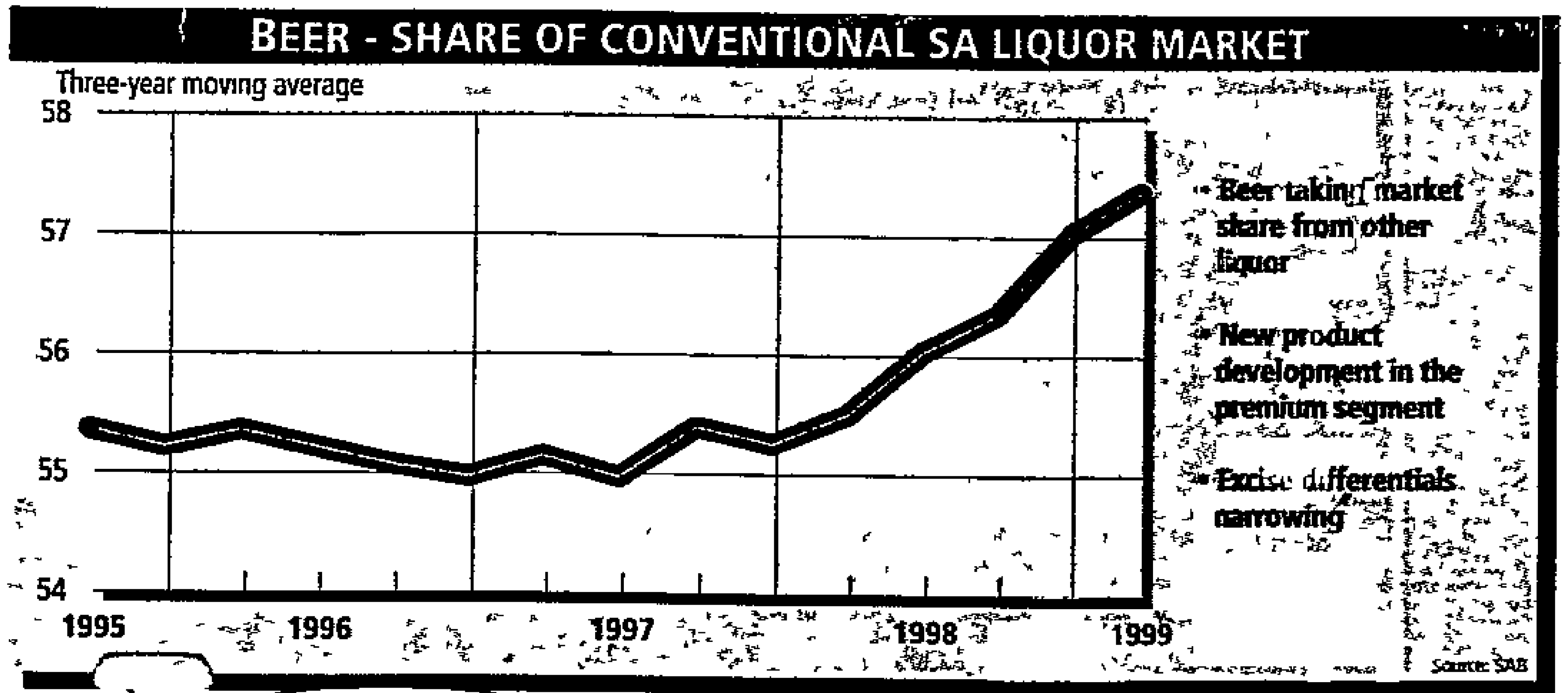
"We took all the suspected products of the shelves today We only had Arctic cinnamon liqueur and Paparazzi Schnapps in stock," he said.

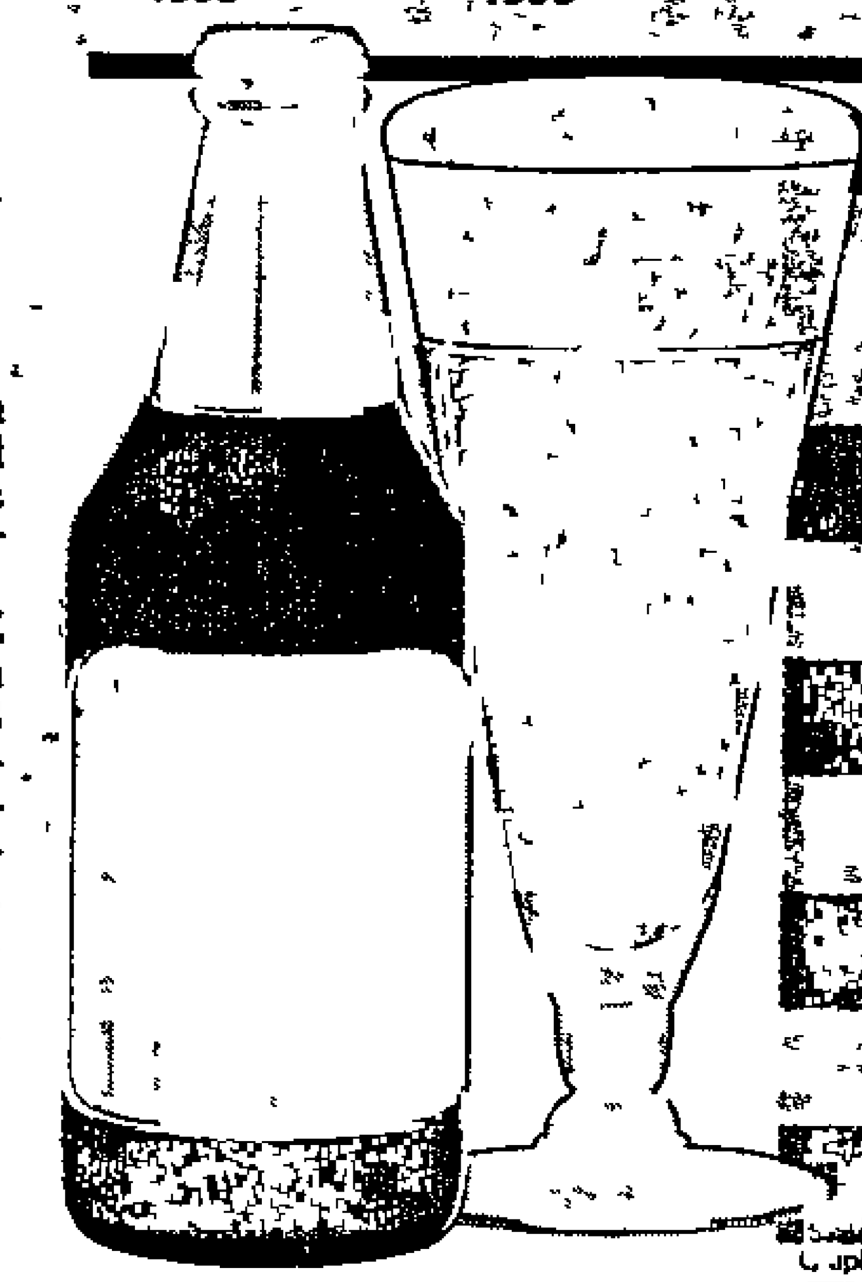
(18λ)

Weak rand takes kick out of SAB beer profits

Reporting in dollar terms is putting pressure on the SA brewery to buy in Europe, writes MARCIA KLEIN

ST(MT) 30/5/99





GROUP PROFIT AND LOSS

12 months to March

	1999 US$m	% change	1999 Rm	% change
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EBIT	[illegible]	[illegible]	[illegible]	+25
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Exceptional item	n/a	[illegible]	[illegible]	n/a
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
basic	[illegible]	(16)	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Graphic: [illegible] Source: SAB

THE 22% devaluation of the rand against the dollar in the year to March, and the effect it had on South African Breweries plc's dollar denominated earnings, reinforces international investors' concerns about the currency risk of SA companies.

It could also force the group to make a major western European investment to increase its percentage of hard currency earnings.

But analysts say although rumours about a major western European acquisition abound, this may not be the right strategy for SAB. The company's strength lies in developing markets, where there is exponential growth not found in western Europe, says one analyst.

He says SAB, which derives 70% of earnings from SA, may feel pressurised to make a hard currency investment, but it could look away from western Europe to reduce its reliance on the SA rand. "Most European beer markets are mature and showing no growth, and they are also internationally branded markets SAB would be entering a market environment with limited experience."

But SAB is a world leader in developing beer markets, and one could argue that this is where it should make a major acquisition, he says.

This week SAB's group CE Graham Mackay played down the rumours, but said SAB was seeking larger investments in developed or emerging markets. He did add, however, that SAB's strategy in emerging markets had been highly resource-intensive. This would not be the case in a developed market. He said SAB had a history of success in sophisticated markets such as the Canary Islands, the US and in some markets in Europe such as Hungary.

Mackay said the currency issue would only be a problem if there were to be a real depreciation, and "one cannot expect the rand to depreciate in real terms constantly." But as one analyst said, "if SAB wants to go out and compete in the big world, it must do so in dollars."

This week SAB produced its first set of earnings as a London company. Earnings a share were up 16% in rand terms as turnover increased 24% to R35-billion and operating profit rose 25% to R4 6-billion. However, in dollars, its chosen reporting currency, earnings fell 5% to 54c on a 5% rise in turnover to $6 2-billion and a 3% rise in operating profit to $786-million.

Directors reported an impressive 9% rise in beer volumes. Volumes in SA were up 2 2% against a declining liquor market, with SAB picking up two percentage points market share, largely from wines and spirits. The SA beer division reported a 16% rise in operating profit on 9% higher turnover of R9 4-billion.

SAB International showed strong volume growth and operating profit. The 19% rise in beer volumes (organic volume growth was 11%), compared with a 3% growth in European volumes and the 2 2% growth in SA, indicates just how strong growth in developing countries is.

Strong growth was also reported in SAB's other beverage interests, where the synergies between Coke bottlers ABI and newly acquired Suncrush are starting to be felt. In Southern Sun, occupancies of 70% were well above industry averages and the strong earnings growth was boosted by the opening of new casinos.

SAB made an impairment provision of $71-million against its investment in Russia. SAB expects a $10-million trading loss and two years of tough conditions, but Mackay said he was optimistic about the Russian beer market in the longer term.

While SAB dominates the beer market in SA, has 60% of the market in other beverages and a significant share in hotels, it is also a global player.

SAB International operates in 19 countries on three continents, brewing 30 lager beers and 36 sorghum beers. It has over 90% market share in Botswana, Mozambique, Swaziland, Zambia and Zimbabwe, as well as 69% in the Canary Islands, 20% in Poland and 35% in Hungary.

Its strategy is to become the leading brewer in every market it enters.

CAPE TIMES
TUESDAY, JUNE 1, 1999 ★

THREE PLANTS INVESTIGATED

Govt to serve up weekly list of bad booze brands

CT 1/6/99 (18A)

THE DEPARTMENT OF AGRICULTURE is to distribute a list of liquor products that it will urge the public to avoid, pending the laying of charges against offenders. **FATIMA SCHROEDER** reports.

WHILE the liquor industry remains in a state of turmoil, the Department of Agriculture has agreed to the weekly publication of the names of liquor brands found to be contaminated with illegal doses of the industrial solvent methanol.

Last week, after a six-month investigation, a police team submitted three dockets to Billy Downer, the chairperson of the national Society of State Advocates, containing details of the alleged manufacture of the illegal brands.

Consumers are now waiting to see if the three local bottling plants allegedly involved — Bebida Distillers, Magersfontein Trading and Van Nyathi Liquor Distributors — will be charged.

Last Thursday the *Cape Times* published a list of 19 brand names which contained high percentages of methanol when they were tested in December last year. Yesterday the department released an updated version of the list.

"The department is placing all incorrect products under order and thus prohibiting the sale thereof. None of these products is exported," the department said in a statement to the *Cape Times*.

The latest list of contaminated brands and their retail codes, based on tests conducted in May, includes:

- Oakville VO brandy (A237)
- Regent gin (A237)
- Barbados blended rum (A237)
- Blue Marlin cane (A237)
- Windemere cane (A237)
- Rustnoff vodka (A237)
- Bravoska vodka (A591)
- Arctic cinnamon liqueur (A611)
- Arctic cream soda liqueur (A611)
- Paparazzi banana spirit aperitif (A358)
- Richwood VO brandy (A571)
- Foutplaas XO brandewyn (A469)
- Preston's London dry gin (A298)
- Royal Cape VO brandy (A611)
- Kasparov vodka (A623)
- The House of Parliament gin (A237)

The department's statement continued: "An inspection in May revealed that some products are contaminated (some of these differ from brand names previously found). In the stores where these products have been found, they have been embargoed while second tests are being conducted to verify the results. The outcome of these tests will be known very soon and a public announcement will follow."

An inspector at the Department of Agriculture, Riaan Van Zyl, yesterday told the *Cape Times* that the department is monitoring the market by taking samples on a daily basis.

He confirmed that a list of illegal brands will be released weekly.

Another department official, Eben Rademeyer, said he feels "confident that the brands on the new list were contaminated".

"If I am wrong I must be prepared to take the consequences thereof. I'm taking a risk by saying this, but I am confident that I can tell people that these brands are not good," he said.

The maximum legal amount of methanol is about 2 000mg a litre of pure alcohol. Methanol, if consumed in large quantities, can cause headaches, tiredness, nausea, blindness, convulsions, circulatory collapse, respiratory failure and sometimes death.

Methanol is usually added so that its manufacturer can avoid paying duties and taxes on pure alcohol, which amounts to about R25 a litre. Methanol, unlike ethanol, is not liable for taxation.

The managing director of Diamond's Discount Liquor Stores, Michael Sternberg, said he is glad to see the industry being monitored.

"I'm delighted that the department is starting to monitor, with a greater level of strictness, the quality of products, and that they care for the safety of the public," he said.

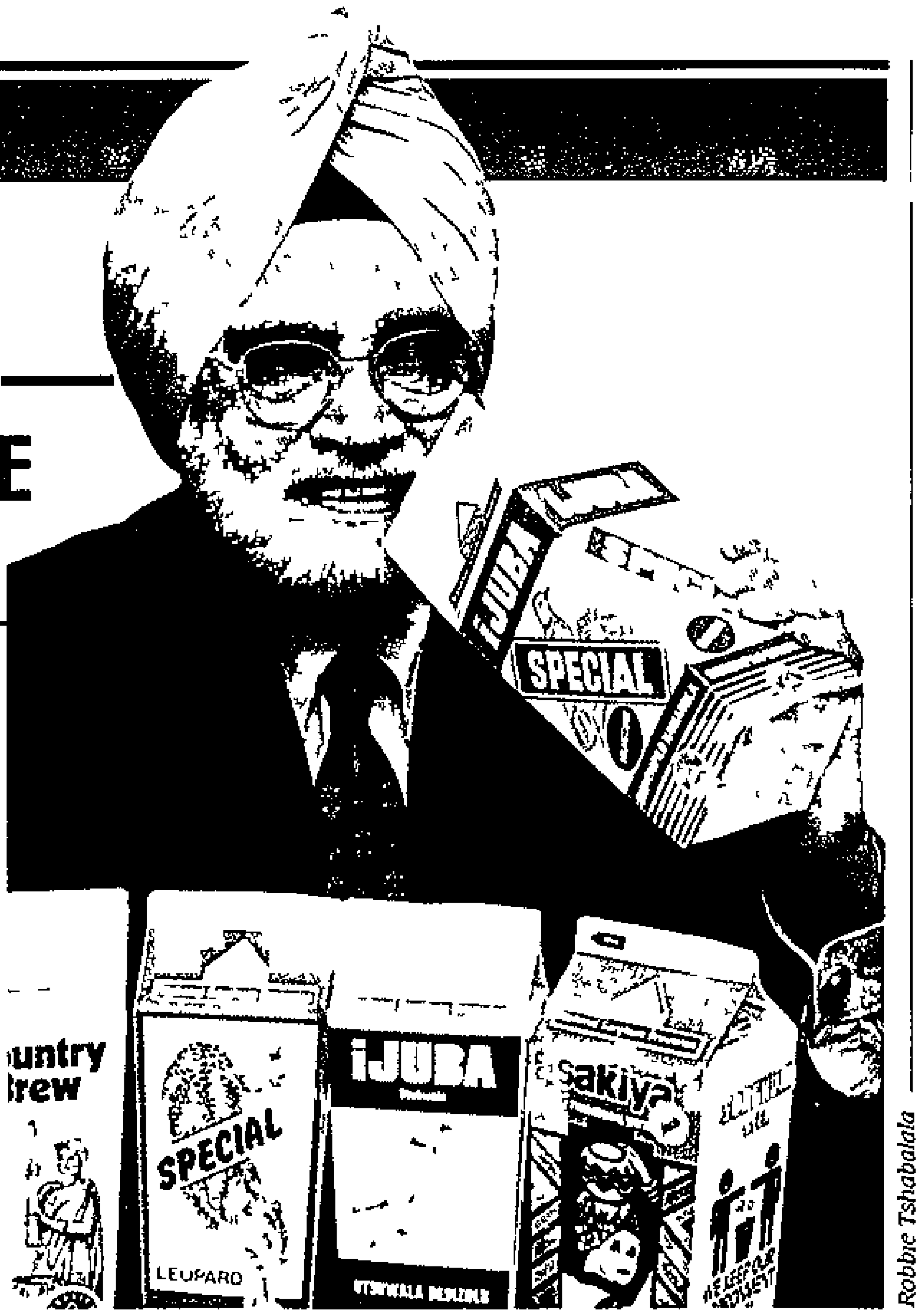
FM 18/6/99

(182)

MANAGEMENT RESCUE

FROM NEW DELHI, WITH LOVE — AND A BIT OF BUSINESS SENSE

NSB discovers, at last, how to turn beer into profit



"The Colonel (retired)" SPS Khurana *money in the box*

Robbie Tshabalala

Just when you thought National Sorghum Breweries (NSB) should register as a charity, it's gone and made some profits. Management isn't saying just how much, at this stage, but word is that the company is firmly in the black in the year to December 1998 and it is forecasting attributable profits of R30m for 1999.

That's something, considering the group has produced numbing losses and sliding sales over the past five years, and has been forced to live off the generosity of its shareholders and bankers — due to some of the worst management abuse yet dished up to an SA company.

NSB's change in fortune appears to have begun with the arrival of nine executives from United Breweries (UB), India's largest brewer, following its purchase of a 30% stake in the company for R70m in mid-1996. Championing the change was Colonel SPS Khurana — "The Colonel" (retired) — under the direction of NSB MD Swinder Gandhi.

Gandhi's first act at NSB was to reach for the scissors: he stopped production of the lossmaking clear beer (marketed as Vivo), closed three of the 14 sorghum breweries and started selling off noncore assets. By the end of the first year the number of employees had been reduced from 2 600 to 1 200 and costs had been slashed by R62m.

But Gandhi realised more had to be done to cut costs and improve efficiencies. Shortly after the departure of executive chairman Professor Mohale Mahanyele in July 1997, after a damming report from Deloitte & Touche (*FM Focus* June 13 1997), Gandhi called in management consultants Proudfoot.

The NSB that Proudfoot first encountered was in bad shape. "In all my 20 years of international consulting, I had never seen a company that had such a poor history," recalls Proudfoot project director Tom Cook. "With the new management trying to change so much so quickly, I doubted whether the company could make such a drastic turnaround in the time they wished."

At the time, NSB's production of beer/employee/month amounted to 14 000*l*, compared to the industry standard of 40 000*l*. NSB's forecasting accuracy was at a meagre 27%, which meant that the average shebeen supplied by NSB either had too much, or too little, sorghum beer 73% of the time.

Sorghum beer is a peculiar product: it has a shelf life of only four days, after which it turns sour and can't be consumed. Two of these days are taken up with packaging and distribution, which leaves a window of just two days for the distributors to get the product down the customer's throat.

In SA the ready-made sorghum beer market is dominated by NSB and TBI, an SAB subsidiary. But it's a market under threat on both sides. The consumer's order of preference is clear beer (such as Castle or Windhoek), ready-made sorghum beer, and home brew (powder sorghum). The

ALUMINIUM

WEAK DEMAND FOILS LIGHT METAL

World aluminium supplies will exceed demand for at least another year, and the "expectations of weak demand will force metal prices below fundamentally justified levels", says leading metals analyst Julien Garran, of London-based consultancy CRU International.

Garran says recent price gains for primary aluminium have been driven by "better expectations than stock levels would recommend".

The excess of metal supplies in the third and fourth quarters of this year will be 200 000 t-250 000 t and could rise to 300 000 t in the first quarter of 2000, he says.

Garran addressed a conference in Beijing recently on prospects for the Asian aluminium market. The participants included representatives of most Asian aluminium producer countries.

Growth in demand for aluminium will be absorbed by new capacity coming on stream and by restarts of idle capacity until midway through 2001, when prices will take off, he says. While it is too early to expect the March price pickup to lead to a sustained recovery, prices will probably fall to between US$1 150/t and $1 200/t in the first quarter of next year.

Garran blames the Asian crisis for triggering the fall in consumption and demand that forced prices down and swelled stocks on the London Metals Exchange last year. "Asia moved the market from excess demand to excess supply," he says. He also blames commodity trading programmes for triggering fund sell-offs when expectations of an even deeper price slide gripped the market.

Garran predicts GDP will be flat in southeast Asia this year, -1,6% in Japan and 7,5% in China. The crisis in Brazil, richer customer will tend to choose clear beer, the poorer customer will brew his own In business jargon demand for beer categories is a function of disposable income

In reality, this means that, when pay day comes around, demand for sorghum beer drops and people buy clear beer Demand is also determined by events, such as sport, celebrations, the weather, and so on, making it difficult to reliably read the customer

>>In all my 20 years of international consulting, I had never seen a company that had such a poor history<<

Proudfoot project director Tom Cook

Over the short term, success in sorghum beer brewing depends on your product quality, market radar, how quickly you can get the product out and how flexible production runs are In the long run, the brewer must cut prices and try to take market share from home brew, which is roughly three times the size of the ready-made sorghum market

Proudfoot and an NSB task force followed the A-Z of steps for improving the level of organisational efficiency They started with pilot projects in August 1997 The target of "Project Phambili" (which means, moving forward) was to achieve a further R58m in cost reductions and improved efficiencies

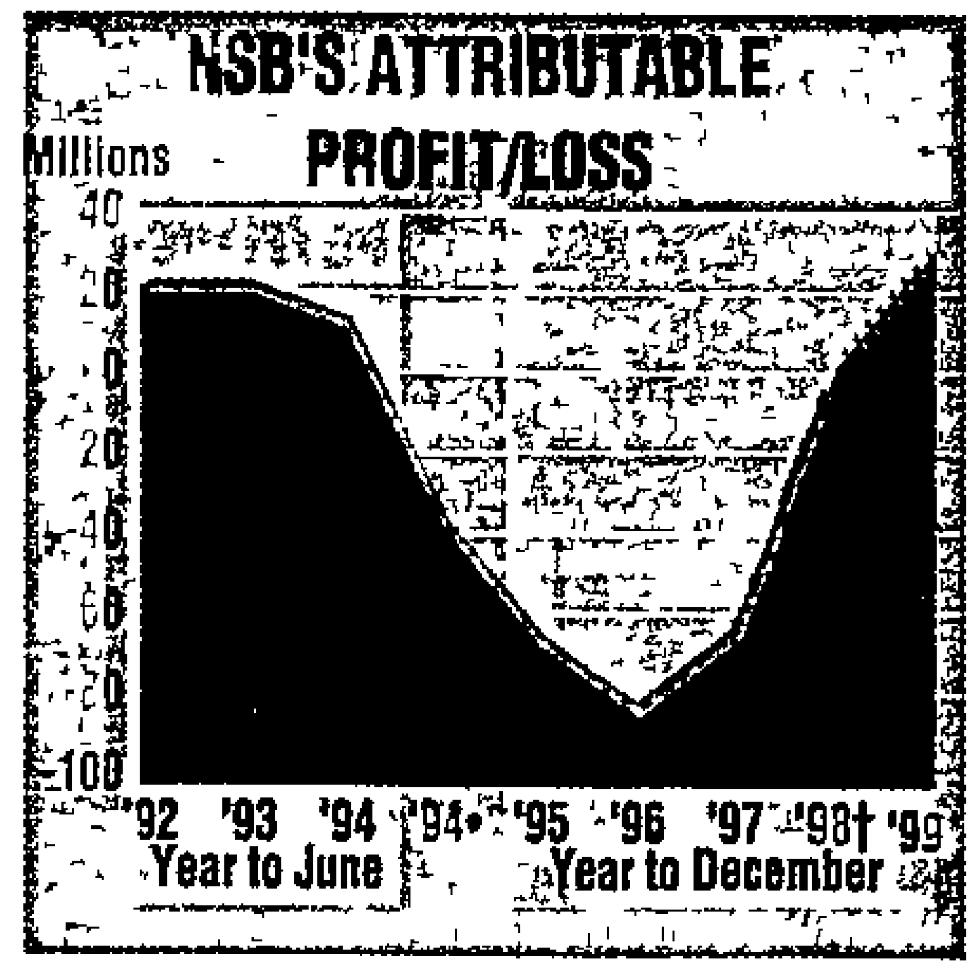
The first thing was to install proper checkpoints at each stage of the production process at the 11 breweries What controls there were, tended to be financial, in other words they told you there was a problem, but didn't say where the problem was or how long it had been going on The new controls said where the problem was the moment it happened

"We turned the entire operation into a fishbowl," says Proudfoot SA project manager John Mullany "When there were problems, people could identify them and correct them immediately" Employees were also better trained and encouraged to make suggestions on improvements to the process "What we did was introduce a mechanism, where they would audit themselves on a continuing basis, and that meant productivity continued even after we left"

Proudfoot also introduced a computer-based market forecasting model This was updated on a daily basis and production was adjusted accordingly, reducing wastage and saving costs

In the back office, debtors control, credit limits, contracts, fleet and cash management were all scrutinised and the changes rolled out to all the operations during 1997 and 1998

The steps paid off Project Phambili succeeded in cutting costs by a further R61m



NSB is now producing sorghum beer at a rate of 30 000*l* a head, from its old rate of 14 000*l*, and is forecasting accuracy of 91% from the 27% of the past This makes NSB one of Proudfoot SA's flagship projects, with a 4,7 1 return on project costs

The turnaround is also a great triumph for responsible shareholder United Breweries which has had to shore up the losses "I should say we have covered about 80% of the distance," says The Colonel of the progress "We still have to further rationalise capacity and improve market penetration" If they achieve productivity levels of 40 000*l* a head then, he believes, they will have done their job

The Colonel is bullish about the sorghum beer market and NSB's position in it In December, the company sold its clear beer operation to SAB (*FM Focus* May 28), in order to focus exclusively on this market The Colonel believes that with further cost cutting they will be able to make inroads into the home brew market as well The new long-life (6 months) sorghum beer product also makes exports possible

NSB should be helped in the next few years by a couple of factors The past losses mean the group is sitting with assessed tax losses of R250m-R300m NSB executive vice-president finance Rajan Ranganathan says the balance sheet is recovering

"When UB first came in we invested R70m, that brought debt down to R170m," he says "With the sale of clear beer, that came down to R100m Now we are profitable, we are reducing that by another R30m, to R70m"

It's due to come down by a further R30m shortly, with the injection of further funds from UB or a local black empowerment group

With the turnaround at the company, there is now fighting, and listing, talk from NSB management They expect to start paying dividends from 2001 and are looking to make a listing at the latest in 2001, depending on results in 2000 **Stuart Rutherford**

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he expects, will force down growth in Latin America to -2,1% However, modest gains in western Europe, 3,1% in the US and 2,8% for the rest of the world will offset the declines and generate world GDP growth of 1,8% this year

Cutting the price *. . rough future for SA and world producers*

That would translate into growth in aluminium consumption of 750 000 t But substantial idle capacity in the West — Garran estimates it at 1,5 Mt, controlled mostly by the US-based Alcoa group — will restart as the economic recovery fires demand New capacity of 547 000 t in 1999 and 497 000 t in 2000 is also expected

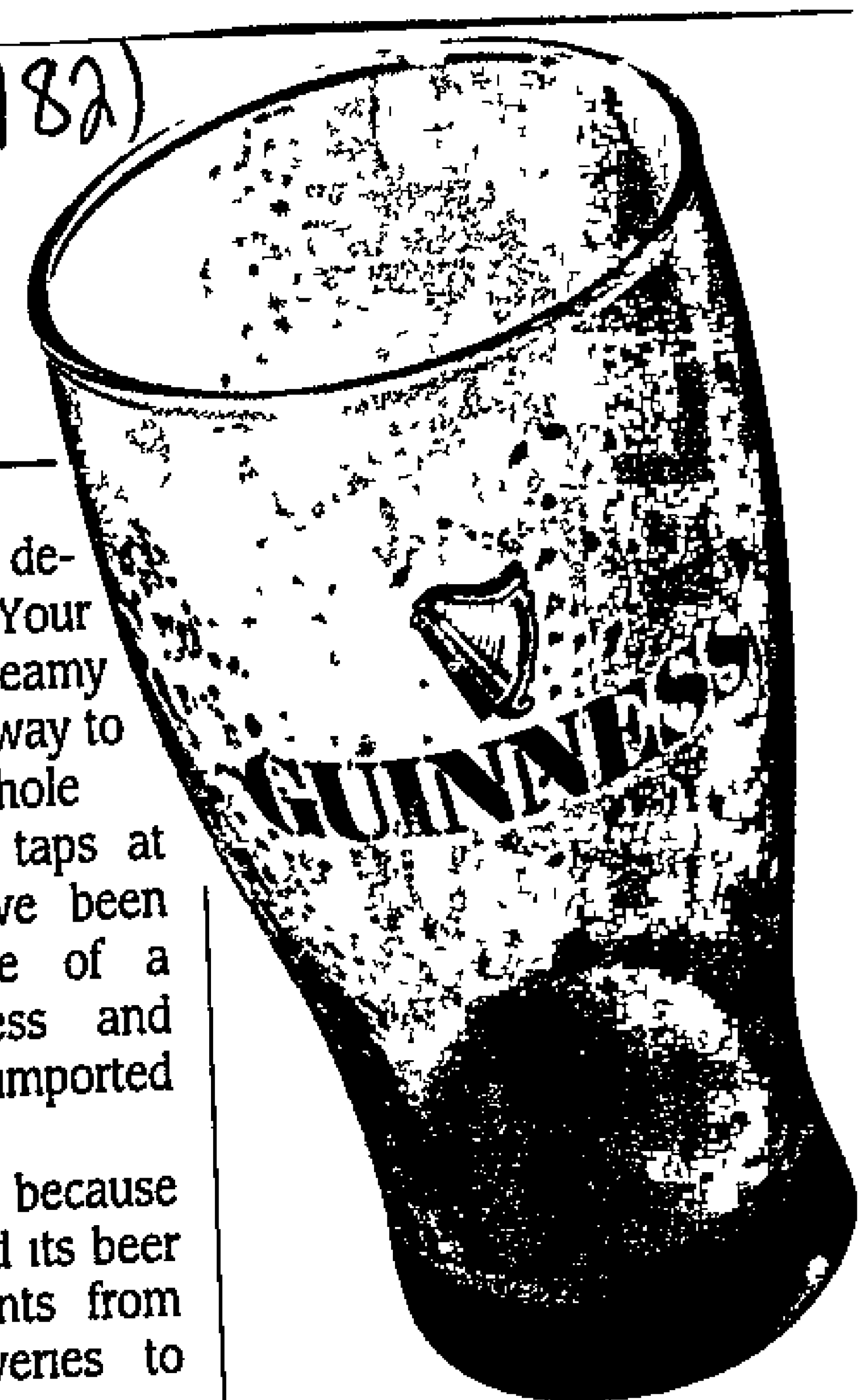
"The production cuts we're seeing in oil and nickel aren't going to occur in aluminium," he maintains **John Helmer, Beijing**

(182)

FM 25/6/99

GUINNESS

THE DROUGHT IS OVER



Guinness tipplers despair no more Your favourite black and creamy draught beer is on its way to your nearest watering hole

For several weeks taps at pubs around SA have been running dry because of a shortage of Guinness and Kilkenny brands imported from Ireland

The shortage arose because Guinness SA switched its beer distribution agreements from South African Breweries to Namibia Breweries

Guinness SA ended its distribution arrangement with SAB on April 30 after the two parties failed to find an amicable solution to the high cost of importing Guinness and Kilkenny from Ireland Efforts to put together a joint venture to brew the brands locally collapsed becuase of cost considerations

Guinness then linked up with the Namibian brewer but this was not soon enough to enable Guinness SA, which does not have an import licence, to place orders in time with the Irish brewer The lead time for the fulfilment of orders is about 9 weeks

"It didn't help that sales of Guinness and Kilkenny in May and June were above forecast Almost all outlets were out of stock last week As of now, ships have docked in Cape Town, Port Elizabeth and Durban Guinness and Kilkenny will be available this week," said Guinness SA MD, Eamon Murphy **Jabulani Sikhakhane**

These companies must brew longer

Consolidation is brewing among beer producers as market leaders seek global brands, writes John Willman of the Financial Times

BD 29/6/99 (182)

ALL things come to those who wait, according to the latest advertisements for draught Guinness, the Irish stout that takes longer to serve than most beers The brewer wants to persuade a new generation of drinkers that its product is worth waiting for, but the slogan is an apposite one for the world's brewing industry.

While consumer goods sectors such as food, tobacco and soft drinks are dominated by a handful of large groups selling their brands in markets worldwide, brewing remains fragmented The top 20 brewers produce less than half the world's beer, with few truly global brands apart from Guinness and Heineken, the Dutch lager

A steady stream of cross-border acquisitions bubbles on, with the latest being Heineken's purchase of Cruzcampo, the Spanish brewer

Many in the industry believe much bigger deals are coming as brewers with global ambitions seek the scale, distribution and brands of the likes of Unilever, Philip Morris and Coca-Cola.

"The big brewers are circling each other," says Graham Mackay CE of SA Breweries (SAB), the fourth-largest brewer by volume.

Consolidation has been slow in coming, given that brewing is one of the oldest consumer goods businesses Beer has been around for more than 6 000 years, with many early civilisations having discovered the pleasant alcoholic drink brewed from fermented malted grain

Home brewing gave way to commerce in the Middle Ages and brewers were among the first of the craft guilds in medieval cities

Industrial production in the 19th century led to the creation of national businesses in the 20th, often family-controlled. Most mature markets are now dominated by two or three brewers with up to three-quarters of sales — the rest is mostly in the hands of regional or niche brewers

Some brewers from smaller countries such as Heineken and Carlsberg, the Danish group, have found their growth opportunities limited in home markets and looked abroad

However, beer as a product does not travel easily, says Karel Vuursteen, Heineken chairman. "There is a strong local heritage in the industry People identify with their local brewery, which makes beer different from detergents or electronic products "

Nor are there immediate benefits from cross-border mergers and acquisitions, says SAB's Mackay "Beer is bulky and perishable These factors militate against consolidation — the synergistic benefits aren't strong."

However, prospects for growth in mature markets are limited with beer consumption stagnant and regulators ready to block further concentration. As Vuursteen drily observes "Listed companies are expected to grow " For most of the more ambitious brewers, the best opportunities lie in emerging economies — including those opened to outsiders in the past decade by the fall of communism.

"All the growth to be had is outside the developed world," says Mackay SAB has expanded rapidly northwards since the demise of apartheid opened up markets in the rest of Africa.

"Beer is rapidly becoming the alcoholic beverage of choice throughout the emerging world," says Kerry Clarke, analyst with Fleming Martin, SA subsidiary of UK investment bank Fleming's "Behind this trend are rising disposable incomes, a youthful population and low base consumption to build on."

Some brewers are much further advanced in satisfying that demand than others Heineken sells 91% of its beer outside the home market and for Carlsberg the figure is 85% However, Anheuser-Busch, the world's largest brewer, sells less than 15% of its volume outside the US, where it has nearly half the market

Anheuser has chosen to expand outside its home market by promoting its leading brands, such as Budweiser and Bud Light, with a selective approach that targets better-off countries There is little growth in beer consumption in such markets, but their prosperous younger drinkers are moving from local products to premium international brands such as Bud

The brand approach is also used by Guinness, which sold its stout throughout the British empire and set up its first overseas brewery in Nigeria in 1964 After a period of expansion of its range Guinness has recently refocused on the trademark stout, one reason why it decided to sell Cruzcampo to Heineken

Guinness, part of food and drink group Diageo, has rediscovered the marketing flair that established it with older drinkers and is winning new followers in mature markets such as the UK where it accounts for more than 5% of the market. Elsewhere it is promoted as a niche product — as in the US, where imported beers are the fastest growing part of the market.

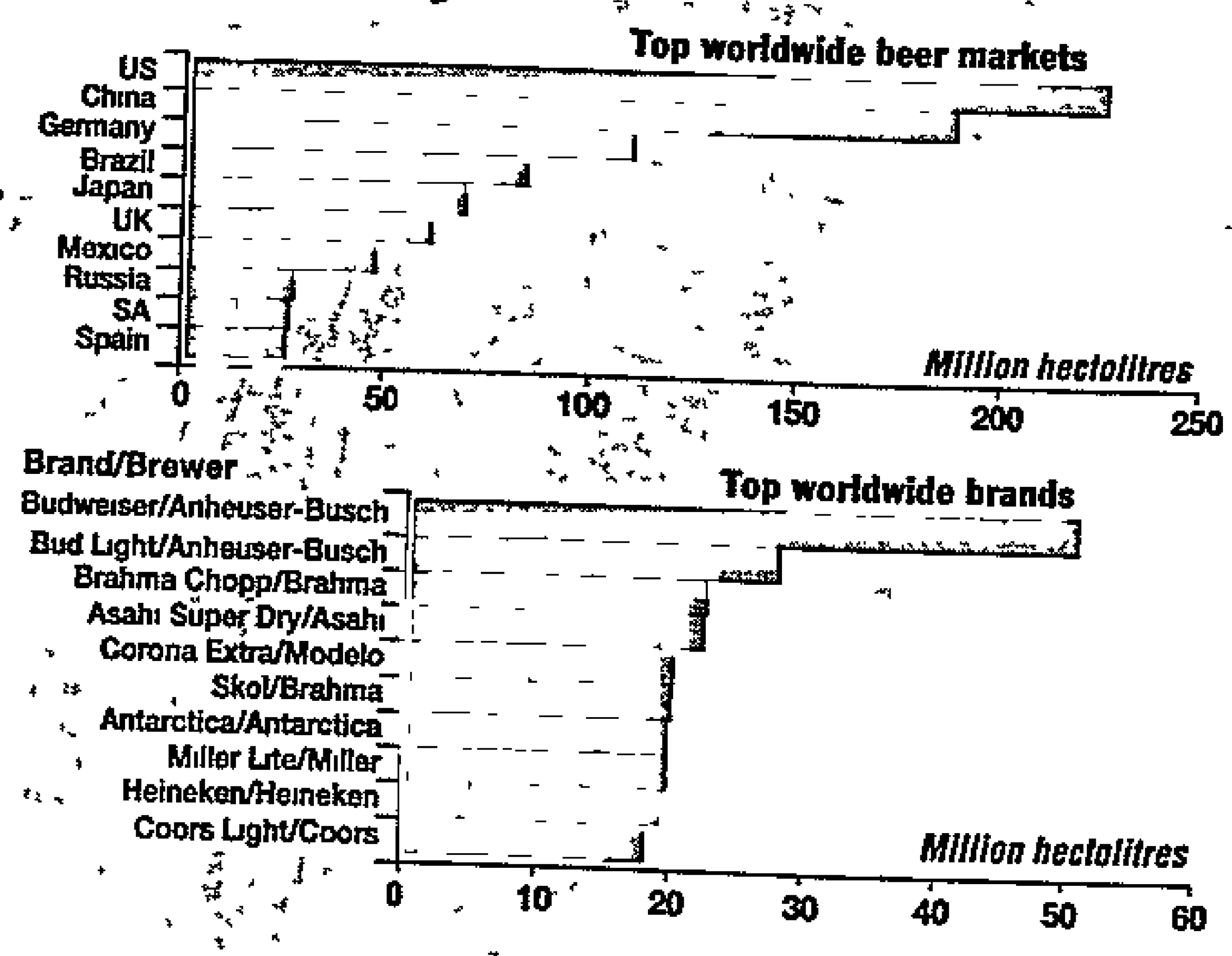
Other brewers are globalising by buying breweries and using their operating skills to manage them for growth.

In the former communist countries, this usually involves buying privatised brewers, merging them, modernising their production equipment and then using western marketing expertise to build local brands

That is the approach taken by SAB, which is applying skills learnt in Africa to businesses in eastern Europe, Russia and the Asia-Pacific region SAB has just acquired a sixth brewery, in China, and claims to be one of the few international brewers making a profit in the world's second-largest beer market

This is also the approach adopted by Interbrew, the privately owned Belgian company that makes Stella Artois, Leffe and a range of specialist brews such as the ultra-potent Trappist drinks invented by monks

Getting frothy



KUBEN DAVID Source. IMPACT DATABANK, FINANCIAL TIMES

Outside Belgium it has acquired brewers in eastern Europe, Russia, South America and China. In 1995 it leapt up the global league table to sixth place by buying Labatt, number two in Canada.

Heineken, the world's second-largest brewer, combines both strategies — buying local brewers and promoting global brands such as its eponymous lager and Amstel. It has established strong positions in most of Europe's main beer-drinking markets, including France, Poland, Italy, Greece and — with the addition of Cruzcampo — Spain Globally it has 110 breweries in more than 50 countries in Africa, Asia and Latin America as well as Europe

Most of the top 20 brewers still rely on their home countries for the bulk of their sales — including SAB, with 98% of the domestic market Many of these have become big only because of the size of their countries — as with the Brahma and Antarctica brewers in Brazil

Pressure is increasing on these local giants to expand outside their home markets, says Mackay, with trade barriers falling in regions such as Europe and Latin America "Production and cost synergies are becoming possible that trade barriers previously kept at bay There was a similar process in the US 20 years ago where consolidation happened very rapidly "

Even brewers focused on brand building need local brewing capacity, he says "It isn't cost-effective to rely on imports, so merger and acquisition is also driven by the need to acquire production platforms in key markets "

Opportunities to grow by snapping up smaller brewers in emerging markets are rapidly diminishing, says Clarke. "The industry needs to consolidate, with no growth in the western European markets for a long time and most of the opportunities in eastern Europe wrapped up "

There are two possible ways in which the next phase can develop One is for the top half-dozen global brewers to buy some of the second-tier groups that remain largely national or regional in coverage, such as the two Brazilian brewers, Bavaria of Colombia, or UK brewers such as Bass and Whitbread A hefty premium would have to be paid, which might make such deals hard to justify to shareholders

The other is through mergers between some of the biggest brewing groups Heineken, Interbrew and SAB have all made clear their determination to push ahead with consolidation and are the ones most actively involved in the circling

One possible partner is Miller, the third-largest brewer which is owned by Philip Morris and, like Anheuser-Busch, is heavily dependent on the US market where it has three of the top 10 beers

A second is the brewing division of French food group Danone which brews Kronenbourg, France's number one beer San Miguel in Spain, and Peroni the Italian brand A third is Guinness, a brand coveted by most of the larger groups with no international premium beer

Not one of these is for sale although there are recurrent rumours that Miller might be spun off from Philip Morris

The waiting may have to go on a little longer

Coca-Cola mopping up the market

~~(183)~~ (182)

Nicola Jenvey

DURBAN — The proposed sale of Cadbury Schweppes SA's (Cadswep's) soft drink brands to Coca-Cola would raise Coca-Cola's control of the SA soft drink market to about 93%

Market sources have put a price tag of nearly R1bn on Cadswep after indications the confectionery and soft-drinks company is in talks to sell its soft-drink brands to Coca-Cola

Coca-Cola bottlers in southern Africa already package and distribute Cadswep brands, which include Dr Pepper and Seven-Up

Cadswep said at the weekend it was in talks to sell its Schweppes brands to Coca-Cola after the two companies scaled down their proposed international beverage deal in an effort to appease regulators

Competition Board chairman David Lewis said yesterday the two groups had a 20-year deal under which Coca-Cola made and distributed Cadswep products This marriage, also binding on Cadswep plc in the UK, meant they did not compete and the Competition Board was unlikely to block the deal Most analysts agreed, saying competition law aimed to prevent abuse rather than monopolistic dominance

Cadswep MD Dave Jackson said the deal would pump cash into the group Cadswep and its parent company were "considering how best to utilise the funds" Bound by cautionary regulations, no further details on the purchase agreement were forthcoming

More significantly, analysts raised questions about the future of Amalgamated Beverage Industries (ABI), in which Cadswep has a 14% stake This holding could be sold for another R1bn, giving ABI cash to buy out the 45% minority stake — at R10 a share — and delist the group Selling ABI would also provide Coca-Cola with a bottling plant that dominates 60% of the market

Efforts by Cadswep plc to sell its soft drinks brands to Coca-Cola under an agreement reached last December have been blocked in some countries The agreement covered trademark ownership for all Cadswep's major soft drinks outside the US, France and SA

BD 6/7/99

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Valvita to sue Carte Blanche

Nicola Jenvey

BD 21/7/99 (182)

DURBAN — Mineral water producer and bottler Valvita is to sue the M-Net magazine programme Carte Blanche for an undetermined amount after a broadcast two weeks ago indicating that SA mineral water contains harmful bacteria.

Valvita chairman Hennie le Roux said yesterday the group was assessing the damage caused by the programme and would inform Carte Blanche of the financial implications once these were known.

Valvita attorneys Cliffe Dekker Fuller Moore have sent a letter to the magazine programme holding it liable for damages "suffered as a result of (the) flagrant violation of (Valvita's) rights and the defamation of (Valvita) and its products".

Valvita claims that during the programme several incorrect statements were made about its products as well as the mineral water industry. Its product, Valvita Still Mineral Water, was presented "in an extremely detrimental and misleading" manner, while Carte Blanche ignored vital facts which "resulted in a distorted and harmful image" of the product.

The letter reminded Carte Blanche that it was notified ahead of screening that "a misleading and incomplete presentation" of the products would cause damages for which Valvita would hold it responsible.

Le Roux said Valvita, as a founder member of the SA Natural Bottled Water Association, met standards taken from Europe and Britain.

He said its products had been tested regularly by the SA Bureau of Standards since 1989

Le Roux said the bacteria counts quoted on the programme were not obtained via "acceptable procedures" for testing natural bottled water and were thus irrelevant.

"We doubt any of the top natural bottled waters in the world would have passed (those) tests. The programme now has South Africans pouring gallons of drinkable mineral water down the drain," he said.

Carte Blanche executive producer George Mazarakis said yesterday he was unaware of the impending civil action and expected that if the programme was being sued, he would be informed by the company, not by the media He said he stood by the story, aired on July 11.

Meanwhile, upmarket food group Woolworths submitted samples of its water for microbiological testing after the programme was screened It has assured customers that these tests confirmed the water "continues to be pure, safe and free from any microbiological contamination"

(1042)

Erwin says SA needs a national liquor system to aid competition

(182) (232) BD 21/7/99

Jonny Steinberg

WERE the liquor bill to be ruled unconstitutional the liquor industry would be left without a national regulatory system and may descend into "chaos", Trade and Industry Minister Alec Erwin has told the Constitutional Court

In February, then President Nelson Mandela refused to sign the bill and instead sent it to the court to test its constitutionality Mandela said he was uncertain whether the bill encroached on exclusive provincial powers

The Western Cape's business promotion and tourism MEC, Hennie Bester, who is opposing the bill, told the court in an affidavit that the bill violated provincial authority to issue liquor licences and to regulate liquor retailers

Responding to Bester, Erwin argued that the bill was designed to address matters that "self-evidently called for national legislation", such as the structure of the industry, the need to make the liquor industry more accessible to the historically disadvantaged and the fact that 90% of liquor retail trade was informal and uncontrolled

Among the measures envisaged by the bill was a three-tier registration system for manufacturers, wholesalers and retailers which aimed to "limit the excessive vertical integration in the liquor industry which creates uncompetitive practices," Erwin said

Erwin argued that the structure of manufacturing and wholesaling in the liquor industry required a national rather than a provincial regulatory framework

"Taking SA Breweries as an example, it will be unduly burdensome to require it to approach regulatory authorities in all nine provinces in order to be able to operate business operations in each of those provinces. The position would be even more complicated if the different provinces applied different requirements "

Bester replied that Erwin's prognosis of confusion and fragmentation was "a gloomy and unrealistic vision" He said Erwin had failed to show that the bill's encroachment on provincial powers was necessary to maintain SA's economic unity or to essential national standards, as required by the constitution

Change of mind over brewery (182) leaves bitter taste

(49c)

Nicola Jenvey

DURBAN — Port Elizabeth snatched the R750m new brewery project away from East London yesterday, leaving the rival Eastern Cape city with the bitter feeling that SA Breweries (SAB) "led (it) up the garden path".

SAB said yesterday it would construct a new brewery next to the existing Perseverance depot 19km outside Port Elizabeth to replace the century-old establishment in the city centre. The 230-million-litre capacity plant was "well positioned to service the Eastern Cape, as well as the anticipated future requirements of the southern Cape".

However, East London city fathers and the local chamber of business were "disappointed" given that last May Rob Childs, former SAB operations director of the beer division's southern region, announced officially that the plant would be built in the city.

Craig Sam, director of development planning in the East London city council, said local business and the city council wanted to see the reasons given by SAB for choosing Port Elizabeth over East London, particularly as the city had met SAB's criteria.

Key to Childs' announcement was the central positioning of East London. The city also has a high water quality, while the council has the ability to fund the necessary infrastructure.

East London deputy mayor Des Halley said SAB's change of heart makes it increasingly difficult for East London to market itself as a potential investment centre. He was also furious that SAB contacted him only on Tuesday night with the news about Port Elizabeth.

SAB spokesman David Williams said SAB had recognised the need for a new Eastern Cape brewery with East London as the prime contender.

However, strong volume growths from the southern Cape placed Port Elizabeth as the more central location.

BD 22/7/99

The decision represents brewer's largest capital investment in South Africa since the late 1980s

SAB to invest R750m in PE plant

(49C) (182) CT (BR) 22/7/99

Ann Crotty

Johannesburg – South African Breweries' plan to build a R750 million brewery in Port Elizabeth represents the group's largest investment in domestic beer production capacity since the late 1980s and the first major capital investment since it moved its primary listing to London

Analysts said yesterday that the decision to go ahead with the investment, which was first mentioned in 1997 at a possible East London site, was a significant vote of confidence in the country's economic growth prospects

"SAB has access to first-class economic data Two years ago this data persuaded them that it was not appropriate to undertake an investment in additional capacity; the data is now telling them a different and more encouraging story," said a leading analyst.

Work has already begun on the new brewery, which will have a capacity of 2,3 million hectolitres, and is expected to be completed by the end of 2000

The existing brewery in Port Elizabeth, which has a capacity of 0,9 million hectolitres, will be closed when the new brewery begins production This means the net additional capacity from Port Elizabeth will be 1,4 million hectolitres.

The investment is additional to SAB's current annual capital expenditure on local beer interests of almost R600 million

About R200 million of this will be invested to increase capacity at the Alrode brewery in Johannesburg from 7,6 million hectolitres to 8,1 million hectolitres.

Ahead of the new investment, the South African beer division of SAB has seven breweries with a total capacity of 29,7 million hectolitres.

Norman Adami, the managing director of Beer South Africa, said yesterday "We are excited by the prospect of a new brewery which now matches the standards and capability of SAB's other six breweries in South Africa and which is as advanced a brewery as any in the world."

The decision to build the brewery in Port Elizabeth rather than East London reflected the increasing demand in the southern Cape. The new brewery will service the Eastern Cape and future needs of the southern Cape

☐ **Business Watch, Page 2**

SAB plans new brewery for PE

(182)

Sowetan 22/7/99

By Shadrack Mashalaba

THE depressed region of the Eastern Cape received a major boost yesterday when one of the world's largest brewers, South African Breweries (SAB) announced that work on a new R750 million brewery in Port Elizabeth had already started

A team of international brewery design specialists and management have been appointed to the project, but selected and competent local companies, particularly those that focus on black empowerment, will be heavily involved in all aspects of construction

Local content is expected to exceed 65 percent

According to SAB, the capital investment is an addition to the company's current annual capital expenditure on its beer interests in South Africa of almost R600 million

SAB communications manager David Williams said the new plant at Perseverance just outside Port Elizabeth would replace the existing 100-year-old brewery at Struandale and would be completed by the the end of next year

Williams said once the new plant came into operation, the old one would be closed

SAB currently has seven plants which are located in Port Elizabeth, Chamdor, Prospecton, Alrode, Rosslyn, Pietersburg and Newlands It will have a production capacity of 230 million litres a year The decision to build a new brewery was taken back in 1997

Williams said the new plant would supply the whole Eastern Cape region as well as the South and Western Cape

"The SAB will always look at its options when opportunities arise We are in a process of acquiring other breweries worldwide," he said

While a number of non-core assets have been disposed of by the brewing group, Williams said, there were still a number of such assets that they owned

"Our vision is to concentrate on beer and other beverage products," said Williams

SAB's R750m plant a boost for investment

ST (BT) 25/7/99 (187)

Beer group aims to be able to produce more than 30-million hectolitres a year by December 2000, writes DON ROBERTSON

SA BREWERIES' new R750-million brewery in Port Elizabeth is part of a R1-billion-a-year expansion programme planned by the group over the next two years. A significant portion of this will go towards boosting the economically battered Eastern Cape.

The investment is one of SAB's largest in the past 10 years. The new brewery, with a capacity of 2.3-million hectolitres a year, will replace the existing 100-year-old facility that produces only 0.9-million hectolitres annually. A hectolitre is a thousand litres.

When commissioned by December 2000, SAB's local production capacity will rise by 1.4-million hectolitres to over 30-million hectolitres.

During construction near the existing Perseverance depot, about 1 000 new jobs will be created and a similar number generated in upstream and downstream functions such as building supplies and transport.

Although some plant and equipment will be imported, about 65% of project expenditure will be locally based. Black empowerment groups will be involved in all aspects of construction and commissioning.

The new brewery signals confidence in the future of the Eastern Cape and SA and could encourage foreign investment in the area, says Norman Adami, MD of SAB's beer division, Beer South Africa. He says the group normally builds capacity ahead of demand. It expects the economy to grow by 2.5% to 3% by the end of next year.

'The group builds capacity ahead of demand ... it expects the economy to grow by 2.5% to 3% by the end of next year'

The brewery investment over two years is on top of about R600-million to be spent yearly in SAB's other beer interests, representing about R1-billion each year, says Adami.

SAB will add value to the PE brewery's by-products. This will reduce environmental problems and provide new jobs.

Assisted by the University of Port Elizabeth, these projects include the drying of yeast from the brewing process. Most of this will be exported to Japan. Spent grain will also be dried and converted to animal feed. It is intended to develop an intensive fish farming facility using water and effluent from the plant.

Because of the high-tech nature of the brewery, however, the new facility will require fewer people than the 270 employed at the old facility. Apart from packages, those retrenched will get training to enable them to enter new jobs or open up small businesses.

GROWTH: An aerial view of the site of the new brewery in Port Elizabeth

By Adrienne Roberts

THE COST OF REBUILDING A BRAND

(182)

fm 6/8/99

SA mineral water in trouble

Demand for local bottled water is evaporating, thanks to claims made on M-Net's *Carte Blanche* programme that dangerous levels of bacterial contamination are present in the water

It's proving a painful lesson in disaster management

Valpré and Valvita are two of the brands that received the most coverage Sales of each fell 25%-30% within two weeks But it goes beyond individual brands, SA bottled water as a product category is reeling as consumers shy away from all local brands in favour of imports

Up to now, the industry has been spouting annual growth figures of 50% and more In five years it has grown from fewer than 20 labels to 125 Estimates put the wholesale value of the industry at R200m Add to that the characteristically high markups charged at retail level, and the industry is nearing the R1bn mark

The bottling companies say they have conclusive proof that their product is safe And both Valpré and Valvita are threatening legal action against the programme But experience elsewhere has proved that once the damage is done it is often too late to save market share

In 1990, Perrier's seemingly unassailable 85% market share in the US disappeared overnight in a scandal that the American Council on Science & Health was later to deride as one of the 20 greatest unfounded health scares of recent times Benzine was inadvertently added to a single batch of the product Unable to track the whereabouts of the batch, Perrier recalled 140m bottles at a cost of US$40m

Appletiser MD Ari Mervis says reassurances to the public in the immediate aftermath have cost Valpré R250 000 in adspend And that was just damage limitation "We are going to have to totally relaunch the product now"

Valpré has just switched on a new, state-of-the-art R20m bottling line and the loss of sales could prove a cash flow headache But being part of the broader SA Breweries stable will probably ensure the brand's longevity

Concern is now for the survival of the smaller labels Valvita, which does not have the large corporate backing that Valpré does, faces a tougher battle John Weaver, chairman of the SA Natural Bottled Water Association, says the scare will be an expensive setback for the industry, but he believes it will be a temporary one

James Eedes

Exposé of methanol contaminated liquor rocks industry

BD 12/8/99

Louise Cook

~~186~~ (182)

A SCAM involving tax evasion and "dangerously high" levels of the potential killer methanol found in a wide range of spirits ranging from brandy gin and rum to drinks like sambuca and liqueurs, has rocked the liquor industry

The agriculture department slapped an instant ban on all sales of affected products and handed over food test results to the police to start a criminal investigation It warned that methanol contaminated products could have "serious health damaging effects"

A source closely involved in the control of liquor production said methanol can be a killer depending on the person s overall health and on quantities ingested It can also lead to blindness, he said

The agriculture department's deputy director, Alex Seremula, did not release the names of the producers of the contaminated products but codes released by the department linked the products to Durban Wine Merchants in Chatsworth, DSA Liquor Wholesalers in Halfway House Bebida Distillers in Maitland and Liquor Management and Marketing in Bergvliet in the Cape

Health department officials will visit liquor outlets countrywide to sample and analyse products in the coming months and contaminated goods will be destroyed

Picardy Rebel marketing director Darren Swersky said market share of the suspect products was relatively small compared to the legal lines, but nevertheless posed a threat to honest retailers who refused to buy the products

The products were mainly manufactured by smaller businesses and carried by small independent bottle stores, he said

"The whole enterprise is driven by people who want to avoid paying tax," Seremula said "You pay R27/l on ethanol, which is the legal and safe substance for production purposes But because there is no tax on methanol the products are sold at much lower prices"

The source said government s uncovering of the scam was "excellent" news for the wider industry as legitimate dealers and manufacturers suffered "huge" losses

Batches of 18 product ranges were found to be contaminated They are Regent gin, Oakwood V O brandy, Royal Cape V O brandy, Woodbridge V O brandy, Barbados blended rum, Blue Marlin cane, Windemere cane, Rustnoff vodka, Arctic Lava cinnamon and cream soda liqueurs, Donatello sambuca, House of Parliament gin, Wild Thing fruit-flavoured vodka and Papa Razzi peach, strawberry, blackcurrant, banana and prickly pear aperitif.

Booze blitz anger

We're just scapegoats, says hospitality industry

ST (CM) 15/8/99 (288) (182)

BOBBY JORDAN

CAPE Town restaurants, pubs and hotels have slammed this week's clampdown on liquor licences and the impending ban of alcohol sales after 2am, claiming they have become scapegoats for the police's inability to curb violent crime

This follows a police "blitz" on restaurants and pubs in the Sea Point area where a 2am curfew on the sale of liquor is now being enforced — and could soon be applied throughout the city

In addition, police this week announced plans to appoint a "liquor officer" at all city police stations to monitor liquor outlets in their areas — a plan that may soon be implemented countrywide This comes despite fierce opposition from the hospitality industry which says the hardline approach is another blow to tourism and economic growth

Until now police have largely turned a blind eye to current liquor legislation — which prohibits liquor sales after 2am except under special licence conditions — preferring a "wait-and-see" approach while government and industry officials squabble over the National Liquor Bill, due to be debated in the Constitutional Court at the end of the month

The clampdown coincides with the latest national police figures which confirm Cape Town's status as South Africa's most violent city Figures also showed that a significant proportion of violent crimes were alcohol-related

But city restaurateurs say a "draconian" liquor curfew will not solve the problem

"This whole thing is a bit of a joke," said Western Cape chairman of the Federated Hospitality Associations of South Africa, Hugh von Zahn.

"One can't treat the symptom and not the cause If alcohol is the problem then trying to stop establishments selling it is a symptomatic solution — it's not going to work," Von Zahn said

He said police should rather concentrate on the 90 percent of liquor outlets which were unlicensed rather than worrying about trading hours

"It doesn't bode well for tourism and doesn't say much about the way the provincial government is running the province," he added

Neil Markovitz, chairman of the Western Cape Hotel Association, said a liquor curfew could affect Cape Town's appeal as a premier tourist destination. "There are tourists here who want to celebrate and go partying through the night We therefore need to be international in our approach"

A Sea Point restaurant owner, who wished to remain anonymous, said he no longer sold liquor after 2am since the clampdown

"I have been trading for many years — up until this stage we've never had any problems What gets me more than anything is the double standards Some people are getting bust while others are allowed to get away with it"

However, the provincial commander of the police's liquor and firearm unit, Jacques van Lill, said. "We're saying things have got out of hand We want the Department of Trade and Industry to act against premises which don't obey their licence

"We're not against tourism — all that can still happen But places mustn't come to me and blame me that they are losing money because of the curfew Unless they've got a special licence, if they make money after 2am it's illegal money," he said

Police will meet government officials next week to discuss the problem, and are likely to appoint more liquor officers to monitor the city's 500 licensed premises

Distillers' turnover nudges higher

(182) BD 24/8/99

Analysts laud the results, particularly in the light of falling sales in the wine and spirits industry

Nicola Jenvey

DURBAN — Beverage group Distillers Corporation nudged up turnover 2,8% to R1,98bn in the year to June, despite dramatic declines in brandy volumes, the group's core product

Distillers is an investment holding company, the subsidiaries of which are engaged in the manufacture of brandies, spirits and wines and their wholesale distribution under various trademarks

MD Jan Scannell said the marginally higher turnover was due to continued improvement in local market share for vital product categories, as well as a significant 28% boost in export sales

The group has also been innovative in the new products launched on the market, particularly in its wine range

However, operating margins deteriorated to 13,9% from 14,2% Attributable income rose 6,3% to R188m Headline earnings increased to 129,6c from 123,1c and the unchanged 45c final dividend left the annual total at 67c

Analysts lauded the results, particularly in the light of falling sales in the wine and spirits industry over the past year and specifically the challenges facing the brandy market

Unlike other liquor, brandy is a value-added product, which has been severely hit by two years of high excise duty hikes

The long-term view on brandy is that the product will again come into favour

Scannell said the nature of the group's activities required a long-term view of consumer demand for products

The investment in production facilities and stock under maturation is accordingly planned

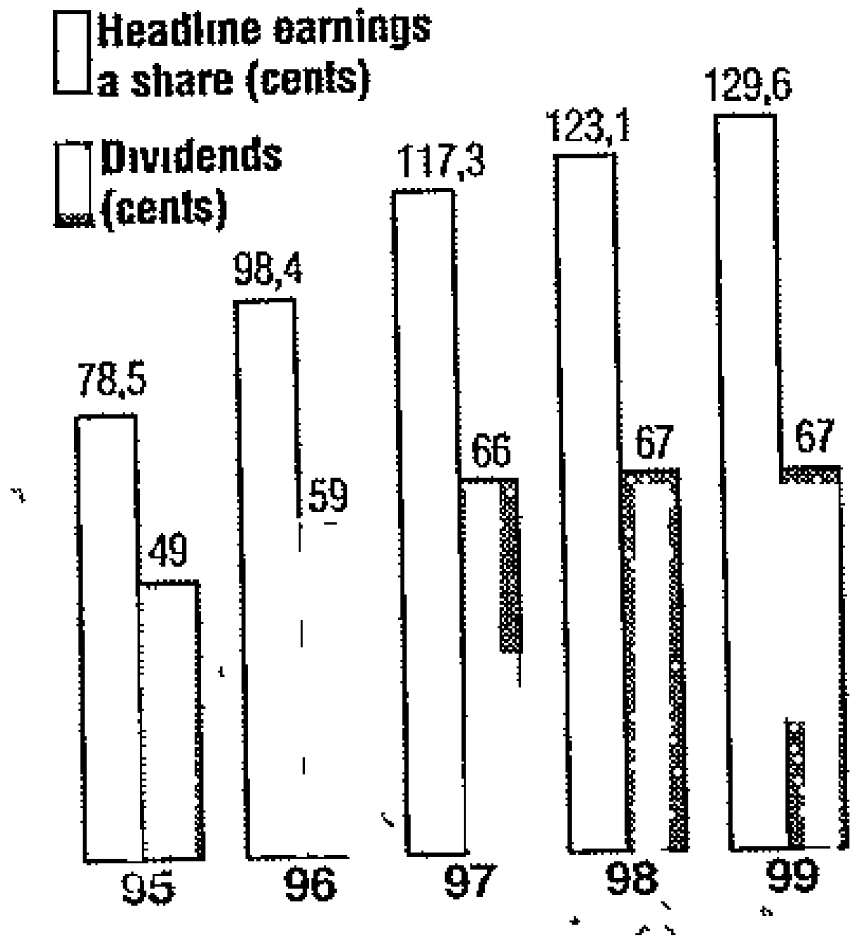
The group nearly doubled its long-term interest-bearing debt to R445,8m, which Scannell said was an investment into improving the efficiency and capacity of production facilities

Looking ahead he said the group expected "unfavourable trading conditions", but analysts welcomed the possibility that rising consumer demand would produce a further growth in earnings Distillers anticipates the growth from its export markets to be a springboard in the future

The group has strengthened its wholesale marketing structure internationally, establishing five offices over the past two years as support operations for key markets

Although aiming for its products to be available worldwide, Distillers has targeted Europe, UK, US and Africa as growth points

Distillers Corporation



KUBEN DAVID Source DISTILLERS CORPORATION

That Appletiser fizz hits US stores

POPULAR SA sparkling drinks Appletiser and Grapetiser will soon be widely available in the US for the first time

Southland Corporation — which owns the 711 chain — has decided to carry the drinks in 711 stores The 711 chain has five to six thousand stores throughout the US Of these, 60% are franchise-held and 40% are owned by the company

Initially the drinks will be available at the company-run stores, but they will also be offered to the franchise owners

The drinks will be distributed by McLane Company, one of the largest food distribution companies in the US, which is owned by Wal-Mart and headquartered in Texas

"This is an incredible opportunity," says Johann Lochner, president of Pure Sparkling Beverages Inc, the authorised agent for Appletiser and Grapetiser in Texas

His company is staffed by "just a few people" and yet he has managed to set up a major business development that will boost the SA drinks industry.

Since 1991, when he first arrived in the US from SA, he has wanted to see the drinks on sale in the country, and he tirelessly promoted them, securing distribution rights and creating marketing plans

"I researched like crazy," he laughs "I am passionate and consumed by it — I eat, drink and sleep Appletiser"

In July 1998 he finally secured the distribution rights for Texas from SA Breweries, and since then he has secured deals that will not only see the drinks in stores and restaurants in Texas but around the country as well

Because he successfully approached Texas-based companies that distribute nationally, Lochner has been able to expand sales dramatically

In other parts of the world Appletiser and Grapetiser are promoted and distributed by major companies — Coca Cola in Europe, Cadbury Schweppes in Asia and Mitsubishi in Japan — so it is even more of an achievement for Lochner to secure the US deal

With no previous experience in marketing or business — he is a theologian — Lochner focused all his energy on creating a winning presentation, and he sold the product first to McLane and then to Southland Corporation

Lochner has also secured a deal with the Ben E Keith Company in Texas for the distribution of the drinks to food service businesses and restaurants — *African Eye News Service*

ST (BT) 29/8/99 (182)

CP 29/8/99

Deadly liquor still being sold

(182)

By ELIAS MALULEKE

A VARIETY of spirit liquor that can kill is still being sold over the counter at a number of bottle stores despite a government ban on the sale of the drinks and a warning about the danger faced by drinkers

The deadly concoctions have been contaminated with a high level of methanol

Methanol is alcohol extracted from coal or wood and is designed for industrial use, mostly for fuel, anti-freeze, gas and paraffin

Only drinks containing the less harmful ethanol are permissable for sale in the country

The Department of Agriculture's Director General, Bongiwe Njobe, has sounded a warning to the public not to buy the contaminated liquor.

The spirits identified with the methanol and batch code names in brackets are Oakville (A237), Rasputin Vodka (A237), Richwood V O Brandy (A571), Foutplaas XO Brandewyn (A469), Kasparov Vodka (A623), Bravoska Vodka (A637), Bravoska Vodka (A591), Preston's London Dry Gin (A298) and Russian Style Vodka (A579)

Some of the laced drinks were found being sold in bottle stores in Johannesburg and on the East Rand during a snap survey by City Press on Thursday

Department of Agriculture spokesperson Alex Serumula said if taken, the drinks could cause headaches, nervous breakdown, blindness, body itching, respiratory problems, cardiac arrest and even death "We have already received complaints about people falling ill as a result of drinking the laced liquor," Serumula said

The department, which is working closely with the Health Department to inspect liquor in all bottle stores in a bid to trace all the laced drinks and to identify more, has also involved the police with the view of bringing criminal charges against the people involved

"We suspect that a syndicate is involved in the brewing and the importation of the deadly drinks," Serumula said

He said investigations have proven that most of the brands that contain methanol have been brewed in this country

"This is an elaborate scam to flood the market with cheap liquor for a huge profit margin The brewers are also using methanol to avoid paying tax which is charged for drinks containing ethanol," said Serumula

Serumula said a certain fee was payable to the government for liquor containing ethanol and to avoid paying the taxes, the brewers added the illegal methanol to disguise the alcohol content on ethanol, thus avoiding taxes and selling their deadly brews cheap

He said on completion of their investigations, the matter would also be referred to the Liquor Board with the view to cancelling the licences of the brewer

Rigorous round of reorganisation helps SAB crack shebeen market

(182) CT(MR) 16/9/99

TOM LLOYD

It can be tough at the top, particularly when your rivals are virtually out of sight. South African Breweries (SAB) has 98 percent of the 25 million hectolitre South African beer market, and a recent Morgan Stanley study judged it South Africa's only "world class" company.

Much of SAB's local market is in black areas, where demand for beer is extremely price sensitive. SAB knew substantial volume gains, and consequently strong profit growth, could be had if it could significantly reduce the real price of its products.

"We wanted to increase beer's – and thus SAB's – share of the whole liquor market," says Tony van Kralingen, the marketing director of SAB's beer division. "To do that, we had to keep our prices down.

"We couldn't just squeeze suppliers, so we focused on our costs and expanded our distribution network significantly."

The strategy worked. The efficiency drive, which has turned SAB in to one of the lowest-cost brewers in the world, reduced prices steadily – by over 50 percent in real terms with annual price increases pegged below inflation over the last 20 years. The volume gains appeared on cue.

This has built SAB a sustainable competitive advantage and delivered a level of customer value that competitors find difficult to match.

But there is no escaping the law of diminishing return.

"By the mid 1990s, productivity driven growth was getting harder to come by," Van Kralingen says.

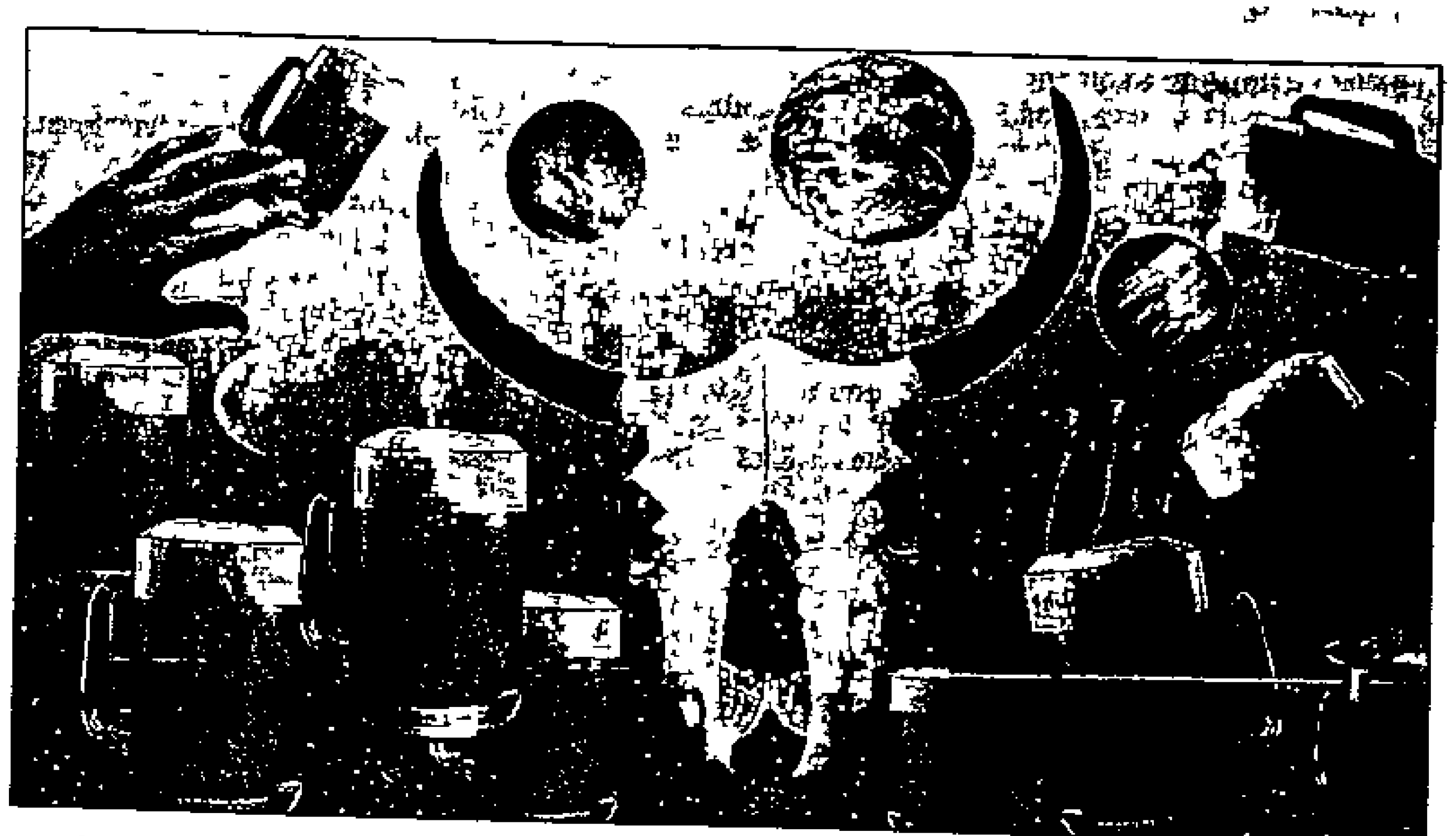
"We recognised that continued and sustainable growth had to come from our brands and improvements in our product quality and our customer service."

With further real price cuts difficult to sustain, competition was also getting tougher. SAB faced threats from beer imports, new entrants into the beer and alcoholic fruit beverage markets, mainstream and premium branded spirits and both sorghum beer and low quality wine in the highly price-sensitive end of the market.

Moreover, impending government legislation raised the prospect of widescale changes to the liquor market. Some 60 percent of SAB's beer volume is accounted for by over 100 000 shebeens, small drinking dens which sprang up in response to historic restrictions on South Africans buying and drinking alcohol.

Legalisation of shebeens could result in explosive growth in SAB's distribution network requirements and a massive increase in costs unless ways can be found to tailor service levels to the needs of very different market segments.

A pilot project was launched in one of SAB's 23 operating districts south of Johannesburg in 1996. It focused on consumer needs and consumption profiles, volume flows through alternative channels, competitor activity, packaging, sales order profiles and delivery frequencies, channel margins, sales call priorities and frequencies, and promotional and merchandising requirements.



Encouraged by the results SAB ultimately extended the pilot to all 23 SAB districts. It adopted a new market segmentation framework, which became the focus for differentiated service delivery and overall performance management.

Sales reps specialised in particular markets instead of selling to all customers in their areas, and acquired a deeper knowledge of customer needs and market trends.

The organisational impact on SAB has been considerable. While newly focused and empowered sales reps provide greater market agility, they require new skills and knowledge. This has led to updated training programmes.

Performance tracking against sales budgets is now based on a clear understanding of the required return on investment from each market segment.

SAB has appointed channel managers to provide leadership, who also form a crucial linkage between brand marketing and the field. Brand managers are able to tailor launches and promotional activity to the needs of specific segments.

"We now better understand how beer gets into shebeens," says Trevor Hughes, SAB's national trade marketing manager. "For example, in rural areas, poor availability has often led to channel intermediaries taking excessive margins. In these areas, retail prices have been managed down from about R6 to R4 a quart (750ml) through intensive market education and ensuring greater availability."

Refrigerated containers in the channel and specially designed fridges in shebeens have provided a much needed "chill".

"The township market was difficult to manage, and we have traditionally under invested in it," Van Kralingen says.

"The new segmentation has helped us to identify new opportunities and new solutions.

"There has been a major shift of resources and investment towards townships, and the results have been obvious in terms of increased market penetration, greater market knowledge, increased consumer and customer satisfaction, and significant increases in beer volumes," he says.

SAB has grown volume by 2 percent in the depressed economic environment over the past two years, and its share of the overall liquor market has increased from 55 percent to a highest-ever 57 percent.

Independent bi-monthly surveys of customers by market segment evaluate SAB's service level performance (and also the performance of key competitors) against customer expectations. Over the past two years, SAB's average customer satisfaction score has risen from 50 percent to 70 percent, and the gap over competitors has in some cases doubled.

□ *Tom Lloyd is the editor of Transformation, a Gemini Con* may hurt you

Fighting it out in Kenya to establish the brew that is true

(182) BD 21/9/99

SA Breweries and entrenched competitor are spending millions

James Macharia

NAIROBI — The suds are flying in the Kenyan beer war.

Newcomer SA Breweries (SAB) is challenging the established business practices of long-dominant East African Breweries Both companies are fighting for market share as the thirst for beer shrinks in a depressed economy

Spending on advertising by the two brewers during the first six months of this year is already 30% higher than it was over the whole of last year

Advertising spending by the two companies this year reached $2,2m following the Kenyan beer maker's launch of Pilsner Ice Light last week This was the eighth beer brand to enter the market since SAB broke the East African Breweries monopoly by opening the Castle Brewing K plant a year ago.

East African Breweries has had to learn the hard way about coping with competition since SAB brought a marketing battle to its doorstep.

This competition is taking place as the country's weak economy contributes to a shrinking market consumption is now at eight litres a head compared to 15 litres a decade ago.

The launch of Pilsner Ice Light by East African Breweries is part of its plan to secure a niche in a market that extends to Uganda and Tanzania, where SAB is also fighting to become the leading regional beer maker

In Kenya, Castle Brewing has yet to capture the 30% share of the market it anticipated after one year in business.

After its first 10 months of operations, Castle is still lagging at 5% compared to East African Breweries' 95% stranglehold on the beer market

Kenya's fickle beer drinkers are partially at fault. They initially gave Castle Brewing brands a try but rapidly reverted to their regular beers.

In addition, East African Breweries played hardball in winning the support of beer pubs throughout Kenya — it offered them free new coats of paint with its beer logo and supplied beer freezers with its logo in exchange for brand loyalty Businessmen say this approach is similar to Coca Cola's successful marketing tactics in Kenya and has left Castle Brewing with few beer outlets

Each company accuses the other of responsibility for the crude billboard vandalism that characterised their early competition, although the problem has largely died out.

In addition, bad blood created by court battles over Castle Brewing's Ranger beer formula, which it was forced to alter following patent challenges, has withered

Both companies have now focused on heavy spending on advertising and are moving towards niche marketing of brands

Vernon Ayton, chairman of Ayton Young & Rubicam, which handles the Castle Brewing advertising account, says that the light beer brands are targeted at the younger generation, in particular yuppies earning good salaries who have not yet become wedded to a brand.

"This segment of the market includes women who find the current brands bitter and loaded with calories," says Ayton.

An East African Breweries manager in charge of advertising says that new brands are decidedly lighter "for someone who wants to socialise for long hours without fear of getting drunk or gaining weight".

He says this is a marketing segment that has never been tapped and is the next frontier as far as brand competition is concerned.

Castle Brewing is expected to launch a light brand of its own soon in response to Pilsner Ice Light, says Ayton. Castle has initiated new beer brands over the past year to counter each of East African's choices, starting with Castle beer to compete with East African's Tusker, Castle Milk Stout to challenge East African's Guinness Stout and its disputed Ranger beer to take on Citizen beer.

Of the new brands, Castle's Milk Stout has been the fastest mover in securing customer loyalty and is expected to put a serious dent in Guinness's market share within five years, says Ayton However, East African's Tusker remains unassailable as the dominant drink compared to Castle's Lager

The canned beer segment has also experienced changes as East African introduced canned Tusker last year in reaction to Castle Brewing's canned Castle Lager, capturing 2% of the market in which the SAB product has an edge

UDM treasurer defects to ruling party

Nomavenda Mathiane

THE national treasurer of the United Democratic Movement (UDM), Takkis Christodoulou, announced his defection to the African National Congress (ANC) yesterday

Christodoulou was a Gauteng MP for the New National Party before joining the UDM

Christodoulou said he had over the years developed friendships with certain ANC members and the party had not set any preconditions for his membership

"I believe that the ANC is a moderate political party representative of all the people of SA."

UDM spokesman Annelize van Wyk said she found Christodoulou's departure strange, particularly for someone who had been part of the UDM's formation

"He was there when we put together the vision and the mission of the party," said Van Wyk.

She thanked Christodoulou for the work he had done for the party and said the party's CE Clive Mentzel would take care of the UDM's finances until a new treasurer was appointed

The ANC's Gauteng provincial secretary, Obed Bapela, welcomed Christodoulou to the party and said he would bring with him a wealth of business experience and add much-needed impetus to the process of change.

Christodoulou said he would serve as a member of the ANC's Pretoria branch

SA BREWERIES

BD 8/10/99 (182)

Black investors fume on firm's sidelines

Patrick Wadula

BLACK business leaders have criticised SA Breweries (SAB) for not taking black investors seriously and facilitating the purchase of a stake in the company as originally proposed

SAB announced recently its intention to buy 10% of its own shares in Bevcon from Bevcon's three shareholders — Liberty Life, Anglo American and Johnnic

These shares would be warehoused in a Jersey-based special-purpose vehicle called Safari

They have been set aside for an acquisition in line with SAB s strategy of expanding its international brewing interests

A source involved in the beverage industry said yesterday it was disheartening to see blacks keen to buy into SAB being sidelined on the deals surrounding the company

It is not clear, however what the intention of SAB is for the 10% stake

SAB management were in London yesterday and could not be reached for comment

There is a suggestion that the remainder of Bevcon could be snapped up by foreign investors

The businessman urged Johnnic chairman Cyril Ramaphosa also head of the Black Empowerment Commission to ensure there was a fair participation of black business in SAB

The trade and industry department had to intervene somehow in this matter he said

Company Name		Turnover (Rm)		Headline eps (c)		Dividend (c/share)	
Jasco		189,5	(163,9)	8 1	(30 2)	—	—
Medax	f	—	(132,9)	30 15	(10,97)	—	—
Servest	ı	134,4	(28,9)	~5	(4 4)	—	—
Tigon	ı	169,9	(56)	110 5	(21,9)	—	—

f final ı interim t combined income per unit * # $ Comparable period in brackets.

Tradition-bound Czechs wary of SA plan to buy beer makers

PRAGUE — SA Breweries (SAB) may regard their $629m plan to purchase two Czech Pilsner makers, announced yesterday as a hard-headed business move

Beer consumption in the Czech Republic is the highest internationally — the average person drinks about 160l a year — and the quality of domestic beers is the primary source of national pride

"Where beer is brewed, all is well," Czechs sing of their country s most revered product

So the fact that the famous Pilsner Urquell (Primordial Source) is to fall into the hands of a foreign brewer will raise fears that this most important piece of "family silver" will lose its distinctive Bohemian character

Investment bank Nomura Securities had recently already acquired most of the stock of Plzensky Prazdroj makers of Pilsner Urquell, and Pivovar Radegast the other firm SAB is taking control of

Nomura managers were never expected to tamper with the Pilsner brewmasters craft SAB said yesterday that they too had no intention of trampling on tradition

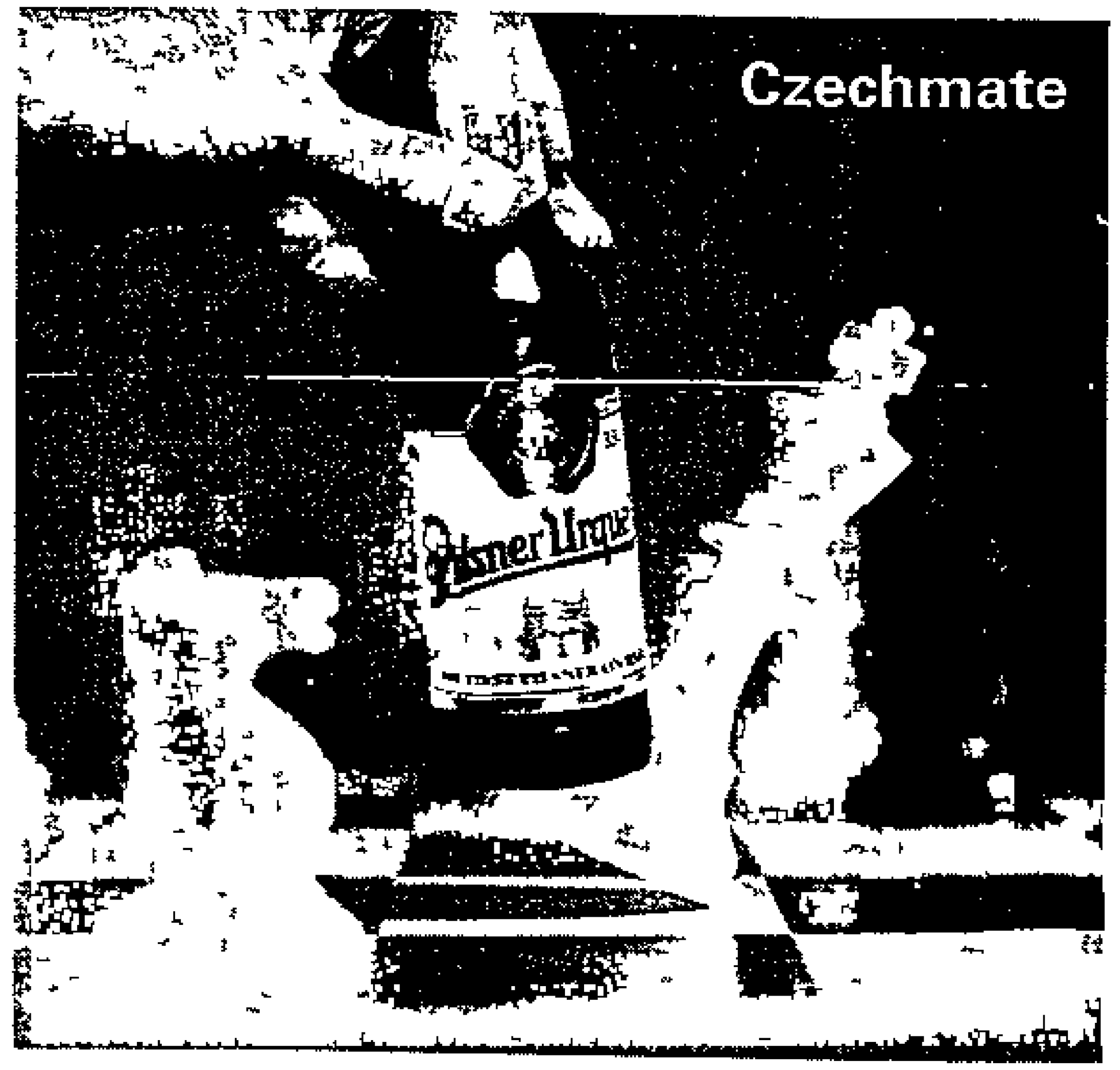
The method made to brew Pilsner born in the western Bohemian town of Plzen has been copied by brewmasters worldwide

Urquell, made in the same west Bohemian brewhouse since 1842, has stayed relatively unchanged

Prazdroj was the largest global brewer before the First World War and claims to have been the most-imported beer to the US before The Second World War and the 1948 communist takeover

Under the deal, by 2001 SAB will get all of Prazdroj which brewed 5 3-million hectolitres last year, with a turnover of 6 6-billion crowns and Moravian brewer Radegast with 2 8-million hectolitres and 1,95-billion crowns.

The sale will open up much larger distribution of Czech beer to the world and give SAB a beachhead in the heart of Europe — Reuter



Acquisition garners approval of analysts

Long-term gains, they say, outweigh the fact that price was high

Nicola Jenvey

DURBAN — SA Breweries (SAB) did not acquire Czech Republic brewer Pilsner Urquell and Radegast at a discount, but analysts believe the long-term gains from holding an internationally recognised brand outweigh a seemingly high price.

SAB yesterday became the leading brewer in central Europe yesterday after the agreement to acquire Pilsner Urquell and Radegast, the Czech Republic's leading brewers which have a 44% market share. In Pilsner Urquell the London-based group gains a premium brand, which as "the first pilsner on earth", has strong international potential.

Analysts were unanimous the deal was positive as it showed the brewing group in a proactive light.

Some market negativity surrounded the uncertainty about the Beverage and Consumer Industries (Bevcon) holding in SA Breweries before this was removed two weeks ago with the announcement that the Bevcon stake was to be unbundled and SAB was to buy back a 10% stake.

SAB group CEO Graham Mackay said the combination of the Bevcon deal, the detailed terms of the disposal of the SAB interest in Plate Glass and Shatterprufe Industries (PGSI) and now the Pilsner Urquell and Radegast acquisition furthers the group's objective to enhance shareholder value through a clear focus on the core business of brewing.

"(This purchase) shows that SAB has a strategic plan. The move can be seen only as positive and even if historically the deal appears expensive, SAB could essentially fund the move in cash," an analyst said

He said the purchase consolidates SAB's position as the major brewer in the growth region of eastern Europe.

Although the Czech Republic market is virtually fully traded, significant growth potential exists in Poland and Russia.

Beer volume growth in Poland is running into double digits annually, while Russia is experiencing a shift away from vodka to beer as a staple beverage.

However, the mature western European market has no substantial growth prospects, but the Urquell brand does already have a toehold in that region

Mackay was confident that with the prestigious Pilsner Urquell brand and strong market share in the Czech Republic, the group can expand in Europe and beyond

HSBC analyst Kim Howard said although the deal is "good strategically", SAB had paid the full price. However, she believes the move will enhance earnings growth in the medium-term and saw it as more beneficial for SAB to take a short-term knock for a long-term gain

"The group now has a stronghold in eastern Europe, made substantially more vital as the other large brewers are not in this market " she said

Castle toasts its first 'fierce' year in Kenya

James Macharia

NAIROBI — SAB subsidiary Castle Brewing marked its first anniversary in Kenya last night with the launch of Trophy Lager and a plea to the government to reduce taxation of the beer industry

CE Roger Smith asked the government to cut the 90% sales tax on beer and remove the 60% duty on malt which has to be imported as it is not locally available

Smith said the beer industry needed a tax reprieve to grow and revive the fast-shrinking beer market which has dropped 46% over the past 10 years owing to rising prices "Growth will only return to the industry in the medium term if the tax is reduced " he said

The company's first year of operation was a fierce battle, Smith said arguing that the government was partly to blame

"It is the responsibility of government to remove duty on imported malt and cut beer taxes to ensure a level playing field," said Smith He announced plans to expand to upcountry beer markets in the company's second year

Industry analysts linked his remarks to Castle's loss of the high-profile court battle last year with rival East Africa Breweries about the brewing of Ranger Lager

East Africa Breweries claimed sole rights to manufacture the lager, a nonmalt beer using a technology it successfully claimed to have patented East Africa Breweries argued in court that it introduced the beer into its stable to brew its Citizen Special brand without malt, to avoid the tax on malt

He said the battle for the beer market had been aggressive and costly leading to huge sports sponsorships advertising and community projects Castle has spent millions of shillings on ads

Steadman & Associates, a respected Nairobi media monitoring firm, disclosed last month that the two brewers combined spent $1m on advertising in the six months to June this year, a 30% increase over the previous year

However East Africa Breweries leads in sponsorships, having clinched television rights to the country's premier league football the annual rugby sevens international rugby event, and co-sponsorship of the just-ended LG Four Nation Cricket Tourney

For its part, Castle has spent $40 000 on securing sole sponsorship rights to the year-long Kenya Amateur Pool Tournament, a growing bar sport countrywide

At the launch anniversary function, Castle Brewing corporate affairs manager Joe Wanjau claimed the company had so far captured a 13% market share Its original $40m investment had risen to $61m

Brewers have big plans for their partnership

PRAGUE — The top two Czech brewers, including the maker of the original Pilsner beer, said yesterday they planned to boost their reach worldwide with new partner South African Breweries (SAB)

SAB, the world's fourth largest brewer and Japan's Nomura Securities, owner of Plzensky Prazdroj (Pilsner Urquell) and Pivovary Radegast announced yesterday they would form a 51% to 49% joint venture combining the Czech breweries under the name Pilsner Urquell Group

The chiefs of the Czech breweries said the deal provided the chance to use SAB's global distribution networks as a springboard for sales expansion

"SAB is a company that does not have a global brand so it is a great opportunity for us " Vladimir Perina, CE of Plzensky Prazdroj said yesterday

"(SAB) realises that the tradition of Czech beer and Pilsner Urquell as a prototype of bottom-brewed lager has huge potential so I think the combination is ideal "

The new venture will establish SAB as the largest brewer in central Europe, doubling its output in the region

In forecasts made before the deal Urquell and Radegast said they could almost double production of just over 8-million hectolitres a year to 14 5-million hectolitres by 2008 — Reuter

SAB pulling ahead in Europe's brewing beer battles

(182) ST (BT) 10\10\99

EXPANSION

By MARCIA KLEIN

SA BREWERIES' acquisition of Czech Republic brewers Pilsner Urquell and Radegast puts the SA group head-to-head with Heineken in the fight for dominance in the European beer market.

The $629-million acquisition, with a 44% Czech market share, could see SAB becoming the leading brewer in central Europe.

Analysts said this week that, because SAB paid a full price, the acquisitions would not add much short-term value. However, the deal was still considered excellent from a strategic point of view. But an analyst said SAB needed to deliver on the Pilsner Urquell brand's potential as a premier boutique brand.

The terms of the deal are an agreement with Nomura International to buy a controlling interest in Pilsner Urquell and Radegast for $321-million and the right to buy the balance of Nomura's interest by mid-2001 for $308-million.

SAB group CE Graham Mackay said: "We are confident that we can expand our presence not only in Europe but also further afield."

In the Czech Republic, per capita consumption of beer of about 160 litres a year is the biggest in the world.

SAB said that, apart from the opportunity to enter this market with a 44% share, the acquisition would enable it to develop higher-margin incremental sales of the acquired brands through existing distribution channels. It was also an entry point into developed beer markets through the expansion of the Pilsner Urquell brand in the premium export segment of major international markets.

SAB already has operations in Poland, Romania, Hungary, Slovakia and Russia. The acquisition of a further 7,9-million hectolitres will increase its production in central and eastern Europe to about 17-million hectolitres.

One analyst said the deal, although promising, "would not cause an overnight re-rating" of SAB.

The recent surge in the share price has merely brought it back into line with where it was trading six months ago.

"London analysts are expecting a bit more. They will always be a bit disappointed because SAB is a SA counter. But as earnings from outside SA increase, they could change that view."

The deal follows recent announcements on the formation of Safari Limited, a special-purpose vehicle to acquire 10% of its own shares after the unbundling of Bevcon. The announcements also gave details on the disposal of SAB's interest in PGSI.

CAPE ARGUS, FRIDAY, OCTOBER 15, 1999

Crackdown on 'deadly' booze

City bottling plant loses licence

YUNUS KEMP (182) ARG 15/10/99
STAFF REPORTER

The Liquor Board has withdrawn the liquor licence of a Western Cape bottling plant after an investigation revealed the company was producing contaminated brands

Bebida Distillers in Montague Gardens had its wholesale liquor licence revoked because its brands exceeded the legal methanol limit.

Liquor Board chairman Cedric Evertson said a hearing was held to determine whether Bebida Distillers manufactured and distributed spirit products which contained excess levels of methanol and if they disregarded the public s interest in doing so

"We found they had been negligent as far as the levels of methanol in their products were concerned. The brands tested were sufficiently over the legal limit of 2 000mg a litre of pure alcohol allowed," said Mr Evertson.

The Department of Agriculture last year tested 19 brands all of which exceeded the 2 000mg legal methanol limit. The brands tested were

- Magersfontein Gold Brandy (113 300mg)
- Blue Marlin cane spirit (15 900mg)
- Oakwood VO Brandy (34 600mg)
- Rasputin vodka (18 700)
- Breakers cane (17 000mg)
- Eikenhout brandy (17 700mg)
- Outeniqua brandy (15 400mg)
- Vladimoff vodka (18 100mg)
- Royal Geneva gin (18 900mg)
- Royal Cape VO brandy (16 200mg)
- Grogan s rum (9 100mg)
- Don Lopez tequila (15 800mg)
- Wild Thing flavoured vodka (16 600mg)
- Green Ice peppermint liquor (15 500mg)
- Donatello sambuca (11 600mg)
- Paparazzi schnapps (17 000mg)
- Arctic cinnamon liqueur (16 500mg)
- Prestige VOR brandy (110 200mg)
- Chesnikof vodka (15 700mg)

Helgard Wagenaar, administrative head of the Liquor Board, said there was, however no evidence that indicated Bebida's culpability "It is also fairly common practice that you bottle for someone else," said Mr Wagenaar

Medical tests showed the intake of large quantities of methanol could cause headaches, tiredness nausea, blindness, convulsions, circulatory collapse and in some cases, even death.

Two other plants which were also under investigation, Magersfontein Trading and Van Nyathi Liquor Distributors were closed down by the police for not having a liquor licence

Mr Evertson said in future, any company applying for a liquor licence, would have to provide samples of the spirits they intended manufacturing for testing by the Department of Agriculture

"Only after the samples have been cleared by the Department of Agriculture will we issue a licence We need to have responsible licence holders who will take the public s interest into account."

Riaan van Zyl, an inspector at the Department of Agriculture in Stellenbosch said the department and the Health Department were monitoring points of sale I am pretty sure the market is at the moment relatively clean he said.

Coca-Cola helps advance SA's emerging businesses

BD 15/10/99 (182)

Nicola Jenvey

DURBAN — The Coca-Cola soft drink network accounts for 2,3% of SA's total employment and 1,4% of gross domestic product, an independent study shows

Conducted by the World Economic Forum, the Bureau of Market Research at the University of SA and the Darla Moore School of Business at the University of Southern Carolina, the study says Coca-Cola funds other revenue-generating activities prevalent in the informal sector

The study was the first in SA to analyse the upstream and downstream effect of the international soft drink conglomerate. It examined the whole value chain of goods and services involved in the production and distribution of Coca-Cola products in SA.

In addition to the Coca-Cola Company s southern African office, the network includes domestic bottlers and canners, suppliers, distributors, wholesalers and retailers The employment base ranges from plant managers to street vendors and owners of spaza shop

The study says that for every direct job created in the bottling system, another 10 jobs are supported in downstream and upstream linkages, which works out to 178 205 jobs dependant on the soft drink.

The informal sector accounts for 42% of these jobs followed by the operational production surrounding the bottling system (41%), formal trade (11%) and capital expansion (6%).

The employment base closely mirrors the SA population with 63% being black, 16% white, 14% coloured and 7% Asian.

The study says that in the long run, the largest effect of the Coca-Cola system will be on microenterprise development, as had been the case in eastern Europe. Soft drinks provide small vendors with a high margin, high turnover product.

"Soft drink products appear to play a pivotal role in helping thousands of entrepreneurs transform into viable business concerns," the study says Coca-Cola introduced an owner-driver scheme with truck drivers in 1993, which encouraged employees to establish their own businesses, incorporating the daily delivery of products to outlets

Owner-driver Brian Reddy says participation in the scheme has allowed him "to better himself and become a businessman" He now owns property and has the means to provide an education for his children.

Bheki Mzulwini has risen from hawking fruit to owning a spaza shop housed in a container His next move will be owning a supermarket.

Coca-Cola southern Africa corporate communications manager Vukani Magubane says the study "assumes a human form when witnessing the network in action"

The effect of the soft drink on the informal sector has been one of the reasons which prompted the Zambian government to drop its high excise duties on the concentrate, encouraging Coca-Cola to establish its bottling plant in that country

SAB

MAJOR PLAYERS JOSTLE FOR SPACE AT THE BAR

(182)

As the local brewer picks up the Czechs

FM 15/10/99

South African Breweries, the London-based beverage group, has staked its claim as one of the major players in the unfolding consolidation of the world's beer industry

Last week, SAB bought control of Czech brewer Ceske for US$629m — its single largest beer acquisition so far SAB will initially acquire 51% of Ceske for $321m and later the remaining 49% for an additional $308m

SAB's Ceske deal is the third-biggest transaction in the beer industry this year after the proposed $4bn merger of Brazilian brewers Brahma and Antartica and Heineken s $768m purchase of Spanish brewer Cruzcampo

These deals signal the increasing pace of rationalisation in the industry which last year sold more than 1 7bn hl of beer

Rationalisation is being driven by competitive pressures in developed markets where growth has been negligible Brewers from these countries are seeking growth opportunities in the emerging markets of Asia, Latin America and eastern Europe where beer volume growth is expected to outstrip the world average In addition, the creation of regional economic blocks such as the EU and the North American Free Trade Agreement is driving consolidation of the beer industry

For SAB, the Ceske deal increases SAB's beer production volumes from 46m hl to 56m hl thus helping SAB displace the US's Miller Brewing (51m hl) as the third-largest brewer in the world behind Anheuser Busch and Dutch group Heineken

Whether SAB retains number three slot depends on whether Brazilian competition authorities allow the merger of Brahma and Antartica to proceed Based on 1998 production figures the combined Brahma and Antartica would produce 64m hl

But more than just size the major attraction of the Czech deal for SAB is the prestigious beer brand, Pilsner Urquell exported to western Europe and the US

Pilsner Urquell is unique in that it is the world's original pilsner lager It was first brewed in Pilsen (Plzen), Czechoslovakia in 1842 thus earning it the status of the First pilsner on earth"

Pilsner fills a major hole in SAB s beer barrel Before the Ceske deal, SAB lacked an international premium brand that it could market in developed countries Though SAB's major brand Castle Lager is ranked among the top 15 brands world wide it has limited appeal outside Africa

Premium beer is an umbrella term for brands that due to their quality and good image sell at prices significantly higher than other beers But these brands require much marketing investment to enhance their image and maintain tippler loyalty Heineken for example which has been building its brand as an international one for decades spends about 15% of its net sales on marketing SAB spends about 5%

The Ceske acquisition gives SAB a foothold in Germany, the UK and the US Last year Pilsner Urquell exported 63 000 hl (about 18% of its 1998 total export volumes) to the US

With this acquisition, SAB becomes the pre-eminent brewer in central Europe and gains the prestigious Pilsner Urquell brand We are confident that with this unique brand and strong market share in the Czech Republic, we can expand our presence in Europe and further afield" says Graham Mackay, SAB's group CE

But this isn't likely to be plain sailing

Kevin Baker of the UK based beverage market consultancy Canadean says Pilsner Urquell is already well known in Germany (the world's third-largest beer market) and the US (number one) offers growth opportunities But unlike central and eastern Europe where SAB already has operations it lacks the crucial distribution infrastructure necessary to realise the brand's potential He says one solution will be for SAB to link up with a major western European brewer

But overcoming the distribution problem

MERGERS AND ACQUISITIONS IN BEER INDUSTRY

1998

- Interbrew buys 8% of Mexican brewer Femsa for $221,6m, increasing its stake to 30%
- Interbrew buys 50% of South Korean brewer, Oriental for $250m
- Japanese brewer Kirin Brewery acquires 45% of New Zealand Lion Nathan for $742,5m
- Anheuser-Busch buys 13,25% of Mexican brewer Grupo Modelo for $566,5m, increasing its effective stake to 50,2%
- Australia's Foster's sells its 50% stake in Canada's Molson Breweries and 25% of Coors Canada for $679m
- CRE Beverage Ltd (SAB's Chinese joint venture) buys 90% of Jilin Brewery in China for $41,7m

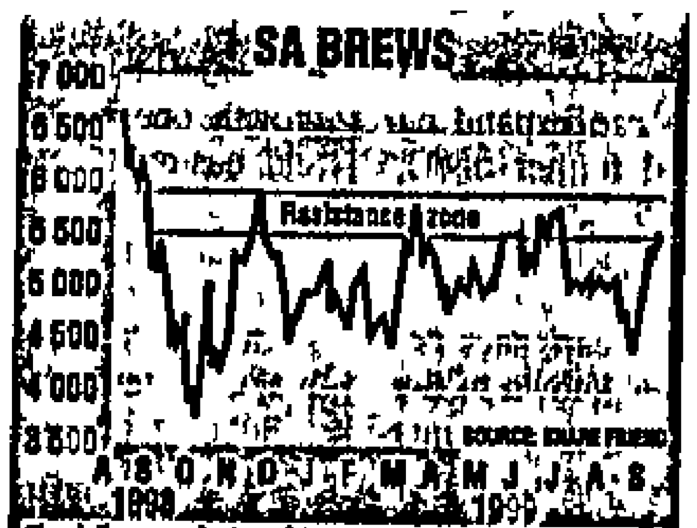
Total value of deals: +$2,49bn

1999

- UK's SAB buys two Czech breweries, for $629m
- Heineken buys Cruzcampo, from Diageo and Carlsberg for $768m
- Heineken buys an effective 50% of Israeli Beer company for $18m
- Brahma and Antartica plan to merge in a deal valued at about $4bn
- US's fourth largest brewer, Stroh, sells brands and production facilities to Miller and Pabst Brewing, in a deal estimated at between $400m and $500m
- Foster's sells two Chinese breweries for an undisclosed amount
- Carlsberg buys 95% of Lithuanian brewer, AB Svyturys for about $50m
- Carlsberg buys 15% 20% of South Korea's Hite Brewery for $50m
- Interbrew and Sun Brewing merged their Russian operations in a deal worth more than $140m

Total value of deals +$6bn

might be the easy part The imported segment of the US beer market is highly competitive with more than 450 imported brands competing for a share of throat



The daily price plotting of SA Breweries shows that it is about to enter its year-long zone of resistance.

This segment is the fastest-growing sector in the US's beer market, it grew 15% last year, compared with overall market growth of 1,4% The number one imported brand in the US is Mexican brewer Grupo Modelo's Corona Extra, which toppled Heineken in 1997 as the US's top selling imported beer. Heineken which has about 2% of the US beer market, had held the title since 1933

Heineken has doubled its marketing expenditure this year to $42m It seems this is working, Heineken sales in the first half of 1999 rose 15%

Elsewhere in the world the consolidation in the beer industry is expected to continue apace, particularly in Europe as the increasing integration of the EU will lead to a single European beer market Canadean's Baker says international brewers will continue to restructure the fragmented beer industries of eastern Europe

He adds that recently the beer industry has seen the formation of strong regional brewing groups such as last year's Kirin/Lion Nathan tie-up, Russia's Baltic Beverages Holdings and the proposed merger of Brahma and Antartica

The most active players in the consolidation process have been Belgian brewer Interbrew, Heineken and SAB

Heineken expects the consolidation process to continue as brewers without strong brands or a niche position come under pressure

"A number of companies are withdrawing from certain markets or even from the beer industry altogether" says the Dutch brewer in its 1998 annual report

A case in point is Diageo, the food and drinks group that brews Guinness stout This year, Diageo sold its 88,2% stake in Spanish brewer Cruzcampo to Heineken Diageo is refocusing its financial resources on Guinness, accounting for 70% of its beer division's operating profits and 40% of volume sales

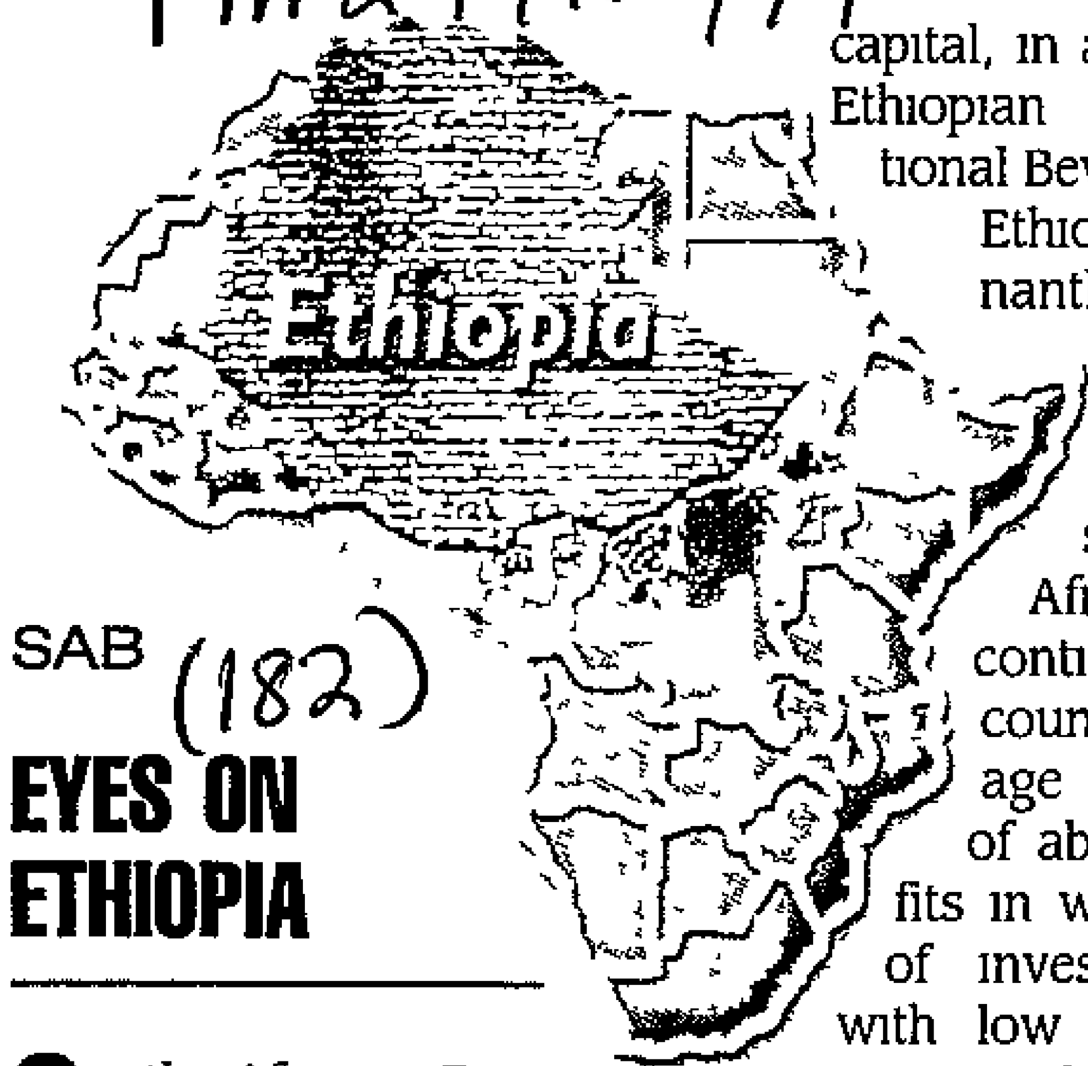
Even the US, which underwent consolidation in the Eighties, has not been spared this time around Intense competition, including a price war among major brewers, is squeezing regional players out of the market This year debt ridden regional brewer Stroh sold its brands and production facilities to Pabst Brewing and Miller Brewing, a wholly owned subsidiary of tobacco and food group Philip Morris

Small and weak brewers will be squeezed further as the major groups seek to quench their thirst for an even bigger share Anheuser-Busch wants to increase its 46% share of the US market to 60% Given the market's low growth rates, Anheuser-Busch will have to steal market share from competitors to achieve its goal

That is likely to drive weaker players out of the market But it may create opportunities for global brewing groups such as SAB, requiring distribution networks, to get a foothold into the US market

Jabulani Sikhakhane

fm 29/10/99



SAB (182)

EYES ON ETHIOPIA

South African Breweries International (Africa) is reviewing its strategy for entry into Ethiopia's 1m hl/year beer market

This follows the Ethiopian government's decision earlier this month to sell a minimum 51% stake in each of its three brewing companies, which have a combined annual brewing capacity of more than 800 000 hl

SABI, a subsidiary of London-based brewing group South African Breweries Plc, previously announced plans to build a 500 000 hl brewery near Addis Ababa, the country's capital, in a joint venture with Ethiopian partners, International Beverage Corporation

Ethiopia, a predominantly agricultural economy of 61m people and with the largest livestock population in Africa, is one of the continent's poorest countries with an average per capita income of about US$100 But it fits in with SABI's strategy of investing in countries with low beer consumption rates — Ethiopia's per capita is about 1,6*l* — but with potential for growth

The World Bank projects that Ethiopia, which went into war over a border dispute with Eritrea earlier this year, will achieve economic growth rates of 6,4%/year between 1999 and 2003

SAB International (Africa) MD Andre Parker says an SABI team will visit Ethiopia in November to look at the prospects for the three brewing companies, Harar, Bodele and Meta Abo

The review of SABI's entry strategy into Ethiopia will include an evaluation of whether it will make more economic sense for SABI to buy into one of the three brewing companies or continue with plans to build a new brewery

In expanding across the rest of Africa since the early Nineties, SABI has successfully pursued a strategy of buying into existing breweries, upgrading their facilities and improving the image of their brands The only exception was Kenya, where the absence of acquisition opportunities forced SABI to build a new brewery in Thika, outside Nairobi, the Kenyan capital

Of the three breweries being sold, Meta Abo located in Sabata, 27 km from Addis Ababa, is the biggest, with 34,4% of the market Harar, is the only Ethiopian brewer to export beer, mainly to the US, Canada and the Netherlands

Jabulani Sikhakhane

Sales outside SA overtake local market

SAB's tipple goes down well abroad

ET (BR) 25/11/99 (182)

ANN CROTTY

Johannesburg – For the first time in its history, South African Breweries (SAB) has sold more beer outside the country than inside it during a reporting period

In the six months to the end of September, SAB sold 30,3 million hectalitres of beer elsewhere in Africa, Central and Eastern Europe and China compared with 25,6 million hectalitres sold in South Africa Acquisitions and good organic growth outside South Africa were in sharp contrast to unchanged beer volumes within the country

During the first quarter of the review period local beer volumes slumped 4 percent, stronger than expected volumes in the second quarter enabled the local operation to announce unchanged volumes for the six months

South Africa continues to dominate the group's profit performance accounting for 70 percent of the total The dominance at profit level is attributable to the higher margins on local beer sales as well as the inclusion of substantial non-beer interests in South Africa such as hotels, gambling and beverages

In the six months' period, the group reported a 10 percent increase in turnover to R18,1 billion from R16,5 billion, and a 12 percent improvement in operating profit to R2,2 billion from R2 billion

Earnings per share were lifted 10,5 percent to 147,9c from 133,8c and a dividend of 40c a share has been declared Shares in issue increased by 6 percent

Much of these increases reflect the comparative weakness in the rand The group now reports in US dollars which showed little change on the previous interim's performance

In dollar terms, turnover was virtually unchanged, operating profit was up a marginal 3 percent and earnings a share were up 2 percent

The interim results did not include any impact from a number of significant transactions announced recently The final disposal of PGSI, a $629 million stake in a Czech brewer and the $640 million Bevcon share buyback will only be effective in the second half of the year

At the end of September the group had debt of $102 million with cash in the core businesses of $198 million countered by PGSI debt of $300 million

Executive director Malcolm Wyman said transactions during the second half would result in gearing of around 20 percent

SAB slumped 190c, or 3,2 percent, to R56,50 yesterday.