MANUFACTURING – PAPER + PRODUCTS

1986

a spokesman said. able future.

Call to use powdered type in protest

Public is urged: Don't buy fresh milk for a week

BUSDAY 10/1/86

GERALD REILLY

THE National Consumer Council has called on consumers not to buy fresh milk for a week in protest at the latest price increase.

Chairman Betty Hirzel urged consumers yesterday to use powdered milk instead of fresh milk and said the move, if successful, would force distributors to reconsider the 6c/l increase.

"Powdered milk is an excellent substitute for fresh milk because it contains the protein which is the most essential constituent of milk," Hirzel said. "There is an enormous surplus of powdered milk and it is considerably cheaper than fresh milk."

Powdered milk manufacturers have promised to reduce prices by 65c a kg. Meanwhile Consumer Council director Jan Cronje has accused the distributors of price-fixing.

Cronje said he was "amazed that a simultaneous price hike was announced by milk distributors.

"It is ironic that against a background of a big milk surplus, distributors fix the same price rise."

He said although the Milk Board accepted new distributors who met certain requirements, it was "obvious there were too few distributors to make free enterprise work".

He asked whether the nature of these requirements was making acceptance to the milk distributive trade difficult, or whether established distributors had closed ranks to keep newcomers out.

The council said it supported the view of Agriculture Minister Greyling Wentzel that supply and demand should regulate prices. Cronje said spiralling prices were forcing consumers to use consumer resistence to combat inflation.

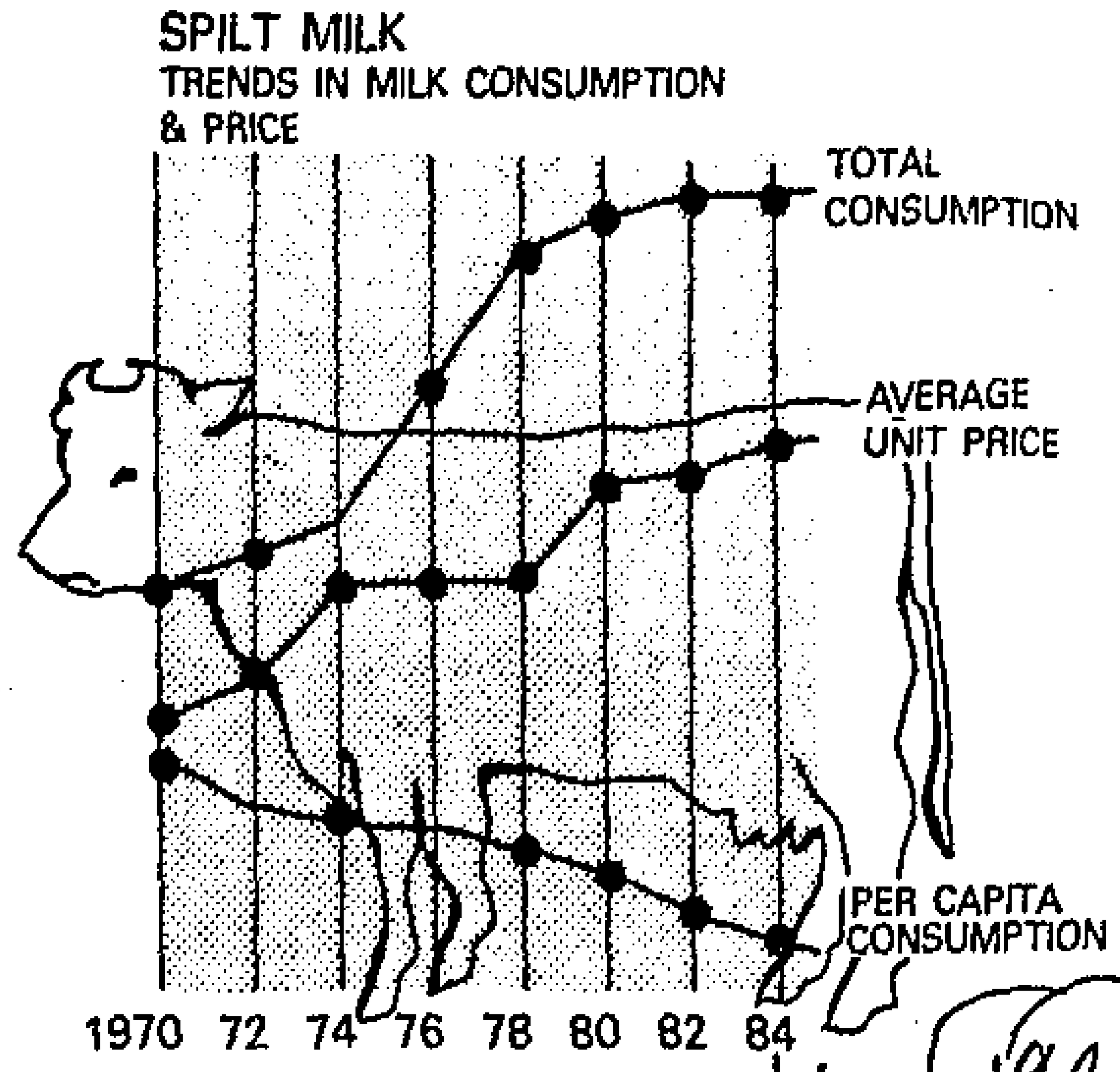
ALAN PEAT reports that fresh milk consumption has declined in recent years as consumer prices have risen.

Since milk price controls ended in July 1983, the consumer price has risen by about 30%. Experts say milk consumption is directly related to price, despite other factors such as health.

A member of the milk industry said: "The health stigmas have proved to be only temporary aberrations. Price is the influencing factor. This is particularly true among blacks, whose allowable income for such products is low."

At the turn of the century, the producer price of milk was 4,4c/l. This rose slowly until 1963, when the price broached the 6c/l level. Since then, the producer price has risen by more than 510% and the per capita consumption has fallen by over 40%.

In the same period, the total consumption of milk in its many forms has risen less than 7%.



BUSDAY 10/1/86 194

Local packaging could limit rises

ALAN PEAT

SAPPI and Mondi are competing to produce a locally-manufactured paper board suitable for milk cartons.

A successful product could reduce future increases in the retail price of milk.

The increased cost of imported packaging was given as a major cause of the latest price increase.

Both Sappi and Mondi said yesterday they were testing local production equipment and had made "encouraging" progress towards producing the complicated board used for milk cartons.

Executives of both companies said the reason for non-availability of the board until now was lack of necessary high-tech plant facilities. Major capital expansion by both companies last year had made these facilities available.

Sappi hoped to have the board commercially available by the middle of this year and Mondi before the end of the year.

Metal Box Liquid Packaging and Tetra Pak, two major producers of milk cartons, both welcomed the prospect of local raw materials.

A Dairy Board spokesman said: "We hope distributors will be able to keep the price of milk down for longer with local packaging material."

Alternative suppliers sought as . . .

Paper dealers reduce imports

Bus Day 13/1/86 (94)

CHERILYN IRETON

THREATENED sanctions by Scandinavian countries could upset the South African paper market, forcing local merchants to look for alternative suppliers.

Union and shipping bans have already forced paper importers to buy through third parties. Those countries still selling paper to SA are refusing to handle new business and are dealing only with long-standing clients.

Almost a quarter of SA's printing-paper requirements, about 75 000 tons, originate from Scandinavia.

With moves by the Danish and Norwegian governments to end all ties with SA, and Finland refusing to deal with the country until there are fundamental changes, merchants are weighing up their alternatives.

"The rand is so useless that merchants have been forced to reduce imports and bring in only lines with no local substitute," said one disillusioned merchant.

SA mills can cater for the bread-and-butter lines, but local markets for others are too limited to warrant local production.

To bypass the problem, merchants have warned that users will either have to downgrade in quality or make use of third-party suppliers — at added expense.

Downgrading and greater use of waste materials are already common practice on the local scene but are viable only for areas with export potential or grades in great demand.

Merchants who sailed through last year's near-total ban by the Scandinavian unions are confident they will survive official sanctions by making use of intermediaries.

Mondi wants more forests

BUS DAY 13/1/86

(167) (194)

Industrial Staff

MONDI PAPER wants to launch a joint venture with KwaZulu, involving afforestation of large areas for future supplies to Mondi's Richards Bay mill.

MD Reg Donner has made a formal proposal on the venture to KwaZulu Chief Minister Mangosuthu Buthelezi.

He said availability of wood for the R850m pulp and linerboard mill was the most important consideration.

At full production, the mill consumed up to 6 000-tons of raw timber a day.

The costs of transporting wood to the mill were escalating and an alternative supply closer to the mill was needed, said Donner.

Timber comes from Mondi forests in Sabi in the Eastern Transvaal, from holdings around the mill and through agreements with suppliers in the KwaZulu area.

Donner said research had shown vast areas around the Richards Bay mill were suitable for afforestation.

The operation could provide jobs for thousands of people.

Mondi had already laid out the infrastructure to double the present output of pulp and to add up to six paper machines to the complex, he said.

28/1/86

Sappi beefs up its export drive

Bus DAY

194

Industrial Staff

SAPPI has exported the largest single export consignment of SA paper to Italy.

More than 10 000 tons of Sappi Kraft linerboard was shipped from Durban to La Spezia as part of Sappi's growing drive to export products from its new R1bn Ngodwana mill.

According to Sappi Kraft consultant Michael Millard: "Up to six months ago, we didn't have shipments like this. The consignment is part of the company's drive all over the world for products from Ngodwana."

A vessel had to be chartered to handle the consignment. Millard says this is because there is not enough suitable shipping available to handle this type of cargo.

"Business to the Mediterranean is booming, but our products are not suited to containerisation. Until now, we have had to use small operators into the Mediterranean and we feel there is a need for a reliable break-bulk service to the area."

Sappi out to double exports in '86

BUS DAY 30/1/86 (194)

CHERILYN IRETON

SAPPI'S new international division is taking on the overseas paper markets with an aggressive drive intended to double the company's exports in 1986.

After a modest entry to the international commodity markets during 1984, Sappi last year increased its paper and particle board exports by 100%.

Now, fired up by the extra capacity available from the R1bn Ngodwana mill, Sappi is planning to repeat last year's feat by doubling the tonnage of exports.

Leading the export drive is Ian Forbes, former chief of Sappi Timber Industries, who has been appointed as division MD.

FORBES

He says the outlook for exports is positive. Ngodwana is operating at budgeted levels and the company's other mills are running at full capacity, even though local demand is down.

Forbes says Sappi is not entering the export market for short-term benefits. It sees itself as a long-term exporter and will try to entrench itself as an international supplier.

World paper prices are strengthening and demand is not expected to fall dramatically in the near future. However, politically-inspired boycotts and sanctions could threaten Sappi's duration on international markets.

Paper mill workers hold sleep-in strike

13/2/86
STAR
194

Management and union officials at the at the Carlton Paper Mills in Wadeville, where 130 workers are staging a sleep-in strike, reached agreement yesterday on lower-scale wages but are still deadlocked on other issues.

Workers spent another night sleeping at the Wadeville premises.

"Management agreed to 60c an hour on the lower scale," the shopstewards' secretary of the Paper, Wood and Allied Workers Union, Mr Eddie Phofa, said last night.

The personnel manager for Carlton, Mr Brian Heymans, yesterday confirmed that about 130 workers went on strike at 1 pm on Tuesday.

Mr Phofa said the workers were also demanding a holiday bonus and that May 1 and June 16 be recognised as paid holidays.

The vacation bonus demanded was to be equal to three weeks' pay, or else six percent of annual earnings, he said.

Nampak workers in wage-rise demand

CAPE TIMES 14/7/86

Staff Reporter

WHILE about 300 guests, management and senior staff of Nampak Paper in Bellville yesterday toasted the purchase of a R33-million PM4 tissue paper milling machine, angry workers gathered outside the gates and demanded that their wages be increased by 50c an hour.

The Paper, Wood and Allied Workers' Union has declared a dispute with the company which will be heard on Tuesday by the conciliation board for the paper industry.

Management has offered worl·ers an effective 34c an hour increase. But workers have demanded 50c, saying the increase will not boost salaries to a living wage.

A union representative outside the gates asked: "How much money are they spending on this party but they can't give us 50 cents an hour? They can afford to buy a lot of cars for management, but they say they can't afford to increase our wages."

Nampak officials could not be reached for comment yesterday.

● **Nampak instals R33m tissue-wadding machine, page 22**

Nampak installs R33m tissue wadding plant

CAPE TIMES 14/2/86 (194)

By AUDREY D'ANGELO

NAMPAK has more than doubled the manufacturing capacity of its tissue paper factory at Bellville South by installing new machinery at a cost of R33m, the executive chairman of parent company Barlow Rand, Mr A M Rosholt, said yesterday.

At the formal commissioning of the new tissue wadding machine Mr Rosholt said that it would "eliminate the necessity for importing tissue in the near future and will contribute to the saving of very valuable foreign currency".

It was also hoped to earn foreign currency through exports.

"In line with Nampak company policy on import replacement, the mill is designed to utilize locally available raw materials and Nampak Paper plans to export part of its tissue output to overseas markets."

Raw materials used included waste paper collected by Nampak from supermarkets, stores and industrial sites.

Waste paper

"Research indicates that if this waste paper was not collected by Nampak and other companies, the forests of this country would be additionally denuded to provide the total paper manufacturing industry with an extra 400 000 tons of pulp a year."

Mr Rosholt said the imported content of the new plant had been limited to R18m and the number of people employed at the mill had been increased by 20 percent.

All the new staff members had been recruited in this country and machine operators had been sent overseas for specialized training.

Local companies involved in the installation of new plant at the mill included Consani, Concor, C I W, Frankipile, Joffe, John Thompson, Reyrolle Parsons and Power Engineers.

Cape Times 19/2/86

Industrial disputes in City

152 194 157 158

Staff Reporter

EMPLOYEES at two Cape Town factories were yesterday involved in industrial action, while action is being contemplated at a third following a threat to retrench 60 food processing workers.

● At Nampak Paper in Bellville South, 150 members of the Congress of South African Trade Unions-affiliated Paper, Wood and Allied Workers' Union downed tools yesterday morning in support of a demand for a 50c-an-hour wage increase. Management has offered an effective 34c an hour.

Nampak's deputy general manager, Mr N Willis, described the downing of tools as an "illegal strike".

● At Plascon-Evans Paints in Epping 2, about 200 employees today enter the 12th day of their legal strike over across-the-board wage increases.

Negotiations between the union and management are continuing.

A management threat to fire all the strikers on Monday has now been withdrawn pending further negotiations, and the union has lifted solidarity strikes at four other Plascon factories in the Cape and Transvaal.

● At Snoek Wholesalers in Lansdowne, the Cosatu-affiliated Retail and Allied Workers' Union is attempting to negotiate the threatened retrenchment of 60 workers next week, and an attempt to achieve management recognition of the union.

Workers have been told, however, they were being retrenched because there is "no snoek to pack".

However, the factory manager of Snoek Wholesalers, Mr Manuel Sardo, yesterday said: "I don't know what you are talking about. I know nothing about any union. There is always snoek throughout the year because we work with frozen fish, and we are not retrenching any workers."

BUSDAY 21/2/86 (194)

Sappi profit a surprise

BRIAN ZLOTNICK

SAPPI has exceeded analysts' most optimistic expectations by reporting earnings a share of 31c for the year to December, after posting an interim loss of 63,5c a share.

The dramatic reversal in the fortunes of the Gencor-controlled paper and pulp manufacturer should please the market.

No dividend (86c in 1984) has been declared for ordinary shareholders. Preferred ordinary shareholders — the result of last years' R200m rights issue — are receiving a final of 57c.

The return to profitability was aided by improved production at the Ngodwana plant, higher export sales, stronger local demand in the last quarter, the weak rand and harder dollar, which also lifted profit margins.

Turnover, excluding Carlcor — the equity stake sold last year for R40,9m — jumped 39% to R707,4m from R509,6m. With profit margins up, operating income before interest was sharply higher at R137,1m (R98,1m).

Ngodwana earned its first operating profit in October and ran at 80% of capacity in December, says CE Eugene van As.

The mill is set to reach full capacity in 1987. Set to run on average at about 90% this year, profits, in principle, should bound ahead in the next two financial years.

Now that the mill is running at a sufficiently high capacity to absorb overhead fixed costs, any increase in capacity (greater volume throughput) and efficiency flow almost directly through to the bottom line.

Last year the group exported about 20% of its production and the export component should rise to 25% this year, says Van As.

The rand remains critical to future profitability. Interest costs on external debt have been falling with the rand's climb, but price competitiveness of exports is hurt.

Van As says Sappi would do better out of a weaker rand, but points out that dollar prices have been moving ahead, while the dollar has slumped against other major currencies.

"At an exchange rate of $0,50, we are comfortably placed," he says.

Net finance costs, which rocketed to R96,7m from R55,8m, are a problem. Gearing has moved down to 125% from a high of 160% since the rights issue and sale of the Carlcor investment.

Only when gearing has improved further and profitability has recovered will the directors consider paying a dividend to ordinary shareholders.

To argue that Sappi is out of the woods and soon will resume paying dividends may be over-optimistic.

Imponderables — besides general economic conditions locally and abroad — such as sharp movements in the rand, plant breakdowns and efficiency problems can wreak havoc with the best-laid profit forecasts for this year and next.

Exports could also be threatened by foreign political action.

However, Van As says paper has a much lower profile than coal and the group supplies a fairly wide spread of companies.

Last November the share hit a low of 540c, after an all-time high of 1 850c in 1984. But in recent months it has bounced back to close yesterday at 840c.

Firm, union agree on wages

CNE Trib 22/2/86

Staff Reporter

THE management of Nampak Paper Ltd in Bellville and the Paper, Wood and Allied Workers' Union yesterday reached agreement on a wage settlement which has been in dispute since December last year.

In a statement yesterday, the deputy general manager of Nampak, Mr N R Willis, said that "following the third meeting of the conciliation board held today, an agreement was reached between the company and the Paper, Wood and Allied Workers' Union.

'Minimum'

"The minimum wage rate will be adjusted to R2.52 per hour with effect from February 9 with a further adjustment to R2.64 effective on July 1.

"Individual increases range from 38 cents per hour on the lowest wage grade to 51 cents per hour on the top grade."

The compromise — the union was asking for an across-the-board settlement of 50c an hour, and management was originally offering an effective 34c an hour — came after two months of industrial dispute at the factory.

The figure of R2,64 for the minimum wage rate agreed on yesterday is 4 cents an hour lower than the figure originally demanded by the workers.

SAPPI FIN MAIL 28/2/86 · 194

Verdant second half

Sappi has again reported surprising results, this time favourable. The 94,5c a share turnabout in the second half enabled the group to finish the year in profit and, contrary to market expectation, pay the 57c dividend on the preferred ords.

With hindsight, it seems the market underestimated the benefit to earnings in the second half from Ngodwana while finance charges were remarkably low, with the cost of borrowings for the year amounting to only 8,5%. Local and export trading also picked up in the second half, despite management's gloomy comment at the interim on prospects in both markets. Operating margins improved sharply from 14,6% in the first half to 20,3%. A R27,1m profit on the sale of Sappi's 39% stake in Carlton Paper helped greatly.

The improvement is most welcome, yet it is a trifle disconcerting that the results should show such variance from market forecasts. Financial matters apart, a key issue is the level of production and sales at Ngodwana. A boiler explosion-free second half saw Ngodwana's output build up to 80% of capacity. Production will continue to grow this year, and chief executive Eugene van As is confident that demand will prove enough to meet supply.

The South African market accounts for 75% of sales and Van As is hopeful that it will recover strongly in 1986 off last year's low base. Volume demand in 1985 in lumber and particle board fell by some 30%; demand for most other paper products by about 10%. Van As thinks that 3% growth in gdp this year and the start of inventory restocking could reflect paper industry growth much faster than gdp.

As for export volumes, a US50c rand should continue to keep SA's exports competitive, but Van As won't say at what level exports will reach breakeven. However, he notes that dollar prices of coated paper, linerboard and pulp have risen in the last six months and he believes linerboard prices will rise further.

Possibly, Sappi still has considerable fat on its export margins. Van As notes that Sappi is largely unaffected by the rising rand (so long as export volumes hold) because export income is hedged to foreign loan repayments. A drop in foreign income reduces the size of debt to be repaid.

Group debt remains the other crucial problem. Debt fell by R240m to R1,19 billion in 1985 as a result of the R200m rights issue, the proceeds from Carlton Paper, and group cash flow turning positive in the second half. Falling interest rates helped reduce finance costs further, but the worry is that rising rates in the second half of 1986 could hamper the recovery in group profits. Van As, however, expects "material reductions" in group debt this financial year, but won't specify figures.

He does caution that first-half profit this year could fall below the second half of 1985, as the trading recovery remains uncertain and the full depreciation and operating costs of Ngodwana will be charged against income. (Part of these costs was capitalised in previous years.) Analysts, however, are looking to 130c-150c earnings in 1986 and possibly a 50c dividend on the ords.

SAPPI STRENGTHENS

Year to Dec 31:	1984	1985
Turnover (Rm)	658	792
Operating profit (Rm)	98,1	137,2
Net finance costs (Rm)	55,8	96,7
Pre-tax profit (Rm)	100,3	60,1
Attributable profit (Rm)	41,8	45,0
Earnings (c)	197	31
Dividends (c)	86	—

This prognosis is grist to the share price mill, but earnings were erratic in 1985 and the risk is large in terms of trading conditions, debt and the need for a high volume of production. The ords and preferred ords look worth buying, but investors should take a two-year view or longer and be ready to sell on any setback.

Christopher Marchand

Seven years continues growth

Waltons lifts earnings 25,8%

Cape Times 7/5/86

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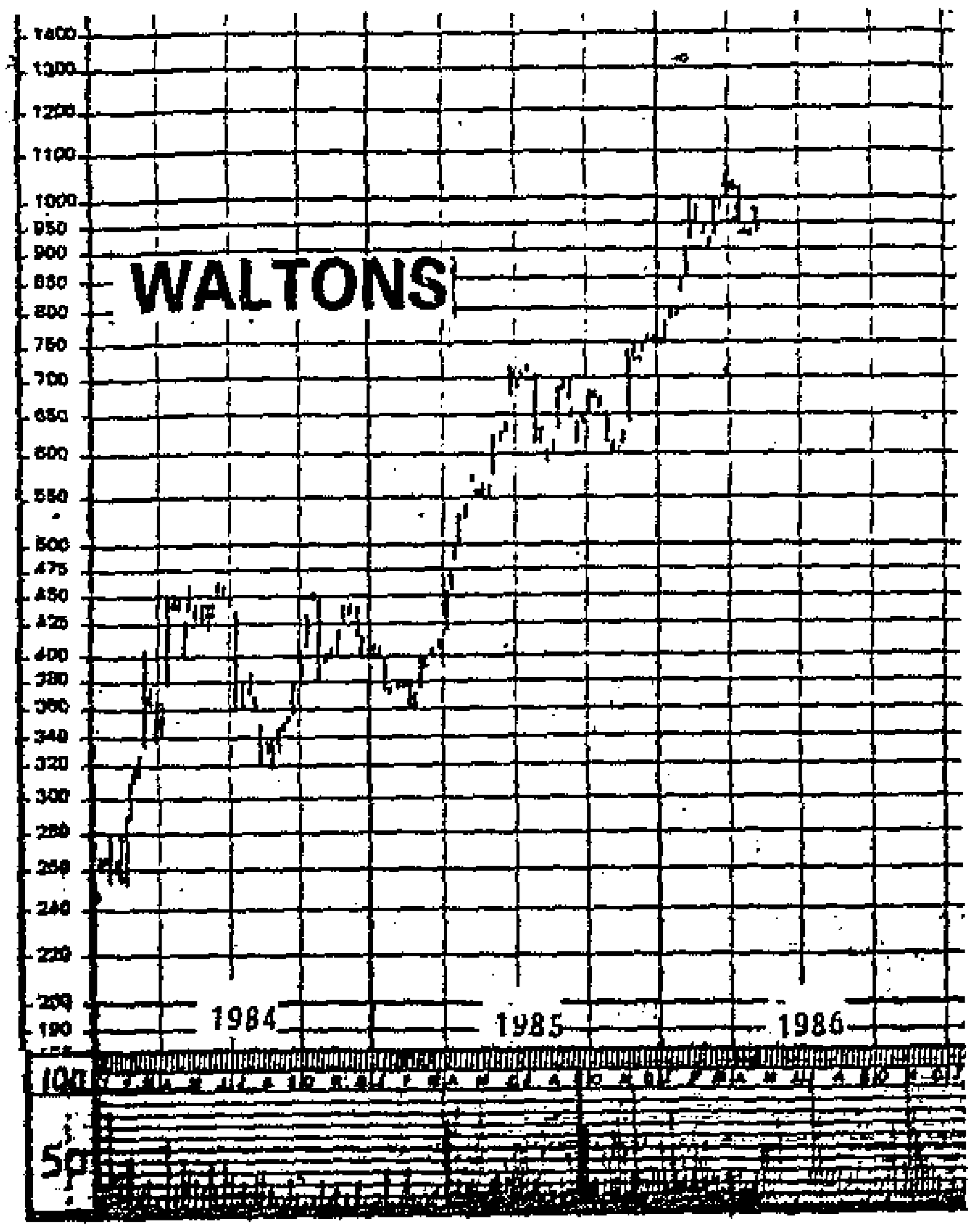
By GORDON KLING
Financial Editor



WALTONS STATIONARY has perpetuated a seven-year growth record with substantially improved results for the year ended February.

MD Frank Robarts attributes this year's 25,8% rise in earnings per share (eps) to tight asset controls in the face of difficult sales.

Net income attributable to shareholders is R7,4m (R6,7m) after tax of R9,6m (R6,4) and goodwill written off of R1,6m relating to the acquisition in the financial year of Dymo labeling systems and Meto price marking.

In addition to normal consolidaton practise, it was also decided to consolidate companies where Waltons has a 50% stake giving effective control, and the previous year's figures have been adjusted to allow for a comparative evaluation.

Dividend

A 3c increase in the final dividend to 17c takes the total payout for the year to 24c (20c) covered 3 times (2,9).

Turnover was up strongly at R144,3m (R122,0m) in spite of a difficult sales period.

After tax income attributable to ordinary shareholders in the holding company, Walhold, is R1,53m (R1,25m).

The dividend has been increased 20% to 48c with the declaration of a 34c final (28,2c).

Compounded growth over the past seven years remains impressive at 38% a year for net income, and 33,6% in eps, surpassing a 27% annual rise in turnover.

The payout has been conservative, however, with dividends working out to a compounded 25% a year over the period.

Robarts doesn't agree that the share is recession proof, rather price inflation, a bit of stock profit, and the elimination of glitches at the group's 60 branches helped a fair performance do better.

Waltons itself was the main profit centre but the Redgwood toy concern and Silveray stationary also did well.

Robarts says the Australian stationary operation has expanded to two branches and is progressing fairly well, although the SA connection makes for difficulties at the ports and obtaining funds from banks that don't want to accept SA guarantees.

ARGUS 9/5/86 (94)

COMPANIES

Ngodwana project the key to Sappi's future

From MICHAEL MENOF

JOHANNESBURG. — Sappi's Ngodwana project was finally completed in March 1985 at a cost of nearly R1,6 billion, but according to the latest annual report, only in the final quarter of the year were the teething problems largely resolved.

This costly and ambitious project is the key to Sappi's future.

Its viability is heavily dependent on the country's political stability and economic revival. However, its cost has been detrimental to the group.

Another worrying aspect is that while turnover has nearly doubled during the past five years from R403 million in 1981 to R792 million in 1985 attributable income, ignoring extraordinary profit, has declined alarmingly from R49,9 million to R17,9 million.

Stated long-term objectives are a 15 percent return on average shareholders funds within three years which will hopefully increase to 20 percent by 1989.

The 6,3 percent return on total assets in 1985 is expected to rise to 10 percent in 1987 and 20 percent in 1990. The long-term debt to equity ratio should be 1 to 1 excluding large projects while a dividend cover of 2,5 times on average is planned. This is indeed a tall order and an awesome challenge to management.

Net operating income was 40 percent up at R141,9 million (R101,2 million). However, heavy finance costs charged against income of R96,7 million (R58,2 million) resulted in attributable income falling to R17,9 million (R41,8 million).

Borrowings represent the most significant item in the balance sheet. During 1985 long term and current interest bearing debt net of cash in bank increased to R1 122 million (R1 004 million).

Should interest rates rise again, profitability must be affected. Heavy depreciation and operating costs at Ngodwana will be charged against income.

In spite of cautionary remarks, the chairman, Mr Basil Landau and his board believe that with the major Ngodwana project complete and production levels rising, 1986 profits should be satisfactory.

405 - WOODWORKING INDUSTRY, REPUBLIC OF SOUTH AFRICA.

Superceding w.d. no: 293

AREA A: Alberton, Bellville, Benoni, Boksburg, Brakpan, Delmas, Durban, Germiston, Goodwood, Inanda, Johannesburg, Kempton Park, Krugersdorp, Nigel, Pinetown, Pretoria, Randburg, Randfontein, Roodepoort, Springs, Simon's Town, The Cape, Vanderbijlpark, reeniging, Wonderboom and Wynberg, and the municipal area of Port Elizabeth;

AREA B: Kuils River, Oberholzer, Paarl, Sasolburg, Somerset West, Stellenbosch, Strand and Port Elizabeth excluding the municipal area of Port Elizabeth;

AREA C: Bloemfontein, Kimberley, Klerksdorp, Odendaalsrus, Uitenhage, Virginia, Welkom, Wellington, Westonaria, and Worcester, and the municipal areas of East London, Pietermaritzburg, Potchefstroom and Witbank;

AREA D: Caledon, George, Hankey, Heidelberg(Cape) Humansdorp, Knysna, Mossel Bay, E ... the municipal area of Kroonstad and the ... don, excluding the municipal area of ...

AREA E: All other ar ... itions of Area A, Area B, Area C and ... erial District of Malmais B

STAR 10/5/86. (194)

Costly Ngodwana project is key to Sappi's future health

Sappi's Ngodwana project was finally completed in March 1985 at a cost of nearly R1,6 billion, but according to the latest annual report, only in the final quarter of the year were the teething problems largely resolved.

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Net operating income was 40 percent up at R141,9 million (R101,2 million). However, heavy finance costs charged against income of R96,7 million (R58,2 million) resulted in attributable income falling to R17,9 million (R41,8 million).

The sale of the group's 39 percent in Carlton paper for R40,9 million resulted in an extraordinary gain of R27,1 million which gave the income statement a measure of respectability and pushed the distributable income to R45 million (R41,8 million), although earnings a share based on attributable income fell to a dismal 31c (197c).

Michael Menof on the company beat

While the past year's domestic market for pulp and paper products remain depressed, the low value of the rand and an energetic export drive saw exports soar 171 percent to R173 million, about 20 percent of turnover. At present Sappi exports to four continents.

An explosion at the Tugela Mill took one furnace out of operation for six months severely affective production. More than 60 percent of the mill pulp had to be brought in from Ngodwana and other sources. This delayed the entry of Ngodwana into the international pulp market.

ACCOUNTING POLICIES

Freak weather conditions resulted in one of the worst fires ever in the Eastern Transvaal forests aggravating the shortage of hardwoods caused by the drought.

In terms of the company's accounting policies, the capitalisation of finance costs relating to loans and preference shares used to finance Ngodwana ceased on commissioning the plant in March 1985. Although for the rest of the year most of the plant was still in a start-up phase the full finance costs have been taken into the income statement.

Total gross finance costs including all dividends on preference shares amounted to R137,1 million compared to R84,1 million in 1984, a mammoth increase of 63 percent.

Borrowings represent the most significant item in the balance sheet. During 1985 long term and current interest bearing debt net of cash in bank increased to R1 122 million (R1 004 million). A significant amount of capital expenditure was on plant — R825 million during the year.

This was primarily financed from the R201 million rights issue of preferred ordinary shares, the R40,9 million from the sale of Carlton Paper Investment to Gencor and from the R425,7 million reduction of unlisted investments.

At end December 1985 the balance sheet debt to equity ratio was high at 1,4:1 but within the covenants agreed to with the company's bankers. However in order to comply, a R75 million loan from the holding company Gencor has been subordinated.

The working capital position, while improving in 1985, is still far from satisfactory. Current liabilities still exceeded current assets by R1,6 million (R73 million deficit). The ratio of current assets to current liabilities is just less than 1 (0,75 to 1) while acid test ratio of current assets less stocks to current liabilities is 0,68 to 1, much improved on the 0,38 to 1 in 1984.

With hefty R541 million tax losses available for future set-off against profits, about R270 million in tax cash flow will be saved.

But what of the prospects for 1986, Sappi's 50th year? Interest is a crucial factor. Should rates rise again, profitability must be affected. Heavy depreciation and operating costs at Ngodwana will be charged against income, whereas in the past, certain of these costs were capitalised.

FIN MAIL 16/5/86.

MONEY MARKET

No strong views 194

The softening of rates of the past ~~few weeks~~ was reversed on Friday as extra supplies of paper flooded the market, pushing rates up. Dealers report that, in quiet trade, there is an even balance of supply and demand. "Paper can be moved and bought relatively easily," says one. The market holds no strong views and current levels indicate it is not discounting further rediscount rate cuts.

The three-month bankers' acceptance rate, fixed at 11% last Tuesday, rose 25 points on Friday as the market was flooded with too many bills at the low rates. "It was viewed as a good selling opportunity." On Tuesday the rate eased slightly by five points to 11,2% as demand picked up at the higher rates. Call rates are trading around 10,75%, similar to a week ago.

The average rate at the weekly Treasury bill (TB) tender rose 14 points to 10,99% — R112m was bid for the R100m on offer. In line with the TB, Monday's Land Bank tender edged up to 11,18% from the previous 11,05%. It was more than three times over-subscribed, attracting R165m for the allotted R50m. This over-subscription, one dealer notes, does not reflect bullish sentiment, but rather the demand for paper at the higher levels.

The Land Bank's offer of R100m 12,5% 1987 debentures attracted R192m at an average 14,2%. The paper does not qualify as a liquid asset.

Negotiable certificates of deposits (NCDs) are at the same levels seen last Tuesday. One-month NCDs are 11,95%, two-month NCDs 11,85%, three-month NCDs 11,8% and 12-month NCDs 12,5%.

The market shortage has been in the R1 billion to R1,2 billion range all week. Corporation for Public Deposits deposits with discount houses remain at R600m. ■

16/5/86 Bus Day

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Nampak earnings go up 7%

PRISCILLA WHYTE

NAMPAK'S half-year results to March are better than the static earnings forecast in the last annual report.

Attributable earnings increased 7% to R31,3m in the first-half. This is equivalent to 76c (71c) a share. The interim dividend has been raised by 1c to 33c a share.

MD Don McCarten expects a modest increase in second-half earnings provided the present level of demand continues. The final dividend could improve by at least 3c a share.

McCarten said the corrugated board market was yielding a 6% profit margin. Last year this sector was in the red.

In April Bailes, a Natal based paper sack manufacturer, was bought for R10,4m by the issue of 580 000 Nampak shares priced at 1 800c each.

Nampak Products put in a sound first-half performance in comparison with Metal Box in which the group has a 54% stake. Higher volumes and a bigger order book boosted Products' margins, operating profits (by 29%) and turnover (22%).

Metal Box reported a 10% fall in operating profit on a 13% rise in turnover but this only meant a drop of R400 000 in Nampak's attributable profits.

Nampak's group turnover advanced 17% to R837,2m. Operating profit margins were virtually maintained at 10,2% on operating profit of R85,6m (R76,1m).

Nampak Products capital investment incentives were phased out, resulting in the group's tax rate increasing to 41% (36%).

Nampak shares closed at 1 850c last night up 90c on the previous day.

BUSDAY 4/6/86

(174)

Waltons flourishes

MERVYN HARRIS

ANALYSTS have little doubt that Waltons, SA's largest commercial stationer, will achieve its forecast of an increase in earnings in the current financial year.

Chairman Maurice Parrington's confident statement in the company's annual report is reflected in the fact that he does not qualify his forecast by making the now common proviso about the country's political and economic problems.

Waltons shrugged off the recession to produce record profits and earnings for shareholders in the year to February. The results reinforced its position as one of the JSE's top performers.

Earnings have risen from 27,69c a share in 1982 to 73,27c last year, with increases averaging about 25% a year. The debt equity ratio was lowered from 60,8% to 57% at the end of the last financial year, a highly satisfactory level considering that it now includes about R6m in respect of the strategic purchase of its main factory premises in Natal some years ago.

A feature of the latest annual report is the decision to enhance disclosure of the extent of the group by consolidating companies where Waltons holds 50% of the equity and has the power to control the financial and operating policies.

Parrington notes that though this has no effect on earnings and dividends, the new policy will provide more meaningful information to shareholders, particularly as attributable earnings from these companies is now becoming material to the overall group's results.

Better communication with shareholders is part of a broad management strategy which lies behind the group's impressive track record.

Improved efficiency levels achieved by the group "is definitely not a matter of pushing buttons", says Transvaal financial director Mark Davis.

"Our stringent cost controls made sure that we were not caught out by foreign exchange losses. We have built up a dynamic management team over the years and all areas in the group know how to prevent problems from spreading."

Each area has its own management team which reports to the main board. Gross margins are monitored on a daily basis through the use of personal computers rather than every few months.

Contrary to some reports, stationery is not a recession-proof industry. It is management drive and determination which has resulted in growth in all spheres, including an increased slice of the computer-stationery market.

This motivation has filtered down to all levels of staff and is now part of the group's culture which new entrants soon absorb. The ultimate benefits of this policy flow back to the directors who control 51% of holding company Walhold.

Current year's earnings will be aided by the full benefits of January's acquisition of Esselte, a company which distributes under leading brand names, labelling tools, price-marking machines and other products allied to the stationery industry.

The group has stationery outlets in Sydney, Australia, and its local toy operations produced record profits last year.

Waltons shares have risen from 590c in August last year to a high of R11,76 last month, and are currently priced at R10,50.

FIN MAIL

WALTONS

194 4/7/86

In line

Activities: *Commercial stationery supplier. Also involved in stationery manufacture and toy retailing.*

Control: *Waltons Consolidated Investment Holdings (Walhold) owns 50,2%.*

Chairman: *J M Parrington; managing director: F E A Robarts.*

Capital structure: *12,3m ords of no par value. Market capitalisation: R130,4m.*

Share market: *Price: 1 060c. Yields: 2,3% on dividend; 6,9% on earnings; PE ratio, 14,5; cover, 3,1. 12-month high, 1 176c; low, 590c. Trading volume last quarter, 158 000 shares.*

Financial: *Year to February 28.*

	'83	'84	'85*	'86*
Debt:				
Short-term (Rm) ..	0,5	1,7	5,3	8,0
Long-term (Rm) ...	1,3	2,2	9,7	8,0
Debt:equity ratio	0,16	0,24	0,56	0,44
Shareholders' interest	0,48	0,44	0,40	0,42
Int & leasing cover .	5,8	9,4	3,88	5,63
Debt cover	2,0	1,8	1,13	1,54

Performance:

	'83	'84	'85	'86
Return on cap (%) ..	32,3	26,1	28,4	27,4
Turnover (Rm)	52,9	65,1	122,0	144,3
Pre-int profit (Rm) ...	7,6	9,6	18,8	24,0
Pre-int margin (%) ..	14,3	14,8	15,4	16,6
Taxed profit (Rm)	4,9	6,4	7,7	10,3
Earnings (c)	35,0	51,7	58,2	73,3
Dividends (c)	11,5	16,4	20	24
Net worth (c)	125	134	185	224

* Subsidiaries consolidated

On a 2,2% dividend yield, Waltons is given a much higher rating than other retailers — the retail and wholesale sector average is 5,1% — and there has been frequent mention of the "recession-proof" stationery industry. This does not, however, give due credit to Walton's management.

The results of stringent management controls can be seen in the report for the 1986 year. The debt:equity ratio has been reduced and the pre-interest margin, operating margin and stock-turn have all improved in the face of higher costs and a falling rand. The improvement was made more difficult by an accounting change, as the results of companies 50% owned by Waltons are now consolidated and, among other effects, debt was raised by R6m (cost of the main factory premises in Natal).

Despite recession, three more outlets were opened in SA last year and one in Australia. Frank Robarts, MD of Waltons (and Walhold, the holding company), says that the Australian operation has been doing well, but because of anti-SA sentiment there is little expansion.

Back in SA, Redgwoods Toy World serves a market which cannot be regarded as recession-proof, but this division achieved record profits in 1986, after problems with forex losses in 1985. All loans are now fully covered.

Chairman Maurice Parrington says he is "confident that the coming year, including full benefits of our latest acquisitions, will reflect an adequate increase over the 1986 results." The results of only two months trading by Esselte Dymo/Meto are included in the 1986 figures.

Two acquisitions were made since year-end, and the details were revealed to us by Robarts, who says they are only expected to contribute to Waltons' earnings in 1987/8. The purchases are 50% of Pelikan, the maker of carbons and ribbons, and 50% of Tension, the specialist envelope manufacturer, previously a Nampak subsidiary, which were bought for a total cost of R1,5m in cash. CNA is a partner in both enterprises, but Waltons will be managing them.

Recent rumours have suggested that Waltons could acquire DCM company, Pactape, but Robarts denies that discussions have been held and declines to comment further.

He is confident that Waltons will continue to grow in the current year at a similar rate to the average annual growth rate for the past five years, and that dividend cover will be unchanged. My calculation is that earnings and dividends per share should be 92c and 31c respectively.

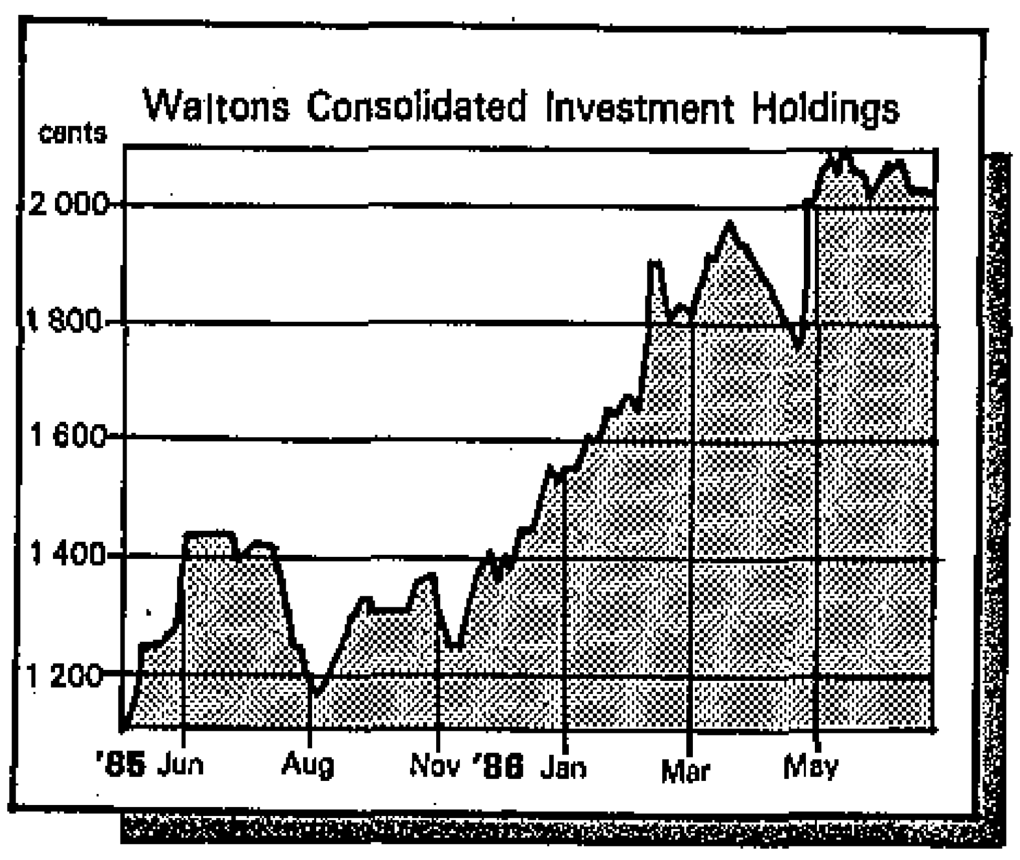
Results for the first five months are on budget, says Robarts, but he makes it clear that the market is increasingly difficult. For example, company closures and declining sales have impacted adversely on stationery orders. The toy division does 50% of turnover in the Christmas period and it is thus not possible to assess its performance until the end of the year.

With its strong balance sheet and tight management, Waltons' share can be expected to improve further, based on a projected p:e of 11,6; but the heady days of the stock's re-rating, when it rose from 390c to 945c in a year, are unlikely to be repeated. It will be an added attraction, though, when management decides to split the share, as it is currently considering doing. This would bring it into the price range of the small investor.

Walhold, which holds 50,2% of Waltons, is controlled by the executive directors, who own 42% and have a pool arrangement to bring this amount to over 50%. The re-rating of Walton's shares has meant a sharp rise in the net worth of Walhold, as the 6,2m Waltons shares are Walhold's only investment. At end-February 1985, net worth per share was R7,79, which increased to R18,52 a year later.

Walhold's prospects are dependant on Waltons, but Robarts says management is also considering splitting the Walhold shares. The relationship between Walhold and Waltons (Walhold should trade at twice the Waltons price) should remain unchanged.

Pat Kenney



R12m coup doubles Sunpak size

13/7/86
SUNTIMES
194

SUN Packaging has nearly doubled in size by acquisition.

By David Carte

The newly listed Atlantis-based packaging company has acquired the polystyrene packaging interests of one of its chief rivals, Van Leer Packaging, for 10-million shares.

The deal, effectively worth R12,5-million, virtually doubles the sales and assets of Sun Packaging (Sunpak). Management hopes it will double profits and earnings a share as well.

Synergy

Financial director Mario Caietta says: "The number of shares goes up by 25%. We hope eventually to double profits, so earnings a share should benefit.

"There is a lot of synergy between the two companies. We are big in the Cape and they are big in the Transvaal, so we can rationalise.

"We are big in white-meat packaging and they are big in other areas of food packaging. There is little duplication."

Van Leer, a subsidiary of the R3-billion a year Dutch packaging multinational which made its fortune in oil and petrol drums, will hold 25% of Sunpak after the deal. Control will still vest in Tubby Gericke and the directors, who hold 25%.

The deal is a major victory for Sunpak, which started off as a minnow in a business dominated by Bakke and Van Leer.

Van Leer managing director Rene Farber says Sunpak had done a great job in foam packaging. He stresses that his company is not disinvesting, and retains 25% of Sunpak.

Mr Caietta says there will now be only two contenders in the polystyrene packaging business — Sunpak and Bakke. Because of rationalisation and economies of scale, the cost structure of the merged company will be lower. Competition will intensify.

The Competition Board has approved the deal.

Dream debut

Sunpak has had a dream debut on the Development Capital Market of the Johannesburg Stock Exchange, screaming up from a listing price of 45c to 125c.

The company denies there has been any insider trading on the latest deal, which was clinched only this week. Sunpak management ascribes the strongly rising share price ahead of the deal to four factors: the company beat its earnings forecast, secured a R1-million order from Chile, doubled its capacity and received a favourable response to a presentation to investment analysts.

Package men can withstand sanctions

16/7/86 BUS DAY (194)

Willis' stance is echoed by all the big producers in the industry. "We do not particularly fear sanctions," agrees Interpak MD Allen Thompson. Interpak's imports also account for around 10% of its raw materials.

The company is looking into the local manufacture of packaging machinery.

"While we are not really big enough to manufacture our own equipment, we have an engineering project team looking at every major piece of machinery to see if we could make it here, or adapt or substitute a local machine for it. This started because of the falling rand, but would also be useful in the event of sanctions," Thompson says.

But a note of caution is struck by Packaging Council executive director Owen Bruyns. Although unwilling to talk about how the industry has prepared itself to withstand sanctions, he reveals there has been much offshore paper shuffling.

Perhaps this is an indication that sanctions-busters might have a role to play.

"The industry is predominantly self-supporting," Bruyns claims.

Metal Box already has a unit producing some packaging machinery in Cape Town. "This was started during the great expansionist days of the Fifties and Sixties," says food and beverage division boss Alastair Lang. "It could save us during the sanctions days of the Eighties."

Nampak's Don McCartan believes the refusal of countries to buy from SA, although many of these countries are still willing to sell goods, will affect the packaging industry. Export packaging is 8% of Nampak's business.

"The recent economic surge has

IAN WILLIS

been export generated. But we cannot export packaging with nothing in it," he says.

SA's neighbours would clearly suffer more than the Republic. Economic packaging cannot normally be produced in such short run operations: most of the oil drums, gas vessels, all egg boxes — in fact the great majority of all consumer packaging — is imported from SA.

Nampak finance director Dave McFaddan experienced the years of working within sanctions in the then-Rhodesia. He is unsure of SA's ability to withstand the sanction's sword.

"Rhodesia had SA as a willing ally," he points out. "The only island further south for us is full of seals!

"It would be difficult to sustain business in the face of 100% sanctions.

"Nampak has already lost the rights to three licensed processes over the last three months — they can't take the pressure."

McCartan fears that some local producers will increasingly climb on the sanctions bandwagon and hike the price of locally produced materials without real cause.

"They started with the sick rand, which became an excuse for every price increase," he claims. "They could send prices through the roof. The small man, particularly, would go to the wall."

Van Leer MD René Faber believes his operation is safe.

"We are sanctions fireproof," he says. "Most items are obtainable locally and other low volume, but essential products, will always be available somehow.

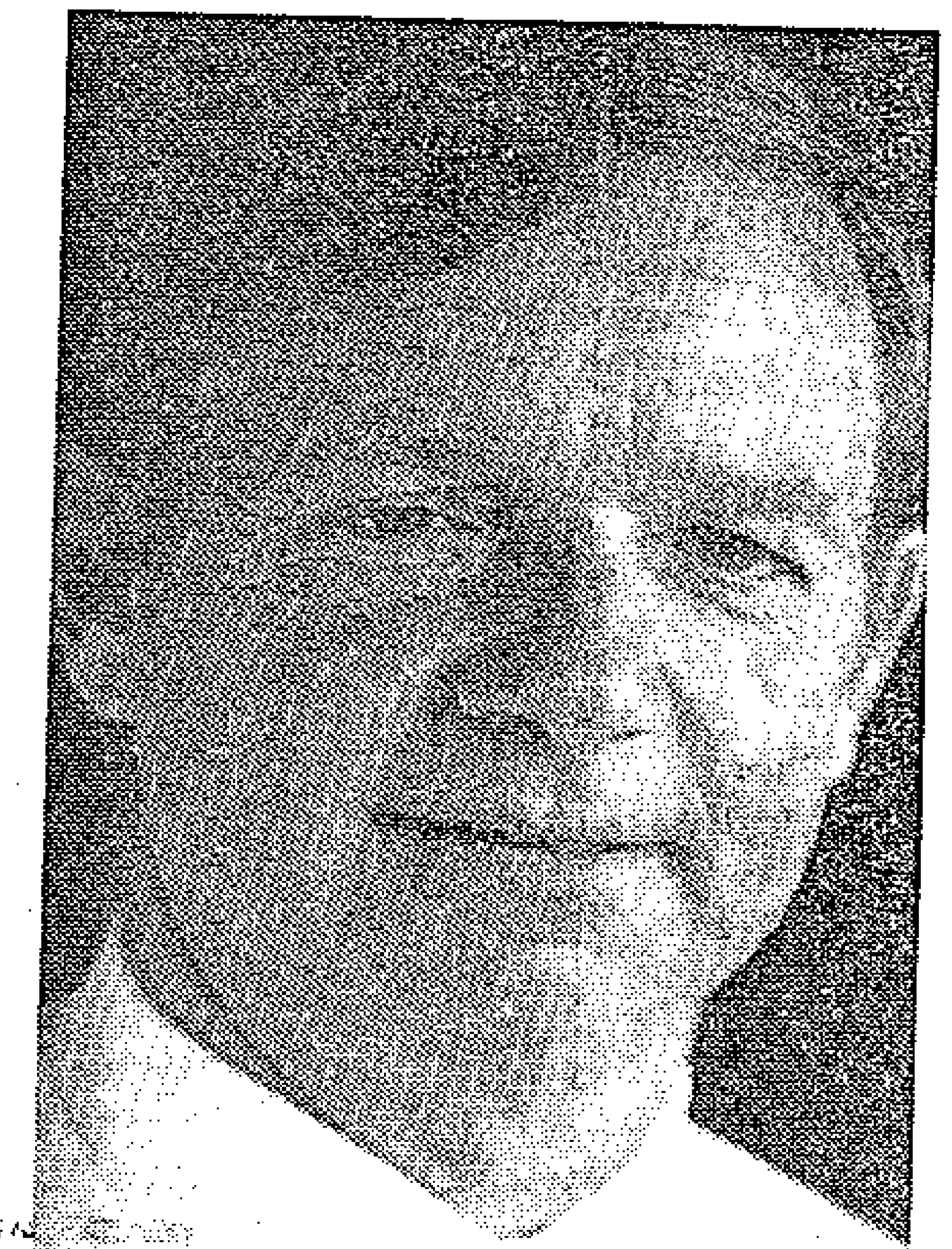
"We shall have to show creative methods in getting hold of them."

He agrees with McCartan that the industry would lose most through the drop in export-related packaging.

Also, import substitution should be considered, believes Stephen Harrod, packaging researcher at Business and Marketing Intelligence. He says that although presently substitution is often ruled out on grounds of cost, sanctions would change this.

One example is imported sophisticated cosmetic glass bottles. "These need high runs and tooling costs are between R50 000 and R100 000. But they could be replaced cost effectively by plastic bottles produced locally.

DON McCARTAN



ALLEN ThOMPSON

16/7/86
BUS DAY

Broker sees bounce back by Sappi

194

PRISCILLA WHYTE

SAPPI is expected to produce disappointing earnings of 30c a share for the half-year to June, Simpson, Frater, Stein & Strong stockbrokers' analyst Howard Mountain says.

He expects the interim dividend to be passed and total earnings for 1986 to amount to 140c a share. However, he forecasts a 50c final dividend because of improved production levels and higher product prices internationally and locally.

The scenario for 1987, however, is optimistic with Mountain estimating earnings of 430c a share and dividends of 170c a share assuming that the dollar prices on the export market remain at present levels.

There are still substantial risks investing in Sappi as it remains highly geared with a debt:equity ratio of more than 1:1.

The risk of export losses because of sanctions is probably low to moderate, but Sappi needs the continuing benefit of high export prices and a low rand.

The potential returns justify the acceptance of the risks.

Assuming export prices and demand remain firm and that the rand continues to be a weak, export earnings in rand terms will be substantially higher from June 1986 onwards.

Sappi does not operate through the larger international trading houses.

Instead small to medium size agents have been appointed in countries where export potential is perceived to be significant. These agents are more dependent on Sappi than the larger houses would be. As a safeguard, more than one agent has been appointed in the larger markets.

The group has tried to cover a wide geographic spread of markets and is not dependent on exports to one country only. A big portion of exports is sold through less politically sensitive areas such as Hong Kong and Singapore.

Mountain's view is that international prices will remain firm and that the rand will continue to be under pressure.

The Ngodwana mill is highly automated and is therefore not particularly vulnerable to union action by the less skilled component of the labour force.

Labour action would be unable to totally cripple group production.

However, performance at the Ngodwana mill was adversely affected by lightning strikes.

months to complete.

market was heavily oversold;

Efficient Kohler wraps up a tidy profit

(194) SNAL 7/8/86

By Peter Farley

Kohler packaging showed the way for the rest of Gencor's industrial division with a surge back into profit in the six months to end of June.

Though set against a disastrous half year last time round, when the company lost almost R20 million, the more than triple returns at the operating level bear testimony to both improved margins and greater efficiency.

The operating margin effectively doubled to six percent and management hopes to get this into double digits.

Chief executive Mr Ian Willis said that a real improvement in all forms of packaging sales of around six percent formed the platform for the reversal.

In last year's first half Kohler wrote off more than R10 million in foreign exchange losses. This time the provision in that area is only R250 000.

Kohler is paying its first dividend payment in 18 months, with 10c of the 47c earnings allocated to shareholders.

Mr Willis says dividend cover will come down at the end of the year if growth is maintained. But it will remain conservative as reserves are built up and borrowings further reduced.

The balance sheet also looked healthier with an R8 million debt reduction to bring gearing down to around 55 percent.

Mr Willis says further consolidation is planned for the immediate future, aiming for better geographical spread and improved technological advances in various packaging disciplines.

Cape Times 9/8/86.

Breakdown in talks: Paper workers strike

Labour Reporter

WORKERS at the Nampak paper-recycling plant in Epping stopped work yesterday after negotiations for a recognition agreement between management and the Paper, Wood and Allied Workers' Union (PWAWU) reached deadlock, the union said.

The work stoppage, which involves 130 out of 140 workers, began at 7.30am and by late yesterday there was no indication of when union members would return to work.

According to a PWAWU spokesman, management and the union failed to reach agreement on certain clauses of the proposed agreement.

Workers are demanding 30 days' paid training leave, six recognized shop stewards and a one-hour report-back meeting a month.

Management is offering to recognize only five shop stewards, and to grant a maximum of half-an-hour for monthly report-back meetings.

'Interim recognition agreement'

The union, an affiliate of the Congress of South African Trade Unions (Cosatu), is now demanding an interim recognition agreement with management because of the delay in signing a full agreement.

Nampak confirmed yesterday that the majority of workers at its Epping plant were on strike.

In a telexed statement, management said it had been involved in recognition negotiations with the union since April and that "substantial progress had been made".

Only a couple of points had not yet been settled and PWAWU had undertaken "to continue negotiations and to submit written proposals on the outstanding clauses by Monday, August 11".

Work stoppage over

Labour Reporter

PRODUCTION at the Nampak recycling plant resumed yesterday when management and the Paper, Wood and Allied Workers' Union resolved their differences over certain clauses in a draft recognition agreement, the union said.

Union members stopped work at the Epping plant on Friday when negotiations broke down.

The union persuaded management yesterday to allow the union six shop stewards and to grant them 12 days' unpaid leave for union business and five days' paid leave for union training.

The union agreed to settle for a maximum of 30 minutes a week for report-back meetings instead of an hour.

A union spokesman yesterday described the settlement as "a victory". He said the union had signed up three more members, leaving only five non-members out of the 140 weekly-paid workers.

The agreement comes into force this week.

Nampak management said in a statement last night that the negotiations had reached "a successful conclusion".

CT 12/8/86

PWAWU holds strike ballot

CT 12/8/86 Labour Reporter 191 (94) 199

THE Paper, Wood and Allied Workers' Union (PWAWU) will be holding a strike ballot at five Mondi Board Mill plants around the country from today, following a dispute over a mid-year wage adjustment, a union spokesman said yesterday.

The union went into dispute with management a month ago, but the conciliation board meeting called to settle the matter was unable to resolve the deadlock.

At the Mondi mill in Bellville South, 200 union members out of a workforce of 210 will be asked if they are prepared to strike.

A company spokesman was not available for comment yesterday.

T W Beckett pays 60c div

19/8/86 STAR 194

By Sven Lünsche

Anglovaal's tea and coffee packaging and distribution group, T W Beckett, again put in a good performance, increasing earnings by 52 percent to 152c a share for the year ending June 1986.

The dividend was increased from 40c to 60c a share, giving an unchanged dividend cover of 2,5 times.

This performance is remarkable as it follows on good results for the last financial year and has been achieved against a background of a substantially declining market and recession.

The consumption of tea and coffee has fallen in the wake of world price increases and the ever falling rand exchange rate, which has sent domestic prices soaring over the last year.

Against this background, the improvement was mainly brought about by gains in the position of most of Beckett's brands within their respective market segments.

There were no foreign exchange losses this year, following losses of R1,8 million during the 1985 financial year.

The directors predict that the company will increase earnings in the current year.

"In these uncertain economic times, forecasting future profit performance is difficult, but we plan a continued improvement and will take advantage of any upturn in the economy," they say.

Turnover for the year to end June increased by 21 percent to R166,6 million and as a result of an improved trading margin of 12,3 percent (11,6 percent) net operating profit rose to R20,5 million (R16,1 million).

While the interest bill was reduced by 30 percent to R4,1 million, taxation soared 73 percent to R7,5 million so taxed profit rose to R9,15 million (R6,0 million).

Question marks hang over Sappi's rights issue

By Peter Farley

The investment community can excused for being slightly cynical when a company comes back to the market for another R200 million in fresh capital, little more than 12 months after it raised the first block of funds.

Nevertheless, there will undoubtedly be some sympathy for Gencor's paper producer Sappi as it makes an effort to reduce its debt mountain from the unmanageable proportions foisted on it by the Ngodwana pulp and paper plant.

But there are two major questions. Firstly, why did it not raise enough first time around, and why does it swap debt for equity when the average cost of its R1,2 billion debt pile is only 8 percent?

The managing director, Mr Eugene van As, argues that, while the average is low, almost a third is related to prime. This expensive end will be replaced by the fresh funds raised from the rights issue.

Secondly, he admits there was a miscalculation last year when the company first came to market for R200 million. But the position has been compounded by legislation changes that denied Sappi exceptionally cheap financing when lessor trust schemes were outlawed.

Under the lessor trust arrangements, many of which Sappi has been able to get away with, a company with substantial cash on hand and a high effective tax rate could invest in a third party project — in this case the Ngodwana mill — for a minimal interest rate. Its return on the investment would come from the huge tax losses generated by the capital project.

However, when the law was changed any deals not fully signed up were disallowed. And this meant in Sappi's case that although willing financers had committed funds, where final details on the contract had not been filled in — often because the final figures could not be put in until completion — the scheme was blocked.

Mr van As says this cheap form of financing had therefore to be replaced. Recourse to more prime-related finance was ruled out as being too expensive, so parent company Gencor has underwritten yet another rights issue.

Along with notice of the intention to raise fresh funds Sappi has published its results for the half year to end June which show a massive reversal back into the black after last year's disastrous first half.

But there is still concern at the operating level, with margins — excluding the now sold Carlton paper stake — slipping to 14 percent from a shade under 20 percent.

Though not specified, much of this can be attributed to an increasing export element — now up to almost a third of turnover — and a slump in local market sales.

Nevertheless, Mr van As believes operations are generally going well, despite a flat market for newsprint. He singled out the Kraft linerboard operations as being particularly successful.

Stories still abound, however, about persistent teething problems at Ngodwana which Mr van As admits has not been commissioned as smoothly as he would have hoped. Nevertheless, he says projects of this nature generally take 24 months to work through to designed capacity levels and this should be met early next year.

The results are not bad. But, however much management defends it, there will be a further stigma attached to the company by its admission that it needs another R200 million so shortly after the last chunk of funds was raised.

A rights issue jolt from Sappi

BUS DAY 20/8/86 194

MERVYN HARRIS

SAPPI's announcement that it plans to raise R200m through a rights issue caught the market off-guard yesterday.

Detailed terms of the rights offer were made known with the company's interim results for the half-year to June, which showed earnings of 26,2c a share compared with a loss of 55,1c at the halfway stage last year.

The results also showed earnings of 31,2c (excluding proceeds from the sale of Carlton Paper) for the full year.

The offer comes after the company's R200m rights issue last year and was prompted by the reversal of the use of the lessor trust financing to which the authorities had previously agreed.

Sappi's new chairman Tom de Beer says the company has long tried to obtain compensation from the State for the severe financial penalties it has suffered.

"However, at the year-end Sappi will have a tax loss of about R750m and there are, therefore, no future tax benefits to be derived from interest payments.

"Although our average interest cost is in the region of 8%, our marginal cost of borrowing is at, or related to, prime overdraft rates. This means our return on additional equity will be almost equal to to the prime overdraft rate — an attractive after-tax return to shareholders."

Sappi is offering 25 preferred ords for every 100 ords and preferred ords, and 25 preferred ords for every 250 convertible irredeemable participating prefs.

The price of a preferred ord is R14 and the new shares will carry a preferred ordinary dividend of 126c a share, 63c of which will be payable on the new shares for the 1986 financial year.

● See Page 12

BUSDAY 20/8/86 (194)

COMPANIES

Sappi recovers, but . . .

MERVYN HARRIS

SAPPI has produced both good and bad news for shareholders with its results for the half-year to June.

First the bad news: earnings of 26,2c a share are at the lower end of forecasts and are likely to disappoint the market, which was looking at minimum earnings of at least 30c.

Although earnings show a sharp turnaround from last year's first-half loss of 55,1c a share, the company had recovered by the second half of last year to post earnings of 31,2c (excluding proceeds from the sale of Carlton Paper) for the full year, albeit on 25% fewer shares in issue (40,2-million against the current 50,7-million).

The good news is that Sappi will resume dividends with a planned payout of 40c a share on ordinary shares in the second half of the year. The company had previously announced no interim dividend would be declared and the market was not expecting a final.

The resumption of dividend payments comes in the wake of expectations by Sappi of a significant improvement in earnings in the second half of the year.

Strong demand in both domestic and international markets boosted first-half turnover by 60% to R460,8m (R288,1m excluding Carlton Paper). Operating income before interest was 16% higher at R65,1m (R56,3m).

The impact of lower interest rates and last year's rights issue is reflected in the 45% decline in net financing costs to R36,4m (R66,2m). Sappi is now absorbing the full finance cost burden of Ngodwana.

In terms of Sappi's accounting policy, the capitalisation of start-up costs ceased in March, 12 months after commissioning date. The actual improvement in performance, using the same accounting treatment in both periods, was R69m, indicating an encouraging trend.

With no tax payable, outside shareholders' interest virtually unchanged at R10,6m and lower preference dividends of R7,4m (R10,9m), Sappi reversed an attributable loss of R20m into income of R10,6m.

Deferred tax benefits of R2,7m (R2,6m) resulted in distributable income of R13,3m, compared with last year"s interim loss of R17,4m.

A dividend of 63c a share has been declared on the preferred ordinary shares.

MD Eugene van As says although there is little sign of improvement in the economy, demand for paper has increased significantly since last year, probably because inventories are no longer being reduced throughout the consumer pipeline.

(194) FINMAIL 22/8/86

SAPPI

Another rights issue

Much as MD Eugene van As predicted, analysts' initial reaction to news of Sappi's R200m rights issue was shock and horror, but once they had done some sums, more favourable reactions emerged. Two analysts revised their forecasts of earnings for the year upward from about 100c to 140c on the basis of reduced interest on lower debt. Debt: equity should reach parity as a result of the issue, compared with the current 1,4:1.

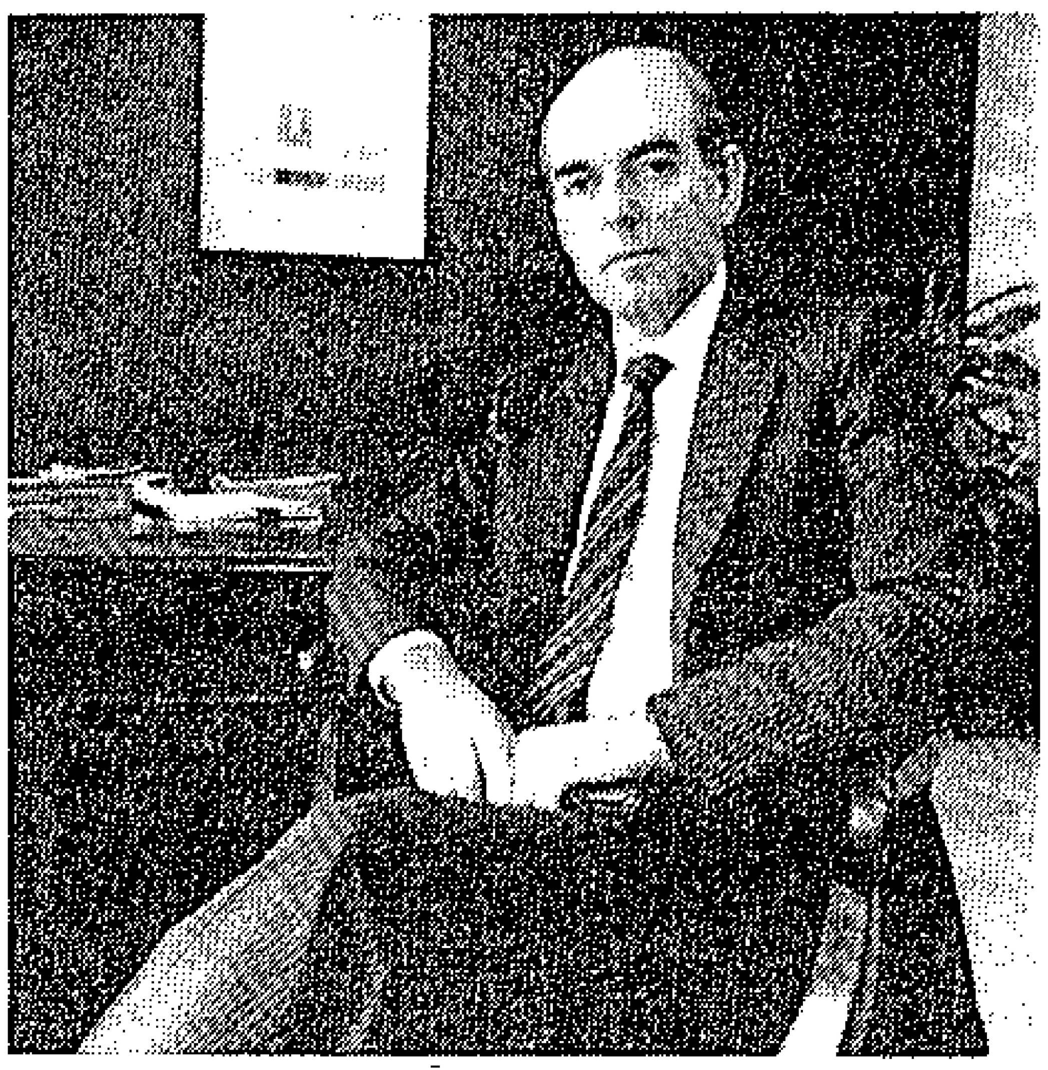
Analysts say another bright spark is that the rights issue will enable Sappi to redeem the R65m optionally convertible redeemable prefs at the end of 1988, instead of further diluting earnings by converting, which means that the group is not diluting earnings by the full 14,4m shares and is effectively only raising R135m of new capital. The rights issue will also enable payment of a 40c dividend for the year — the last dividend was 86c in 1984.

Van As says: "Our rights issue will repay R200m debt, which is conservatively costing us 12% a year. Based on present rates, the issue could, therefore, improve earnings after tax by R24m." Van As says the issue of preferred ords will carry a 9% dividend yield on a dividend of 126c. Payment of this dividend will, nevertheless, chop R18m a year off income attributable to ordinary shareholders.

He says one of the key factors motivating the rights issue — the second in a year — is the group's enormous R750m tax loss. Government has denied Sappi the use of lessor trust financing to which it had previously agreed. The group says there are, therefore, no short-term tax benefits to be derived from interest. "We could have gone this route a year ago, but at that time we were still negotiating with government and we only received a flat no to relief on the reversal of lessor trust financing this year," says Van As.

The fact is that it is costing Sappi far less to raise R200m this year than it did a year ago. Last year, Sappi issued 18,9m preferred ordinaries to raise R200m. Last year's issue was at R10,50 a share, compared with this year's R14.

Sappi must be counting on its improved interim results, including an earnings turnaround from a 55,1c a share loss to 26,2c a share profit, to break through initial negative reaction to the rights issue and to buoy the ordinary share price. Van As says the turnaround at attributable level from a R20m loss to an R11m profit is actually R69m and not R30m, if one takes into account the fact that capitalisation of start-up costs on Ngodwana ended in March and no interest was capitalised in the first half. Turnover of the Sappi group (excluding Carlton Paper) is up by 60% at R461m, reflecting improved local and export markets, while operating profit of R65m is up by 16%. Exports are believed to total more than a quarter of turnover.



Sappi's Van As ... nurturing growth

Van As says prices received in the first quarter of 1986 were still depressed, and as deliveries on orders taken in the period are only made several months later, the group received relatively low prices for exports in the first half. Now the international division is taking orders at dollar prices between 30% and 40% higher than in the first half, which augurs well for the second half. Van As says export orders are strong — which is just as well as local demand is not showing any real growth. However, prices will rise in October. Production at Ngodwana remained at about 80% of capacity, but is expected to improve later this year, reaching full design capacity next year.

While it is true that a rights issue creates extra equity that must eventually be serviced, the danger of holding over R1 billion of debt is considerable, and shareholders must be comforted by the fact that the rights issue will make the group far less vulnerable to rising rates. It seems the group could be back on a good earnings growth pattern with burgeoning exports, and Van As does not believe the group will be materially affected by sanctions.

Kerry Clarke

MERCATRUST

In suspension

The suspension of Mercatrust has overrun the original six-week deadline set for relisting, but Bankorp MD Stoffel Erasmus says an announcement will be made about the group's future within about two weeks. Bankorp, through unlisted Mercabank, is Mercatrust's major shareholder. Erasmus says the bankers are deciding whether the company warrants continued financial support, bearing in mind losses made in recent years and the group's high gearing.

Mercatrust suffered an attributable loss of R6,8m in the year to March 1985 and a further R1,3m loss in the six months to September 1985, at which stage long-term loans totalled R25,8m compared with shareholders' funds of R3,7m. It was decided to try to make the group less vulnerable to recession by changing its focus and disposing of certain investments.

It sold the loss-making Nitro Investments, a wholesaler of motor, home and camping acccessories and bought Consolidated Cleaners, Dyers and Launderers which complemented Advance Industries. Mercatrust's 35% share in home builder Merbuild was merged with Mercabank subsidiary Progo Industries.

Progo was suspended in April after an announcement that it was involved in negotiations which could affect the share price. Erasmus says the company would already be re-listed were it not for a technicality which the JSE wants settled. He expects an announcement in about two weeks. Solarsh is the main business left in Progo, as only one staff member, responsible for debtors, remains in Merbuild and the assets of the company are being "looked after" by Mondorp, Bankorp's home builder. There have been rumours that a buyer has been found for Solarsh.

Resolution of Mercatrust's problems will be a weight off Mercabank, which lost R900 000 last year as the high costs of holding a large property portfolio and the drag of debtors unable to meet interest payments took their toll. Some R100m of Bankorp's recent R120m rights issue went into Mercabank, with R20m-R30m written off against losses, another R20m going to Mercabank's reserves and R50m-R60m applied to property costs.

Bankorp Property Services took over management control of Mercabank's property portfolio earlier this year and the first sign of rationalisation in this quarter came in June, with the sale of the property management portfolio of the Mercabank-owned Curries-L K Jacobs group to Landmark.

Erasmus claims good progress with some other struggling companies to which Mercabank is exposed. "Some are actually making a profit for the first time in 10 years," he says. Erasmus says some major companies on an improving trend are White River Sawmills and Hendler & Hendler.

22/8/86 FIN MAIL

The latter, of which Mercabank has 70%, reduced its net loss in 1985 to R7,4m compared with R12,3m the previous year and expects a return to profitability in the current year. Caress Diamonds is reducing operations by selling outlets to store managers and a strong reduction programme is being carried out. Offers of compromise for liquidated furniture company Kallenbach-Hendler are being finalised. *Kerry Clarke*

CLICKS FIN MAIL 22/8/86

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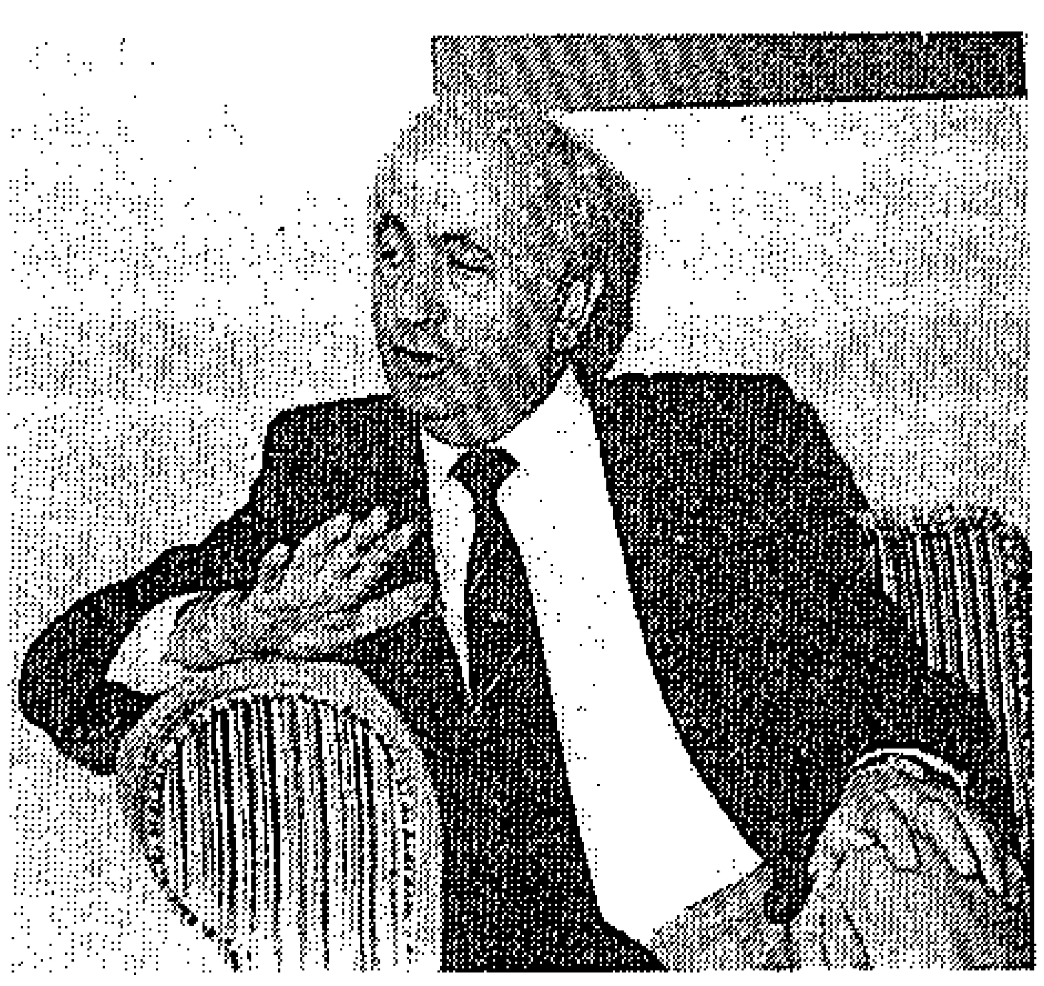
More expansion

Following a relatively sluggish interim performance, Clicks has reported a strong surge in its second half-year to lift its earnings for the year to end-June to 34,72c (31,08c). The final dividend was 9,5c, giving a total dividend of 15,85c (14,25c).

In the second-half, group turnover advanced by 24,2% to R88,5m (R71,25m), and after-tax profits by 19,2% to R3,19m (R2,67m), reflecting a growth rate that should go some way towards dispelling any notions analysts may have had that, like Pick 'n Pay, that Clicks had reached saturation in its markets.



Clicks' Goldin ... an aggressive expansion

Clicks is in a unique niche of the retail market, and while trading conditions remain "extremely difficult," chairman Jack Goldin says the group has managed to keep to a growth track through "aggressive store expansion."

In the year to end-June, Clicks maintained the momentum of its expansion programme, opening nine new branches, three in the western Cape, four in the Transvaal, and one each in the OFS and Natal, creating a trading base of 65 stores. "I believe the Clicks chain could certainly grow to 200 stores," says Goldin, "and we are well on our way to achieving that target." In 1987, he says, nine new stores could be opened.

Clicks shares have shown uncustomary weakness this year by falling from 950c to around 750c, before recovering ahead of the latest results to 800c. At this price, the share yields 2% on dividend, which is a better rating than Pick 'n Pay, which at R34,20 trades on a yield of 2,7%. *Neville Glaser*

DE BEERS

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More to come

One thing is emphasised by the end-June interim profit figures released this week by De Beers: the massive rise in the share price seen this year — it has almost doubled since January — is in anticipation of what is to come over the next 18 months, rather than based on the now negligible 1,6% dividend yield. The market is realistically taking the view that with the diamond market back to normal, De Beers is looking forward to powerful earnings and dividend growth for some time.

The 34% surge in earnings excluding the share of retained profits of associates, and the 33% increase in the interim dividend may seem somewhat disappointing after the impressive growth at the December 1985 year end, and the June Central Selling Organisation (CSO) sales figures already reported. That view would, however, underestimate what should be in store later.

An outstanding aspect of De Beers' interim is the 41% leap in the diamond account, which climbed to R447m. Assuming that sales remain on track, and indications so far are propitious, the second half is likely to show better growth. The average 7,5% increase in the price of rough diamonds announced by De Beers earlier this year took effect on May 1, and, therefore, would have had only a limited impact on the interim.

De Beers' Ogilvie Thompson ... repaying borrowings

showed that debt was being repaid, and cash reserves were again being built up. This continued during the first half of 1986, when long and medium-term liabilities were pared by R240m to R740m, and R89m of pref shares were redeemed. Net current assets were reduced by R158m to R328m, so the overall improvement in funding amounted to R171m. This, combined with reductions in interest rates that apply to the portion of debt which is held in local currency, indicates further reductions in the interest bill.

What undid part of these gains for De Beers' earnings was the harsh jump in taxation and the State's share of profit under mining leases, which together soared by 72% to R218m. This figure presumably would not continue to increase at a much faster pace than profits.

The important element now is that retail

DE BEERS ADVANCES

Six months to	June 30 '85	Dec 31 '85	June 30 '86
Diamond account (Rm)	318	822	447
Investment income (Rm)	127	88	161
Interest payable (Rm)	76	86	48
Pre-tax (Rm)	530	1 046	707
Taxed profit (Rm)	403	762	489
Earnings			
— excluding associates (c)	54	126	73
— including associates (c)	98	190	118
Dividends (c)	15	40	20

That aside, the normal pattern is that the margin on the diamond account is much wider in the second half of the year than at the interim. This year it was 16,5%, in line with the 16%-19% range since 1982; in the last three years the margin has varied from 33% to 35% in the second half, which is when the larger profit jump tends to come.

The same applies to investment income, which rose by 26,8% — there should be more to come. By far the largest contributors to De Beers' investment income are Anglo American, JCI, Minorco and Amic; other important ones are Ergo and WD Levels. Thanks partly to the rand, all but Amic will see further increases in profits, and much of the gains still have to flow through to De Beers, including the effects of the mid-year slide in the rand.

Also encouraging was the 76% drop in interest payable. The year-end balance sheet

sales remain strong. De Beers says indications are that the positive trend will continue in the second half. The fundamentally weak oil price, despite the recent Opec agreement, is likely to help. Indeed, the uptick in oil prices to around $15 after the agreement should support economic growth. Current price trends remain low enough to keep a curb on inflation, but may have relieved some of the pressure on oil producers. Overall, it is too early yet to consider De Beers' share fully valued. *Andrew McNulty*

FIN MAIL

KANHYM 3 MEAT

Slow turn

22/8/86.

Kanhym has turned the corner in announcing its first profit since 1982, but the legacy of previous years' losses will linger on for ordi-

The latter, of which Mercabank has 70%, reduced its net loss in 1985 to R7,4m compared with R12,3m the previous year and expects a return to profitability in the current year. Caress Diamonds is reducing operations by selling outlets to store managers and a strong reduction programme is being carried out. Offers of compromise for liquidated furniture company Kallenbach-Hendler are being finalised. *Kerry Clarke*

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Fin. mail

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Sappi has 6-month profit of R13,3m

20/8/86 (194)

SAPPI earned a profit during the first six months of the year of R13,3-million against last year's first-half loss of R17,4-million, and announced it is raising R200-million in new capital, reports Sapa. These additional funds will be utilised to reduce the company's debt and improve earnings.

Sappi's chairman Mr Tom de Beer said: 'Sappi has long tried to obtain compensation from the State for the severe financial penalties which we have suffered because of the reversal of the use of the lessor trust financing to which the authorities had previously agreed.

'However, at the year-end Sappi will have a tax loss of approximately R750-million and there are therefore no future tax benefits to be derived from interest payments. And although our average interest cost is in the region of 8 percent, our marginal cost of borrowing is at, or related to, prime overdraft rates.

Dividends

'This means that the return that we will obtain on the additional equity will be nearly equivalent to the prime overdraft rate — an attractive after-tax return to shareholders. With the reduction in our borrowings, we will reduce our risk profile without affecting our earnings.

'It also puts Sappi in a position to resume paying dividends. We expect that we will pay a dividend on ordinary share of the order of 40 cents a share in the second-half of the year.'

Sappi reported improved results for the six months to June 30. With turnover 60% higher at R60,8-million (1985: R288,1-million excluding Carlton Paper) due to strong demand in both the domestic and international markets, operating income before interest is R65,1 million or 16% ahead of last year's.

Turnaround in Sappi's performance is further highlighted by the fact that Sappi is now absorbing the full finance cost burden of Ngodwana.

With no tax payble, R10,6-million (1985: R10,75-million) attributable to outside shareholders and R7,4-million (1985: R10,9-million) for the perference dividend, Sappi's attributable income amounts to R10,6-million (1985: R20,0-million loss).

Accounting for R2,7-million in deferred tax benefits, Sappi's distributable income rises to R13,-million (1985: R17,4-million loss). This is equivalent to earnings of 26,2 cents a share compared with last year's loss of 55,1 cents a share

No interim ordinarry dividend has been declared.

The detailed terms of the rights issue were announced along with the interim results. Sappi is offering 25 preferred ords for every 100 ords and preferred ords and 25 preferred ords for every 250 convertible irreedeemable participating prefs.

The price per preferred ord is R14 and the new shares will carry a preferred ordinary dividend of 126 cents a share, 63 cents of which will be payable in respect of the new shares for the 1986 financial year.

COMPANY ROUND-UP

PRELIMS	Turnover (Rm)	% change	Pretax profit (Rm)	% change	Earnings (c)	% change	Div (c)	% change
Beckets	166,6	+21	16,6	+61	152	+52	60	+50
Abercom	279,3	+26,6	13,3	+7,8	58	+8,6	15	+20
Gen Opt	n/p	—	1,72	+44,5	78	+47	24	+33,3
Genbel	n/p	—	79,8	+13,4	240	+16,7	195	+12,8
Trencor	277	+17,7	23,4	+31,4	1 100	+30,1	210	+16,7
Mobile	n/p	—	2,7	+20,8	67,5	+18,8	60	+16,7
I + J	612	+18	34,3	+9	72	+7	26	+4
Joshua Doore	20,9	n/c	0,54	n/c	1,85	n/c	0	—
INTERIMS								
Kanhym	237,7	+6,3	0,4	n/c	0,1	n/c	—	0
Punch Line	6,7	+57	0,85	+97	3,9	n/a	0	—
Harwill	5,5	+83,4	0,58	n/c	0,6	n/c	0	—
De Beers	n/p	—	707	+25	73	+26,5	20	+25
Guardian	n/p	—	4,4	−10,7	33,3	−5,4	18	—
Frebank	n/p	—	3,68	+48	35,5	+48	7	+27,3
Sappi	460,7	+60	28,7	+477	26,2	n/c	0	—
GIC	n/p	—	290,2	+22,3	319	+22,8	160	+25
Hunts	n/p	—	8,58	n/c	40,5	n/c	0	—
Aurochs	n/p	—	0,191	−96,6	4,9	−71,2	0	—
Natl Bol	112,8	+40,8	6,7	+78,5	95,1	+96	20	n/c
Prosure	n/p	—	n/a	—	42	+64	6	—
Delta	n/p	—	4,3	+29,7	28,9	+27,6	9	+33,3
Lib Hold	n/p	—	n/a	—	54,8	+18,4	30	+20
Liberty	n/p	—	648,8	+28,3	n/c	—	150	+20
Mike's Kitchen	1,24	n/c	0,45	n/c	2,28	n/c	0	—

n/p — not applicable   n/a — not available   n/c — not comparable

Sappi's second safety net

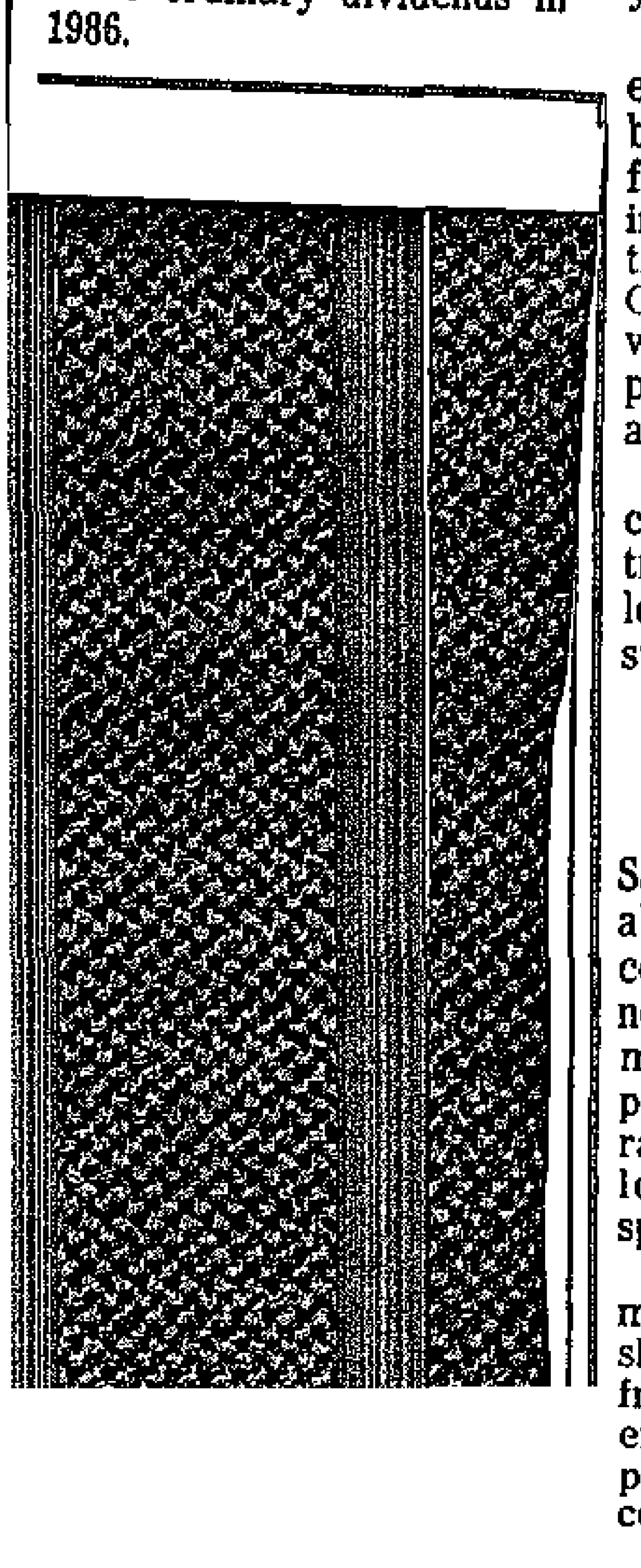
SUN TIMES 24/8/86 194

THE future of Sappi, says outgoing chairman Basil Landau in Gencor's house journal, can be termed in one word — excellent.

But Sappi shareholders were left gasping after the debt-laden paper duopolist told them this week that it wanted them to cough up another R200-million.

Only a year ago shareholders, led by Gencor, had to put in R200-million.

Analysts say there is little doubt that a R200-million capital injection will be good for Sappi, reducing gearing and interest costs without diluting earnings — and enabling the company to resume ordinary dividends in 1986.



By David Carte

It is generally agreed that because Sappi's tax status was changed and it could no longer derive any benefit from interest costs, the rights issue is logical.

Destroyed

By paying off debt, shareholders' money in Sappi will earn effectively the prime overdraft rate — tax free. The cost of the R14 preferred ordinary dividend to Sappi will be 9%.

So, unless interest rates fall further, it looks as if the rights issue will save the company about R10-million a year in interest charges.

Several Sappi shareholders are fed up with the way bad news has so regularly followed bright forecasts, going back to the conception of the Ngodwana investment. Only six months ago, Sappi was in raptures about prospects and there was no hint of a rights issue.

Sappi would say the Receiver is the real ogre, destroying all its carefully laid lessor trust plans at the stroke of a pen.

Exports

Because of the fallen rand, Sappi can export at profitable prices but there is some concern that a world economic slowdown will undermine international paper prices and cut into Sappi's rand-granted advantage over low-cost northern hemisphere producers.

The consolation is that demand in South Africa is showing signs of reviving from a low base as converters and others in the paper pipeline restock ahead of recovery.

Thanks to reviving domestic demand, high domestic prices and good export realisations sales rose by 60% to R460,7-million in the half-year to June. Because of problems with Escom power at Ngodwana, operating income rose a disappointing 16% to R65,1-million. The company was in the black at the pre-tax level, largely because of a R30-million fall in finance costs.

No tax was payable, so Sappi earned a meagre R10,6-million (loss of R20-million) on equity of R906,8-million.

Triumph

Reviewing his years at Sappi, Mr Landau exults at the triumph of buying the loss-incurring, debt-burdened Stanger paper mill for about R3-million.

He writes in Gencorama: "There was some criticism of us buying a paper mill in that predicament, but today Stanger has paid off all the loans and is one of the most profitable units in the whole Sappi empire."

Shareholders will hope the experience is repeated by Ngodwana.

Mr Landau says he is glad the company did not delay on Ngodwana, arguing that the capital cost would have been between R4-billion and R4,5-billion, instead of the actual R1,6-billion.

"Sappi has tremendous advantages as a result of its timber reserves and the geographical location of its mills. It has tremendous export potential and as world pulp and paper prices are escalating dramatically in US dollar terms, this gives Sappi added benefits owing to the weak rand."

It is almost enough to give a shareholder his breath back.

18/9/86
STAR
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Major stationery firm under provisional liquidation

A major national stationery supplier, no longer able to pay its staff's medical aid and pension funds contributions, was placed under provisional liquidation by the Rand Supreme Court yesterday.

Gala Stationery's branches in the Eastern Transvaal, Natal, Eastern and Western Province, as well as Robin Consolidated Industries Limited, all subsidiaries of Amalgamated Industrial Investments Corporation Limited, were provisionally sequestrated in an urgent application yesterday.

The five companies are unable to pay their creditors and owe their bank R7,7 million for overdraft facilities.

BIC SALES

A well-known manufacturer of ballpoint pens and disposable lighters, Bic Sales (Pty) Ltd, lodged the application for the provisional liquidation of the five companies.

The managing director of Bic, Mr Bennie Schreiber, said in an affidavit that Gala's employee's were threatening to leave the company.

Gala was unable to pay its staff's medical aid and pension fund contributions and service stations were refusing to sell the firm petrol on credit, so no deliveries could be done.

That, together with its inability to pay its debts, would damage the good name and reputation of Gala.

GOODWILL

If provisional liquidators were appointed immediately, they could, to a large extent, preserve the goodwill of Gala's business, Mr Schreiber said, motivating the urgency of the court application.

A consignment of stationery imported from Europe and the Far East by Gala was being held by the Department of Customs until normal customs duties were paid.

The department had threatened to send the goods back to the suppliers if nobody had paid the customs duties by Friday, but Gala could not pay.

Mr Schreiber said that Bic had various claims against all the companies in the Amalgamated Industrial Investments Corporation group.

The return date of the provisional liquidation is November 11 this year.

from R2,8-million to R8,5-million for the year to June. SA scaffolding and formwork business contributed only 12,5% of revenue.

Earnings a share soared from 7c to 24c and the annual dividend rose from 2c to 6c.

Rough patch

Mr Liebesman ascribes the results to rationalisation, aggressive growth programmes and vigorous diversification abroad.

"The company is often incorrectly seen as being solely in the construction market. Although part of our revenue is exposed to conditions on the SA market we are not resticted to the construction industry which has been through a particularly rough patch.

"We have a broad diversity of operations, including interests in shoring, agriculture and the mining industry.

... FSI's 79% holding in National Bolts, which bought the industrial fastener business ... The group now dominates the SA fastener market.

SUN TIMES

Metro on course

IN spite of intense competitive pressures, Metro Group is on target for earnings of 31,5c a share in the year to June 1987, says chairman Mervyn King.

He told the annual meeting in Johannesburg: "Our results for the first three months of the financial year, from July to September, are in line with the projections made by Metro in its prospectus and we are confident of reporting attributable net income slightly ahead of R14-million for the year. This is equivalent to earnings of 31,5c a share.

"Shareholders must, however, realise that Metro's profits do not accrue evenly throughout the year. The bulk of profits are earned in the second half, so the interim report for the six months ending December, which will be published in February, will show earnings of some 12,5c a share.

"We expect to pay an interim dividend of 6c a share.

"Margins are being squeezed throughout the cash-and-carry industry, but our management teams' focus on customer satisfaction and tight control of costs means that we are on target for achieving the 25% growth looked for in our prospectus."

SUN TIMES

Sappi gets 99%

SAPPI'S rights issue to raise R201-million by way of 14,4-million new preferred ordinary shares at R14 each was 99% subscribed. The remaining 147 000 shares will be taken up by underwriter Gencor.

Sappi managing director Eugene van As says: "Shareholders were quick to appreciate that the company would be repaying debt. Because of Sappi's tax position, the company's marginal cash cost of borrowing is at, or related to, prime overdraft rates.

"This means the return that Sappi will obtain on a substantial portion of the R201-million we raised will approximate the prime overdraft rate, an attractive after-tax return."

Mr van As confirms that Sappi expects to pay a dividend of about 40c on ordinary shares for the year to December. The new plant at Ngodwana is doing well.

BUSDAY 4/11/86

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Court halts wages talks

ALAN FINE

THE Industrial Court has ordered Mondi and the Paper, Wood and Allied Workers' Union (PWAWU) to halt negotiations over the wages and working conditions of certain workers at Mondi's plant at Merebank, Natal.

This is believed to be the first case of its kind.

The applicant is the the SA Boilermakers' Society, which is contesting a decision to allow it only observer rights at the negotiations.

The vast majority of unskilled and semi-skilled workers at the plant are members of PWAWU, while a minority belong to the Boilermakers. The Boilermakers contend that they are, nevertheless, entitled to full representation at the talks.

The order was granted after a late-night *ex parte* application last Friday, and the return date is November 7. A labour lawyer describes the case as substantively and procedurally significant.

Firstly, it may decide on the principle of majority unionism, which has become an issue with mass, black, industrial unions coming into conflict with the older, established, craft-based unions.

Secondly, the *ex parte* nature of the case — whereby an order is made without the respondents having been called to testify — is seen as unusual.

Paper mill workers strike over pay talks

Eve Post 5/11/86

WORKERS at two Sappi paper mills — 400 in Port Elizabeth and 1 200 at Springs — are on strike in protest against the company's insistence on annual wage negotiations at plant level.

Employees at Sappi in PE stopped work today over the company's refusal to negotiate increases jointly for all its plants, the general secretary of the workers' union, Mr Jeremy Baskin, said. — Sapa

In spite of the recession . . .

Waltons lifts earnings 71,8%

5/11/86

By AUDREY D'ANGELO
Assistant Financial Editor

WALTONS, SA's largest commercial stationers, lifted earnings for the six months to August by an impressive 71,8% to 33c (19,2c) a share and the interim dividend by 35,7% to 9,5c (7c) a share, conservatively covered 3,4 times.

And, unlike other encouraging results reported in the past few days, these were not achieved from a low base.

In spite of the recession Waltons has increased profits consistently in the eight years since it was listed.

Acquisitions' earnings

Turnover for the six months rose to R89,8m (R61,7m), operating income before net interest and taxation to R12,1m (R6,1m) and net income to R5,1m (R2,5m). Attributable income rose to R4m (R2,3m) and the tax bill to R5,8m (R2,4m).

MD Frank Robarts pointed out in an interview that turnover had grown steadily from R11m in 1978/79 to R144,3m in the year to February.

"Our profits in the past six months exceeded our turnover for our first whole year as a listed company."

Apart from inflation, the earnings of acquisitions have contributed greatly to this growth.

"We buy companies which have not been doing very well and use our management expertise to turn them round," Robarts said.

Waltons spent R15m on acquisitions in the past six months. The latest, Gala, was bought for R7,5m in cash too recently for its figures to appear in the interim results.

Robarts and chairman J M Parrington say in the interim report that the increased profits were due to improved performances by all companies.

The existing Waltons operation contributed about 25% to the rise in earnings. Another 25% came from subsidiary and associated companies and the remaining 21% from companies acquired in the current year.

The only sad note is that Waltons is now considering disposing of its two Australian outlets through a management buy-out because the political situation has caused difficulties.

The interim report says "to date these operations have made no contribution to group profits and if necessary could be discontinued at an insignificant cost."

Robarts said: "The Australian venture cannot grow because people do not like the SA connection."

Frank Robarts

There were difficulties in getting containers unloaded and with financing the venture from SA.

The interim report forecasts that earnings for the whole year will be about 40% higher than in 1986.

It explains that "as a result of the additional profits now arising from companies who, for the first time, form part of our group, a more balanced spread of earnings will in future occur between the first and second six month periods."

● The holding company, Walhold, lifted earnings to 64,9c (37,8c) a share and the dividend to 19c (14c).

6/11/86 SM

1 600 out on strike at Sappi plants

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About 1 600 members of the Paper, Wood and Allied Workers' Union (Pwawu) are on strike at Sappi plants in Springs and Port Elizabeth, demanding company-wide wage bargaining.

Pwawu general secretary Mr Jeremy Baskin said yesterday that workers downed tools at Springs on Tuesday. Port Elizabeth workers joined the strike yesterday morning.

Mr Baskin said the strike was in response to Sappi's refusal to negotiate 1987 wage improvements jointly for all its plants.

Negotiations were in progress, Mr Baskin said.

The strike by about 500 members of the National Union of Mineworkers (NUM) at Gold Fields' zinc refinery, Zincor, continued for the third day yesterday, the company said.

The workers are demanding a 35 percent wage increase, free board and lodging, a six percent shift allowance, May 1 and June 16 as paid holidays, a 40-hour week and 36 days annual leave.

Sappi mill strike in second day

6/11/86 (194)

Post Reporter

THE strike at Sappi's Adamas pulp and paper mill in Deal Party, Port Elizabeth, today entered its second day.

The acting general manager of the mill, Mr Don Fourie, confirmed that 350 workers were on strike, but said negotiations with union representatives were continuing.

Negotiations yesterday ended in a deadlock.

The dispute involves a call by the Paper, Wood and Allied Workers' Union that pay negotiations be held jointly at the Sappi group's four mills in the country, not at individual plants.

Management insists that negotiations be held separately, according to Mr Jeremy Baskin, general secretary of the union.

● A strike is in progress at the company's Enstra Mill in Springs over similar demands.

Ciskei clothes manufacturers caught with their pants down

BUSDAY 7/11/86

CHRIS CAIRNCROSS

CLOTHING manufacturers who set up shop in labour-cheap Ciskei with the idea of using the independent state as a springboard into the important US export market have had their plans dashed by the introduction of sanctions.

Barred entry into the US, senior executives have set off on a desperate globe-trotting exercise to find alternative markets in Europe and the Far East — but with little hope of finding a line-up of eager buyers.

They are also turning their eyes towards the SA market, much to the concern of domestic clothing manufacturers, who complain the market is neither big enough nor sufficiently recovered to absorb any new entrants.

There is also concern that Ciskeian clothing is already entering SA through the back door, with manufacturers continuing to enjoy duty-free access to raw materials denied to local industry.

A spot survey by several large retailing groups failed to uncover any evidence that this was taking place to any extent.

REPUBLIC of China officials are painting a rosier picture about markets for the Taiwanese-owned garment factories in SA and the independent states. They say firms are having little trouble finding export markets.

Trade consul C C Kan says most of the 20 factories in the TBVC states are now selling to Canada, Europe and South America.

SA Chinese Clothing Federation chief Eugenia Chang says the Taiwanese began moving away from the US market a year ago.

Buyers confessed, however, that it was early days.

All orders for the season had been placed some time ago and the new year might present a different picture.

Basing forecasts on consumer purchasing trends over the past few months, clothing retailers are betting on a boom in sales towards the end of the year.

They argue that the decline in interest rates, leaves people with more to spend.

Sentiment has also improved in the wake of a number of forecasts that the economy will be in better shape during 1987.

The improved business conditions have raised capacity utilisation within the Western Cape's clothing industry to about 80%.

Recruitment is again taking place. Of 20 000 people who lost jobs over the past year, about 25% have been re-employed during the past three months, according to recent industry estimates.

Sappi strike — talks still on

TALKS between Sappi and the Paper, Wood and Allied Workers' Union were continuing yesterday in an attempt to reach agreement on a deadlocked wage issue, Sappi said.

It was reported that negotiations between Sappi management and the union had reached deadlock over the strike of 1 600 workers at two Sappi plants.

Workers at the Enstra plant in Springs and the Adamas Mill in Port Elizabeth struck on Wednesday and the day before in protest against the company's demand on annual wage negotiations at plant level.

The general manager of Enstra Mill, Mr Colin Kerr, and the general manager of Adamas Mill, Mr Don Fourie, said the union had suggested to Sappi group management a few weeks ago it would prefer to bargain on a centralised basis. — Sapa.

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Sowetan

7/11/86

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CT4P (S5)
STAR 9/11/88.

Strike hits two Sappi mills

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A TOTAL of 1 600 workers at two Sappi paper mills in Port Elizabeth and Springs are on strike in protest against the company's insistence on annual wage negotiations at plant level.

Four hundred workers at Sappi in PE downed tools over Sappi's refusal to negotiate annual wage increases jointly for all its plants, Paper, Wood and Allied Workers' Union general secretary Jeremy Baskin said from PE.

A strike began on Tuesday morning at the Sappi Mills in Springs, involving 1 200 workers. Workers at Sappi plants in the eastern Transvaal and Mandini, Natal, were still deciding what action to take.

Negotiations were underway to try to reach a settlement with the company, Baskin said. – Sapa

New hope in Nampak

11/11/86. STAR (194)

By Peter Farley
Investment Editor

Barlow Rand packaging conglomerate Nampak surged ahead in the second half of the year, despite being pulled down by a sluggish performance in subsidiary Metal Box, to post a more than 20 percent gain in net income.

Internal efficiencies saw improved margins, which allowed operating profit to leap by 28 percent, despite turnover up by only 21 percent. However, the way in which Metal Box slowed down the rest of the group is glaringly evident as Nampak itself managed to push operating income up by 40 percent.

The paper products were clearly the star performers, but it is worth pointing out that although earnings a share are up by 22 percent, they are are still only identical to 1984, less than was earned in 1983 and only seven percent better than the return shown in 1982.

Nevertheless, the return to significant profit growth will be a reassuring sign for shareholders, who have steadily pushed the share price higher from a 1985 low of a shade above R10 to around the R22 mark.

Dividends have, however, only been lifted by 13 percent to 79c a share, reflecting a more than twice covered payout.

The improvements at operating level, where better utilisation of capacity was a major contributor to bolstering margins, should continue and shareholders may be able to look forward to a more generous distribution next year — particularly in light of the current strength of cash flow, which totalled R100 million.

It is to be hoped the 21 percent increase in the final dividend, following a 35 percent surge in second half earnings, will be a sign of better things to come.

The biggest disappointment within the group was the poor performance of Metal Box's glass operations. Though originally in the Nampak fold this division was ceded to MB as part of the takeover almost four years ago.

But it appears that, despite the inclusion of a second furnace, the company is suffering under the intense competition from industry leader Consol.

RUTHLESS ACTION

Other new investments over the past couple of years — particularly in paper and related products — are beginning to shine. Also, ruthless action at Amalgamated Plastics and Tension Envelopes — both of which were closed last year — took the profit pressure off some of the other divisions.

The current share price yields only 3,7 percent on the increased dividend payment and looks fully priced. However, there is considerable scope for a repeat performance this year, particularly if Metal Box can get back on the fast track, and the results should now be a signal for renewed investor interest.

NEWS FOCUS 4/11/86. BUS-DAY (94)

Big business a force or a paper tiger?

ALAN FINE

THE RELEASE from emergency detention last Thursday of Paper, Wood and Allied Workers' Union (Pwawu) branch secretary Sipho Kubheka again raises the question of how influential big business actually is in the political arena.

Pwawu launched a campaign aimed at his release eight days previously (Wednesday, October 29), calling on the giants of the industry — Mondi, Sappi, Nampak and Carlton Paper among them — to intercede with government on Kubheka's behalf. Pwawu set November 12 as a deadline. If Kubheka was still in custody by that date it would take "appropriate action".

The 16 000-strong union had apparently been canvassing the idea of a work stoppage among its members, which would have brought the operations of almost every paper and board mill in SA to a halt.

Nampak reacted to the call promptly by sending a fairly strongly-worded telex to the Law and Order minister calling for Kubheka to be freed, praising his conduct as a unionist and warning that his detention had already harmed industrial relations in the industry.

A number of the other companies took a lower key approach. Upon inquiry, they were told that Kubheka's release was imminent. By the nature of these events it is impossible to tell precisely why he was freed. The SAP refuses to discuss the matter. Kubheka attributes his release directly to the union campaign.

The companies are not so sure. One management man argues that it occurred so soon after the representations that it must have been under consideration prior to that.

Apart from the Nampak telex, government was not actually "pressurised". The question is whether mere inquiries could have had the desired effect? Strange as it may seem, it is not impossible. After all, a large number of emergency detainees have been released as soon as lawyers lodged papers for a court application.

And back in June, it will be recalled, there were a number of strikes over detentions and subsequent approaches by employers to government. No employers actually took credit for the release thereafter of a number of unionists.

Indeed, they were told politely but firmly, that for government the priority was the security of the State. But there were indications that their approaches at least had the effect of expediting the release of some detainees apprehended in the massive June 12 swoop whose release depended merely on a sorting-out process.

But whatever the actual circumstances of Kubheka's release, one thing is certain — the union movement will see it as further evidence of their contention that business is politically more powerful than it is prepared to acknowledge; and similar demands will spread.

As one paper industry source worriedly says: "They will think we can just pull the strings — to get people out or in."

SA paper catching up on foreign prices

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By David Carte

SAPPI managing director Eugene van As has cold comfort for paper users, staggered by a 9% to 12% October price increase on top of the 16% in January.

He admits price rises have been steep, but he maintains that almost all SA paper is a good deal cheaper than imported equivalents.

Now that SA prices have done some catching up, he hopes Sappi's future increases will trail the inflation rate.

Mr van As showed Business Times graphs illustrating how the prices of all of Sappi's major products have trailed inflation in the past 10 years. They have only recently made gains on the CPI, but even over 10 years they lag behind the CPI.

North America

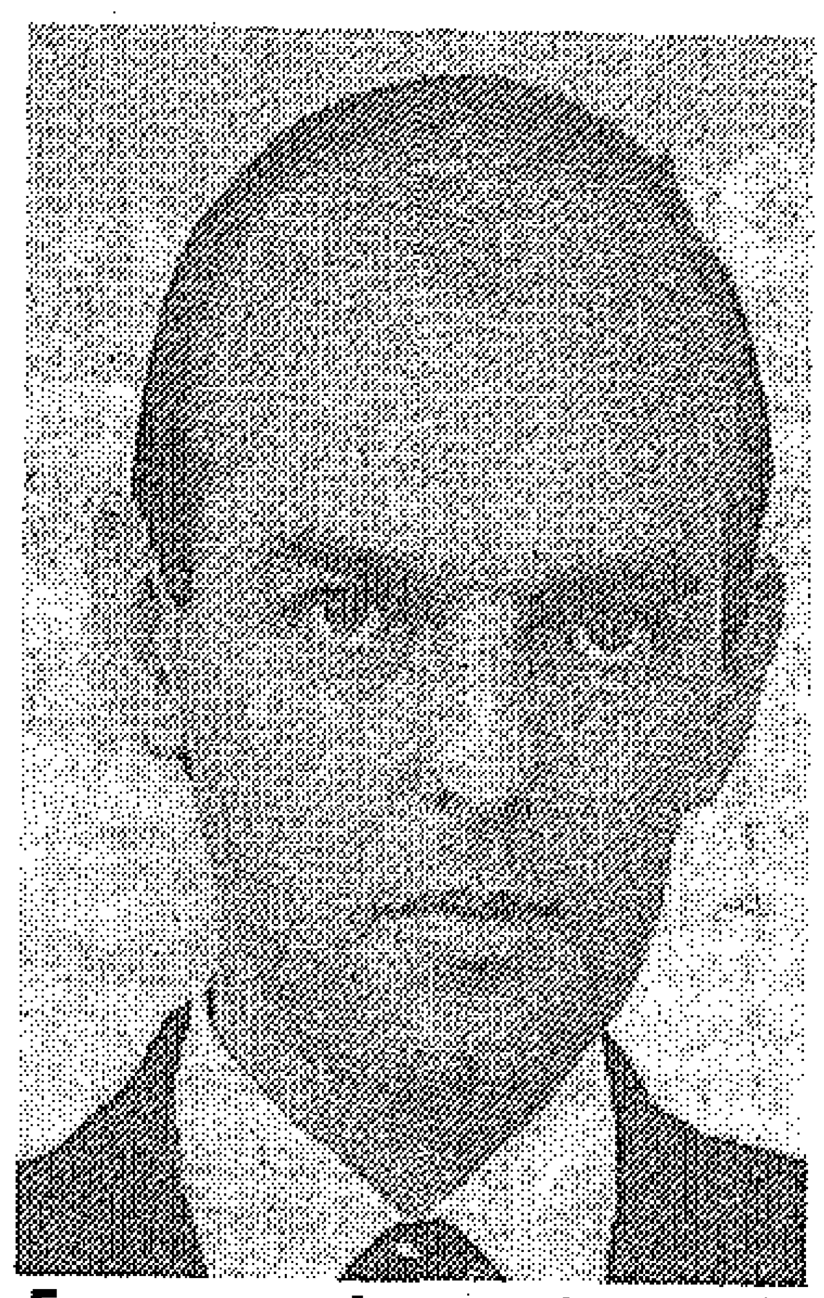
The problem is fundamentally that international prices have risen steeply while the rand has plunged, pushing SA prices higher and higher.

"Newsprint users complain about our prices, but we have done a study looking back over 10 years and in fewer than 24 months of that time was the domestic price higher than North American list prices. Today, for instance, the list price is $535 a ton, or R1 215, while our ex-mill prices are R918 a ton."

"Where you have cost plus, as we do, you get relatively stable increases. World prices gyrate far more than ours. There were times when offshore prices were lower than ours — but on average you cannot get paper cheaper overseas.

"SA prices are moving up because foreign ones are. Pulp prices have risen from $350 a ton in Europe to $500 and liner board from $260 to $405."

Mr van As says Sappi is criticised because where its products overlap with those of its chief SA competitor, Mondi, there is close similarity in prices.



Eugene van As ... still behind inflation

"It is precisely because there is competition that prices are similar. Where you have similar products, if your prices are out of line, you lose your market share.

"From time to time we increase our prices and hold our breath hoping they will too, or we might have to back down. I am sure it is the same for them. Collusion is out of the question. You go to jail for that."

Dumping

He believes there was a time when SA prices, depressed by foreign dumping, were severely depressed and trailed inflation. Now that they are moving to catch up, users are squealing..

"Coated has always been a good deal more expensive than uncoated paper. Until two years ago there was a flood of dumped coated paper in SA. For a while coated paper prices were weak and even depressed uncoated prices. The margin between the two narrowed.

"Now this pressure on coated papers has been removed by improving prices abroad and the weaker rand, the margin is coming back and coated paper prices have moved up even more than uncoated ones. Demand for coated papers has improved dramatically. This explains steep rises in coated prices."

Mr van As says most paper-producing countries enjoy tariff protection, but SA producers receive no protection in uncoated paper and only 10% in liner board.

Mr van As reports that the Ngodwana mill is performing better and better. Now that its turbine is on stream, it is 60% self sufficient in electricity and less subject to shutdown because of blackouts. Sappi is considering spending more millions on another turbine, which would make it 100% self sufficient and enable it to sell power to Escom, rather than the converse.

Spectacular

Recent price and production trends may have hurt printers, converters and packagers, but not Sappi, which is recovering spectacularly.

In the six months to June, Sappi earned a meagre R10,6-million, but this was a R30-million improvement on the previous year's interim loss of R20-million.

Sappi has said it will pay a dividend of 40c at the end of the year. Taking into account policy of dividend cover of 2,5, earnings of 100c are indicated for the year. There are 64,9-million shares in issue, so we are looking at a taxed profit for the year of R65-million odd.

The share price has had a scintillating run from 550c at the end of last year to the present 1 300c.

That offers a forward dividend yield of 3% and is 13 times expected earnings, which is not unreasonable considering prospects from 1987 are even better.

The preferred ords, offering a dividend of 126c until the ords catch up, are still at the issue price, at which they offer a yield of 9%. They are to be preferred.

FIN MAIL

PACKAGING 28/11/86 (194)

Back in the game

After an unusually long eight-year restraint of trade, Jeff Rubenstein is back in the plastics business and pitching against his main opposition, Nampak — the company which bought him out for R5m in 1978.

Rubenstein, who grew up in the family packaging business, first turned his hand to plastics in 1969. Nine years later Rubenstein Plastics was sold to Nampak, whose management, in terms of the buy-out package, insisted that he quit the industry for eight years.

During the lay-off, he built up Rubenstein Finance which has now bought Transpoly, which was owned by his ex-factory manager, Giovanni Pasteris.

"He had built up a fairly good business but now we've built a new factory and we're going to use it as a basis to develop," says Rubenstein.

His entrance into the market is being watched with interest by competitors Nampak, Consol and Kohler.

Rubenstein says he has invested R21m (half of it his own money) in the new operation, which uses computerised equipment to turn out the supermarket checkout bags, shrink wrapping and heavy-duty bags.

In budgeting for the first full year from January, he hopes to achieve a turnover of R20m and to go on from there.

"Our strength is going to be price. We have to pitch it lower. To a customer, a bag is a bag and they'll go for the cheapest if it's backed up by service and quality."

His delight at bringing most of his "old teams back together again" in the new company should serve as warning to the opposition. But Nampak Polyfoil MD Colin Amef is not fazed: "I welcome competition, it's good for business." ■

Nampak employees threaten all-night sit-in

CAPE TIMES 28/11/86 1984

By CLARE HARPER

WORKERS at the Nampak Paper factory in Bellville began a wildcat strike yesterday morning and while management refused to meet the union "under duress" workers threatened to hold an all-night sit-in at the factory.

A spokesman from the Paper and Allied Workers Union said about 100 workers downed tools at the shift change at 7am before a wage-negotiating meeting between management and the union.

The workers struck, without the knowledge of shop stewards, over dissatisfaction with the time allocated for wage discussions with the union.

The general manager of Nampak Paper Ltd, Mr D Sabbatini, said yesterday that the strike pre-empted a wage-negotiating meeting due to take place at 9am.

"As a result of the stoppage the wage negotiation meeting has been postponed as management feel negotiations cannot proceed under duress. The company will reconvene the meeting as soon as circumstances allow."

However, a union official said that management refused to meet the union to discuss resolving the strike until the strikers returned to work.

At 2pm yesterday workers mandated the union to inform management that if they were not prepared to meet the union "they were not prepared to move".

News in Brief CAPE TIMES 29/11/86

Nampak strike ends

WORKERS at the Nampak Paper factory in Bellville who began a wildcat strike on Thursday, returned to work yesterday morning after management had agreed to meet the union. According to a spokewoman for the Paper and Allied Workers' Union, about 100 workers representing two shifts had decided to return to work yesterday morning and await the outcome of talks the union held with management yesterday.

Syria recalls Bonn envoy

Waltons moves in

9/12/86 BUSDAY 194

LIZ ROUSE

WALTONS Stationery Company has tied up a deal with the Robin group, most of whose subsidiaries were placed in provisional liquidation in September.

Waltons has reached agreement to buy Amalgamated Industrial Investment Corporation's (AIIC) holding of 775 259 ordinary shares and 134 559 preference shares in Premier Industries.

Settlement will be R400 000 cash for the ordinary shares (51,6c a share) and R1 cash for all the prefs. In addition, Waltons will arrange that the inter-company debt of R82 992 owing by AIIC to Premier will be waived by Premier.

Waltons will make an offer of 62,3c a share to Premier minority shareholders.

Following the transaction and payment of AIIC's creditors, it will be left with net cash of about R300 000, its only asset.

Negotiations are continuing for possible injection of assets into AIIC, which will change the nature of its business. The deal is conditional on approval by AIIC shareholders and the offer of compromise with Premier's creditors being sanctioned by the court.

194 SUN TIMES 14/12/86

Waltons makes a punter's million

Six-year return on R35 000 stake

By David Carte

WALTONS Stationers is Business Times Top Company for 1986.

The fast-moving stationery giant gave investors who held the shares for the five years to September an average compound return of 77,8% a year.

In other words, a shareholder who bought R1 000 worth of Waltons in September 1981 and sold in September 1986 would have ended up with R17 690.

If you had held R35 000 of Waltons since 1980, today your shares would be worth R1-million.

Excellence

Some companies get to the top of the charts through special circumstances, such as a falling rand, soaring commodity prices, a major rerating by the stock market or even through establishing a monopoly. But in Waltons case, top spot was the result of solid fundamental performance.

Managing director Frank Robarts and his team are traders par excellence in a market that is not even booming (see page 6).

The company not only tops the list as the best performer for shareholders, but is No 7 in growth in earnings a share.

It is thus one of only two "Royal" companies ranking in the Top 10 according to performance for shareholders and to earnings growth over five years.

The other was Robin Hamilton's remarkable Natal soft-drink group, Suncrush. Trek Petroleum, ranking 11th by return to shareholders and ninth by earnings growth, missed royal status by a whisker.

The fallen rand certainly played a part in placing Anglo American's Free State Development in No 2 spot.

A shareholder who bought "Freddie's Devils" five years ago received an average annual return of 61,5%. His initial investment of R1 000 would have grown in the period to a respectable R11 000.

The stricken rand meant spectacular mining profits and dividends as well as share price gains for miners and all exporters. The Free State mine merger also did Freddies holders proud.

Every South African consumer and not a few foreign debtors in the private and public sectors had reason to rue the ruin of the rand.

But thanks to currency depreciation, 38 of this year's Top 100 are mining companies or mining houses and a good number are mine suppliers. Other exporters and rand hedges generally — Remgro, for instance — are prominent.

Last year's top company, Metair, managed No 3 spot, but stablemate Toyota plunged from second to 65th because it proved less immune to trouble in motor country.

Metair moved, by means of a rights issue not followed by Toyota or Wesco, to distance itself from Toyota this year, so that it can undertake manufacture of parts for other motor companies as well. The market obviously likes its prospects.

New measure

Suncrush (last year's No 8) moved up to No 4 — also on a solid fundamental performance. Suncrush came in ninth in the earnings a share race.

If gold did well in rand terms last year, platinum did even better, so Rustenburg's fifth spot should surprise nobody.

Loucas Pouroulis's Consolidated Modder emerges as a mining house of the future, coming in sixth.

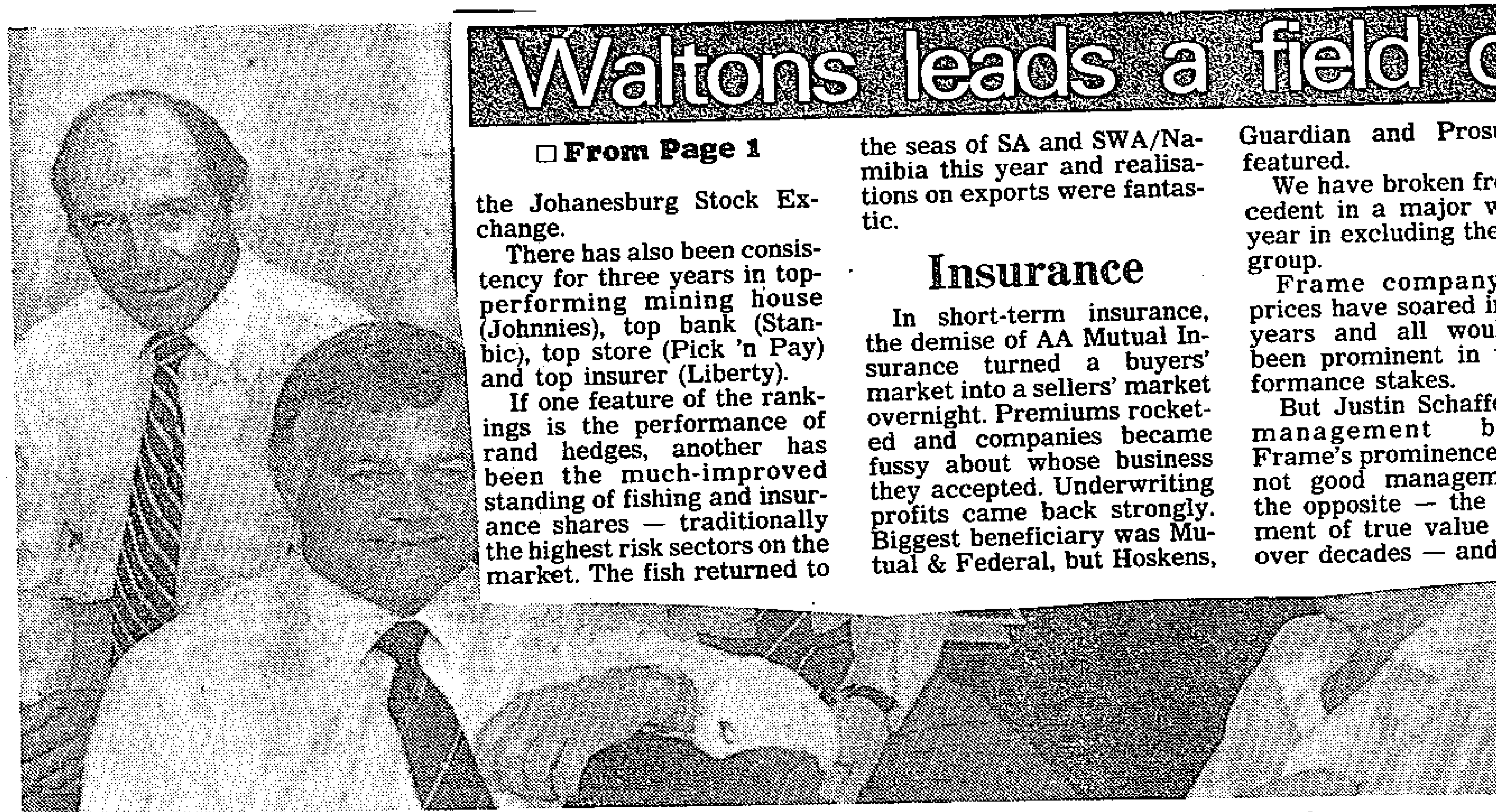
Randfontein's seventh position shows heavyweights have been the right spot in the past five years — bearing in mind the positions of Rustenburg and JCI.

Because of the fallen rand, one might have expected this year's list to be fairly different from last year's, but there is some consistency in our method of selection.

Several names in the top 20 have been prominent in the three years now that we have used our new measure of performance — Waltons, Suncrush, Trek, Northern Engineering, Altech and Gypsum, for example.

There can be little doubt that these are among the highest quality counters on

□ To back page



Winning team — (from the left) Len Chimes, Transvaal managing director; Frank Robarts, group managing director; Steve Phelps, financial adviser; and Transvaal managing director, Mark Davis

Waltons leads a field of winners

□ From Page 1

the Johannesburg Stock Exchange.

There has also been consistency for three years in top-performing mining house (Johnnies), top bank (Stanbic), top store (Pick 'n Pay) and top insurer (Liberty).

If one feature of the rankings is the performance of rand hedges, another has been the much-improved standing of fishing and insurance shares — traditionally the highest risk sectors on the market. The fish returned to the seas of SA and SWA/Namibia this year and realisations on exports were fantastic.

Insurance

In short-term insurance, the demise of AA Mutual Insurance turned a buyers' market into a sellers' market overnight. Premiums rocketed and companies became fussy about whose business they accepted. Underwriting profits came back strongly. Biggest beneficiary was Mutual & Federal, but Hoskens, Guardian and Prosure all featured.

We have broken from precedent in a major way this year in excluding the Frame group.

Frame company share prices have soared in recent years and all would have been prominent in the performance stakes.

But Justin Schaffer's new management believes Frame's prominence reflects not good management but the opposite — the concealment of true value built up over decades — and then its sudden disclosure.

We kept the Frame companies in last year because we felt they were proof of Joel Stern's thesis that dividends do not count, that value built up with conservative financial policies over years will eventually come out.

Frame company share prices have doubled and trebled in the past few years.

"That was like receiving a turbo-boost," says Mr Schaffer. "We would like to make the Top Companies list on our own merits, not on historical aberrations."

194 SUNTIMES 14/12/86

Stationary? Not fast-moving Waltons stationery group!

WALTONS' earnings and share price growth over the past five years has been anything but stationary.

This year the stationery group earned a staggering 37,6% after tax on shareholders funds and landed the number one spot in the country's top 100 list.

It has notched up an earnings growth of 27% a year for the past five years and a dividend growth of 26,5%.

Waltons is also this year's royal company ranking tops among companies in terms of both cash returns for shareholders and average annual compound earnings growth in the five years to September 1986.

The group, which manafacturers and deals mainly in stationery, but also in office equipment, computer stationery and toys has been the answer to shareholders wildest dreams.

Waltons has rewarded shareholders who came on board in September 1981 at an average annual rate of

By Ruth Golembo

77,7% a year.

There have been no heroics from the company — no sudden jumps or falls — but a constant surge of growth and expansion that made the balance sheets gleam.

Frank Robarts, the group's managing director says the secret of the company's success is their no-frills profit-orientated operation.

Philosophy

"We are guys who know our business — we concentrate on profits — buy well, sell well and keep operating costs at a minimum.

"We are not the type of company which employs hundreds of executives with fancy titles who sit in fancy offices and do very little.

"We run a very tight ship of people who know their business and are not scared to get their hands dirty."

One would have to look far to find offices as humble, as functional and as close to the factory floor as those of the group executives in Johannesburg.

"And if you think these are modest — you should see our head office in Cape Town and our Durban offices," Mr Robarts says with a laugh.

A big contributing factor to the groups' performance he thinks is the involvement of the staff.

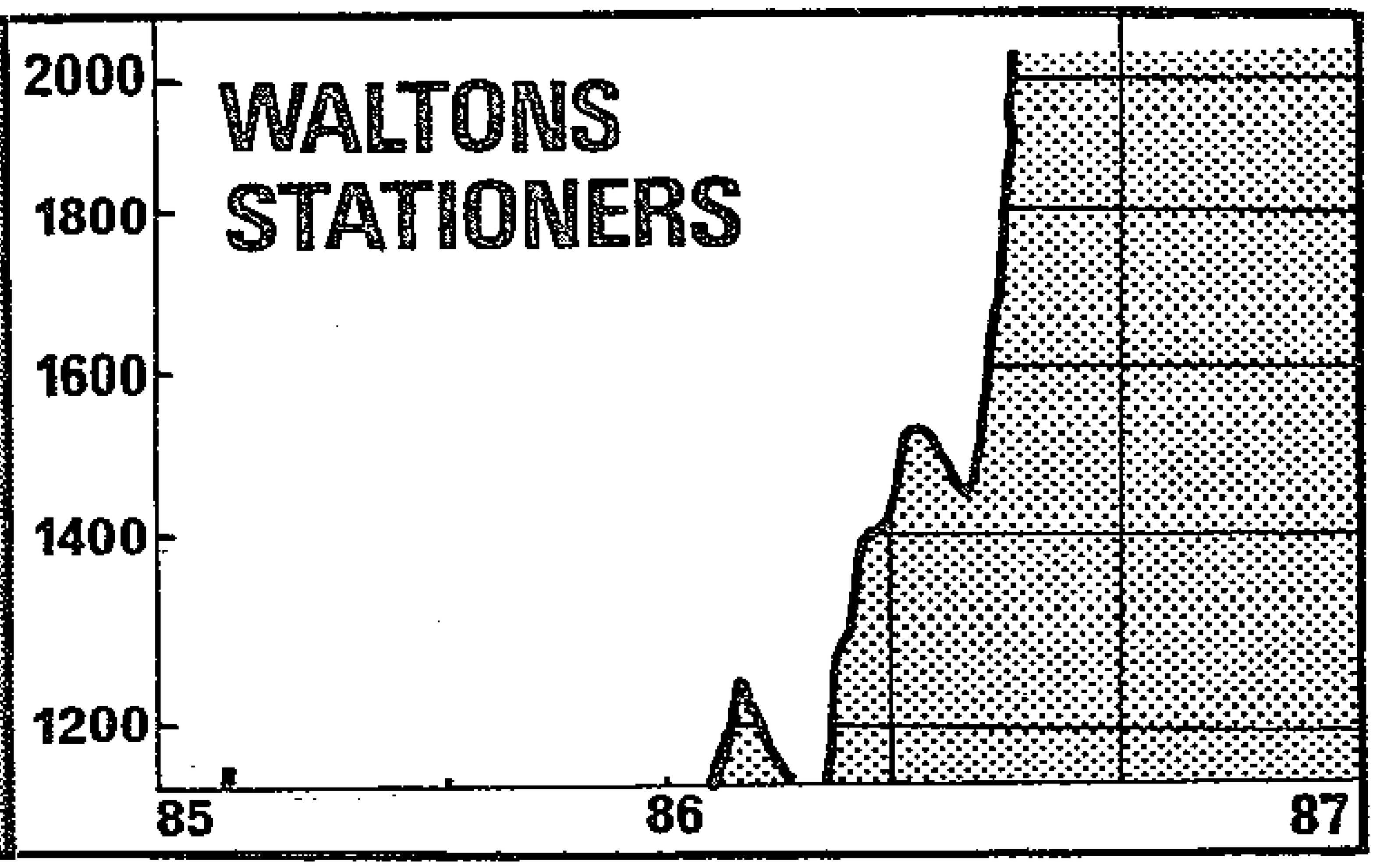
Staff numbers for the group have increased threefold in the past three years to 3 000.

"We have a share incentive scheme by which staff are rewarded. Seven percent of our shares are in the hands of 300 of our staff members and this has done wonders for staff morale and motivation.

"For instance there is a stationery representative in Cape Town who has owns 2 000 shares which over the past six years have made her a wealthy woman with a R30 000 investment.

"In order to increase the number of staff shareholders the group decided to subdivide the existing shares of the company.

Success jumps them to the No 1 spot



"The number of shares available to staff is to be increased to 10%."

Mr Robarts says it was necessary to increase shares by subdivision because no new shares have been issued in the company. All acquistions and expansions were paid for in cash.

"We still have on board some of the original staff members who have been with the company for over 40 years.

"Septuagenarians Abe and Les Chimes and Norman Walton are still actively involved in the day-to-day running of the business.

"Managers in other sections have all worked their way through the ranks and they know their business. We feel the best way to thank staff for their help in building up the company to what it is today is to give them a share in things. The only way we could do this was to increase the company's shares."

Waltons has grown tremendously in the past seven years and is now the biggest group in its field.

Its growth in the past two years has been especially dramatic.

Besides two profit-making acquisitions, it came to the rescue of five companies which were badly in the red and turned them round to profitability in next to no time.

In the case of one company that was sinking fast, the Waltons' management took it over and after a few ruthless staff and operation cuts, put it back on its feet only two months after the takeover. ... past sections back on their feet."

Waltons' star performance must also be attributed to limiting increases in working capital, repaying debts, keeping a watchful eye on gearing, efficient stock control and debt collection.

"We are in a good cash-generating business and believe in ploughing a lot of this back to fund the company's growth."

Debtors

Waltons' average invoice is about R55 and it handles about 45 000 accounts mainly in the corporate market in the supply of commercial stationery.

"We are very proud of our debtors accounts. Despite the difficult economic times we have been able to improve our debt collection period and increase our market share considerably.

"Market share is something we never like to attempt to put a figure to, but our sales go up yearly and the market has not increased that greatly, so we must be doing something right.

"We occupy a totally different market segment to stationery sellers like the CNA whom we see as operating in a 'housewives' market'.

"We can offer stationery at great discount to companies that have credit facilities. We deal mainly in the commercial and industrial equipment market whereas other stationery dealers often have a limited field."

panies we are now selling computer ribbons; ordinary lever arched files are now being replaced by computer binders.

"We sell a complete range of computer stationery so a company can come to us for one-stop shopping, not just for pens and pencils."

In September two years ago Waltons opened a stationery store in Australia and later a second one, but the future of the two stores now hangs in the balance.

"We have appointed someone to look into conditions on the Australian market. Because of anti-South African sentiment things have not been going so well with these stores. To date they have made no contribution to group profits and if necessary could be discontinued at an insignificant cost.

"A decision about the future of the Australian operation will be made soon."

Only 20% of Waltons turnover is made up of imports. Mr Robarts says there is no threat of sanctions affecting imports as they come mainly from the East.

Expansion

"We are looking to increase our local manufacture but in some lines it is not financially viable to do so at this stage."

The company went public in 1979 as Hortors Waltons with a turnover of R11...

12 months cost a total of R16-million and were paid for in cash.

"One of the main reasons for our successes in turning our acquisitions back to profitability is the fact that we don't buy companies as investments but as business operations and get stuck in.

"We usually retain the bulk of the staff and by a general clean-out — cutting loss-making sections and applying strict management controls — we can get profitable

Waltons was one of the first stationery companies to make a massive drive into the computer stationery field.

The move into the high technology field has increased the company's product range.

This field, says Mr Robarts, holds especially exciting prospects for the future because of the boom in the computer industry.

"Where we used to sell typewriter ribbons to com-

lion a year and pre-tax profit of R1-million.

By year-end February 1986 turnover is up to a whopping R144,3-million and taxed profit to R10,3-million.

This year the company is forcasting sales of R200-million and taxed profits of R14-million — 40% up on last year's earnings.

Mr Robarts says the new companies in the group will contribute substantially to earnings in the current year.

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Sun Times 16/12/86

194 Fin Mail 19/12/86

CNA GALLO

Falling into step

CNA Gallo is beginning to overcome the problems which arose out of the 1983 merger. While it's still early days, and investors are cautious, the stock is likely to soon show a better performance than the pattern of the immediate past.

A weakening rand, boycotts, import duties, disinvestment, and languid consumer spending have sounded discords in the CNA Gallo duet since the two groups merged in 1983. The first bars of a more harmonious tune were sounded in the six months to September, when indications emerged that the group was breaking out of its depressed earnings groove.

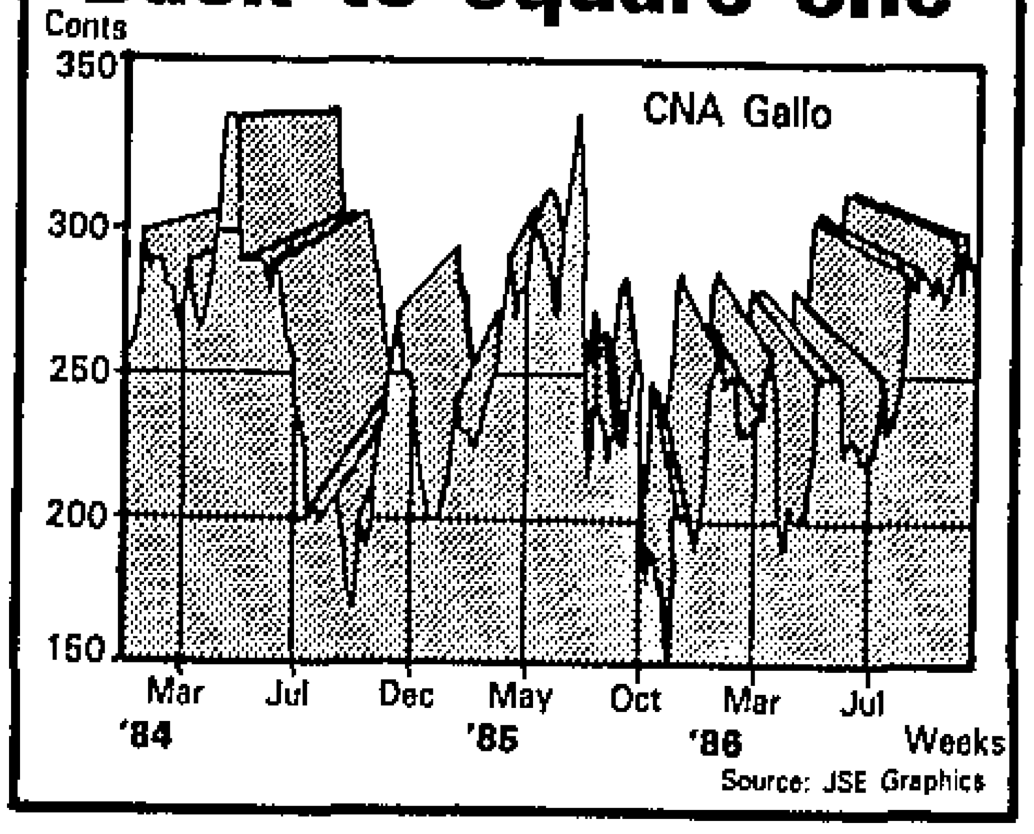
A reviving market and improving efficiencies in the organisation resulted in interim margins widening from 2,8% to 3,2%. The past year saw the merger in the literary division of American & Overseas Publications and Universitas, while the entertainment division reduced the number of record companies from five to three. Loss-leaders are now largely rationalised and, after several disposals, the group is clear of companies which do not fit corporate strategy.

MD James Mackness says there could be further sales if certain areas of over-capacity are identified, but the record manufacturing business has been cut back as far as it can be. Apart from further minor rationalisation, the group is looking to improving markets to help maintain the better earnings trend established in the first half. Mackness is realistic about this.

"There is no question there's been a freer spend on the entertainment side, but the retail division will lag the upturn," he says.

CNA division MD James Lowman says sales have increased by about 10% this year, and if the latest upturn in spending is led by black consumers, CNA will not benefit to the same extent as the entertainment division. That division reports an appreciable improvement in sales to the black market, which accounts for about 50% of sales.

Back to square one



While the group does seem to be dancing to a more lively tune in recent months, and analysts believe earnings should recover close to 1984 levels for the year, there remains some investor wariness. This is evidenced in the less then scintillating performance of the share price, which rates a prospective p:e of about 7,2 and dividend yield of about 5,8%. One retail analyst says CNA Gallo's apparent vulnerability to socio-political issues is causing the cautious investor attitude. Investors perceive such threats as including strikes, boycotts, a weaker rand, disinvestment and sanctions.

The group averted a potential strike at Christmas last year — a wage dispute with the Commercial Catering and Allied Workers' Union (Ccawusa) was finally settled after conciliation board hearings. Management granted shop assistants an average wage increase of R580 a year.

This year, Ccawusa declared a dispute in July and 600 workers went on strike in November after rejecting a company offer of an R85 a month across-the-board increase. The union was demanding R105. Strikers staged noisy protests, roaming CNA stores at peak shopping periods singing songs and brandishing placards. The dispute was settled this week, with the union accepting the R85 a month offer.

These two settlements mean the average wage for CNA workers will have increased by 41% from R354 a year ago to R500, but this increase has reportedly already been written into the group's budgets for the year, and should not cause management to revise forecasts for the second half.

As far as any concerns about boycotts are concerned, CNA stores, at least, are not greatly exposed — Lowman says black buyers are in the minority in these stores.

Disinvestment has already been costly for the group. US record giant CBS pulled out of the South African record market in April and Gallo Africa had to pick up the tab for the 49% stake which CBS held in Gallo's Gramophone Record Company (GRC). The purchase was funded by borrowings which increased from R19m at year-end to R27m at interim. There is concern about further disinvestment, but Mackness says that only one other partnership could be vulnerable to disinvestment.

When the book trade campaigned against the import surcharge on books earlier this year, it complained that the surcharge, the weaker rand and GST had caused book prices to rise by 120% since 1982. The surcharge was dropped in March, but the weak rand has kept prices high.

To counter the price rises, the group has cut back on stocks, reducing the range of products in certain branches, and every opportunity to increase local production is being investigated. Mackness says CNA's support subsidiaries have a particularly important role to play — the division includes publishing, card and stationery operations.

Ian Outram, director of the support division, says about 60% of all hard-cover books (including Bibles and road-maps) sold by the group are now produced locally. He says the group is looking at local manufacture of any product which is sold in sufficiently large volumes. Local printing of imported magazines is more difficult because of short runs, but CNA Gallo is negotiating wherever possible to have them printed in SA.

The group believes books will be exempt from foreign government legislated sanctions because of the educational nature of the product, but the record business appears vulnerable to anti-SA sentiment.

While some 98% of all records sold by the group are locally manufactured, overseas licences make up the lifeline of the business. Gallo division MD Doug Band says provision has been made for sanctions by negotiating long-term agreements with licensors. Should any licensors breach the agreements, CNA Gallo would still hold the rights to the music, and would have the right to use alternative sources.

The group has also made provision in its accounts for possible artists' boycotts and unstable currency and market conditions by writing off video and music contract advances on payment or release of the product, whichever is earlier. This change of policy was introduced in the last financial year — in previous accounting periods these advances were written off over the contract period after taking into account sales achieved.

The effect was to reduce earnings from 41,7c a share in 1984 and 42,8c a share in 1985 to 39c and 26,1c respectively — the adjustment took some R5m off the bottom line in 1985. The change in the accounting policy will not materially affect earnings this year. Goods being sold in the current year are royalty free, owing to previous write-offs, and this will balance the advances being written off in the current year.

CNA's UNEVEN RECORD

	1984	1985	1986
Turnover (Rm)	283,6	292,5	309,2
Earnings (c)	39,0	26,1	26,2
Dividends (c)	16	16	12

Socio-political concerns aside, CNA Gallo has good growth prospects in several avenues. The entertainment division is expanding into the high-growth video field, and since the acquisition of the Mandalay video business last year, it has the largest video production facility in SA. Band says this area offers substantial growth opportunities, especially in the manufacturing of advertisements and training and educational videos. The group is also expecting good growth from its 100 newly established video outlets in CNA stores.

This year the entertainment division is expecting to recuperate from earnings depression. Pre-tax profit from this division has fallen from R9,4m or 39% of group profit in 1984, to R930 000 or 6% of group profit in 1986.

Band says the division will contribute to group profits in a similar proportion to 1984, which suggests a return to profits of about R9m, while the retail division, which contributed R8,4m in pre-tax last year (R9,3m in 1984), will have to run to keep up. The support division, which has nurtured steady profit growth in the past three years, should push its contribution to more than R6m.

Management declines to comment on analysts' speculation that the group could earn R12m this year, but the interim earnings of 9,8c a share, coupled with last year's second-half performance, when earnings were 23,4c a share, certainly lend support to projections of earnings of about 38c for 1987. In addition, Mackness says experience has shown every Christmas to be better than the previous year; and, although he does not altogether agree that spending power is greater than last year, he believes CNA Gallo is filling a larger proportion of consumers' Christmas shopping bags.

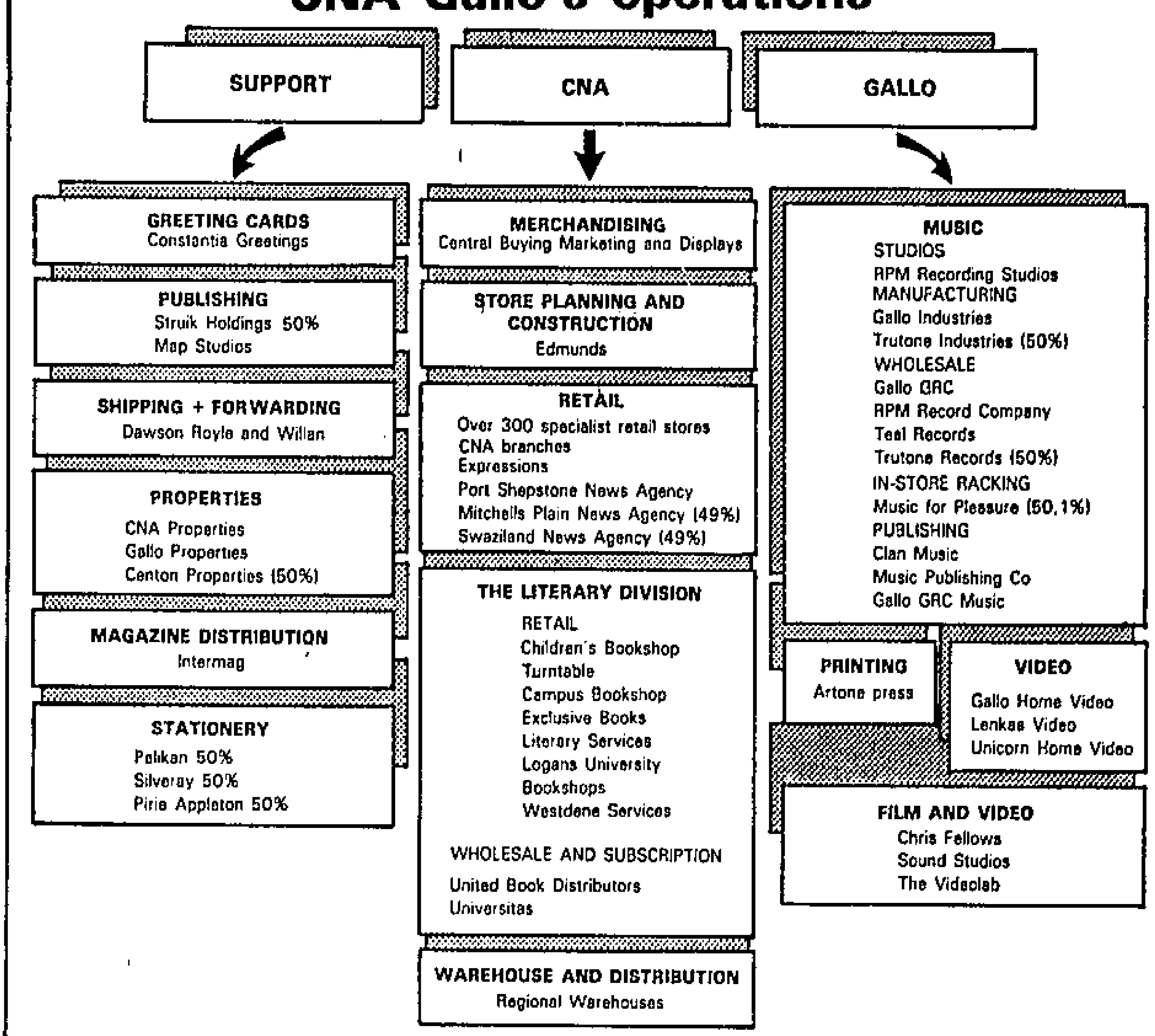
The group expects operating margins, which fell to 6,7% and 6,2% in 1985 and 1986, will top 7% for the year, and the interest bill will fall because of lower borrowings and rates. Borrowings have been reduced, despite payment of cash for the GRC and Mandalay acquisitions, because cash was realised from the sale of certain listed investments. The tax rate, a full 50% last year, will be about 43% to 44% this year as assessed losses have been absorbed.

While financial director Malcolm James says the board would eventually like to raise dividend cover to three times because of high inflation, analysts expect the group to maintain its final dividend of 12c to make a total of 16c for the year, representing cover of 2,38 (2,18).

While the share is unlikely to be rated at the same level as high fliers in the retail sector, at 275c it is certainly enjoying less support than deserved. Certain reservations might be well founded, but the group has a sound financial structure and is scrambling to cover up its exposed flanks. Good results in the second half should win it some friends and help the share price climb out of its ditch.

Kerry Clarke

CNA Gallo's operations



Barlow's offshore arm makes first big buy

Bibby acquires US printer for $26,5-m

194

STAR

19/12/86

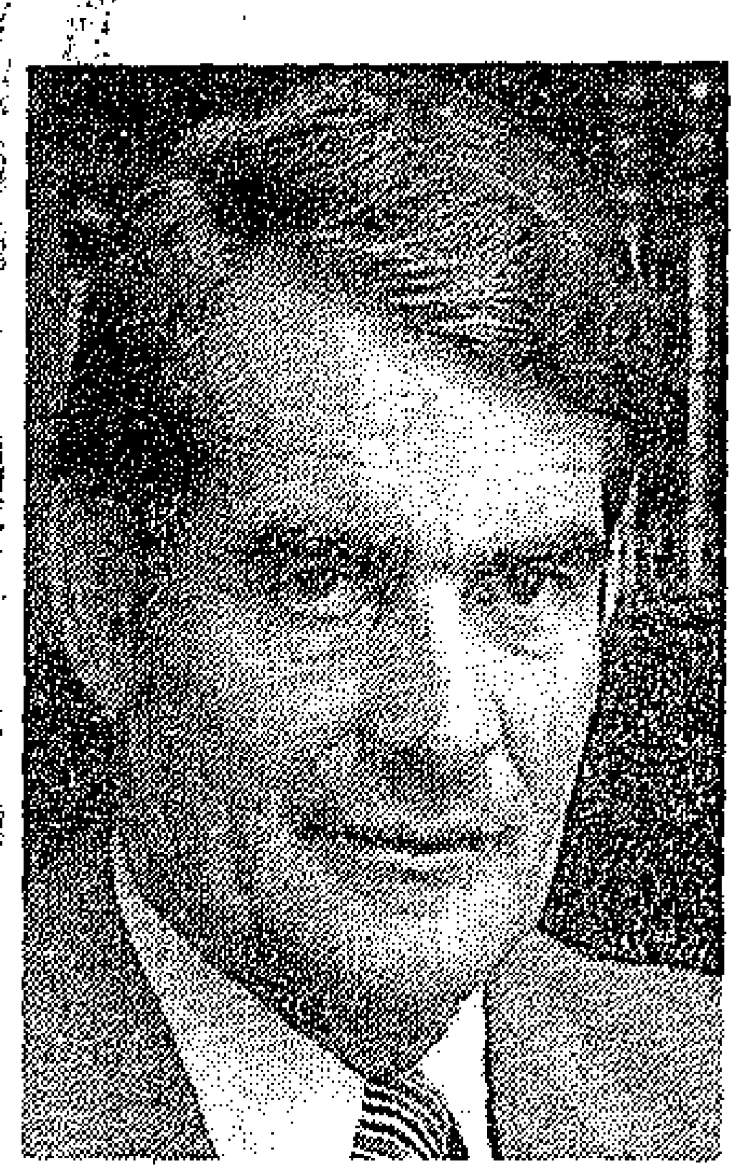
By Peter Farley
Investment Editor

J Bibby & Son, Barlow Rand's offshore platform, made its first major acquisitive move this week with the purchase of US-based cheque printing company Interchecks for $26,5 million.

The deal has been structured through Bibby's packaging subsidiary in the US, Princeton, and provides the first meaningful proof of Bibby's intention to develop a widely based industrial conglomerate overseas.

Bibby's chairman, Mr Bas Kardol told *The Star* the purchase was an important strategic move designed to improve the group's earnings' quality. It will be paid for out of borrowings, through the recently announced £70 million facility arranged in London.

Before this deal the group had cleared its balance sheet of debt, but is opting for borrowings to grow because of the poor rating currently accorded its scrip in London. However, this should go some way to restoring investor faith in Bibby's longer term intentions and provide some impetus for an upwards movement in the share price.



Bas Kardol

The Intercheck deal is based on a PE of 10, with the Seattle-based printing operation currently producing annualised net profits of $2,6 million on sales of $56 million. Net worth, based on historic cost, is only $7 million.

The deal is certainly well below the going rate for similar companies in the US, with Interchecks' two biggest, listed competitors trading on the stock exchange at PE multiples of around the 23 mark.

Mr Kardol says, however, that there is enormous potential for earnings growth within Intercheck after recent changes by a new management team and the current returns are considerably in excess of budget.

The group has 12 printing facilities in the US, mainly concentrated in the north west, around Seattle, the south west, around Los Angeles and then scattered across the south in states such as Tennessee, Mississippi, Arkansas and Arizona.

In its north west stronghold the company has some 35 percent of the market, with about 10 percent in each of the other areas in which it operates.

One of the company's greatest assets, says Mr Kardol, is the solid growth in a non-cyclical market. Bibby also has the benefit of being able to draw on the experience of the cheque printing company already operating in SA in the Nampak fold, under a joint deal with the UK's McCorquindale.

And though there are no plans at present, it would not be a surprise to see Interchecks extend its business activities into the credit card field.

For the time being, however, Mr Kardol says plans are already under way to spend some $9 million upgrading and modernising much of the company's plant and equipment. This should also lead to significant savings and improve efficiency.

NAMPAK

FIN MAIL 9/12/86 194

Adding the bows

Activities: *Manufactures, markets and services packaging, paper and related products.*
Control: *C G Smith holds 71,7% of the equity. The ultimate holding company is Barlow Rand.*
Chairman: *D Brown; managing director: D B McCartan.*
Capital structure: *41,96m ords of 50c; 100 000 6,5% cum prefs; 400 000 6% cum prefs. Market capitalisation: R839,2m.*
Share market: *Price: R21 Yields: 3,8% on dividend; 8,3% on earnings; PE ratio, 12,1; cover, 2,2. 12-month high, 2 200c; low, 1 375c. Trading volume last quarter, 403 000 shares.*
Financial: *Year to September 30*

	'83	'84	'85	'86
Debt:				
Short-term (Rm)	13,2	58,3	92,3	46,7
Long-term (Rm)	48,1	129,8	163,7	120,2
Debt:equity ratio	0,24	0,45	0,47	0,28
Shareholders' interest	0,57	0,46	0,48	0,51
Int & leasing cover	7,2	4,5	2,8	4,1
Debt cover	1,4	0,72	0,56	1,07

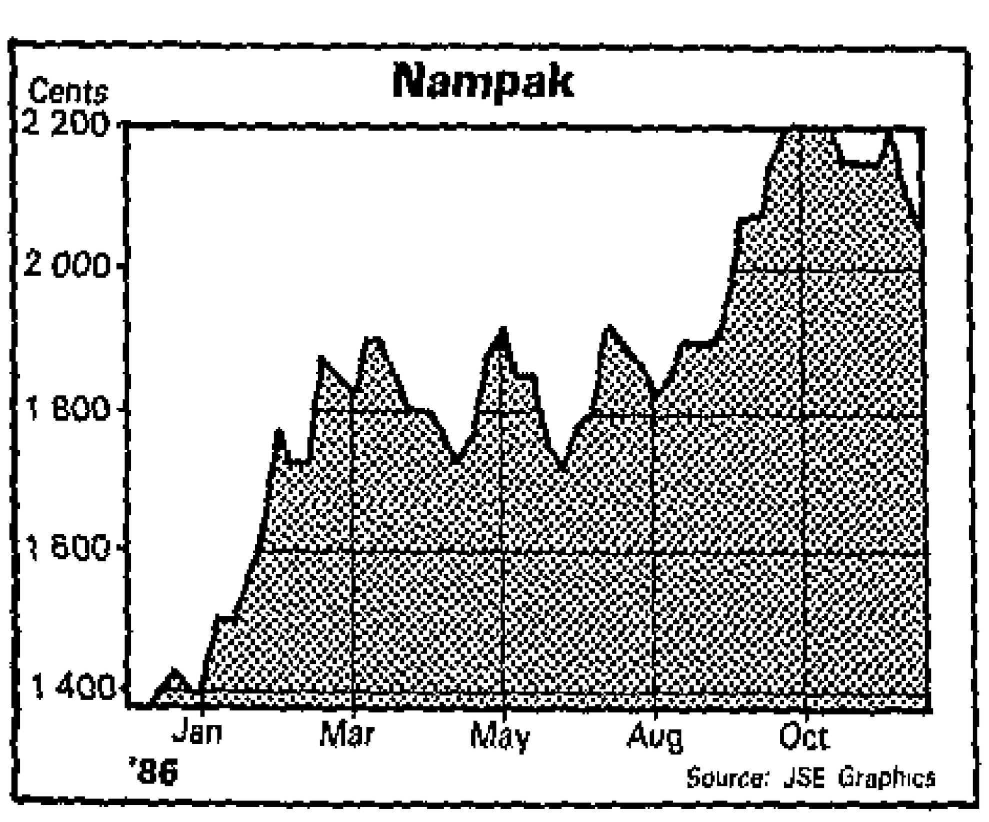
Performance:

	'83	'84	'85	'86
Return on cap (%)	26,0	17,9	13,9	16,6
Turnover (Rm)	674	1 313	1 437	1 734
Pre-int profit (Rm)	115,0	162,4	156,9	194,7
Pre-int margin (%)	16,8	12	10,5	10,8
Taxed profit (Rm)	65,7	93,8	80,8	96,2
Earnings (c)	179	175	143	174
Dividends (c)	70	70	70	79
Net worth (c)	685	693	935	1 025

The packaging sector is well known as a leading economic indicator, and, true to form, Nampak's 26% improvement in turnover in 1986 presaged the upturn in consumer spending. Reports that strong volume growth has continued since year-end, suggests that retailers are putting their hopes on a good Christmas.

The biggest boost to Nampak's results came from Nampak Products, which increased taxed profit by 31%, versus the 3% growth achieved by Metal Box (See "Jack-in-a-box"). Nampak Product's 21% increase in turnover in the year to September resulted from both better demand and the incorporation of production from new facilities. Financial director Dave McFadden says while a good level of demand has continued since year-end, there is still some nervousness among customers about 1987 prospects.

Nampak's Brown ... costs are being squeezed



The substantial improvement in the group's operating margin from 9,9% a year ago to 10,5% in 1986, is a function of increased volumes. High fixed costs hammer margins in times of low demand, but once demand revives, the improvement goes straight through to the operating margin. McFadden says if good demand is sustained, margins could improve again in 1987, even without the help of price increases. The group has capacity to push up production as capacity utilisation is at about 80%.

One threat to margins is the insistence by local paper mills on dollar parity pricing. "This is putting a huge squeeze on our costs because we are unable to pass on the full impact of raw material price increases," says McFadden. Margins will also have to improve without the help of further rationalisation. In 1986 the envelope business was sold for R2,5m, corrugated packaging operations in Natal and the Transvaal were closed, and the polyfoil plant in Maritzburg was shut. Nampak also sold its 50% interest in loss-making associated company Amalgamated Plastic Industries for a small net loss. The group's share of this company's losses totalled R1,1m in the past year.

McFadden says there is not much chance of more plants being closed in the current year and says: "Opportunities to become more efficient through rationalisation are drawing to a close."

However, benefits from the past three years' rationalisation will be felt in 1987. In the carton and print division, rationalisation resulted in improved profitability from Printpak and the business forms operation. The polyfoil division's performance improved following the closure of uneconomic plant in Maritzburg, and further gains will be achieved should the large retailers experience a good Christmas. Losses at the Chamdor plant have also been stemmed.

In 1986, Nampak group's pre-tax profit benefited from the 32% reduction in interest which was a result of a 35% decline in debt and lower rates. The lower level of debt and the healthy cash flow (gross cash flow rose from R144m to R178m) puts the group in a strong position to take advantage of acquisition opportunities, especially those arising out of disinvestment.

There are two large foreign-owned packaging companies in the market — Metal Closures and Van Leer — but both have denied plans for disinvestment. Even if they were to sell out, a group such as Nampak which already has a large share of the South African packaging market is unlikely to get the nod from the Competition Board for the acquisition of the entire business of such major competitors.

Like other packaging companies, Nampak is facing a steadily creeping tax rate, and the increase evident in last year's accounts will continue in the current year. McFadden says the rate will rise to about 48% in the current year, having risen from 26,3% to 41,6% in 1986 — while Nampak's pre-tax profits increased by R50m, the increase in the tax charge absorbed R34,5m of the improvement.

Improving investor confidence in the packaging sector has caused a rerating in the Nampak share price, but on a 4% yield, and with more growth expected, the share may still have some room for further upward movement. *Kerry Clarke*

METAL BOX

Jack-in-a-box

Nampak's strong recovery rather puts subsidiary Metal Box (MB) in the shade. Although its balance sheet is a picture of health, MB only managed a relatively meagre 3% increase in earnings in the past year although growth was a better 10% at pre-interest level.

MD Peter Campbell says Nampak and

Activities: *Manufactures and sells packaging containers, closures and components made from metal, plastics, glass, paper and board, as well as packaging wrappings, films and packaging equipment.*
Control: *Nampak holds 53,6% of the equity. The ultimate holding company is Barlow Rand.*
Chairman: *D Brown; managing director: P Campbell.*
Capital structure: *68,2m ords of R1; and 500 000 5% red cum prefs of R2. Market capitalisation: R422,8m.*
Share market: *Price: 606c. Yields: 4% on dividend; 9,2% on earnings; PE ratio, 10,9; cover, 2,3. 12-month high, 625c; low, 480c. Trading volume last quarter, 478 000 shares.*
Financial: *Year to September 30.*

	'84	'85	'86
Debt:			
Short-term (Rm)	23,2	42,4	21,8
Long-term (Rm)	61,3	54,5	39,0
Debt:equity ratio	0,33	0,35	0,21
Shareholders' interest	0,52	0,51	0,54
Int & leasing cover	4,5	2,9	3,2
Debt cover	0,68	0,79	1,40

Performance:

	'84	'85	'86
Return on cap (%)	11,6	10,7	11,7
Turnover (Rm)	665,5	716,0	830,7
Pre-int profit (Rm)	57,1	58,9	65,1
Pre-int margin (%)	8,3	7,6	7,1
Taxed profit (Rm)	34,5	36,9	38,0
Earnings (c)	50,5	54,1	55,6
Dividends (c)	22	22	24
Net worth (c)	379	408	439

MB should not be compared as they operate in different markets. He adds that while MB has been assisted by the consumer upturn in some areas of business, there has been a real decline in volumes in the liquid packaging business.

However, prospects are improving for the group — growth has accelerated and all loss-makers have been eliminated or are turning. The plastics division's Mono Transvaal operation, which Campbell said lost "quite a lot of money" during the year, was closed at the end of September, while production problems in the glass division are finally being overcome.

Campbell says the second furnace is taking longer than expected to bring into full operation and made larger losses than anticipated. He says this operation could show profits at pre-tax level in the current year, and at the very least it is expected to break even.

These losses impacted heavily on the operating profit margin, which dropped from 7,6% to 7,1%, and this should recover in the current period. Better volumes will also help — average capacity utilisation is between 65% and 70%, so there is room to increase production.

In the food can division, MB admits it could be vulnerable to sanctions against exports of canned fruit and vegetables, but it is expecting better business in the meat and fish canning sectors to compensate.

The beverage can division might have been expected to benefit from the substantially improved level of beer sales reported by SA Breweries, but Campbell says this is not the case as growth was in the returnable bottle sector — the least expensive way to buy beer. One method by which MB hopes to improve returns in this division is the manufacture of a lightweight aluminium can end. The group also expects benefits from modernisation of production lines.

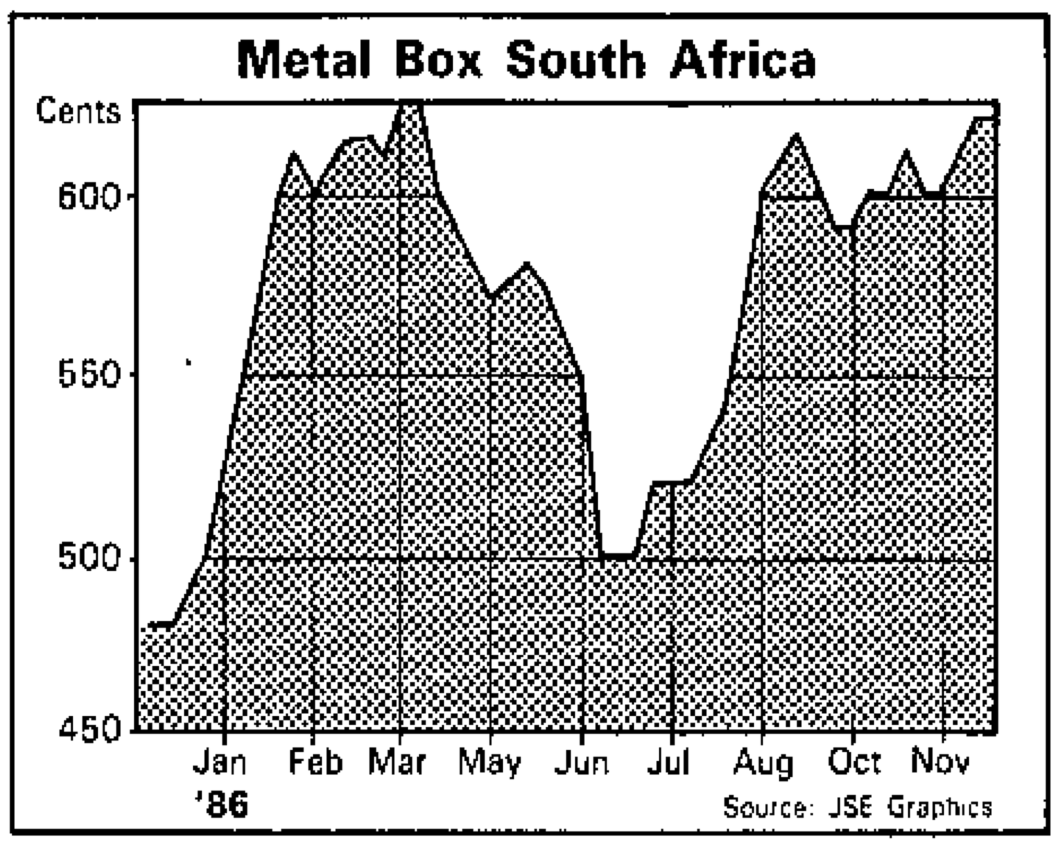
Merger of certain operations in the Divpac division should result in improved profitability in 1987, while the liquid packaging division should be able to improve margins by replacing expensive, imported raw materials with locally manufactured paper.

Campbell says there is a good chance of reducing debt further in the current year, although "a reasonably sized acquisition could change that." He says the group needs to be in a strong funding position because of high plant replacement costs.

The optimistic outlook is tempered to some extent by the prospect of a higher tax rate of 44% (30%), but, as the major primary packaging group in SA with close consumer interface, the group should benefit directly from an upturn in consumer spending. Prospects of better soft drink growth, continued growth in beer sales, a better food canning market and benefits of rationalisation all explain why the MB share price recently recovered to near its 12-month peak.

Kerry Clarke

Metal Box South Africa



RETCO

Building plans

Retco's results for the year to June 1986 show a sharp turnaround from a taxed loss of R6,5m to a profit of R1,4m, of which R1,1m was achieved in the second half. But the death of director Julian Dorfman, leading to the buy-out of MD Aubrey Luck and Tolly Novick becoming a non-executive director, has put CE Bennie Rabinowitz firmly in control. Rabinowitz has already made big changes, including the Unidev deal. So the 1987 year's results will reflect a very different animal from that shown in the latest annual report.

Rabinowitz says that he is "not a seller" of Retco's two fixed assets — Salmon Grove in Durban and the Poyntons building in Pretoria. Retco owns 90% of Poyntons, as 10% had to be given to the Poyntons family for conversion from leasehold into freehold. Rentals on these buildings formed the main source of income for Retco in last year, amounting to R8,9m. Both Poyntons and Salmon Grove

Retco's Rabinowitz ... not a seller

Activities: *Holds long-term property investments and trades in property.*
Control: *The Property Group of SA holds 75%.*
Chairman: *J A S Louw; chief executive: B P Rabinowitz.*
Capital structure: *40m ords of no par value. Market capitalisation: R40,8m.*
Share market: *Price: 102c. Yields: 2,9% on dividend; 3,5% on earnings; PE ratio, 28,3. 12-month high, 115c; low, 34c. Trading volume last quarter, 1 359 000 shares.*
Financial: *Year to June 30*

	'83	'84	'85	'86
Debt:				
Short-term (Rm)	25,4	25,9	13,9	8,5
Long-term (Rm)	13,8	10,2	13,3	9,3
Debt:equity ratio	0,87	0,76	0,51	0,33
Shareholders' interest	0,51	0,53	0,67	0,76
Int & leasing cover	3,00	1,93	0,12	1,72
Debt cover	0,14	0,15	—	0,10

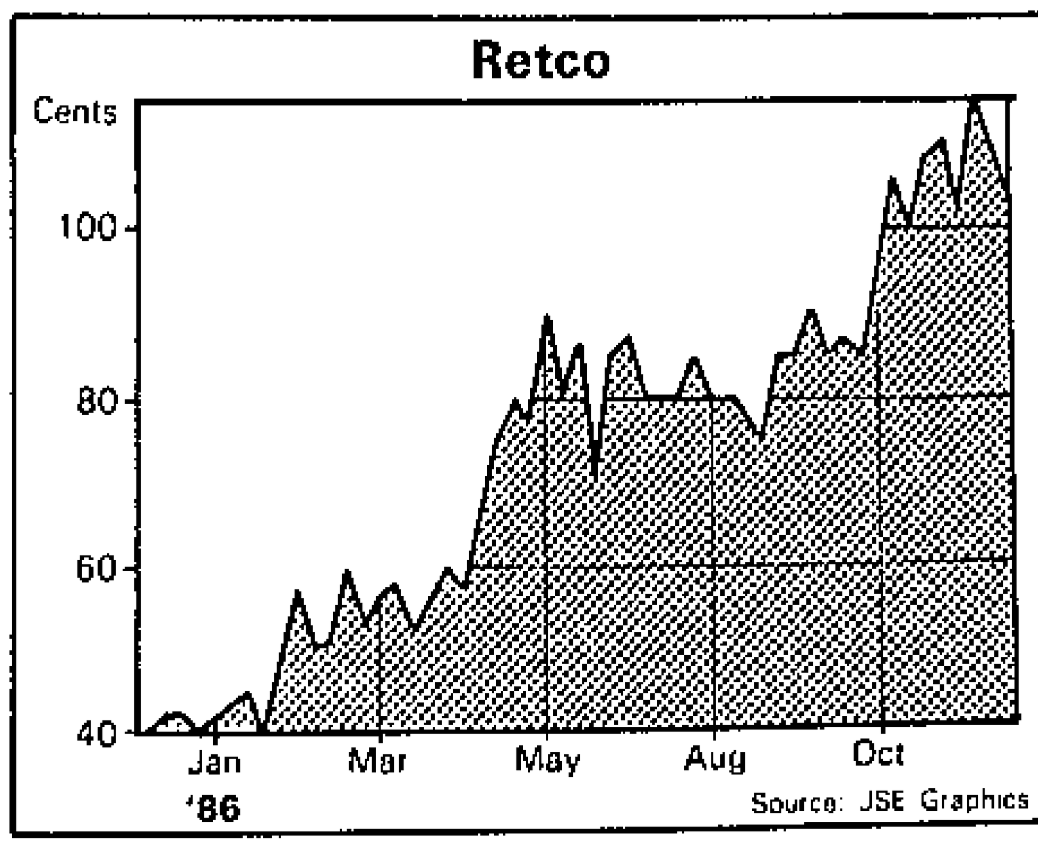
Performance:

	'83	'84	'85	'86
Return on cap (%)	8,5	11,9	0,8	10,3
Pre-int profit (Rm)	7,6	10,6	0,6	7,3
Earnings (c)	12,8	14,1	(16,4)	3,61
Dividends (c)	6,25	7,0	—	3,0
Net worth (c)	112	119	123	123

are well let, Poyntons mainly to government, thus a moderate rental increase can be expected this year.

Main reasons for the turnaround, according to Rabinowitz, were reduced trading stock and contained expenses. Interest payments fell R1,4m after a debt reduction of 34%, and should drop further in 1987, particularly after the final payment of R2,8m on the Poyntons bond by February. This will improve gearing even further from the already low 0,33 debt:equity ratio.

Retco



MANUFACTURING - PAPER AND PRODUCTS

1987

JAN — NOVEMBER ~~DEC~~,

18/1/87 SUN TIMES

Argus, Caxton Hortors spin Waltons web

194

Business Times Reporter

WALTONS Stationers, Business Times Top Company for 1986, may become further ensnared in the control spiderweb connecting Argus, Caxton and Hortors.

Argus has 49% of Caxton, the magazine and suburban newspaper printer and publisher, and 50% of Hortors.

In December, Hortors warned shareholders to be cautious in dealing with their shares as negotiations which could affect their value were taking place.

It appears that Caxton is trying to buy Argus's stake in Hortors.

Hortors has 8% of the equity of Walhold and is part of the pool, including directors, which controls Waltons.

Waltons chief executive Frank Robarts admits that he has had discussions with Caxton.

It appears that the discussions concern the 8% stake Hortors already has in Walhold and stationery operations in Hortors and in CTP that Waltons desires.

Mr Robarts will not be drawn, but says his management team and that of Caxton "get on famously".

Merry Short, chairman of Caxton, says Waltons and Caxton have similar styles, have been similarly successful — and both have money.

But he will not be drawn on the precise direction of negotiations between Caxton and Waltons.

If Argus is prepared to sell control of Hortors to Caxton, it will have to be for cash.

Mr Short says the directors, who have 51% of Caxton, are not prepared to dilute their interest to less than outright control.

R48m holiday resorts

DIRK Fourie Trust, of Schweizer-Reneke, will develop a R40-million resort at Skuitbay, close to Kareedouw and the Tstitsikama forest. The scheme comprises 100 holiday homes to be sold under the shareblock system. The trust is also developing an R8-million complex between Cape St Francis and Aston Bay.

Strike threat at five paper mills

N M 2/11/87

194

Labour Reporter

A LEGAL strike is looming at five Mondi Board Mill plants around the country after a deadlock in wage negotiations, says the Paper, Wood and Allied Workers' Union.

A union spokesman said management had offered increases of 50 c-60 c an hour. The union was demanding 70 c an hour across the board which, said the union, amounted to a R32,20-a-week increase.

'The union has rejected the company's below-inflation offer,' he said, adding that about 1 500 Mondi workers would vote in strike ballots this week.

Mondi spokesman Alan Young said the company's offer would take the minimum wage up to R3,10 an hour, or R616 a month.

'This is significantly above wages in manufacturing elsewhere,' he said. The mills are in Springs, Durban, Cape Town, Piet Retief and Felixton.

FINMAIL 23/1/87 (99) (IA)

IMPORT REPLACEMENT

Boost for board

SA's **import** replacement programme will take a small step forward with the opening of a R10m cardboard carton factory at Isithebe later this year. The import benefit will flow from the fact that local fibre board, supplied by Sappi and Mondi, will be used for the first time.

Metal Box (MB) is consolidating its liquid packaging division, currently split between two locations in Durban, into a single state-of-the-art plant in KwaZulu's showpiece industrial township.

Financial director Dave Kennealy says that depending on price and supply, MB would like to use locally supplied fibre board rather than continue to get expensive coated fibre board from abroad.

Tests are currently being conducted with board supplied by both Sappi and Mondi and Kennealy says he hopes to be able to draw supplies in commercial quantity by the middle of the year. One drawback is that the board will be supplied uncoated and the finishing will have to be done at MB.

Another potential problem lies in the pricing structure. Kennealy says his suppliers have let it be known that they will price their board roughly in line with the price of imported coated board.

With the rising price of imports, at least before the latest rise in the rand, locally produced plastics are grabbing a bigger slice of the packaging market. Kennealy warns that board suppliers will have to keep a wary eye on plastic alternatives if they are to remain competitive in the carton market. ■

(974) Star 28/1/87

Workers stay away after woman's death

Workers at Empire Paper Waste in Industria had not returned to work yesterday following the death of a colleague who fell into a paper shredding machine on Friday, the Paper, Wood and Allied Workers' Union (Pwawu) said.

A Pwawu spokesman, Mr Sipho Kubheka, said an inspection team including union representatives and an inspector of factories toured the factory on Monday.

He said "most machines" were found not to be safe for use. A number of trucks were also found to be unsafe and would be sent for roadworthy tests, he said.

He said it had been agreed that only drivers of roadworthy vehicles could resume duties.

The chairman of Empire Paper Waste, Mr Shally Shalhav, could not be contacted for comment on the claims despite repeated attempts to reach him.

Carlcor makes strong recovery

BDay 30/1/87 (194)

LIZ ROUSE

CARLTON Paper Corporation (Carlcor) staged a strong turnaround in the second half of 1986, ending the year with 0,6% net profit gain, compared with a 48% fall in the first half.

The final dividend has been raised to 22c (16c) — offsetting the cut in the interim to 8c (14c) — to make an unchanged 30c for the year.

The turnover increase of 11,7% to R198,6m (R177,9m) in the year to December reflects no real growth.

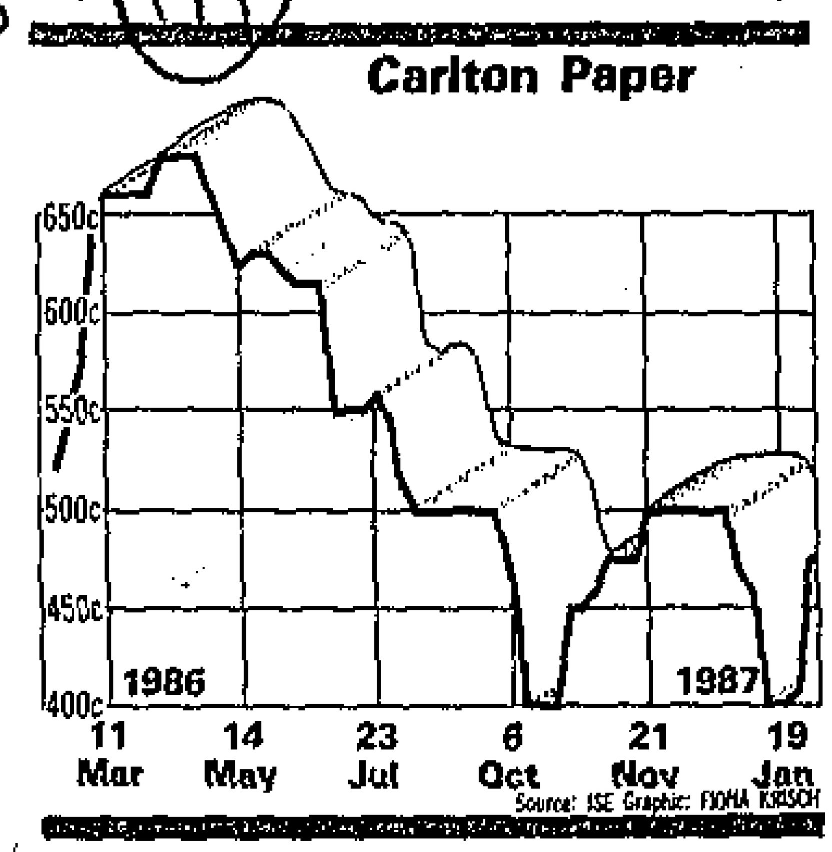
But lower down the line the group performed well in the second half, thanks mainly to an improved rand/dollar exchange rate, a crucial element in the Carlcor cost structure.

Chairman Klaus Zirker says the substantial improvement in the second half does not reflect a revitalised economy.

The improvement in the exchange rate contributed to the second half's recovery. And a sustained marketing drive led to greater sales volumes, while the on-going cost-cutting programmes provided better margins. More efficient management, assisted by falling interest rates, played a part.

Interest paid declined to R3,98m from R4,28m because of lower borrowings, falling interest rates and an interest capitalisation of R700 000 (1985 — R100 000). The debt/equity ratio declined to 57,3% from 74,4%.

Net taxed profit was R8,4m (R8,37m), equal to earnings of 53,3c a share (53c in 1985).



With capital commitments down sharply at R400 000 from 1985's R2,2m, the debt position should improve further.

However, low capex spells no hope of significant market growth.

LASER (194) F|FM 30|1|87

New direction?

Investors who delighted at Laser's superb results last week, which showed profits up by 107% to R3,1m (R1,5m), and 34% ahead of the prospectus forecast, might have mixed feelings about news that the transport group has acquired a stationery company, Plasproducts.

Does the acquisition signal a new direction for the company, which lists Stuttafords Van lines, Pickfords and Jack Wellstead among its 13 subsidiaries, and which is rated the world's largest international movers by Belgian-based Co-operative d'Enterprises de Transports Internationaux?

Laser's Kaye ... no fickle acquisition

It's not a fickle acquisition, argues MD Denis Kaye. "Stationery is required by every business and demand does not seem to be affected by the recession. We have 22 warehouses around the country which can be used for distribution and storage, and with the enormous growth in black education I know we'll make a lot of money.

"Import substitution has meant we've already been approached to manufacture imported products like maths sets. We're able to do this whereas previous management was strapped for cash."

That Kaye's decision to acquire Plasproducts was inspired by Cape-based superstar, Waltons, seems a distinct possibility. He argues: "We're different to Waltons since we have no retail outlets but are listed suppliers to supermarket chains." Plasproducts, which Kaye describes as a good company in need of development capital, will retain its existing management.

"We're conscious of our core business but we're starting a second leg consisting of a small packaging company we acquired a few months ago, Alpha Packaging Supplies, and now Plasproducts," he says. Laser bought the companies cheaply, says Kaye, paying R600 000 for both.

The reason for the recent sparkling results, he claims, is that margins were increased through effective cost control and improved use of existing assets. "We have 700 vehicles running round the country. If we can carry a few extra loads at no extra cost this helps." Recent acquisitions could provide Laser with an interesting new avenue for growth. But it is too early to estimate their eventual value — or risk — to the group.

Carolyn Raphaely

Legal strike at five Mondi mills

3/2/87

ALAN FINE

MEMBERS of the Paper, Wood and Allied Workers' Union (Pwawu) began a legal strike yesterday at five Mondi board mills in support of demands for wage increases of 70c per hour.

The mills affected by the strike are at Felixstone (northern Natal), Bellville (Cape), Springs (Transvaal), Umgeni (southern Natal), and Piet Retief (Transvaal).

A meeting between the company and the union to discuss the deadlock has been scheduled for today.

A union spokesman said the strike involved 1 800 workers. Pwawu said a protracted strike would affect production at Mondi adversely as there were no stockpiles of goods in storerooms.

● To Page 2

BDay 194

Three mills 'won't stop output'

● From Page 1

BDay 194

However, Mondi spokesman Dave McDermott said that production would resume today at Umgeni, Piet Retief and Springs using "existing logistical staff".

He added that, in the event of a protracted strike, the company had made contingency plans to protect the interests of customers.

Workers have indicated their intention to stage sit-ins during the day. The Mondi spokesman said that provided strikers kept away from production areas the company "is relaxed about it".

He said that the possibility of today's meeting resolving the strike "depends on Pwawu's attitude".

He said management was committed to negotiation.

McDermott said management's offer, as a total package, was in excess of 21%.

As well as wage increases, a shift allowance increase of 40% was offered and leave was increased by more than 34%, he said.

"We have offered a basic minimum increase of R20,70 to immediately take the weekly wage to R140,30, and a further increase of R2,30 to R142,60 effective from July 1.

"The minimum rates of pay will be above R600 a month, and this does not include shift allowances and bonuses. Consequently on average all employees will be earning more than R600 a month," he said.

Cape Times 3/2/87

Mondi workers strike

Own Correspondent

JOHANNESBURG. — Members of the Paper, Wood and Allied Workers' Union (Pwawu) have begun a legal strike at five Mondi board mills in support of demands for a 70c-per-hour wage increase.

The mills affected are at Bellville, Felixstone (Northern Natal), Springs, Umgeni and Piet Retief.

A meeting between the company and the union to discuss the deadlock has been scheduled for today.

A union spokesman said the strike involves 1 800 workers. Pwawu said a protracted strike would adversely affect production at Mondi as there were no stockpiles of goods.

However, a Mondi spokesman said production would resume today at Umgeni, Piet Retief and Springs, using "existing logistical staff". He added that, in the event of a protracted strike, the company had made contingency plans to protect customers' interests.

Mondi said that its wage offer would take the minimum up to more than R600.

Taxi owners, Tramways in showdown

Cape Times 4/2/87

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Municipal Reporter

FIVE angry taxi-owner associations are contesting a City Tramways application for permanent permits to enable the company to keep running 15 minibuses as conventional buses.

The matter came before the Local Road Transportation Board in Bellville on Monday. Taxi-owner associations in Somerset West and District, Stellenbosch, Atlantis and Durbanville opposed the Tramways application, as did Western Cape Passenger Transport Association.

The hearing was postponed until Friday, when the taxi owners intend to show a video which purports to show Tramways minibuses operating in direct competition with their vehicles.

Mr Basil Nagel, chairman of Western Cape Passenger Transport Association and spokesman for the SA Black Taxi Association (Sabta), said yesterday that his association was "fighting Tramways tooth and nail".

'Used as taxis'

He confirmed that the video would be shown, but added that while the hearing was in progress, he could not comment on the merits of the case.

Another spokesman for the taxi owners, who declined to be named, said the Tramways minibuses should be used only on scheduled routes as buses, but were instead being used as taxis.

A City Tramways director, Mr F Potgieter, denied this. He said in a statement yesterday that the company had applied in July last year to modify 20 of its bus permits to allow the use of minibuses instead.

Temporary minibus permits were granted, and five of these were later made permanent. The present application was for the remaining temporary permits to be made permanent.

'Conventiona buses'

"The company does not operate its minibuses as kombi-taxis, and cannot be regarded as competing in any way with the activities of kombi-taxi operators," Mr Potgieter said.

"Minibuses are run as conventional buses. Generally they stop only at bus stops on scheduled routes, and run according to timetables and a tariff. They are also used on some routes unsuited to conventional buses.

"Kombi-taxis, on the other hand, operate wherever they like, including along established bus routes, and generally leave only once they have a full load," he continued.

"They are supposed to charge a laid-down fare but they are actually fairly flexible, with marked variations between peak-hour and off-peak tariffs."

Mondi strike in third day as talks resume

By Susan Pleming

Negotiations between the Paper, Wood and Allied Workers' Union (PWAWU) and the Mondi Board will continue today as 1 700 workers strike for the third day for higher wages.

The strike began on Monday after the workers' demand for a 70c/hour increase was refused.

A spokesman for Mondi Mills said today that talks yesterday centred on the PWAWA demand for an increase of 27 percent. Management had put forward a package offer which included an increase in the hourly rate, benefits in shift allowances and leave bonuses amounting to just over 21 percent.

A spokesman for PWAWU said yesterday the union had rejected a management offer of 55c/hour increase.

The Mondi spokesman said while the strike had affected all five mills, full production had resumed at Piet Retief and Springs.

Production at the five Mondi Paper mills on strike was not resumed yesterday as management expected, a spokesman for the Paper, Wood and Allied Workers' Union said yesterday.

In three of the mills, Felixton in the Northern Transvaal, Springs and Bellville in the Cape, workers conducted a "sleep-in" on Monday night, the spokesman said.

At the Umgeni factory company officials switched on machinery at 6 am, but workers persuaded them to turn it off at 10 am, the spokesman said.

Star 4/2/87

194

Mondi, union give ground

B/Day 4/2/87

ALAN FINE

(194)

MONDI board mills and the Paper, Wood and Allied Workers' Union (Pwawu) yesterday failed to reach agreement over the strike at the company's five plants despite compromise proposals from both sides.

Talks will resume today.

When the strike began, the union was demanding a 70c per hour across-the-board increase, while Mondi's offer ranged from 50c for workers in the lowest grade to 65c.

Yesterday morning Mondi management made an improved offer which was rejected by the union after report-back meetings at the various plants.

The 1 800 strikers later mandated their representatives to reduce their demand, which now stands at below 65c.

CAPE TIMES 5/2/87

Mondi Mills talks deadlock

188 188 194

Labour Reporter

TALKS have broken down between Mondi Board Mills and the Paper Wood and Allied Workers' Union (Pwawu) over a wage dispute which has brought union members out on strike at all five of Mondi's mills around the country.

Although both parties have shifted their positions during the past one-and-a-half days of negotiations, they have not yet reached agreement on increases.

A Pwawu spokesman said yesterday production at all five plants was at a standstill, denying management claims that full production had resumed at mills in Springs and Piet Retief.

A Mondi Board Mills spokesman yesterday confirmed that negotiations had ended in a deadlock and that the strike affected all five mills.

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Star 6/12/87

Mondi pay talks still deadlocked

The strike by 1 700 workers at five Mondi Paper mills entered its fifth day today with wage negotiations between management and the Paper, Wood and Allied Workers' Union still deadlocked.

On Wednesday workers requested 60 c an hour increase for the lowest grade of work, a PWAWU spokesman said in Durban yesterday. Mondi refused to offer more than 55 c an hour and the union was waiting for an improved offer.

Mondi said it had asked the union to seek a fresh mandate.

CORPORATE STRATEGY

The paper chase

6/2/87 FM (194)

To improve profits as well as market share in recessionary times is quite an achievement. But paper merchant Wiggins Teape shows that with determination and planning it's not impossible.

In today's economic climate any company which bucks the trend by increasing turnover by 60% in the three years to the end of 1986 is bound to attract attention. Paper merchant Wiggins Teape (WT) has also more than doubled trading profit in the same period. And in an industry which has experienced negative growth since 1985, it has increased its number of employees by 14%.

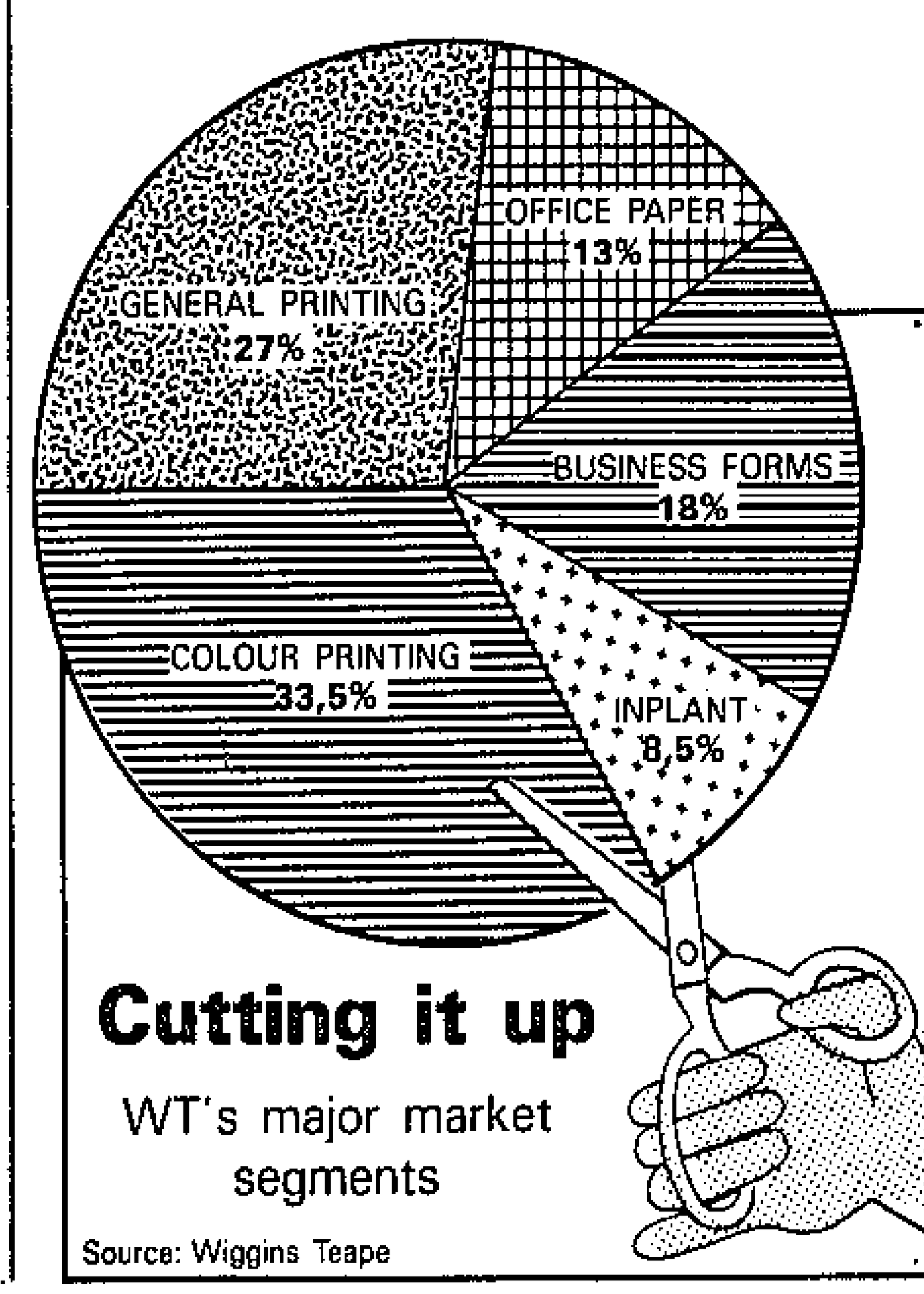
Behind this creditable performance is a long-established company with an innovative management structure, in which SA Eagle recently took a 25% stake.

A subsidiary of the UK Wiggins Teape group, the local company's chief operation is paper merchanting — buying from mills and manufacturers for distribution to the printing trade. It has a significant proportion of the R450m a year total market for paper sold through merchants' stock. Wiggins Teape UK, itself a subsidiary of giant British American Tobacco, is also involved in paper manufacture and pulp production as well as being the foremost supplier of carbonless copying paper in the world.

The SA company was established in 1896, but not until the Sixties did it feel any real change in the rather hidebound traditions of paper merchanting. At that time, Sappi and Mondi paper mills began to achieve massive output and government clamped down on paper imports. Says MD Derek Smith: "There were then 13 merchants, each with fewer products to sell in a market already overtraded. Price became the major selling issue and the trade experienced a significant loss of professional skills and quality people."

So in the Seventies, when many of the import restrictions were lifted, merchants like WT found themselves without the qualified manpower to take advantage of new market opportunities. WT's first objective then was to rebuild its staff structure, taking on graduates who would otherwise have been snapped up by large institutions or who would have entered hi-tech fields.

Smith says: "Traditionally, paper merchanting was a closed shop, with staff simply moving from one company to another to gain experience. We thought it important to attract new blood — people with a general education or perhaps broader training — and give them specific training in our field. In this way we felt we could help upgrade the whole industry."



Cutting it up

WT's major market segments

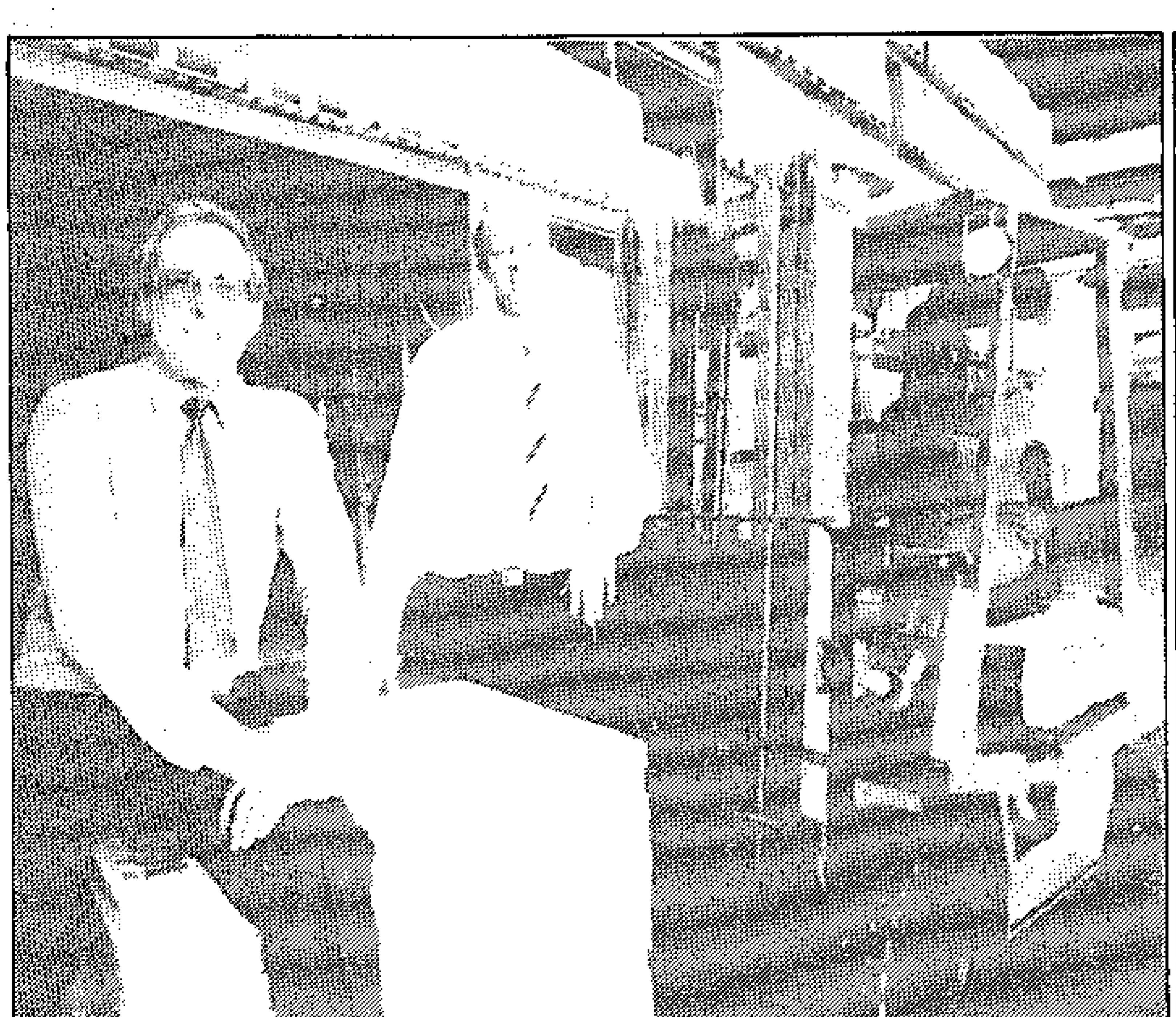
Source: Wiggins Teape

To this day WT places high value on tertiary education, with management in the hands of graduates. In addition, it has embarked on a course of "paper education" in art schools, technikons and graphic studios. Says marketing director Vintcent van der Bijl: "Students in similar institutions overseas are given a good grounding in selection of papers, their characteristics and suitability for various purposes. This is lacking here. We are trying to overcome this as far as we can by encouraging our own people to lecture and demonstrate."

WT's second course of action was to build service and professional skills back into the paper trade — virtually re-introducing the concept of specialised merchanting rather than relying on price competition for market share. This, says Smith, caused some conflict with suppliers Sappi and Mondi because WT asserted its right to independence while recognising the massive importance of local mills to its operation.

Nevertheless, WT pressed on and, with its overseas links, preserved the independence of supply of many lines as well as enriching the general product mix available. Of its 30 suppliers, some 20 are foreign; imported papers are a substantial part of the sales mix.

As the trade increased in complexity, a need for a comprehensive marketing strategy emerged. In 1982 WT was the first among SA paper merchants to establish a marketing department. Its most difficult task was to create an awareness of paper — which, says Van der Bijl, tends to be taken for granted as

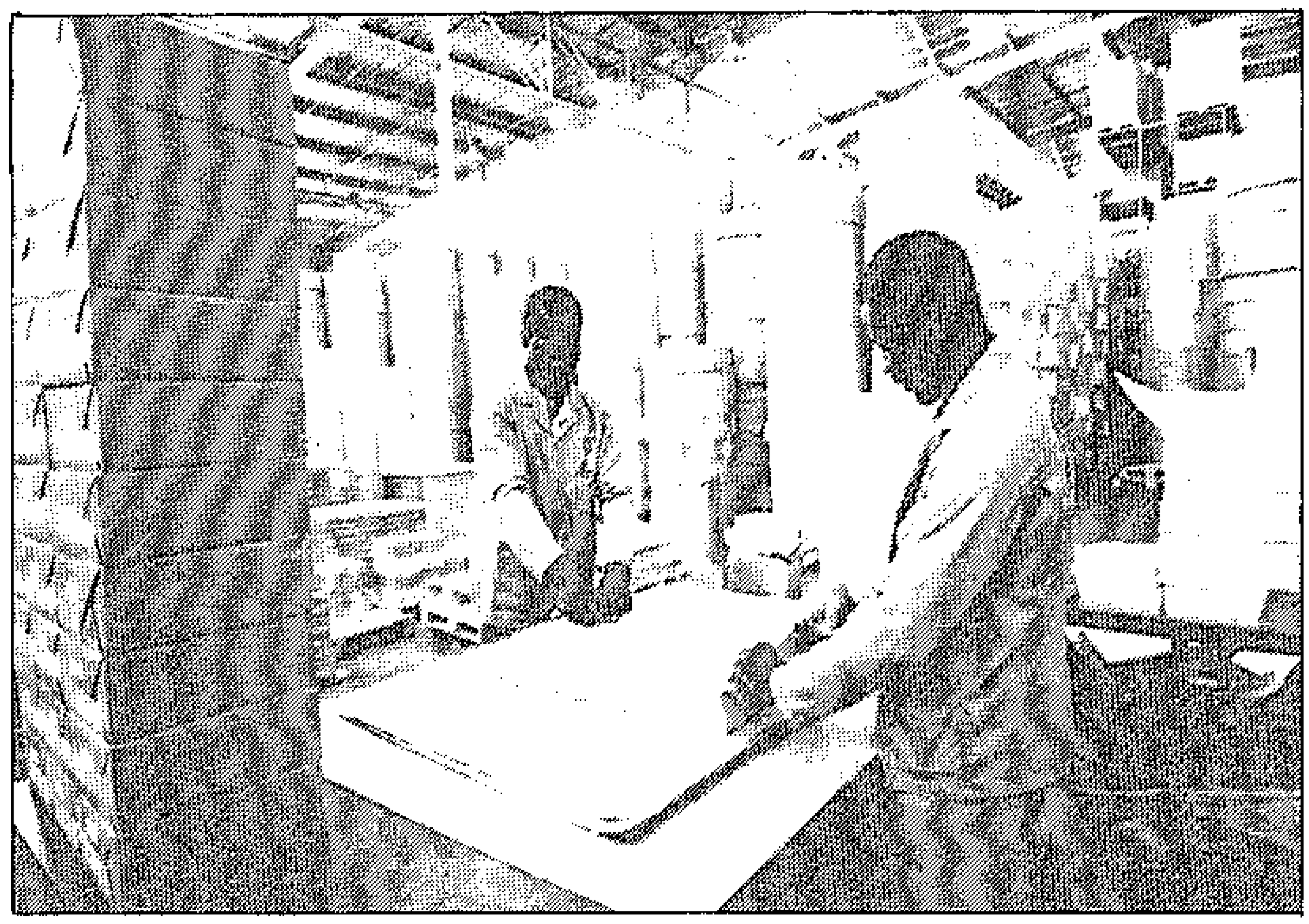


WT's Smith and Van der Bijl . . . central control

Distribution . . . high productivity levels

much as water on tap. It had to be projected as a versatile, multi-purpose medium and its diversity exploited for entry into new markets.

Consequently, the department is now closely involved in evaluation of every new product line and development of new ranges. It works directly with clients to determine the correct product for optimum results and with financial management to assess price/performance viability. It is also responsible for the paper education campaign, and employs fine paper consultants to advise advertising agencies and design studios.



Gateway Papers ... serving smaller customers

The social responsibility programme falls within the scope of the marketing department too; the "Sporting Greats" banquets of the past two years have certainly created corporate awareness. However, Smith is quick to dispel cynical comment to the effect that this was all the company was after.

He points out that WT was merely the vehicle for the events, not the sponsor. "We aren't big enough to donate the kind of money raised at the banquets. But we saw that we could do some good by being an administrative vehicle. Sponsorship for the events came from large corporations and the money was raised through the sale of cricketer Rupert Hanley's paintings."

WT's monetary sponsorship is a lot closer to home. It donates some R25 000 a year to the printers' federation. Although there are no strings, it has expressed the hope that this will be used to further education and training.

The marketing department was also responsible for devising an innovative sampling system to aid the sales force, which is regarded as the apex of the "flying wedge" of company structure. This concept, devised by Smith, puts all other functions behind the sales drive and ensures that every department performs a service for sales.

Certainly, the sales structure has received much attention in the past few years. Centrally managed, the department nevertheless receives massive input from the branch managers at seven locations around SA. Smith explains the system: "A central purchasing committee acts as banker for each branch. Each time a manager wishes to stock a new product or test a new market he must convince the bank of the probability of success. Product performance is regularly appraised and evaluated. The advantages of centralisation in this case are tight inventory control and consequently better asset management — something we consider central to our success."

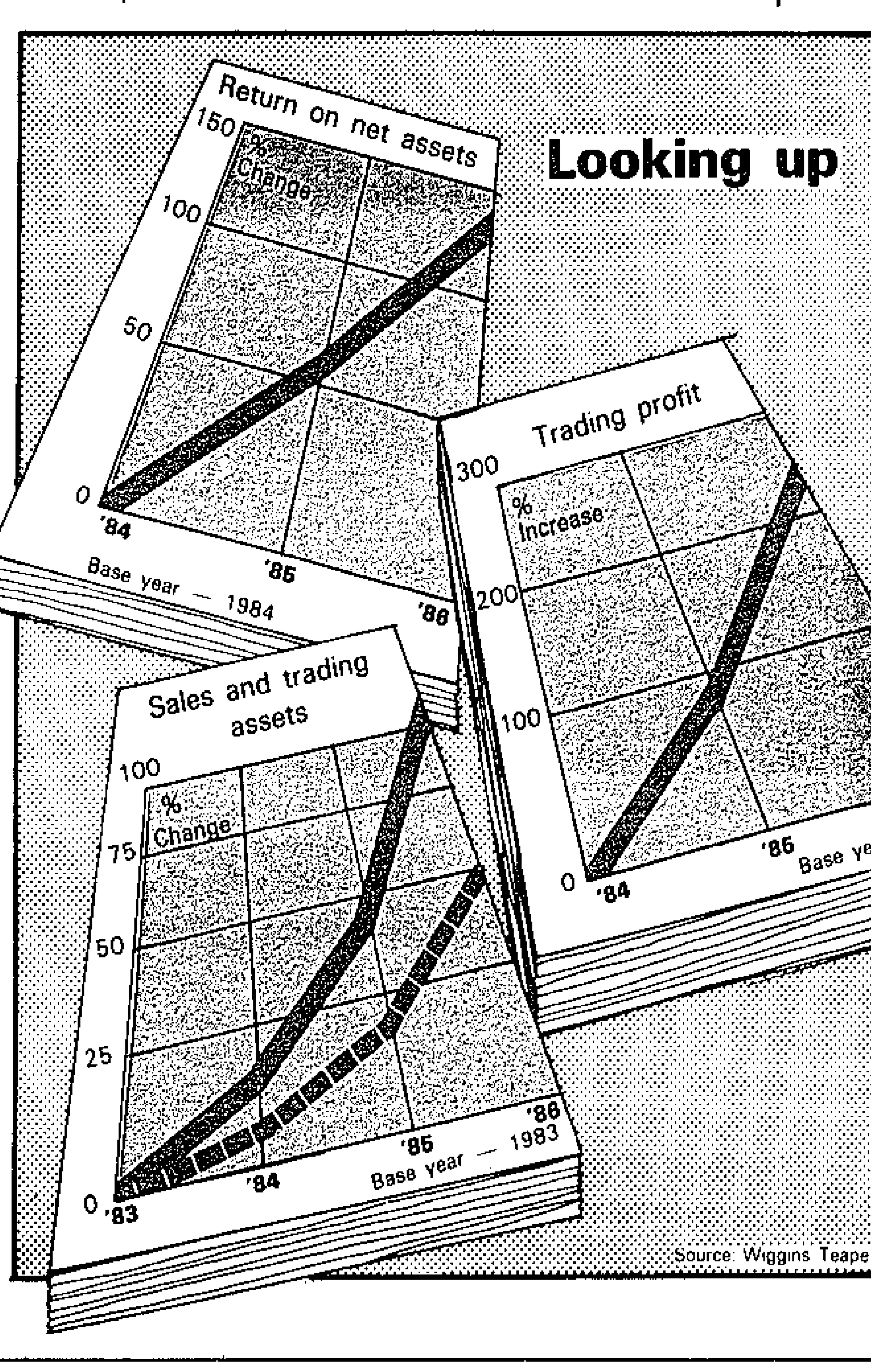
In the sales area, WT again places heavy emphasis on education. All branch managers are business school graduates; every representative receives financial as well as sales training. This is in line with company philosophy that all employees should understand their contribution to profitability. It is also part of a stringent credit management system.

When the company embarked on its new course in the late Seventies, it actually closed some 2 000 accounts and began a process of developing long-term trading partnerships with the remaining clients. However, credit is still kept on a tight rein. Paradoxically, says Smith, this provides greater flexibility than a more open policy: "It gives us the resources to ride with good clients in bad times."

It has certainly paid off in terms of containing debt. The industry has seen bankruptcies totalling more than R10m in the past two years, while WT has had bad debts of less than 1% of that figure.

Restructuring distribution, too, has reaped rewards. Only 176 people are employed for this purpose, but they are substantially better paid than anywhere else in the trade, says Smith. It shows. In Wiggins Teape UK's recent survey of 15 merchants worldwide, distribution workers in WT's Johannesburg warehouse showed up as the most productive in SA, each moving on average 50 t of paper a month.

And the future? WT has already diversified to some extent. It has established an agency department which deals in specialised grades of paper not stocked in SA, but available from overseas suppliers. Smith says sanctions have had little effect on this operation as the department has built close relationships with suppliers.



Last year saw the establishment of Gateway Papers, which has taken WT into the realm of the mini-merchant, providing a rapid service to stationers and small in-plant printers. The decision was made in the light of the vast growth — around 10% a year — in the office paper market. Paper is guillotined to size, repackaged in small sizes in WT's warehouses, and rapidly delivered by small vehicles. WT boasts in fact that some orders can be filled in minutes.

Another new company is Gateway Display, established to take advantage of increased demand for silkscreen substrata — a market now worth some R25m a year.

On the effect of sanctions on supply lines of many imported products sold, Smith says there is no real cause for concern at this stage. But WT is looking for diversification opportunities in local development, and may even consider manufacture. ■

8/2/87 (94) FM

Sunpak gains shine

Sunpak, the packaging company that has moved from the DCM to the JSE's main board, is expected to capture the limelight again on announcement of interim results. Its price strengthened this week as a result of optimistic broker expectations, reaching 140c from about R1 in December.

Management has predicted profits of about R3,4m or 8,5c a share for the year to end-August, but talk on the market suggests profits of at least 9c a share and a dividend of 4,5c are possible. While this may suggest EPS growth of only 7% on last year's 8,4c, taking into account the 33% dilution which resulted from acquisition of the Van Leer foam styrene business, effectively it represents growth of 40%.

Sunpak joint MD Richard Ball says: "I can't comment on speculation, but we have never disappointed the investment community — not as far as our forecasts are concerned." What may help the group to overreach forecasts will be exports, which were excluded from the forecast. Ball says: "We have had quite an acceptable export order."

For the year as a whole, there may be benefits from joint ventures being negotiated overseas. Sunpak announced in its annual report it would sell surplus equipment arising from its Van Leer acquisition to Sun Packaging International (SPI) for cash and equity. SPI in turn would sell the equipment to foreign packaging companies in exchange for scrip. SPI would like to hold at least 50% of these foreign operations.

Joint MD Tubby Gericke was in South East Asia this week discussing the possibility of entering into an agreement with a manufacturer there. Ball says it should not be assumed this will be the group's first deal overseas, as it has been investigating possibilities in the EEC and South America.

Locally, packaging demand is still buoyant, and Ball says Sunpak's production facilities are working 24-hour days. Gericke has told me Sunpak plans to invest R5m-R7m in a packaging venture in the Cape.

An analyst who views the group's foreign expansion as a favourable anti-cyclical move believes Sunpak could yield compound profit growth of some 25% to 30% a year.

Another, more cautious analyst questions the share price's large premium on net worth of 11,2c, and warns that the group might meet strong opposition from major competitor Bakke, should it start making too much of a dent in the market. He also believes the group will be restricted in the amount of information it will be able to release on international expansion, and contends that any such reticence could hinder share price growth.

Sunpak's Gericke ... investments planned for the Cape

Kerry Clarke

Strike at mills may end today

Most of the 1 700 workers involved in the eight-day Mondi Board Mills strike are expected to resume work today, says a spokesman for the Paper, Wood and Allied Workers' Union (PWAWU).

At a meeting between union officials and the Mondi Board in Durban yesterday, a compromise settlement was reached about the backdating of the new salary scales agreed on last week.

A deadlock had developed after Mondi Board had refused to accept PWAWU's demand that increases be effective from January 1. Management said the increases would be effective from January 23. The new salary scales will be backdated to mid-January.

Mondi said settlement had been reached and that union members would report for work from last night.

18/2/87 Star

Mondi mill strikers to return

CT Times 10/2/87

194 (658) 183

Own Correspondent

JOHANNESBURG. — Members of the Paper, Wood and Allied Workers' Union (Pwawu) at five Mondi Board Mill plants are expected to return to work today after eight days on strike.

The settlement yesterday agreed that wage increases be backdated to mid-January.

On Friday Mondi and Pwawu agreed on a 50c-an-hour increase for lower job categories, with another 5c in July. This will bring the minimum hourly wage to R3,15.

Skilled workers will get 65c plus 5c in July.

A Mondi spokesman, Mr Alan Young, said he was pleased the strike had been resolved. Pwawu general secretary Mr Jeremy Baskind declined to comment.

According to Mr Young, four of the mills were expected to be in operation by 10pm yesterday, while the Bellville plant was due to start this morning.

MONDI STRIKE IS OVER

ALAN FINE

10/2/87

MEMBERS of the Paper, Wood and Allied Workers' Union (Pwawu) at five Mondi Board Mill plants around SA are expected to return to work today after an eight-day, wage strike.

The final obstacle in the way of a settlement was resolved yesterday with a compromise accord that wage increases be backdated to mid-January. The union had demanded they be implemented from January 1, while the company wanted them to apply only from the date of agreement.

On Friday, Mondi and Pwawu agreed on a 50c an hour increase for workers in the lower job categories, with another 5c in July. This will raise the minimum hourly wage at the company to R3,15.

Skilled workers will get 65c now, plus 5c in July.

Mondi spokesman Alan Young says he is pleased the strike has been resolved and that both sides "played it according to the rules". Pwawu general secretary Jeremy Baskind declined to comment as he had not yet seen a signed copy of the agreement.

According to Young, four of the mills were expected to be in operation by 10pm yesterday, while the Bellville plant was due to start up this morning.

B/Day

Dividend payment resumed

CAPE TIMES 12/2/87

Sappi tops R1-bn barrier

SAPPI LTD continued its strong recovery in the second half of the year, notching up 100c of its 126c a share earnings in the second six months.

Sappi's turnover went through the R1 billion barrier for the first time and stood 30% higher than the previous year at R1 100,9m.

The comparable figure for 1985 was R846,1m, which included the holding in Carlton Paper Corporation, sold in 1985.

Sappi achieved a 22% higher operating income, amounting to R167,0m (R137,2m).

Profit boost

Since March last year Sappi has been absorbing the full operating costs and depreciation of the Ngodwana Mill, whereas previously part of this cost was capitalized. This boosts the effective increase in operating profit to R100m, as against the R30m reflected.

Sappi's higher cost debt was sharply reduced by using R210m raised in the rights issue, and, coupled with lower interest rates, the group's net interest costs fell by 37% from R96,7m to R61,3m.

Utilizing the funds from the rights issue also had the effect of reducing Sappi's debt:equity ratio from last year's 1,4:1 to 0,93:1 at year's end.

As only R843 000 of finance cost was capitalized in the year compared with R14,9m in the previous year, the group's net interest expense dropped 26% or R21,4m to R60,4m.

Income before tax amounts to R108,1m (R60,1m) and, after providing R454 000 for tax (R4,1m), Sappi's net income is R107,6m, 92% ahead of the 1985 figure.

The deduction for outside preference shareholders in a subsidiary amounts to a sizeable R23,7m and the preference dividend payment to R21,6m, which leaves an attributable income of R61,8m (R12,6m), equivalent to 116c a share.

Because of a change in its deferred tax accounting policy introduced last year, Sappi reflects a R5,3m tax credit. This boosts the group's distributable income to R67,1m or 126c a share (44c).

The company has resumed paying ordinary dividends at the level of 40c an ordinary share.

The group's total dividends payable on ordinary and preferred ordinary shares are 1,5 times covered.

Sappi's chairman Tom De Beer notes that domestic demand for most of the group's products improved in the second half year and there was a strong upswing in the demand for pulp and paper products on the international market.

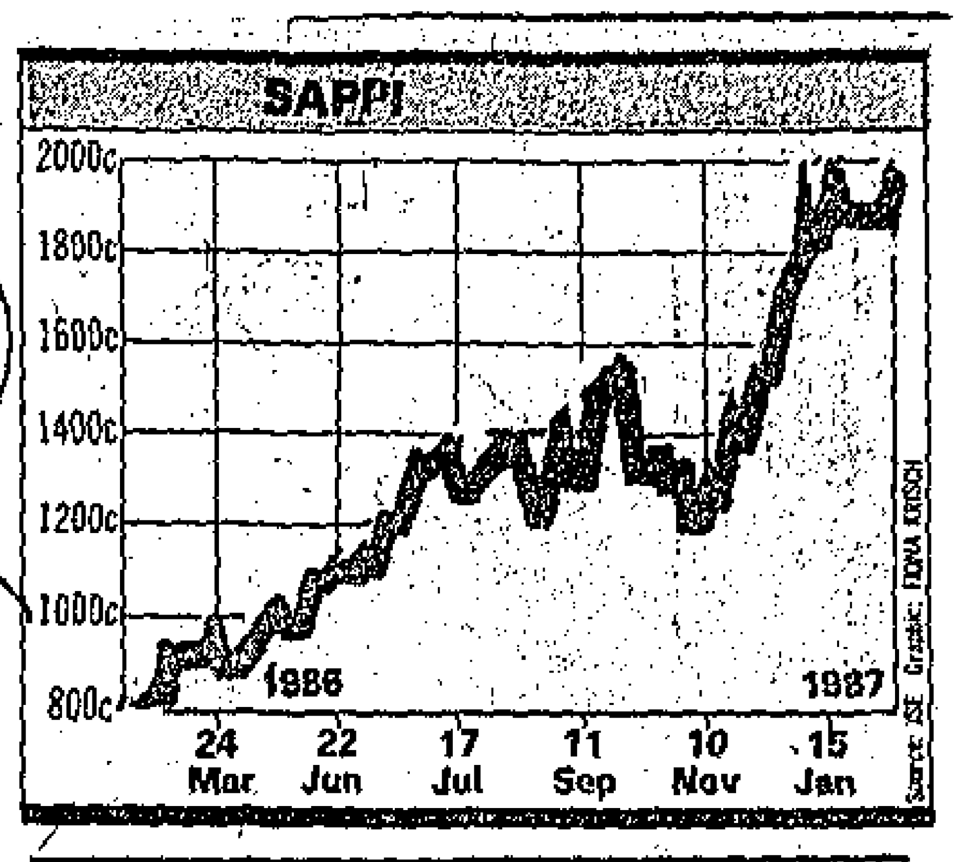
Export surge

"Dollar prices for pulp and linerboard are nearly 50% higher than transaction prices of 12 months ago and newsprint prices are strengthening for the first time since 1984 in the US," said De Beer.

"International prices firmed markedly and this, together with the weakening of the rand, resulted in substantially improved margins on exports. Prices in the domestic market were increased and domestic market margins are now at an acceptable level."

Dividends on both the ordinary and preference shares will be paid on or about April 10 to shareholders registered at the close of business on March 6.

Bells ring for paper producer



MERVYN HARRIS

SAPPI's dramatic second-half earnings leap — it chalked up earnings of 100c a share for total earnings of 126c for the year to December — has led analysts to forecast more-than-doubled earnings this year.

The 1986 results are in line with the prediction made at the interim stage by the giant pulp and paper manufacturer and, as expected, ordinary dividends have been resumed with a payment of 40c a share.

Chairman Tom de Beer says with dollar prices for pulp and linerboard nearly 50% higher than a year ago, and newsprint prices in the US strengthening for the first time since 1984, the company should show an improvement this year on last year's second-half performance.

Modest growth in the SA economy should also maintain firm demand in the domestic market.

Turnover broke through the R1bn level for the first time, rising to R1,1bn, a 30% improvement on the previous year's R846,1m, which included the holding in Carlton Paper sold in 1985.

Strong local and international demand for its products and better margins enabled Sappi to boost operating income 22% to R167m (R137,2m). The increase would have been R100m if Sappi had continued to capitalise part of the cost of the Ngodwana mill instead of, as at last March, absorbing its full operating cost and depreciation.

The R201m raised in the rights issue last year sharply reduced Sappi's debt and, coupled with lower interest rates, interest costs fell 37% to to R61,3m (R96,7m).

Funds from the rights issue reduced Sappi's debt-equity ratio from 1,4:1 to

● To Page 2

Sappi has good cause for another celebration

194 12/2/87 Star

By Sven Lünsche

Only last month Sappi celebrated 50 years as a registered company. With the release of its income statement for the 1986 financial year it can celebrate another milestone — Sappi's turnover went through the R1 billion barrier for the first time and stood 30 percent higher than the previous year at R1,1 billion.

The comparable figure for 1985 was R846 million, which included the holding in Carlton Paper Corporation which was sold during 1985.

The return to profitability was largely achieved during a stong recovery in the second half of the financial year, when it notched up 100c of its 126c a share earnings.

This 186 percent increase in attributable earnings also allowed the company to resume dividends. A dividend of 40c for the year was declared — the last dividend was 86c in 1984.

In their comments the directors said that strong demand, both locally and internationally and better margins were major contributors to the recovery.

"International prices for pulp and papar products firmed markedly and this, together with the weakening of the rand resulted in substantially improved margins on exports," they said.

"Prices in the domestic market were increased and domestic market margins are now at an acceptable level," the directors added.

Sappi's higher cost debt was also sharply reduced, thanks largely to the R201 million raised in the rights issue last year, and this, coupled with lower interest rates, reduced interest costs by 37 percent to R61,3 million.

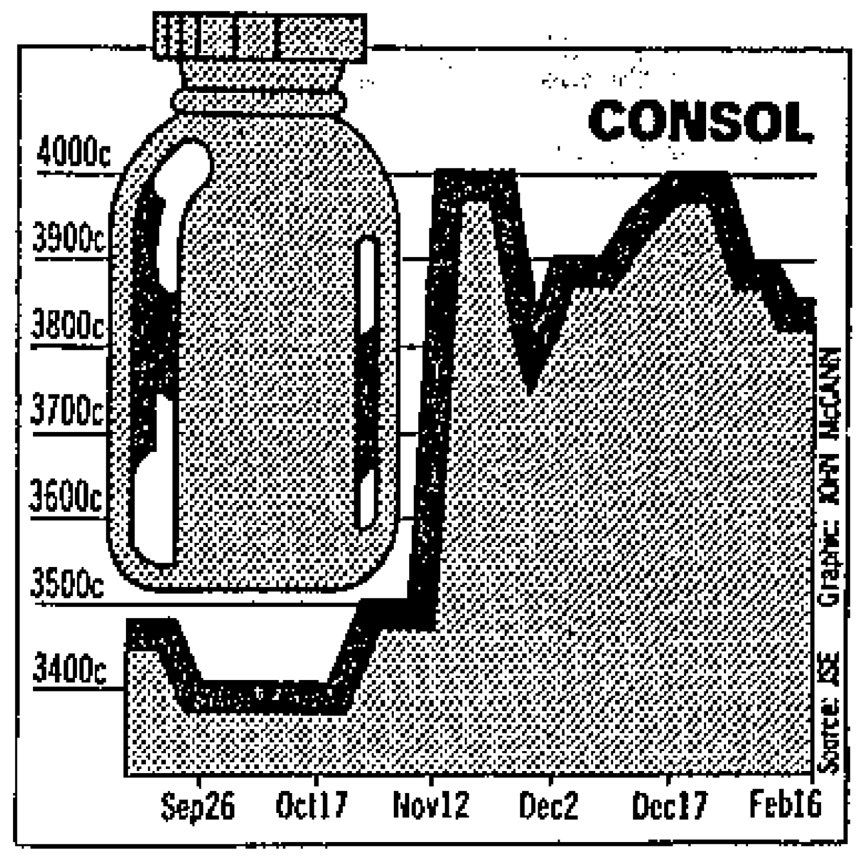
CE Eugene van As also added that the performance of the Ngodwana mill improved significantly.

Looking at the year ahead, Sappi chairman Tom de Beer noted that demand for the company's products should continue to be firm.

On the export side, which makes up about 30 percent of Sappi's turnover, Mr de Beer expects margins to improve. "Dollar prices for pulp and linerboard are nearly 50 percent higher than the prevailing transaction prices a year ago and newsprint prices are strengthening for the first time since 1984 in the US."

Consol back on the track

B1(?) 17/2/87 194



MERVYN HARRIS

CONSOL, the diversified packaging group in the Anglovaal stable which last year failed to achieve earnings growth for the first time in a decade, was back on track in the half year to end December with earnings up 11% to 229c (207c) a share.

The results would have been better but for a substantially higher tax rate which offset the benefits of a sharply reduced interest bill.

Chairman Clive Menell and group MD P J Neethling said good demand for the company's products was expected to maintain the present earnings trend for the balance of the financial year.

Improved sales volumes boosted turnover 31% to R263,8m (R202m) but operating profit rose only 12% to R30,2m (R26,8m). This was because of fierce competition in all areas, absorption of rationalisation costs after the acquisition of Corro-Pack, and start-up losses at the rigid plastic factory in Dimbaza, Ciskei, which was commissioned in December 1985.

Improved liquidity and lower interest rates cut the interest bill by 31% to R3,4m (R5m), leaving pretax profit 22% higher at R26m7n (R21,8m).

However, attributable profit rose only 11% to R14,3m (R12,8m) as the termination of investment allowance increased the effective tax rate from 41,1% to an estimated 46,4%.

Consol acquired on November 1 1986 the remaining 50% shareholding in MKM Engineering for it to become a wholly-owned subsidiary, while at the end of December Consol sold its Liquipak carton operation after the acquisition of the licenser by a competitor's parent company.

Growing demand boosted the glass packaging division while enhanced competitiveness against imports, because of the depressed rand, improved glass tableware profits.

Turnover and profit improvements were recorded in rigid plastics while poor market conditions in the construction and agricultural industries hit the Gundle industrial flexible operation. Together with costs incurred in repositioning the business, the operation continued to run at a loss but remedial action is expected to result in improved future performance.

The consumer flexibles and bags and sacks operations moved from a small loss into a break-even situation towards the end of the half-year but the paper packaging division reported decreased profits.

The division was hit by disruptions in the Transvaal after a major fire and labour problems. It was also difficult to recover the full impact of an unexpected paper price increase because of strong competition.

State protecting one manufacturer — claim

Import duty on paper has printers in a flutter

190 20/2/87 6 May

NORMAN SHEPHERD

THE paper and print industries have been thrown into confusion by a government move which has seen a 15% import duty imposed on carbonless paper.

Printers now fear cost pressures which they cannot pass on, while importers say the State is protecting a lone manufacturer, Nampak Paper, and inflating prices throughout commerce and industry.

But Nampak says it cannot make enough profit at present prices to justify expanding to meet local demand.

Paper importers Wiggins Teape says Nampak already has a 20% price cushion over imports and cannot meet more than half the local demand.

Wiggins MD Derek Smith says: "More than 50% of requirements will have to be imported at the inflated level."

A 15% duty already existed on the top sheet of the paper which is sold in triplicate.

The row erupted after the Board of Trade (BoT) extended another 15% duty to the middle and bottom sheets.

But Nampak MD Ian Cameron says importers have about four months' stock.

"So I don't see any need for immediate price increases.

"Sure it will affect many people but it won't affect anyone supporting us.

"We spent millions during the last five years and only last year were we back in the black with a slight profit.

"We cannot meet local needs until we go into profit but the potential is there."

SA Printing and Allied Industries Federation executive director John King says: "It is of concern to us. Paper can constitute up to 50% of total printing costs.

"We are evaluating the effect of the duty change and will have to decide whether to approach the Board of Trade.

"We are always being hit by price increases and cannot pass them all on. So it is a squeeze situation."

New tax upsets print industry

(194) 5/3/88

Dispatch Correspondent

JOHANNESBURG — The South African paper and print industries have been thrown into confusion by a government move which has seen a 15 per cent import duty slapped on carbonless paper.

Printers now fear cost pressures which they can't pass on, while importers say the state is protecting a lone manufacturer, Nampak Paper, and inflating prices.

But Nampak says it can't make enough profit at present prices to expanding to meet local demand.

Paper importers Wiggins Teape say Nampak already has a 20 per cent price cushion over imports and cannot meet more than half the local demand.

The managing director of Wiggins, Mr Derek Smith says: "Over 50 per cent of requirements will have to be imported at the inflated level".

A 15 per cent duty already existed on the top sheet of the paper which is sold in triplicate. The row erupted after the Board of Trade extended a further 15 per cent duty to the middle and bottom sheets.

But the Nampak managing director of Nampak, Mr Ian Cameron, says importers have about four months stock left.

"So I don't see any need for immediate price increases. Sure it will affect many people, but it won't affect anyone supporting us."

CAPE TIMES 24/2/87.

Nampak workers down tools

(194)

Staff Reporter

WORKERS at Nampak Paper, Bellville, yesterday downed tools.

The workers are members of the Paper, Wood and Allied Workers' Union, which declared a dispute with the company in mid-December. The Minister of Manpower, Mr Pietie du Plessis, agreed on February 6 to the appointment of a conciliation board.

The general manager, Mr D Sabbatini, said about 100 workers went on strike about 12.30pm. He believed the strike was in support of a PWAWU demand that further wage negotiations take place outside the auspices of the conciliation board.

SEAN GARSTIN. OAK ST. SOMERSET WEST. TEL

Turnaround of 290,2c a share

Cape Times 27/2/87

Kohler produces sparkling results

194

JOHANNESBURG. — Packaging giant Kohler Ltd turned in sparkling results for the 12 months that ended in December.

This followed its cracking pace at the interim stage.

Kohler, which notched up a loss at the end of 1985, now reported earnings of 121,5c a share, a turnaround amounting to 290,2c a share.

As economic conditions remained difficult, the dramatic recovery is attributed to tight management control and lower financing costs.

At the half-year, Kohler swung from a loss to a profit and earned 47,1c a share. But the biggest thrust came in the second half with a 58% increase in second-half earnings.

Income up 155%

On a turnover of R448,9m, 24% ahead of the previous year, Kohler's operating income rose to R28,1m from R11m, an increase of 155%.

After deducting interest paid and forward cover costs amounting to R10,5m (1985: R20m) and amortizing R511 000 of the 1984 exchange loss (1985: R11,2m), Kohler's pre-tax income amounts to R17,1m.

This should be compared with the R13,2m loss sustained last year.

With accumulated assessed tax losses, Kohler's tax rate is a low 14,2%. This tax liability arises largely out of the profit made in the multiwall-sacks division.

This has left Kohler with R14,6m in taxed income (1985: R13,5m loss) and a distributable income of R12,9m or 121,5c a share. In the previous year Kohler posted a loss of R15,8m, equivalent to 168,7c a share.

R16,3m asset increase

Kohler MD Ian Willis said: "The group's total borrowings are down by 6% of R5,7m and net current assets have increased by R16,3m, partly due to inflation and partly to meet increased customer demand."

He said all of Kohler's divisions experienced volume growth of between 8% and 10% in the year, but noted that the group was reporting off a low base.

"Significant recovery from previous years' droughts was also experienced in the agricultural sector. Some of the increased turnover was also created by inflationary pressures arising from imported raw materials which were adversely affected by the rand/dollar exchange rate." — Sapa

Unico Ro-Ro ships named

By ROGER WILLIAMS
Chief Reporter

UNICORN'S new Ro-Ro (roll-on, roll-off) ships equipped for the quick carriage of general cargoes along the coast were named "Barrier" and "Border" at ceremonies held simultaneously in Cape Town and Durban harbours yesterday.

The 12 850-ton vessels, built in Europe in 1980 and recently acquired by the Durban-based Unicorn Lines for R30m, will be the biggest in operation on the country's coastal trade. They come into service on Sunday.

Both ships are registered in Panama.

Ceremonies

In Cape Town, the "Barrier" was named by Gezina Louw, wife of the Minister of Transport Affairs, and in Durban the "Border" was for-

ecial features ... for ward with its own 4-bed taurant, shopping mall whole. try tal

MEC 006 E

COMPANIES

Kohler sees profit jump by 155%

27/2/87 B/Day

BRIAN ZLOTNICK
Investment Editor

KOHLER'S recovery continued to accelerate in the second-half of 1986 with the full year's earnings of 121,5c a share (loss of 168,7c in 1985) surpassing the best expectations.

A final dividend of 25c a share has been declared to make a total of 35c (nil) a share for the year.

The packaging group has now been restored to health after the 1985 disastrous forex losses, high interest costs and poor trading results.

CE Ian Willis said last night: "I am confident Kohler will show another meaningful improvement in earnings this year with the rigid plastics division beginning to contribute to profits."

On a turnover advance of 24% to R448,9m (R362,3m), with all divisions showing average volume growth of the order of 8-10%, operating profit soared 155% to R28,1m from R11m.

A restoration in consumer confidence and the smart pick-up in demand off a very depressed base in the agricultural sector boosted volumes.

Margins — operating profit expressed as a percentage of turnover — more than doubled to 6,3% from 3%, reflecting the benefits of an improvement in volumes and the rigid plastics division swinging from a R6m loss into a profit.

So, with net finance costs sharply lower because of the steep decline in forex losses and a reduction in interest and forward cover costs, pre-tax profits emerged at R14,6m against the previous year's loss of R13,2m.

Kohler benefited from the utilisation of accumulated assessed tax losses and the tax bill was a low R2,5m. The tax was attributable to the profits of the multiwall sacks division.

The advance in earnings a share was blunted by the conversion of preference shares, issued to Gencor when Xactics was acquired some years ago, into ordinary shares.

Average number of shares in issue rose to 10,6-million from the previous year's 9,4-million.

Gearing at 91% is still uncomfortably high but shows an improvement on the previous year. Willis expects another reduction this year and sees no need to hold a rights offer.

Once borrowings have come down to a more acceptable level, Kohler should have ample scope to reduce dividend cover from the current 3,5-times to its former cover of two.

argus 7/3/87

NEWS

Police move on strike at Nampac

By DICK USHER
Labour Reporter

POLICE intervened in a strike at Nampak Paper, Bellville, and about 70 workers were taken away and released later.

The strikers were removed yesterday while demanding that pay increases negotiated last week be backdated to January. They had slept in the factory overnight.

The move has been condemned by the Paper, Wood and Allied Workers' Union and the Western Province region of the Congress of South African Trade Unions.

Police spokesman Captain Jan Calitz confirmed that about 70 strikers were taken to Bellville police station, where the station commander "explained the situation to them".

The company claims the strike is illegal but the union, a Cosatu affiliate, denies this.

Mr D Sabbatini, general manager of Nampak, said there had been intimidation and several assaults and workers had prevented vehicles from entering or leaving the factory.

"Precaution"

Police had been summoned as a precautionary measure. They intervened when the strikers refused to confine themselves to the area demarcated by the management for the duration of the strike and "continued with their threatening behaviour".

Mr Sabbatini said Nampak arranged for their release without charges and they had returned.

Mr Nick Henwood, regional secretary of Cosatu, said: "We view it in a serious light when management turns to the police in industrial disputes instead of attempting to resolve them within the structures of management/union relations, especially in view of the living-wages campaign which is about to start.

"If the trend is going to be for management to turn to police to resolve disputes, strikes will become increasingly politicised.

"It was a majority decision of the workers to strike. Cosatu stands behind them and we see calling in the police as a blow to democratic trade union organisation."

unidentified Lenasia woman home.

CAWU - Tin 15 10/3/87 (174)

Nampak settlement

STRIKING Nampak workers in Bellville returned to work at the weekend after management and the Paper, Wood and Allied Workers' Union reached an agreement on wage increases. A Nampak spokesman said all shifts were operating normally. Last week about 70 strikers taking part in a sit-in were arrested for allegedly preventing vehicles from entering or leaving the factory and for imtimidating workers. Their release without charges was arranged by the company.

PW's disc no hit with Maitland packers

South, March 26/3/87

By CHRIS GUTUZA

PRESIDENT P W Botha's election message may be enjoying "hit single" status, but the Maitland workers who packed it see no "gold" in their working conditions.

Several workers are unhappy because, they complain, their working conditions keep them at a disadvantage, especially over pay.

Though the packers did not work overtime on the single, several want to be paid on an hourly basis because they say they are losing money they would have earned for normal working hours and overtime.

"We are being paid by the quantity of material labelled, folded, inserted or sealed," they say.

"When we work overtime our rates do not increase. The same happens when we work on certain Saturdays."

Said another worker: "Things would be different if we belonged to a union. I receive my wages in a plastic bag with a little strip that doesn't even stipulate who I work for. A small amount is deducted, I think it's UIF."

"Another sore point is that we have to start working as soon as we arrive at work, even if we are early, although our working hours are from eight to five."

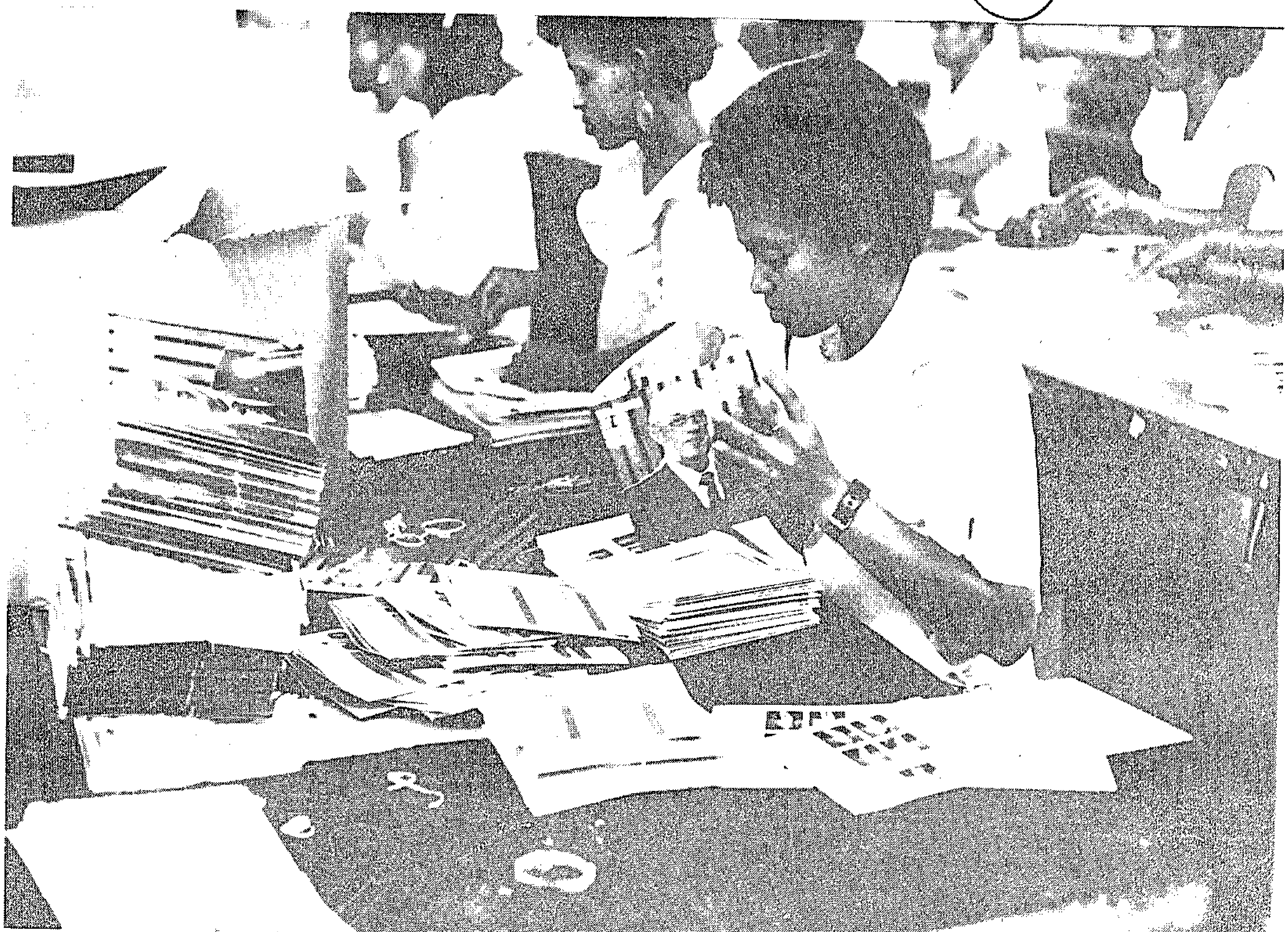
Penalised

Another said they were penalised and had to stay home for up to two weeks if they refused to work overtime or arrived late.

"When there's a slack period workers leave at about noon each day and we are not paid for that period. If you work on a job at a rate of R1,60 for 1000 copies, and you do not handle more than that amount for the day, R1,60 is all you earn for that day," she said.

The general manager of the mailing service, who refused to give his name, said he would not comment on anything before he had written proof that his staff would benefit from the article.

He claimed to have made a tape recording of the conversation with the reporter and produced a cassette player as alleged proof. He then gripped the reporter's upper right arm, while telling an onlooker: "This guy is getting me cross now." The SOUTH reporter then left.



Workers at a Maitland firm packing P W Botha's election single.

It is reported that the election project could cost the National Party more than R520 000 for the 400 000 copies of the single which will be distributed to white voters.

The workers responsible for the wrap-round with the title "Why you should vote NP" will not feature in the elections; nor will they be represented.

(News by Chris Gutuza of 95 Sir Lowry Rd, Woodstock).

Turning point for Sappi as Ngodwana comes right

SAPPI, well known for its optimistic forecasts, expects only an "improvement" in earnings in the current financial year.

By Don Robertson

Celebrating its 50th anniversary, the company predicts a challenging year, but is encouraged about the future.

Under new chairman Tom de Beer, who succeeded Basil Landau, Sappi has reported turnover of more than R1-billion for the first time and record profits of R67-million in the year to December compared with R45-million in the previous year. This represents earnings of 116c a share against 31c.

The improved results allowed the company ro resume dividends at 40c a share.

Reduced

During the year, the debt/equity ratio, which had gone as high as 1,45 to 1 was reduced to 0,93 to in 1 after the R201-million raised through a rights issue of preference shares.

The benefits of the Ngodwana, Eastern Transvaal, expansion started to flow through in the second half of the year and R53-million of the profits were earned in this time.

Mr de Beer says: "This marks a turning point in the company's fortunes and I am confident that it will build on this foundation in the future.

"This (profit) is likely to accelerate as we approach design capacity during 1987. Each unit at the Ngodwana mill has attained or exceeded its design capacity consistently for long enough for the group to have confidence that the higher levels of output will be maintained in the near future."

Mr de Beers says that a rapidly strengthening world market has caused most pulp and paper prices to rise sharply and dicounting has diminished.

Sharply

"At current rates of exchange exports are profitable, but for this situation to continue, inflation trends will have to be reversed or countered by continuing devaluation of our currency."

Referring to the domestic market, Mr de Beer says dumping of paper products has declined and there is no threat from imports.

"Domestic prices have risen sharply in the past 18 months, but in most cases prices are still well below the landed price of imported alternatives," says Mr de Beer.

A group priority will be to raise pre-interest and tax returns on average total assets from 6,8% last year to 15% by 1989, rising to 20% by the beginning of the next decade.

Should this be acheieved, it will have a marked effect on the bottom line.

TOWNSHIP REMOVALS 26(34)

Shifting the ground

Government calls it an "accommodation project." The Transvaal Rural Action Committee (Trac) says it's a forced removal — even if indirectly. Those affected, the black residents of Machadodorp township, seem confused about whether they are being forced to move to a new site, Emthonjeni, 3 km away, or if they've been made an offer they can't refuse.

At any rate, removals/resettlements of

FM 3/4/87

black communities are emphatically not a thing of the past, despite government's moratorium on "forced" removals. Minister of Constitutional Development and Planning Chris Heunis has said some 22 000 people countrywide have yet to be resettled (*Current Affairs* March 20), although he did not include Machadodorp on his list of those affected.

The reason is explained by the Department of Development and Planning spokesman, Johan Oosthuizen. He says government does not regard the resettlement of black villagers at Machadodorp as a removal as they were given the opportunity to apply for new houses at Emthonjeni from January 1981. Also, several meetings were held with the residents to reach "consensus" on their re-location. "That is why it is not a 'removal' and why Minister Heunis omitted Machadodorp from his list of townships still to be resettled this year," Oosthuizen says.

Only the 287 people who have their names listed will receive houses in Emthonjeni. But Oosthuizen says Machadodorp township currenty houses about 300 families; those who do not get a new house will be accommodated on the 130 serviced sites at Emthonjeni, where they can build their own homes. This implies they will *have* to move, voluntarily or otherwise, at some point.

Some residents told the *FM* they felt intimidated by the presence of police in Machadodorp. Although they admit that their living conditions are poor — they use the old bucket sewage system, and about 20 families share a communal tap — many prefer to stay, as they will not be able to afford Emthonjeni rents and service charges.

The residents built their own homes in Machadodorp and pay only R15 a month for services. In Emthonjeni, they will have to pay R53 for rent and services. Most of them earn between R50 and R150 a month.

Oosthuizen says the financial problems are being investigated, but rents cannot be cut since they were fixed at the rates of three years ago. Township superintendent Piet Venter says two small families can move into one house at Emthonjeni and share the costs. The houses have four rooms.

Trac's Alan Morris says it is clear that the great majority of residents will not be able to afford the new rents. If a referendum were to be held in an "unintimidated" atmosphere, there is little doubt that they would prefer to stay in the old township, which they can afford, he adds.

Oosthuizen denies that an indirect forced removal is at work. He claims people will be free to stay, although they might encounter difficulties as the school and other institutions will eventually be moved to Emthonjeni. But he also says no stucture presently in use — church or school — will be demolished until accommodation can be provided in Emthonjeni.

Machadodorp township was never proclaimed as such. Venter says an applic for proclamation was turned down for " tical reasons" in 1948 because it wa close to the white area, a mere 100 m white Machadodorp. The municipalit cided to lease the ground to the town

Venter denies that the ground will be to expand the white area: "We are n settling people to get the ground, but be we want to improve their appalling conditions."

Talks on removing the township star 1974, but the administration involved veloping another township is time-co ing, Oosthuizen says. He says it will r practical to upgrade the existing tow as the ground has not been serviced ar residents will in any case have to be a modated elsewhere to do so.

The removal process, according to th partment of Development and Plai works like this: "A specific person formed four days before the actual d the exact time and date he would be r to Emthonjeni. Every house owner is the choice to have his house evaluated a be paid out the amount agreed upon, or rid of the material himself."

Although Venter would like to se removals completed and the ground ret to the Machadodorp municipality by th of July, he says the date is "flexible."

The township dwellers, meanwhile, to have acquiesced in a fait accompli

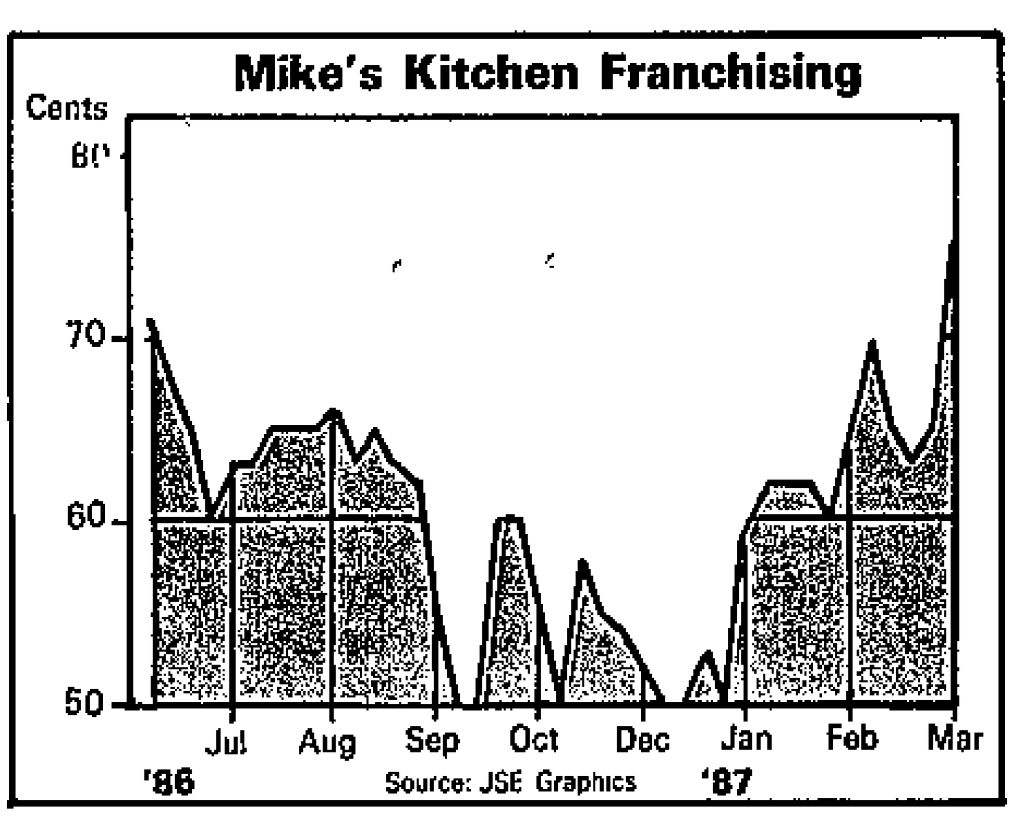
CARLTON PAPER (194)

Better view

Although a strong turnaround in the second half of 1986 enabled Carlton Paper to report marginally higher earnings, future growth will again hinge on consumer confidence, exchange rates and the cost of dollar-priced raw materials. Encouraged by the narrower range of the rand/dollar rate, chairman Klaus Zirker says higher earnings are on the cards for the current year, provided there is modest real growth in the economy.

In addition, the price of paper pulp — which is determined by Sappi in relation to overseas pulp prices — remains a key issue for recovery. At present, the dollar price of pulp is up, but a simultaneous appreciation of the rand has left Carlton better poised for profit growth than it has been for some time.

FM 3/4/87



The illness of former chairman David Lewis, and last week's takeover of Mike's Kitchen by Satbel,has revived interest in the restaurant chain, sending the share to a new high of 110c.

While it seems that there will be little change in the nature of the Mike's Kitchen concept, the company will benefit — particularly in marketing — from its association with the powerful Satbel/Kersaf camp. Kersaf's food and beverage management skills, with the financial strength of Satbel and the Ster- Kinekor link, should enable Mike's to attract highly qualified franchisees in future, says Kersaf joint MD Ian Heron.

Meanwhile, the expansion of franchise operations will continue as planned by Lewis before his illness.

A minimum of seven new units are scheduled for the current year, and the new Mike's G N'T concept, currently on trial in Sandton, could be developed into a national franchise towards the end of this year. A full year's earnings will start to flow in from the six units opened during 1986.

These factors are expected to have a moderate impact on turnover and earnings during the current year. More specific forecasts are not available as Satbel is involved in a total overview of budgets and strategies.

After raising R2,9m in a public issue, Mike's balance sheet is virtually debt free, with a debt:equity ratio of 0,15. However, because of the company's strategy of getting financially involved in funding its franchisees, Mike's must be regarded a higher-risk operation than, say, Spur Steak Ranches, which minimises its exposure to franchisees. At the December year-end, Mike's loans to franchisees totalled R2,3m.

This may help explain why both Spur, on a dividend yield of 1,9%, and Squires Foods on a dividend yield of 2,3% are better rated by the market. *Cherilyn Ireton*

Cape Times 13/4/87

28,6% interim div hike

Malcor boosts turnover 55%

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By AUDREY D'ANGELO
Financial Editor

MALCOR HOLDINGS, the investment company with 78,4% of the diversified industrial group Malbak and 40,8% of Carlton Paper Corporation, has benefitted from their improved results.

It has declared an interim dividend of 18c a share — 28,6% higher than the 14c paid last year.

Although there are more shares in issue, earnings in the six months to February on a fully converted basis have risen by 29,6% to 46,9c (36,2c) a share.

Forecasting record profits in the second half of the financial year, CE Grant Thomas says the improvement is largely due to Malbak's acquisitions of Haddons and Kohler.

These helped to lift Malcor's turnover by 55,9% to R743m (R476,7m).

Pre-tax income rose by 67,1% to R39,6m (R23,7m), but the tax rate fell to 45,2% compared with the 48% paid last year, resulting in an after-tax income of R21,7m (R12,3m).

Attributable profits have almost doubled to R13,7m (R7,9m).

Malcor's assets have climbed from R423,2m to R854,2m, and total funds employed have increased from R265,6m to R578,2m, Thomas says.

"Malcor's net asset value is 779c (569c) and including the market value of its investments this figure shoots up to 2 013c a share."

undisclosed price ees and about 75% of the South African spice market.

...l bloom

...and paper industry is earning ...er profits after a massive expansion ...at cost well over R1,5 billion. The expansion started some six years ago when the two industry giants, Sappi and Mondi, both announced plans to build major new plants.

They must have had their anxious moments — the original estimated cost of Sappi's Ngodwana plant was R900m, while Mondi's at Richards Bay was projected to cost about R500m. Given the size of the projects (Mondi subsequently doubled the capacity of its plant), the actual costs escalated enormously, and may have come closer to R2 billion.

Sappi suffered from some well-publicised problems relating to production and funding costs, but its attributable earnings for the

Amic subsidiary Mondi Paper is enjoying booming profits after its costly expansion at Richards Bay.

year to end-December 1986 jumped from R12,6m to R61,8m, of which R53m was earned in the second half. Unlisted Mondi has kept a low profile. But it, too, is rapidly approaching full production at Richards Bay and profits are soaring.

Mondi's attributable earnings for the same period shot from R1m to R53m, and were a significant factor in the 51% leap in the 1986 attributable earnings of Amic, which owns 62,3% of Mondi. Mondi's contribution to Amic's earnings jumped from 2,3% to 14,7%, and there is little doubt that Amic can comfortably expect a larger boost from the pulp and paper group this year.

194

During the expansions, interest rates soared to levels which could not have been foreseen by either group's planners. Both had injections of new equity capital from shareholders last year; in Mondi's case the amount was R72m. It is also unlikely that the planners foresaw the long recession that was to depress SA's economic growth rate during the Eighties, nor the pace at which inflation would rise.

In certain other respects, though, the expansions could hardly have come on stream in more propitious circumstances. The economy is at last turning up — tentatively —

MONDI PAPER

In full bloom

Amic subsidiary Mondi Paper is enjoying booming profits after its costly expansion at Richards Bay.

SA's pulp and paper industry is earning bumper profits after a massive expansion that cost well over R1,5 billion. The expansion started some six years ago when the two industry giants, Sappi and Mondi, both announced plans to build major new plants.

They must have had their anxious moments — the original estimated cost of Sappi's Ngodwana plant was R900m, while Mondi's at Richards Bay was projected to cost about R500m. Given the size of the projects (Mondi subsequently doubled the capacity of its plant), the actual costs escalated enormously, and may have come closer to R2 billion.

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and domestic demand for pulp and paper products is showing real growth. Interest rates have tumbled, and profits from export sales are being bolstered by firm product prices in foreign markets and by the weak rand.

Both groups have got their new plants operating at profitable production levels, so further increases in output will have a dramatic impact on earnings. In Mondi's case, considerable growth still lies ahead. Production of pulp at the Richards Bay plant reached 340 000 t in 1986, about 26% below current rated capacity of 430 000 t a year. Full production should be achieved by the end of 1988, so the additional throughput will benefit the next two years' profits.

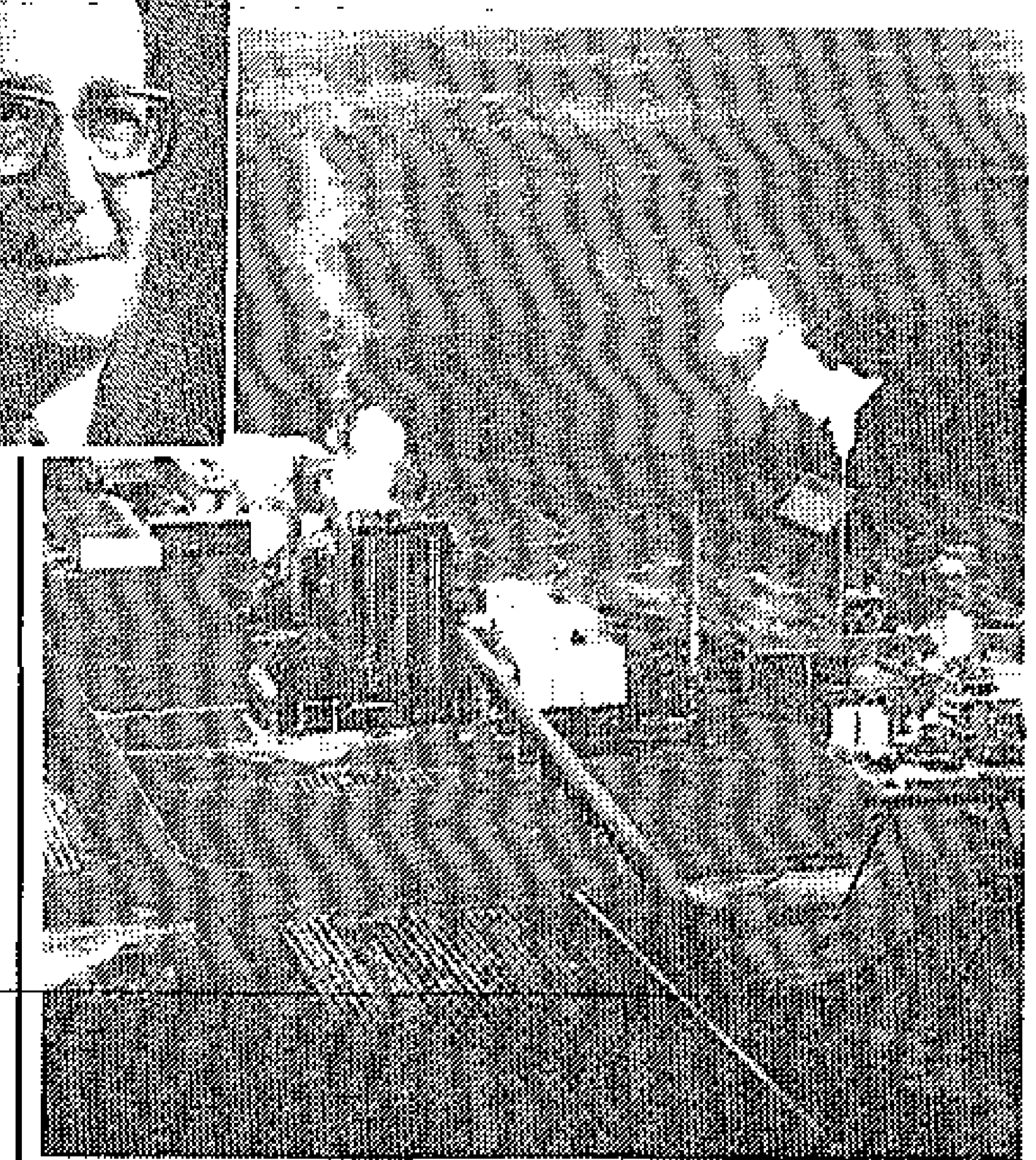
Indeed, Mondi, only 15 years old and producing a total of 1 Mt a year of pulp, paper and board products — making it a significant force by world standards — has reached the stage where it would be ripe for a listing. That depends on the controlling shareholders at 44 Main Street. Chairman Reg Donner says he is aware of speculation to this effect, but nothing formal has been discussed by the board. "Anglo doesn't like shuffling paper," he says. "No listing is planned at present." Still, it would not be surprising if that viewpoint was to change, particularly if conditions are favourable when the plant is fully commissioned.

Mondi is a formidable enterprise, by some criteria larger than Sappi. Although turnover is not published, industry sources believe the figure could be very close to Sappi's R1,1 billion last year; and while Sappi employs about 11 700 people, Mondi employed 15 000 in 1986. Of these, only about 1 000 work at the highly automated Richards Bay plant — so their jobs did not come cheaply.

In considering Mondi's capabilities, account should be taken of fellow Amic subsidiary Natal Tanning Extract Company (NTE), whose main operations are in forestry and manufacturing of tanning extract from wattle bark. NTE, which employs 5 500 people, owns and manages 102 000 ha of land in Natal and the south-eastern Transvaal. On most of the land it grows pine, wattle and gum trees, and some sugar cane.

For Mondi, these timber resources — in total, considerably larger than those of any local competitor — are immensely important. SA has never been rich in hardwood timber; the expansion of the industry's pulp and paper capacity has led to an extremely tight supply position for hardwood. Mondi (like Sappi) is developing a fast-growing cloned variety of eucalyptus tree, which should improve the yield of timber-growing land.

"The species of eucalyptus we are working with is not grown in many other countries and we know that it sells well in international markets," says Donner. "Already we have produced a tree that has grown 17 m tall in 33 months. So we have high hopes of improving the yield by perhaps two to three times." The first such trees should be fully grown



Mondi mill, Donner (inset) . . . ripe for a listing?

within seven years, of which just over four years remain.

NTE, meanwhile, has procured extensive reserves of timber land in northern Natal, as close as possible to Richards Bay. Mondi has also acquired quantities of land in the area over the past two to three years. "We always knew that railage costs would keep escalating," says Donner. "We hope that in three to four years, we'll be able to supply a large proportion of our requirements from nearby." With railage now contributing about 40% of timber costs, this could offer significant savings.

Even in the event of any serious shortages of hardwood, that need not imply that the Richards Bay plant would be threatened with shortages of fibre. The plant was designed for flexibility, and can run on either hard or softwoods. Other key elements of the design include flexibility for further expansion, and low running costs.

Infrastructure is in place for a doubling of production capacity; the mill currently occupies only 243 ha of the 405 ha site, which is encircled by an electrified railway line. It has its own chemical plant producing bleached chemical pulp (which the group no longer needs to import), and — unlike Sappi — the plant has from the outset had its own electric turbines which produce most of its electricity.

"Of the 84 MW of electricity we use, about 70 MW is produced by our own turbines," says Donner. "Pulp is really just fibre and energy, so electricity is a very significant part of the operating cost. We believe the plant is a low-cost producer by world standards."

Timing of further expansion at Richards Bay would depend on world markets. For the present, he says, exports are going "exceptionally well." One reason is that Mondi has a sound track record in exports, and now sends its products to 37 countries.

Newsprint and pulp are in short supply in world markets. Apart from the South African producers, no new capacity has been built elsewhere in recent years. This has led to rising dollar prices abroad, offsetting the negative effect of the recently higher rand on the group's export earnings. Newsprint prices, in particular, showed solid increases in dollar terms in the second quarter and are expected to rise again in the third. Pulp prices are expected to remain stable.

Richards Bay is well placed for the Pacific Basin, where a number of countries such as Japan and Korea are large consumers of pulp, yet have no resources of their own. Says Donner: "Even if things change, and other world producers start expanding, it would take them several years to bring their plants to production. So I would see quite a happy time for us at least for the next two to three years. That doesn't necessarily mean prices will be continually buoyant; they will be influenced by world economic acitivity too."

At present, about 30% of the Richards Bay plant's production is exported. Products which are not exported are used as raw materials in other Mondi plants, and have eliminated imports of these materials. As production rises at Richards Bay, the additional output will be exported, eventually lifting the proportion of total tonnage exported to about 50%.

With the local market perking up, management's attention is swinging to the older plants. In the third quarter of 1986, says Donner, domestic demand for certain group products, particularly in packaging, shot up by 30%-40% and has remained at that level. Part of the increase is assumed to have been caused by import replacement; but the rest can only be related to consumer spending. Most of this offtake, with a few exceptions such as ceiling boards, goes directly into consumer products sold by retailers.

Management has already concluded that capacity in the older plants will have to be expanded to meet higher local demand. Efforts will be concentrated in the Board Mills division, which makes paper and board for the packaging, printing and stationery industries; and linerboard and fluting medium for the corrugated container market.

The extent and cost of the intended expansion is being investigated. Apart from what has already occurred, Donner notes that the building material business has yet to take off.

This underlines the potential growth that lies ahead for the group. It achieved a R52m earnings surge on the strength of its Richards Bay plant coming on stream and reaching around 70% of capacity, and improved activity in some existing divisions. A stronger and sustained economic recovery with higher export tonnages must mean far larger profits.

Andrew McNulty

MONDI'S PROFIT

Year to Dec 31	'82	'83	'84	'85	'86
Ordinary shareholders' funds (Rm)	250	316	436	450	559
Earnings before interest and tax (Rm)	56	50	58	56	115
Attributable earnings (Rm)	32	27	21	1	53

SAPPI (194)

More momentum

Activities: *Manufactures and sells pulp, paper and wood products. Wholly-owned management companies are Sappi Forests, Sappi Timber Industries, Sappi Fine Papers, Sappi Kraft and Sappi International.*

Control: *Gencor owns more than 60% of the ordinary shares.*

Chairman: *T L De Beer; managing director: E Van As.*

Capital structure: *31,6m ords of R1 each; 33,7m preferred ords of R1 each; 17m conv irredem cum part prefs of 40c each; and 64,9m red cum prefs of 1c each. Market capitalisation: R814m.*

Share market: *Price: 2 575c. Yields: 1,6% on dividend; 4,9% on earnings; PE ratio, 20,4. 12-month high, 2 910c; low, 1 000c. Trading volume last quarter, 224 000 shares.*

Financial: *Year to December 31.*

	'83	'84	'85	'86
Debt:				
Short-term (Rm) ..	56	148	180	199
Long-term (Rm) ...	589	857	975	671
Debt:equity ratio ...	0,91	1,40	1,28	0,74
Shareholders' interest	0,47	0,38	0,38	0,51
Debt cover	0,22	0,13	1,24	0,65

Performance:

	'83	'84	'85	'86
Return on cap (%) ..	6,1	5,1	5,5	6,3
Turnover (Rm)	554	658	846	1 101
Pre-int profit (Rm) ...	94,4	101,2	144,7	172,7
Pre-int margin (%) ..	17,0	15,4	16,2	15,2
Taxed profit (Rm)	99,1	94,4	56,0	107,6
Earnings (c)	221,7	197,1	31,2	116,3
Dividends (c)	86	86	86	—
Net worth (c)	1 577	1 700	1 494	1 581

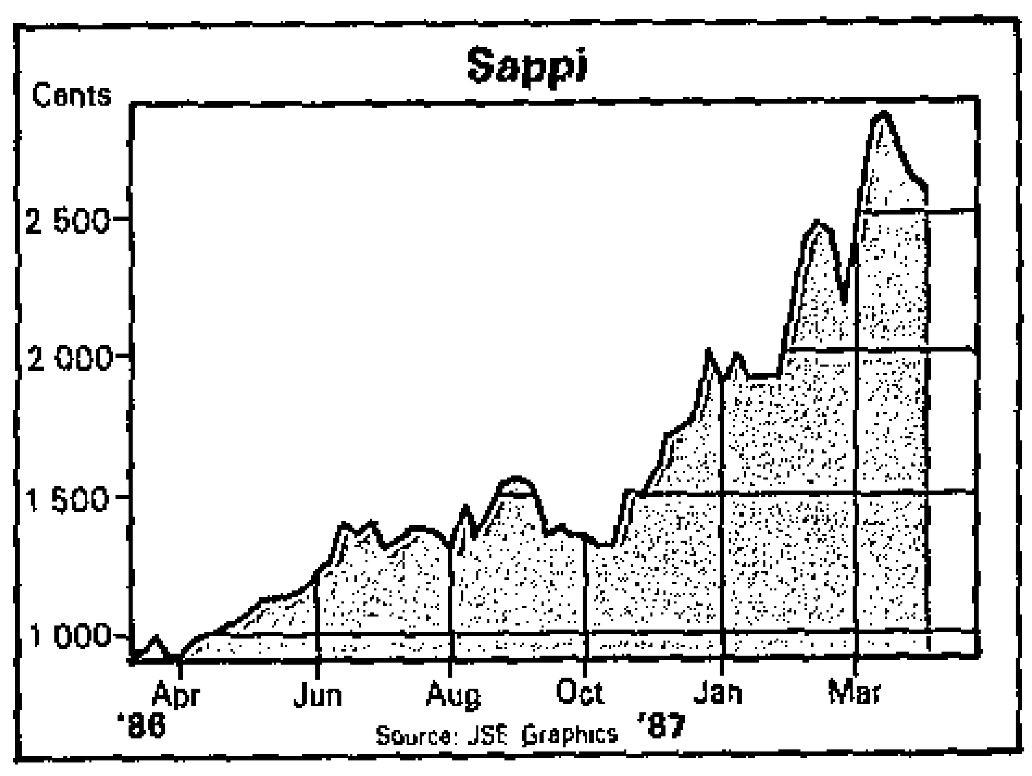
Publication of the preliminary year-end results in February confirmed that the group's profitability and liquidity position had improved vastly during the second six months of the 1986 financial year. Much of what was achieved was ascribable simply to smoother production — particularly at Ngodwana — rising efficiencies elsewhere in the group, and buoyant export markets.

What Sappi needs now is a broadly-based and lasting pickup in domestic markets. If that occurs — and the signs are looking increasingly encouraging — it could mean a whole new thrust forward for the pulp and paper giant.

It is certainly better positioned than last year to take advantage of a full-blooded recovery at home. A lot has rightly been made of the currently firm product prices in dollar terms abroad; but while Sappi's export sales doubled last year (helped also by the rand), local sales still form the backbone of its output. Some of the older plants which were built for the local market continue to operate below capacity, and their profits would respond quickly to higher volumes.

Last year's 30% growth in sales and 21,2% rise in trading income brought cash flowing in. Trading margins broadened to 16,2% in 1985, and remain good despite the 1986 drop to 15,2%. In fact, if capitalisation of start-up expenses are taken into account, then the comparative increase in operating profits was not R30m, but about R103m. With lower rates, repayment of borrowings (helped by the R201m rights issue of 14,4m preferred ordinaries) net interest payments were down by 34,2% at R65,5m; and the interest cost absorbed only 38% of trading income, against 69% in 1985.

If cash balances of R80,8m (R33,3m) are



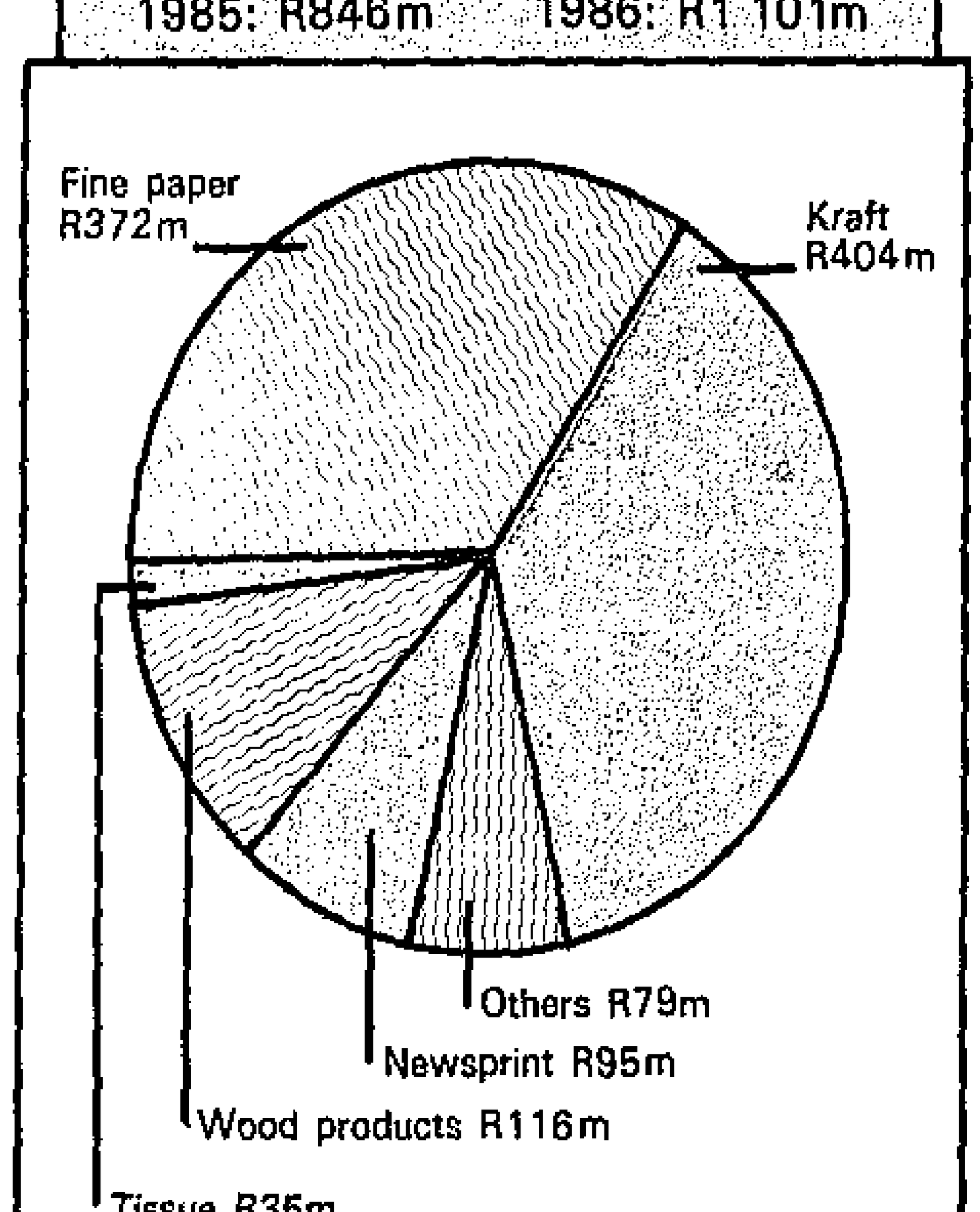
taken into account, then net interest-bearing debt has fallen by R324m to R701,2m (R1 025,2m). This enabled the current ratio to improve from 1,0 to a respectable 1,24, and the group is now positively geared.

Trading income was curbed by the bumped-up depreciation of R85,2m (R59,4m). But when profits are adjusted for depreciation, gross cash flow jumped to R184,3m from R108,4m. Debt-repayments that have occurred, and should continue to occur, have an almost direct impact on the bottom line: the group has estimated tax losses of R569,4m, and paid only R454 000 in tax last year.

There was, in fact, an upsurge in demand from certain local markets. Sappi Fine Paper notes, for example, that gross sales increased

Source of turnover

1985: R846m 1986: R1 101m



Sappi . . . Ngodwana benefits just beginning

by 29%, with the market for coated fine papers undergoing a "metamorphosis" in SA in 1986. While there was little growth in the market, there was a strong switch from imported papers to domestically-produced coated papers, and the Stanger mill saw a 57% jump in local demand for its output.

Sappi Kraft, which produces the group's commodity products, reports that inventory restocking by converters helped to fuel sales of packaging papers. A small increase in consumer demand led to an increase of nearly 10% in demand for corrugated material. Newsprint demand (which had declined by some 25% between 1984 and 1985) turned upward last year, and the market grew by about 7%. Also, higher international prices enabled Sappi to increase domestic prices of newsprint twice during the year.

However, chairman Tom de Beer points out that gains seen in 1986 are considered to be only the beginnings of the full benefits of the Ngodwana expansion. The project was planned not only to increase capacity, but to enable rationalisation of the group's production facilities.

This, he adds, has now been achieved, and the biggest improvements in profitability occurred at the Adamas, Stanger, Enstra and Tugela mills, which now have the ability to specialise to a greater extent on the products that they make well. Elsewhere, management notes that the reorganisation has had the desired affect of focusing management attention, and assisting product rationalisation between the various mills.

"At Ngodwana itself there has been a marked improvement in performance and the real flow of profits started to come in the latter part of the year," says De Beer. "This is likely to accelerate as we approach design capacity in 1987." He adds that a return to modest growth in demand is expected in domestic markets. A number of areas have been identified, in which productivity can be improved by selective investment.

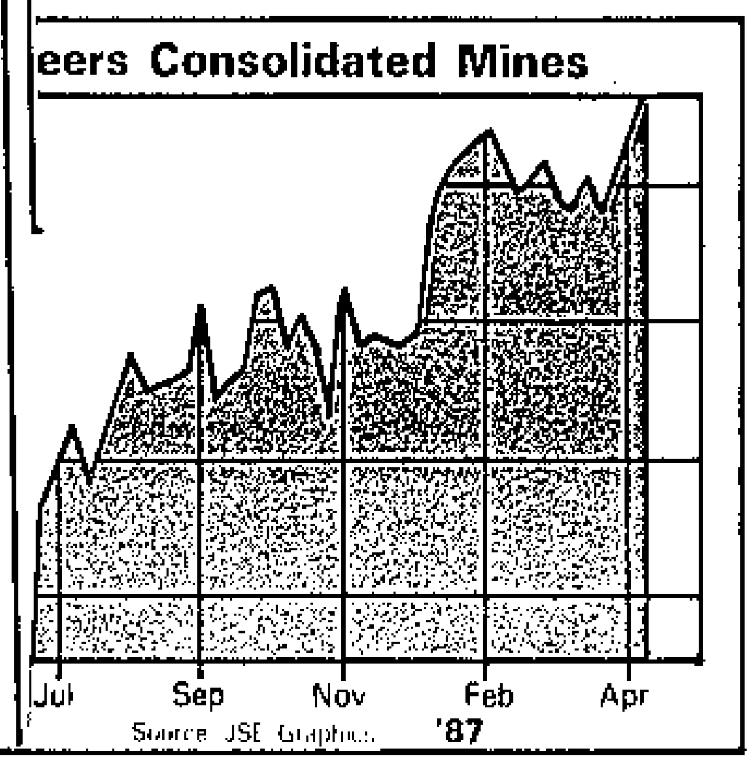
An indication of Sappi's momentum is given by the fact that R53m of its R61m attributable earnings came in the second

P.T.O

half. For this year it would be reasonable to expect continued strong sales growth and wider trading margins. The higher rand could curb export income, but strong dollar prices should ensure that revenues are at least maintained. Propitious indications emanating from all local economic indicators should fuel optimism that — dramatic as was the recovery year — 1987 will be Sappi's really big year.

At R25,75, the share price has weakened from the 12-month high of R29,10. One reason may be the potential impact of the rand on export earnings. Whether the currency will significantly limit Sappi's profit growth is uncertain, but there is clearly a lot more to come. *Andrew McNulty*

...entals



Chairman: *J Ogilvie Thompson; deputy chairman: N F Oppenheimer.*
Capital structure: *359,8 deferred shares of 5c each; 800 000 40% cum prefs of R5 each; and 2,9m 8% cum second prefs of R1 each. Market capitalisation: R14,1 billion.*
Share market: *Price: 39,25c. Yields: 2,0% on dividend; 8,1% on earnings; PE ratio, 12,4; cover, 4. 12-month high, 4 325c; low, 2 275c. Trading volume last quarter, 7,4m shares.*
Financial: *Year to December 31.*

	'83	'84	'85	'86
Listed Investments:				
Market value (Rm)	2 966	3 262	5 291	8 491
Unlisted investments at valuation (Rm)	311	425	589	627
Diamond stocks (Rm) .	2 254	3 875	4 887	4 037
Debt: Short-term	554	378	183	56
Debt: Long-term.	21	881	980	527

Performance:

	'83	'84	'85	'86
Diamond account (Rm)	430	565	1 140	1 362
Investment income (%)	162	183	215	274
Earnings (c) excluding share of retained profits of associates........	84	92	180	212
Dividends (c)	40	40	55	80

After a tremendous run last year, the share price appeared to lose steam during this year, particularly after publication of the preliminary year-end results. Currency factors are at least partly, if not largely, responsible.

Bullish views on De Beers were based to some extent on perceptions that the group, which earns much of its income abroad, would continue to do well while the rand was falling. Since the second quarter of last year the rand has firmed steadily; the current rate just above US50c is obviously less favourable for De Beers' profits than the US38c rate last June, when the price was only about R25.

The rise in the financial rand rate to above US32c has helped to weaken the prices of international stocks such as De Beers. Ironically, one reason for the strength of the finrand appears to be foreign demand for De Beers and other local mining stocks.

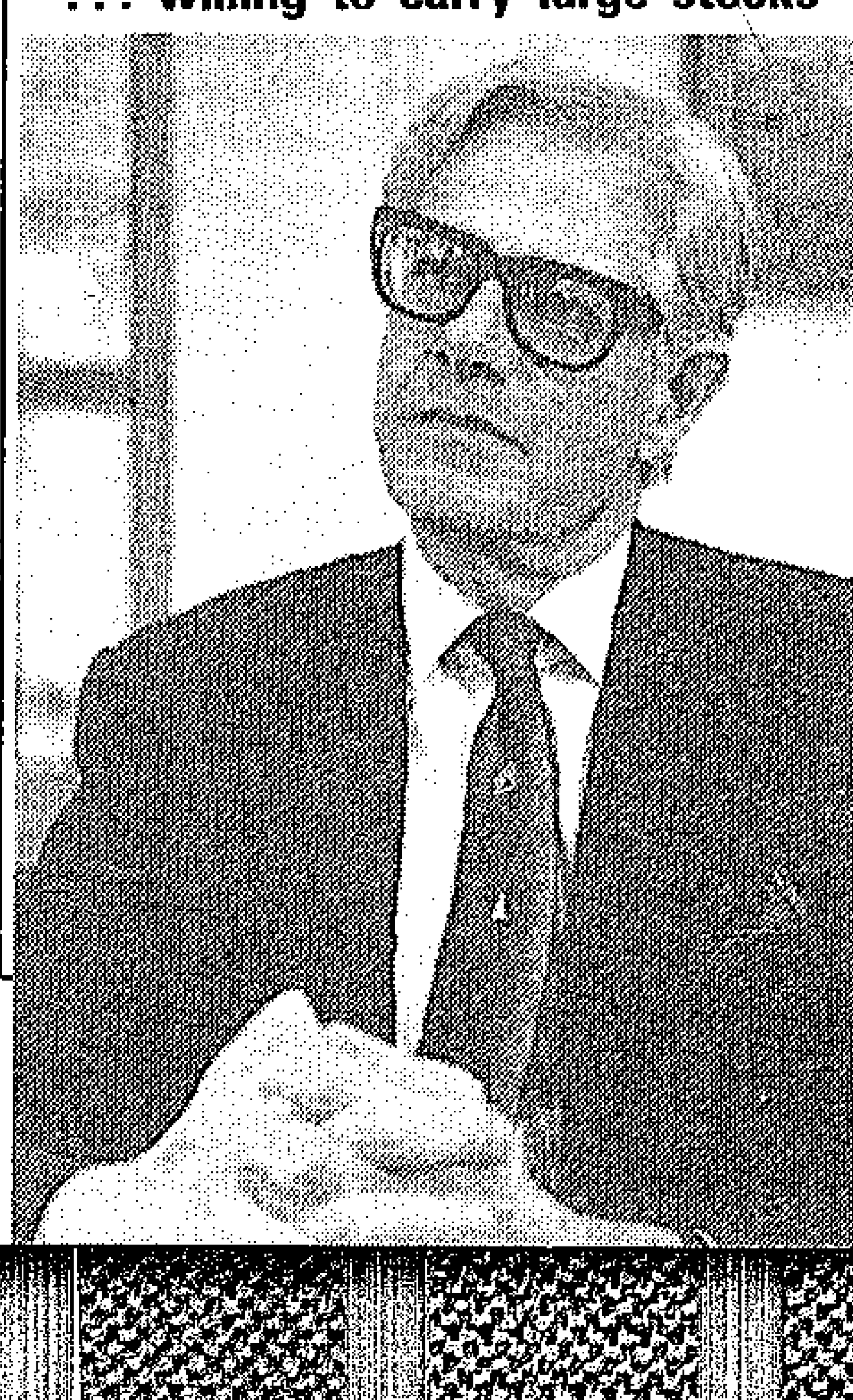
Investors considering De Beers now need to ask two questions: How sustainable is the recovery of the currency likely to prove in the longer term, and does the group's fundamental position look weaker than four months ago?

Forecasts of currency trends have probably never been more difficult. But even with the higher gold price, it would be difficult to argue convincingly that the causes of the rand's collapse over some three years have gone away or have greatly diminished. Inflation has yet to improve appreciably, and it is a moot point whether the political fundamentals have improved much.

The finrand will not necessarily exert a continuing negative impact either. Foreign investors are more inclined to look at De Beers in fundamental terms, so demand from abroad has positive implications. Once the finrand stabilises, as it must do eventually, the share price should be on firmer ground.

As far as De Beers' fundamentals are concerned, the balance sheet and the diamond market are looking better than at any time in years. After borrowings peaked in 1984 at R1 259m, by the 1986 year-end borrowings had dropped to R583m with cash balances of R792m. The value of investments and long-term loans outside the diamond industry amounted to R9,1 billion, equivalent to 2 534c a share. Diamond stocks

De Beers' Ogilvie Thompson ... willing to carry large stocks



— which the group has no difficulty financing — were down by R850m to just over R4 billion. In asset terms, this represents about another 1 115c a share. Investments and loans outside the industry, and diamond stocks (at balance sheet date), therefore represent some 91% of the share price.

Chairman Julian Ogilvie Thompson says that world retail sales attained yet another record last year and there was an encouraging increase in demand for better quality diamonds of a carat or more, especially in Japan. During the year the Central Selling Organisation (CSO) came to sell all qualities and sizes of rough diamonds. Sales in the US grew by some 10% (up from 6% in 1985), he says, and there were satisfactory increases in each of the other major markets.

"In part this was the expected result of the substantial fall in the dollar, the currency in which rough and polished diamonds are effectively priced," he says. "This fall complicates calculation of the increase in world sales, but our estimate is 14%, which by any standards is substantial."

Clearly, the tumbling dollar may slow sales in the large US market, but it has so far helped to broaden demand geographically, particularly in the Far East and Europe. This must have longer-term implications.

De Beers has again increased its budget for global marketing and promotional campaigns in real terms, with $110m budgeted for this year, while a further $20m will be spent by leading jewellery manufacturers and retailers. Ogilvie Thompson notes that findings from regular studies of acquisition rates and attitudes towards diamond jewellery in the various markets remain positive. None of these markets shows any signs of saturation, and the search for new markets is continuous, he says.

Ogilvie Thompson refers to a mood of confidence in the cutting centres and in the retail trade which augurs well for 1987. And, exuding the confidence in the group, he says: "Our stockpile is soundly and adequately financed and we remain entirely willing to carry large stocks to ensure — in the interests of the whole industry — that unsound trading and speculation does not arise again as it did in the late Seventies."

There was some disappointment about the 1986 earnings, which — apart from the rand — were also hurt by a higher tax rate of 37,5% (31,4%); for De Beers this is a high tax rate, which presumably would not continue rising at this pace. There could also be help from increases in prices of rough diamonds, which some analysts expect during this year. Worries about the rand's effect on earnings may not ease in the short term.

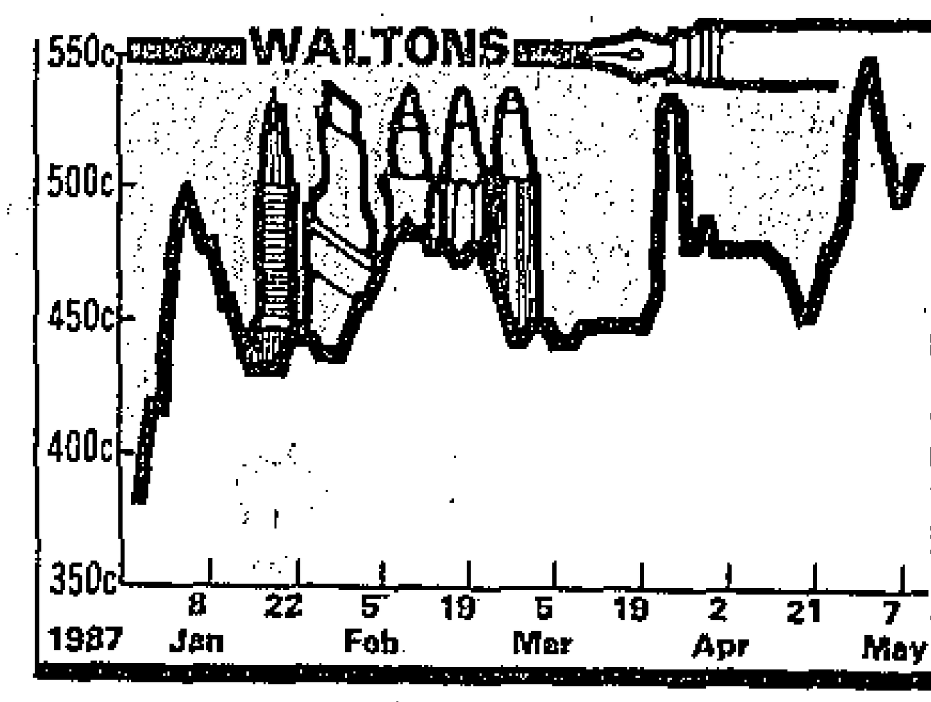
Waltons' earnings climb 47%

B/Day 12/5/87 194

WALTONS STATIONERY maintained its impressive growth record in the year to February, with earnings climbing 47,3% to 21,5c a share from 14,6c.

The final dividend has been raised to 5c from 3,4c to boost the total payout for the year by 43,8% to 6,9c a share from 4,8c. Cover is up slightly from 3 to 3,1 times.

Comparative earnings and dividends have been adjusted to take account of December's five-for-one share split.



MERVYN HARRIS

Waltons shares have come off their March peak of 560c, but the company's high rating is reflected in the dividend yield of 1,1% at yesterday's price of 510c.

The directors say all sectors of the group improved both earnings and market share. Current operations, as well as acquisitions, performed well.

● To Page 2

Waltons maintains its growth record 47%

194 B/Day 12/5/87

● From Page 1

Turnover rose from R144,3m to R214,7m, while operating income jumped almost 50% from R23,9m to R35,6m. There was a sharp fall in the interest bill from R4m to R2,5m, but the tax bill was almost double at R16,7m (R9,6m).

Net income was up 60% from R10,3m to R16,3m, but a hike in outside shareholders' interest from R1,3m to R3,1m trimmed the rise in attributable income to 48% from R8,9m to R13,2m.

In line with group policy of carrying the costs of acqusition of new subsidiary or associated companies at net asset value, goodwill of R264 871 (R1,8m) was written off as an extraordinary item.

The group proposes to list its toy division, Redgwoods, together with acquisitions it has made since year-end.

The listing will be by way of both a rights issue to shareholders of Waltons and Walhold (Waltons Consolidated Investment Holdings) and by public offer.

Results of Walhold, whose sole investment is its 50,2% stake in Waltons, reflect those of its subsidiary, with total dividends up 43,8% from 4,8c to 6,9c a share.

COMPANIES

194 (ISO) MGUS 12/5/87

Waltons payout up 44 percent

WALTONS Stationery Company has increased its payout for the year ending February 28 by 44 percent, from 4,8c last year to 6,9c this year.

The final dividend is up at 5c a share against 3,4c last year.

Turnover jumped 49 percent from R144,3-million last year to R214,7-million.

Operating profit before tax rose impressively from R19,9-million to R33-million and in spite of a heavier tax burden of R16,7-million against R9,6-million last year, profit after tax was up 58 percent from R10,3-million to R16,3-million. An extraordinary item of R264 871 for goodwill was written off on acquisition of new subsidiary companies.

Managing director Mr Frank Robarts said the current financial year had got off to a good start and the company expected similar results this year.

The group planned to list its toy division Redgewoods together with acquisitions made by Redgewoods, including babywear and pram companies, during the past year on the Johannesburg Stock Exchange by way of a rights issue to shareholders of both Waltons, and the holding company, Walhold as well as by public offer.

The share issue would be used for further expansion and acquisitions, he said.

Mr Robarts said the export side of the business had been very depressed and the company had lost most of its export orders in the past six or seven months due to overseas companies being weary to touch South African goods for fear of consumer boycotts.

"However, the export business was not that significant, but it was an area of growth we were looking towards. I have no doubt we can make that up on the internal market," he said.

The company still had a few export orders but these were mostly for neighbouring states, he said.

He said acquisitions by the company in the past year were "turning the corner" and proving profitable.

"We are negotiating futher acquisitions also in the stationery line."

● **MURRAY & ROBERTS** have paid R46-million for the remaining 40 percent shares in Gillis-Mason. It orginally acquired 60 percent of the shares for R21,3-million in 1983. This in effect puts a value on Gillis-Mason at present market prices of R115-million.

Executive chairman Mr Geoff Knudsen said that while R115-million was a high price when the construction industry was at its lowest and only now showing signs of moving off the bottom of the slump, Gillis-Mason was considered to be one of the premier civil engineering companies in the country.

"Murray & Roberts has identified key growth areas as bing road construction, especially toll roads, the Mossel Bay gas and petro chemical projects and the Lesotho Highlands water scheme as well as the infrasstructure and services in the mass housing schemes."

● **FIDELITY GROUP**, the holding company of the Board of Executors and Fidelity Bank, has increased its interim payout by 14 percent to 32c for the six months ending March 31 against 28c for the same period last year.

Earnings a share were up 14 percent from 93c to 106c.

● **DANECH MINING SUPPLIES** increased turnover by 122 percent to R59-million for the six months ending March 31 against R26,9-million for the same period last year.

The directors say the increase was due to the acquisition of Conway Johnson, inflation and increased market penetration into the mining industry.

After tax profit rose from R1,1-million to R1,9-million while earnings a share jumped 66 percent from 7,5c to 11,0c. The interim payout of 3c a share remains unchanged.

Maggie Rowley

ADVERTISING

Increases for 8 years running

CAPE TIMES 12/5/87

Waltons lifts profits 47,3%

(194)

By AUDREY D'ANGELO
Financial Editor

Frank Robarts

WALTONS Stationery Company (Waltons) has for the eighth year running reported a substantial increase in profits.

This well-managed group, which has continued to grow throughout the recession, has ended the year to February 28 with a 47,3% increase in earnings, to 21,5c (14,6%) a share.

Unlike many other companies which have recently reported higher profits, this increase has not been achieved from a low base.

Operating income before net interest and taxation rose to R33,5m (R23,9m) and turnover to R214,7m (R144,3m).

The final dividend is 5c (3,4c) a year, making a total of 6,9c (4,8c) covered 3,1 times.

In spite of a steep rise in the tax bill, to R16,7m (R9,6m), net income before an extraordinary item of R264 871 was R16,3m (R10,3m).

The extraordinary item was for goodwill written off on acquisition of new subsidiary companies.

MD Frank Robarts explained yesterday that it was group policy to carry the costs of such investments at net asset value.

Attributable income rose to R13,2m (R8,9m) before the extraordinary item and R12,9m after it.

The interest bill dropped to R2,5m (R4m).

Waltons' has steadily increased earnings every year since 1979, when they rose by 36,6%.

The rate of growth slowed down to 12,7% in 1984/85, when the recession began to affect customers, but it rose again the following year to 25,8%.

"The recession is definitely over now," said Robarts.

The group has grown by acquisitions as well as by expanding its original stationery business.

It has formed a new company, Redgwoods Holdings (Reggies), including its toy division and new acquisitions selling baby clothes and baby goods, which is soon to be listed on the JSE.

And Robarts said new acquisitions were being considered after the listing.

□ Holding company Waltons Consolidated Investments, which has 52% of Waltons, also lifted the total dividend for the year by 43,8% to 6,9c a share with a final dividend of 5c following a 1,9c interim.

Operating income before tax was R2,3m (R1,5m) and attributable income R2,2m (R1,5m).

Cape Times 8/5/87

Nampak Group earnings up 33%

JOHANNESBURG. — The Nampak Group produced 33% higher earnings per share for the six months to March 31.

The interim dividend has been raised by 21% to 40c a share.

The results combine the contributions of Nampak Products and the group's 54% stake in Metal Box.

Group turnover was up by 19% at R997,2m on which a 28% higher operating profit of R109,3m was achieved.

The improvement in margins came largely from Metal Box, which raised operating profit by 45% on a 17% increase in turnover.

The interim report states that a number of factors contributed to this, "including the better performance of the economy, gains in market share and higher exports while the glass division broke even for the first time".

Nampak achieved 19% higher profits on a 21% increase in turnover — of which 8% represented real growth — and the better performance was contributed to by most divisions.

Interest paid dropped sharply by 47% as a result of lower rates and reduced borrowings. This had the effect of boosting group pre-tax profits by 46% to R103,4m.

The effective tax rate has increased significantly from 44% a year ago to 48% — with tax up from R29,1m to R47,7m — largely as a consequence of the elimination of investment allowances.

The growth rate at the taxed profit level was consequently reduced to a 33% higher R55,7m.

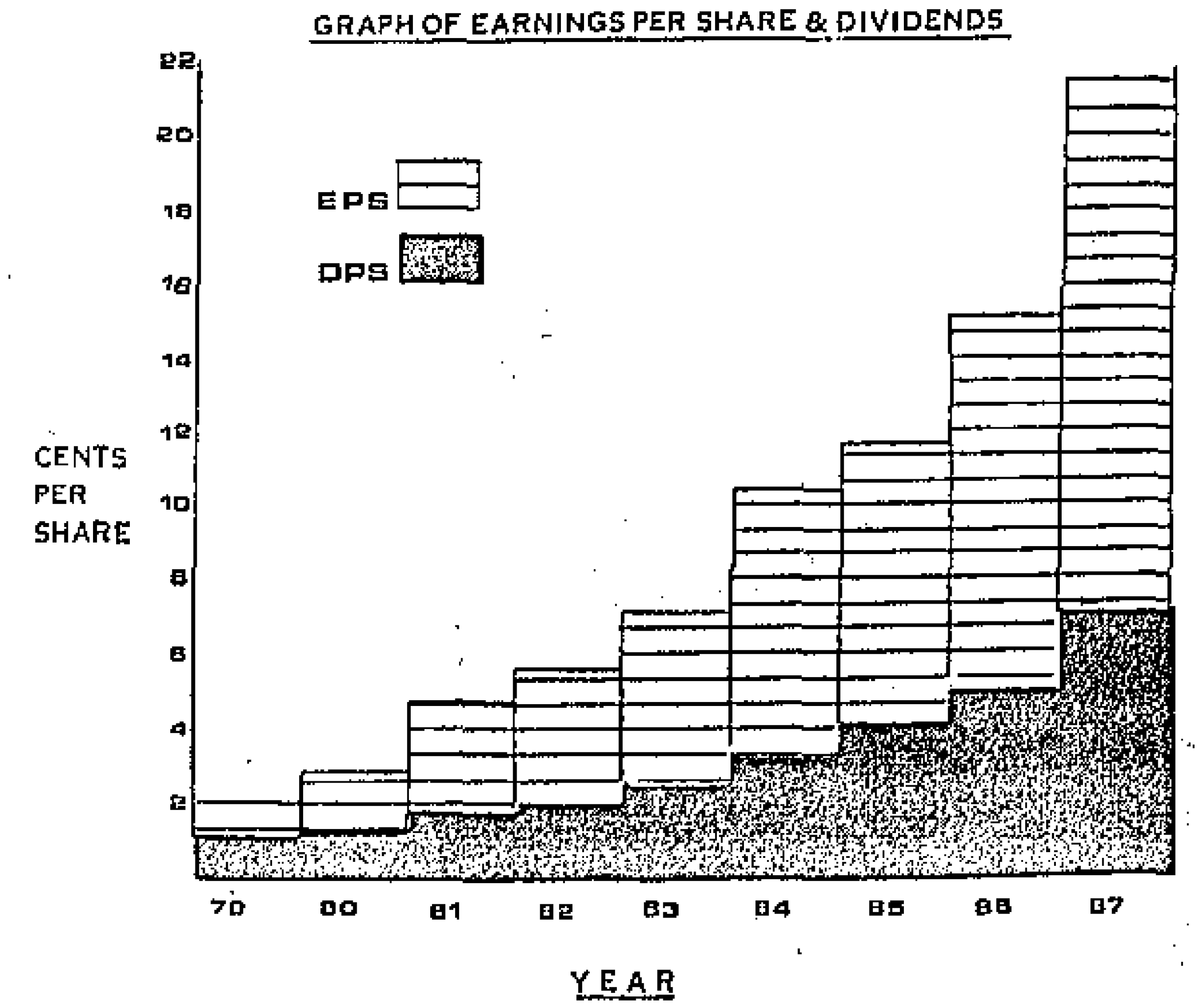
Last year's sale of loss-making associate Amalgamated Plastic Industries eliminated the drag on profits and improved the profit growth rate to a 37% higher R55,7m.

After adjusting for minority and preference shareholders' interests, the attributable profit was R42,6m — 36% up on a year ago. — Sapa

CAPE TIMES 16/5/82

194

Toying with the profits: A Waltons success story



Cape Town-based Waltons Stationery Company has sailed serenely through the recession, increasing profits every year, taking over less successful firms and expanding the range of its activities. It is now about to list its toy division and related activities separately on the Johannesburg Stock Exchange, under the name Redgwoods (Reggies) — and is already planning more takeovers. AUDREY D'ANGELO talked to MD Frank Robarts about the reasons for its success, and its ability to turn round struggling firms it has taken over.

FRANK ROBARTS, MD of the remarkably successful Waltons Stationery Company, jokes that he has the biggest office in the city.

He shares it with members of his staff, sitting in his shirt sleeves in sight of the reception desk in keeping with his relaxed management style — but with his finger on every aspect of the group's varied and growing activities.

He was Cape Times Businessman of the Year in 1983 and Waltons received the Business Times Top Company Award in 1986, based on its earning of an all-in yield of 77,7% for shareholders during a five-year period.

But Robarts has never received any formal management training. He joined Waltons in 1969 as a stationery salesman when it was a family firm and says he learnt by experience.

"The firm belonged to Norman Walton, who is now our deputy chairman, when I joined it. He said he would make me a partner if we did well — and we did well."

Robarts's manner is unassuming and matter of fact, and he attributes a lot of Waltons' success to "having a good team".

But talking to him it soon becomes apparent that he is a shrewd man with a flexible mind, quick to adapt to changing circumstances and to spot an opportunity.

It was on a buying trip to the Far East that he noticed toy showrooms were much bigger than those for stationery. Waltons bought a chain of toy shops, importing stock directly to cut out wholesalers and keep prices down.

Finding the toyshops were busy only in the Christmas season, Waltons bought babywear shops and SA's only pram factory. Now the toys, babywear and baby goods are sold in the same shops, which are busy all the year round.

About 80% of Waltons' business is [illegible] as "stationery". But this description was widened to include computer paper, software and other accessories when the company noticed a growing demand for these.

Robarts says that side of the busin[illegible] bled in the last two years and "I don't think it will stop growing".

He has considered buying a computer hardware operation. "We have looked at two or three firms already. If we go [illegible] an existing operation, not start up a new one."

Waltons MD Frank Robarts (third from right), with part of his coalface team. They are, from left, Tracy de Jager, Danie Hugo, Kim McIlroy, Wendy Sharpley, Dennis Pewsey, Patti Coetzee, Sharon Lewis, John Farrell, Sarah Durie, Denene Tomlinson and Petrie van Rensburg.

The group has three factories manufacturing stationery. Robarts believes in manufacturing stock whenever this is more profitable than importing it.

He also believes firmly in training staff to do things his way and follows a policy of promotion from within. "We take people straight from technikons and train them in our methods."

This, he says, is the secret of Waltons record of turning round the companies it takes over. "We have very good people who are specialists in what they do.

"When we take over a company we go in there and show the management how it should be run. Our people don't just give orders — they get down to it themselves.

"The secret of turning a company round is quite simply knowing how to run it properly. Give us a turnover and we can turn it into a profit."

He is planning other takeovers as soon as the listing of "Reggies" is over and staff have had time to settle down.

He anticipates no difficulty in keeping control of the group as it expands. It is fully computerized and he keep tabs on everything that is happening through regular reports.

"The minute there is any sign of a hiccup, we are in there to sort things out."

Waltons has gone into joint ventures with other people, but Robarts insists on having management control. "We won't go into a joint venture without it.

"A number of overseas companies have invited us to go into joint ventures with them, but we have turned them down because we would not have had control."

The atmosphere in his office is happy and friendly, and Robarts considers good staff relations vital. Many have a stake in the firm and have watched the value of their shares grow steadily through the years.

Waltons has a share incentive scheme, approved by the JSE, under which staff can borrow money to buy shares and repay it from the dividends they receive.

"About R9m worth of our shares are held by staff throughout the country, who paid R2m for them," said Robarts proudly.

Business Day
50c (45c + 5c tax)
For other prices, see Back Page
Natal, Western Province, Eastern Province 80c (71c + 9c tax)

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BDay 24/6/87

Top overseas publishers crack down on SA sales

DIANNA GAMES

AT least 25 overseas publishing companies — including McGraw Hill — have notified SA's largest subscription agency, Universitas, that they will stop supplying SA with books and journals.

This means dozens of publications — including Business Week and computer magazine Byte — will no longer be available in SA through normal channels.

And, says MD of Universitas Piet Groenewald, which deals with about 13 000 publishers worldwide, many other overseas publishers are taking the same road.

Groenewald said a recent subscription renewal cheque from Universitas had been returned by McGraw Hill, which announced in February its withdrawal from SA through a management buyout, and that it would stop selling to SA.

This was followed by a note informing Universitas, which has about 2 500 subscribers for 34 McGraw Hill titles, that it would stop new subscriptions and renewals but would continue those already paid for.

On a subsequent visit to the US, Groenewald said he was told political pressure had forced the action, as the company could not afford to jeopardise its $5m US market share for the comparatively tiny SA market.

Magazines affected include mostly technical and trade magazines such as Business Week, Byte, Chemical Engineering, Data Communications, and Aviation Week and Space. Many of them are supplied to government bodies including Armscor and Sasol as Universitas has the State tender.

He said most of the other publishers withdrawing publications from South African subscribers were from the US, but also included technical and medical journals from Denmark.

It was possible, said Groenewald, to circumvent the boycott by using middlemen overseas, but this obviously hiked the price of the product — and landed the company involved with an additional 10% import surcharge.

But, he said, the real problem could arise for SA's information contact with developments abroad — especially for universities and technikons — if the agents, now acting as middlemen, also decide to boycott SA.

(194)

Book prices drop — but not for long

GRETA STEYN

PRICES of imported text books have dropped in recent months because of the stronger rand — but they are set to rise again as overseas publishing companies give SA the cold shoulder.

Academic booksellers have reported that prices of imported text books have decreased since the beginning of last year. In a few cases, prices had dropped by as much as 20% as a result of the rand's recovery against the dollar.

One bookseller said there was a delay of a few months between the rand improving and the benefits being passed on to students.

A factor also contributing to the drop in prices is last year's lifting of the import surcharge on books.

However, a price hike is on the cards. Most booksellers say importing books, especially from the US and The Netherlands, is becoming increasingly difficult. Middlemen are being used, which ups costs and neutralises the stronger rand.

20/7/87 (194) B/Day

Carlcor's profit up

LIZ ROUSE

CARLTON Paper Corporation's (Carlcor) interim results reflect a continued recovery in the consumer market and herald a sharp rise in year-end profits.

Carlcor's taxed profit for the six months to June jumped nearly 47% to R3,5m from the 1986 half-year's low base of R2,4m, equal to earnings of 22,3c a share (15,2c a share).

This was achieved on a 16% rise in turnover to R106,8m from R92,2m.

The interim dividend has been raised to 12c (8c), covered an unchanged 1,9 times.

The group showed a sharp recovery in the second half of the previous year to December, when second-half earnings were 38,1c a share, bringing the 12-month total to 53,3c a share.

As well, the sale of undeveloped land at Roodekop — on which a new distribution centre is being built and which will be leased by Carlcor — realised an extraordinary profit of R1,6m in the past six months.

This lifted net income by 113,6% to R5,1m, strengthening liquidity. Lower borrowings and declining interest rates reduced interest charges by more than 22% to R1,6m (R2,1m) and helped reduce the debt/equity ratio to the targeted 67,2% from 88,7%.

Carlcor directors said, in the interim report, the good results were achieved in the face of substantial sums spent to meet its obligations as a Sullivan signatory, plus costs of new product launches.

They expect that increased public sector spending will stimulate consumer demand in the next six months, ensuring higher profits for Carlcor.

Cape Times 12/8/87

Packaging firms doing well in Atlantis

By AUDREY D'ANGELO
Financial Editor

Tubby Gericke
Picture: PACKAGING REVIEW

RECORD sales in July and full order books have led Dieter Neckel, MD of soon-to-be listed Aries Packaging, to revise his pre-listing forecast of a turnover of R9m in the current year. He now believes it will be R11m.

The Aries factory at Atlantis is only 200 m from that of another packaging firm, Sunpak, which earlier this year became the first company to make the transition from the Development Capital Market sector of the Johannesburg Stock Exchange to the main board and is now about to expand into a second, adjoining, factory.

There is no competition between the two — they cater for different sectors of the growing packaging market.

And this week both MDs spoke warmly of the advantages of being located in Atlantis.

Both said a hard-working, loyal and stable work force was the main plus factor.

Neckel foresees Atlantis becoming a major industrial area for greater Cape Town. He says it is like Epping 3, which, in its early stages was a wasteland and is now part of Cape Town.

He thinks that by establishing Aries at Atlantis the company has "made a contribution to the stabilization of a new environment".

Aries is a closed shop with all staff belonging to the Typographical Union and the Father of the Chapel part of the management team.

Gericke, who says there is minimal staff turnover at Sunpak and substantial job satisfaction, believes: "Everyone wants Atlantis to work, and everyone from the fire chief to the post office officials who provide our telephones goes out of his way to be helpful."

Dieter Neckel

6 Cape Times 13/8/87

Sappi income soars by 261%

From MICK COLLINS

JOHANNESBURG.— Papermaker Sappi has pulped previous results for the six months to June 30.

On a turnover that is 22% higher, the company's net pre-tax income is 261% ahead at R103,6m and earnings climbed from last year's 26,2c to 101,5c a share.

The company has resumed paying an interim dividend of 40c a share.

Turnover reached R601,4m (R494,7m) from which the company earned an operating income before finance charges of R119,5m (R65,1m). Finance charges declined from R36,4m to R15,9m giving the net pre-tax income of R103,6m (R28,7m).

For the first time, the interim figure represents the gross sales value of all products sold to outside parties before the deduction of rebates and commissions. Last year's turnover figure has been restated to be comparable.

Against last year's attributable income of R10,6m, the company reports R80,2m and allowing for deferred tax, distributable income amounts to R66,4m compared with the R13,3m for 1986.

CE Eugene van As says all operations performed well in the first half-year but the output of Ngodwana held the levels it achieved in the second half of last year for much of the first six months.

"Recently we have seen a further improvement in performance at Ngodwana and the mill is expected to reach design capacity in the second half of the year."

Looking to the second six months, Van As says indications are that the local economy will continue to grow at a modest rate and demand for the company's products should be reasonably firm.

"World demand for pulp and paper products continues to be strong and the benefit of the sharply increased dollar prices for liner-board, pulp and newsprint will be felt in the second half of the year. Domestic prices were increased between April and July and we shall be able to maintain our margins."

BUSINESS ARGUS 21/8/87

(194)

COMPANIES

Waltons Stationery poised for major coup

By TOM HOOD, Business Editor

WALTONS Stationery is set for a major coup — buying a stake in a top high-tech printing company, Lithosaver, to secure supplies in its high-growth field of computer stationery.

The companies disclosed today they are "involved in negotiations which might affect the price of the shares" and warn shareholders to be cautious in their dealings.

The possibility of deal was believed to be behind the mysterious multi-million rand sale of Waltons Stationery shares this week recorded at the JSE, which reported 1,4-million shares valued at R6,2-million changed hands on Monday and another deal of R1,4-million worth R6,1-million took place on Tuesday.

However, no shares changed hands, said the chairman, Mr Frank Robarts, today, and they were recorded in a stockbrokers' error.

"We have almost concluded an agreement to buy into Lithosaver," he said. "It would have cost us between R9-million and R10-million for a takeover so we have decided to buy a stake to secure our source of supply."

Until now all acquisitions have been done for cash and with "two other acquisitions in the pipeline", Waltons had to arrange to issue shares to finance this deal.

Sanlam and Federated Insurance had agreed to take 2-million shares at 435c a share.

Waltons computer supplies division is showing a growth of 100 percent year — at one time it was only 50 percent, added Mr Robarts.

Waltons has made dramatic growth country-wide through takeovers and sales, increasing its capital base and earnings more than fivefold in the last five years.

Lithosaver, with factories at Atlantis and Johannesburg, is a leading printer in the ever-growing market of computer stationery and business forms.

The 17-year-old company was listed on the JSE's main board on May 5 and its public share issue of 2,5-milion shares was oversubscribed 190 times. Investors offered R455-million for the R2,5-million shares available.

The share price more than doubled in three months to 205c from the original 95c and is now around 195c.

Shares of Waltons and its pyramid, Walhold, reached new peaks this this week, although Waltons came off 10c yesterday and Walhold eased 5c — both to stand at 430c.

FINNISH SANCTIONS

Though Finland recently formally imposed legal sanctions against SA, the effect on the market for coated and uncoated paper is unlikely to be drastic.

Sappi Fine Papers MD Ken Lechmere-Oertel says as little as a year ago Finnish paper suppliers were very dominant in the South African magazine market. But the combination of a very weak rand and political protests by Finnish trade unions led South African users of these types of paper to look elsewhere.

As far as local suppliers are concerned, Lechmere-Oertel says Sappi has never really been in the market for supplying magazine-type paper. Mondi, however, has played a significant role in paper import substitution.

Moreover, a Mondi spokesman adds, a lot of coated and uncoated paper is now imported from West Germany and Holland — often in cross-supply deals. While a fairly substantial amount of Finnish paper is still entering SA, the consensus is its loss will not impact greatly on the market.

"The slack will be easily taken up by other less sensitive European countries and local suppliers," he says.

Times Media Limited (TML) deputy MD Roy Paulson says Finnish sanctions will prove a boon to local paper mills — especially to Mondi. The magazine industry currently absorbs about 60 000 t of paper a year, so the market is substantial.

"At the moment TML does not use any Finnish paper, though Finland has been a possible source of supply for the *FM*. We have since switched to Austrian paper," he says.

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SAPPI

Into a rapid growth phase

Pulp and paper producer Sappi is reaping the benefits of its costly Ngodwana expansion. More strong growth lies ahead after record interim profits.

Shareholders in Sappi — and of course management — went through a harrowing few years while the group was building its R1,5 billion Ngodwana plant in the eastern Transvaal. This year the rewards have come. Latest profit figures are the best ever, and carry promise of stronger growth ahead.

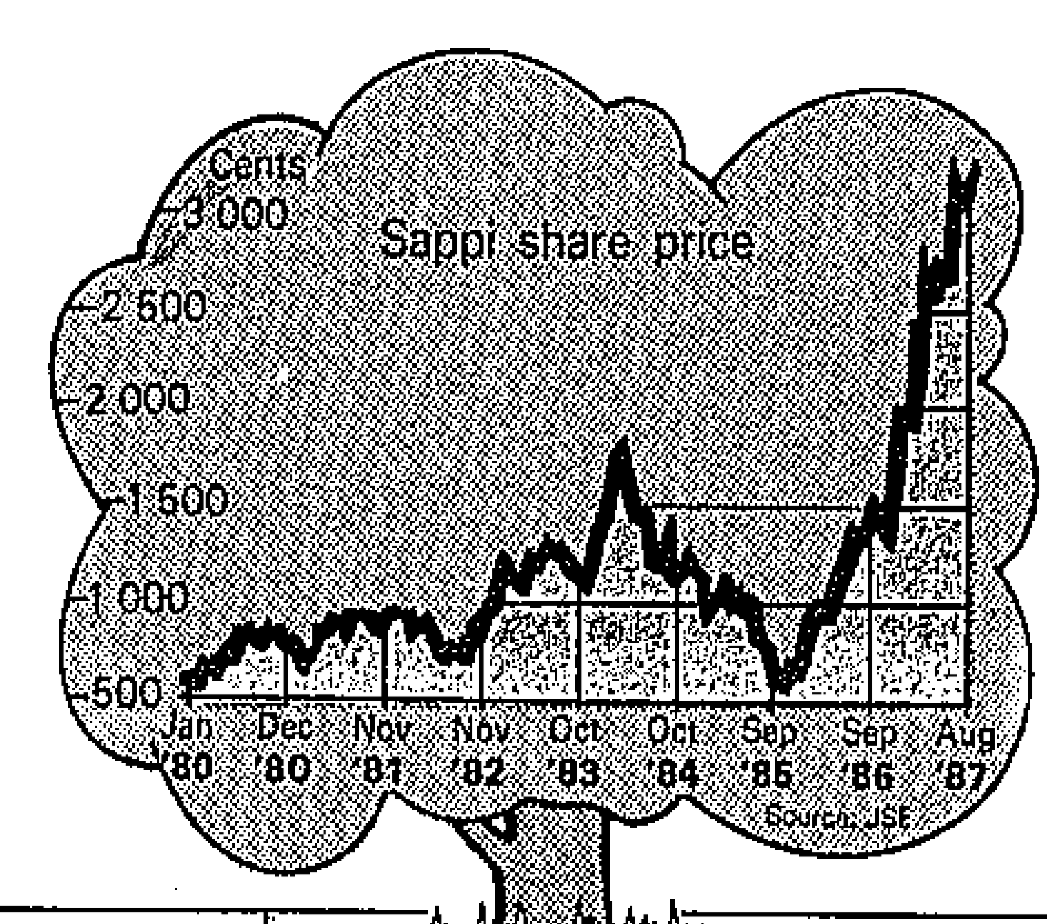
Annual turnover has soared to more than R1,2 billion, making the group one of SA's largest manufacturers and certainly Gencor's largest single industrial operation. In 1985 — when Sappi was buffeted by huge financing costs (debt:equity exceeded 140%), and teething problems that inevitably occurred as the Ngodwana plant began to come on stream — attributable income dipped to only R12,6m from R61m the previous year.

The turning point came in the second half of the year to end-December 1986, when attributable earnings for the six months jumped to R58m, making a full-year's total of R61m. Interim figures for the six months to end-June underline the present pace of profit growth. Attributable income ballooned by 654% from the year-ago R10,6m to R80,2m — the highest-ever figure for a full year was R68,5m in 1983 — and distributable income per ordinary share rose by 287% from 26,2c to 101,5c.

One reason for the lift-off was surging sales, thanks partly to higher output and rising consumption of the group's products in both domestic and export markets. But turnover rose by a relatively low 22%; more important boosts came from substantially wider trading margins and rapidly declining borrowings. With help from the R200m rights issue late last year, at June 30 interest-bearing debt stood at R813,5m, down by R269m on the year-ago figure of R1,08 billion. Thus, operating income before finance costs rose 84%, while income after finance costs soared by 261%.

That the turnaround would gain momentum had become plain by the end of 1986. But CE Eugene van As says that the latest results turned out even better than management expected: "We're very comfortable with our position now and we're feeling positive about the outlook for the second half."

Inevitably, for a project as large as Ngodwana, the commissioning phase was long and not without problems. In such a capital-intensive business, production rates are critical for profitability. And with economic growth in a steady if modest expansion phase both locally and internationally, sales volumes have continued to climb steadily in domestic and export markets.



Van As says that Ngodwana has been operating at designed capacity during the past four to five weeks, and on average should operate at this level for the second six months of the year — or certainly by the first half of next year. That will help to ensure trading margins broaden further.

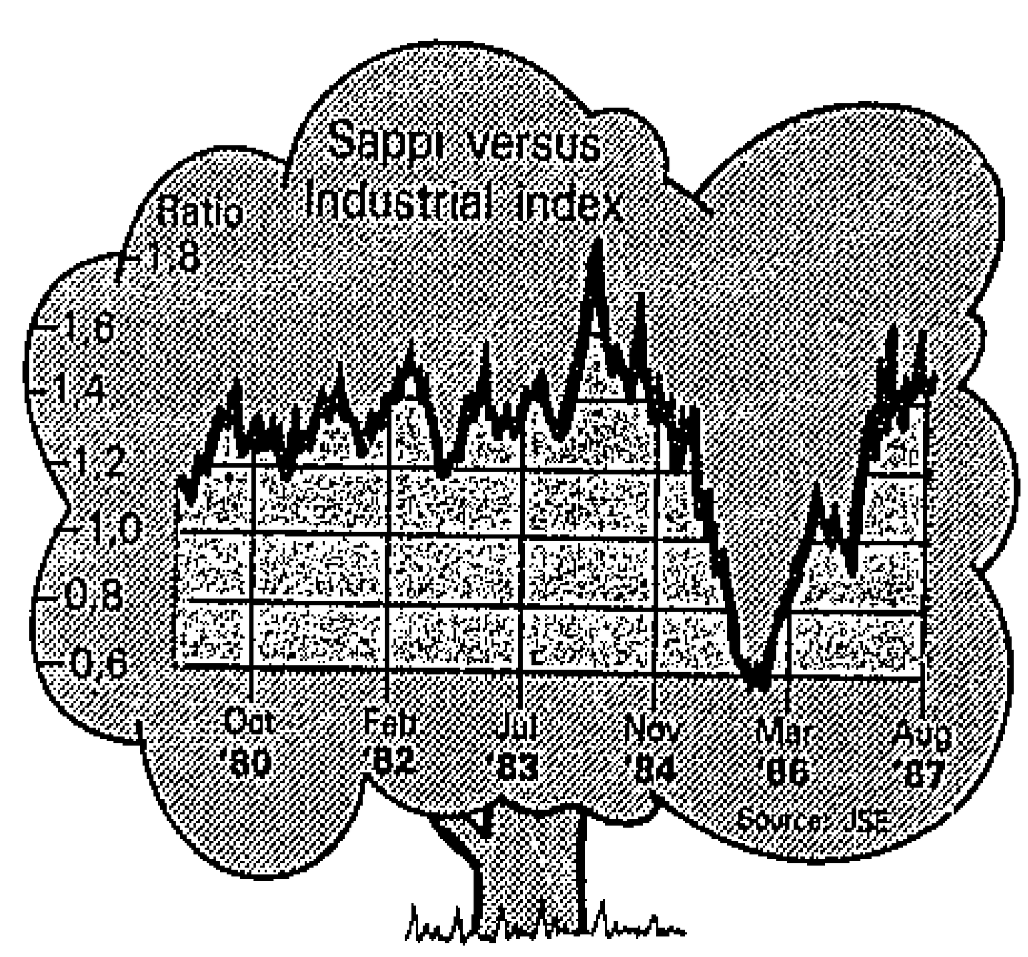
Commissioning of Ngodwana has enabled efficiencies to improve throughout the group, as activities at the group's various plants could be rationalised. Van As says that much of the profit surge so far was derived from better efficiencies and better asset utilisation at plants other than Ngodwana. In the current half, the major boost will come from Ngodwana, and Van As adds that the new plant should continue to provide further impetus next year.

"We believe Ngodwana will run at above designed capacity, even if not necessarily consistently," he says. There should be other benefits, as operations become still more efficient. Reliance on power purchased from Eskom was reduced when a turbine was installed at the plant last year, for example, and an additional turbine should make Ngodwana fully self-sufficient in electricity by the second half of 1988.

Improvements to trading margins were also helped by price increases, and these will continue to help profits for some time. In the domestic market, prices were increased between April and July, and here the group expects it will be able to maintain its margins. Van As describes conditions in the local market as patchy, but modest growth should be seen in the second half. Past trends suggest that demand for the group's products should rise faster than the local economic growth rate.

However, since the second half of last year, dollar export prices of most of the group's products have increased steadily. Van As says these prices rose "quite sharply" through the first half of 1987. In certain sectors, such as newsprint, they may be close to levelling out, but for Sappi benefits will continue for some time. Van As notes that on exports there is a lead time of 60-90 days before the customer is billed after orders are taken. This means price increases in the second quarter have yet to be felt.

Prices of linerboard, an important export product for Sappi, have risen spectacularly, Van As says, but will probably have to move higher before producers will be willing to invest in new capacity. "Very little linerboard capacity has been brought on stream in recent years," he says. "Capacity utilisation in the industry is probably at about 96%-97% now and we predict continued growth in consumption. Even a 1% increase in capacity means a lot of volume. Yet the lead time for new capacity is three to four years.



Sappi has never disclosed the proportions or the volumes of the products it exports. These are certainly less than half of total production, and the group remains predominantly a local market supplier. But it is safe to assume that export sales are substantial and reap attractive profits. Apart from the recent firm trend in dollar prices, the rand has fallen substantially since Ngodwana was planned. During most of the first half of 1987 the rand/dollar rate was about US50c, but has dropped to below US48c — a 4% fall — so the currency could also contribute to second-half figures.

Interim figures emphasised that cash is pouring in. No tax should be paid for the next three years. A R13,9m provision for deferred tax was made in the first half, but this is not deducted from cash flow. Conversely, though, if the rate of deferred tax provision is lifted rapidly it could curb distributable income. By management's calculation, debt:equity has been slashed from 1,42 to 0,89. "Debt:equity has quite a long way to go from here," says Van As. "It won't fall as low as the 0,20 of a few years ago, however, because we plan to make more investments at certain plants." These, he adds, would be aimed firstly at efficiencies.

Analysts are forecasting distributable income of 230c-240c for the 1987 year, while one is forecasting 250c — and he considers that conservative. At R33, the ord share price has gained 166% from the 12-month low of R12,40c. At this level most analysts consider the share fairly priced, but they note it has significant rand hedge qualities.

Andrew McNulty

Strong product demand boosts Consol profits

ART TIMES 2/9/87

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By AUDREY D'ANGELO
Financial Editor

INCREASED demand for corrugated cardboard packaging in the Western Cape, particularly from farmers, and higher national sales of beer and soft drink bottles helped Consol to push up operating profit in the year to June 30.

A lower interest bill also helped to lift pre-tax profit by 36% to R57,9m (R42,7m). But the loss of the investment allowance increased the effective tax rate to 47,6% (41%).

This meant that earnings rose by only 20% to 484c (404c) a share. The dividend rose by 17% to 175c (150c) a share.

The directors say a 25% rise in turnover to R503,7m (R402,9m) was due to higher sales volumes from all departments in spite of a highly competitive market.

"Particularly strong demand for beer and soft drink containers, coupled with innovative product design and new product introductions in other industries, contributed to this performance.

"The lower value of the rand improved competitiveness of the glass tableware product range against imports which, together with increased volume demand in the market, resulted in a pronounced increase in turnover and profit."

They say a strong real growth in the corrugated container market "was particularly evident in the Western Cape with a high proportion of agricultural packaging".

Improved profitability and tight control of capital expenditure and working capital led to sharply reduced borrowing levels.

This, together with lower interest rates, resulted in lower interest payments. At year-end the ratio of total debt to shareholders' interest and deferred tax benefit amounted to only 18% (33%).

The directors expect the mild economic upturn to continue in the present financial year, although they are concerned about "the tentative nature of this upswing due to high rates of inflation and unemployment, as well as socio-political pressures, creating a climate of uncertainty."

(iii) (aa) Interest is payable on reducing balance and will vary over the period of the loan. The initial amount in interest payable is R4 324 325 during November 1986.

(bb) R8 648 648 per annum.

(iv) (aa) 20 years.

(bb) November 1986.

(3) Yes.

(a) From own revenue and other sources still being investigated.

(b)

	(i) Soweto	(ii) Dobsonville	(iii) Diepmeadow
30 June 1985	R114 525 405	R 9 288 648	R49 158 919
30 June 1986	R114 525 405	R 9 288 648	R49 158 919
30 June 1987	R125 977 945	R10 217 513	R54 074 811

(4) Not applicable.

Botswana/Swaziland/Lesotho: customs revenue

411. Mr W J D VAN WYK asked the Minister of Finance:†

(a) What percentage of the Republic's customs revenue was paid over to (i) Botswana, (ii) Swaziland and (iii) Lesotho as at the latest specified date for which information is available and (b) what amount of customs revenue was paid over to each of these countries in 1984, 1985 and 1986, respectively?

The MINISTER OF FINANCE:

(a)

	1986-87
(i) Botswana	5,529%
(ii) Swaziland	2,846%
(iii) Lesotho	3,426%

Note: The precentages have been calculated on the combined income of customs duty, excise duty, surcharge and miscellaneous for the financial year 1986-87.

(b)

	1984-85
Botswana	R180 544 000
Swaziland	R130 409 000
Lesotho	R151 498 000

	1985-86
Botswana	R174 429 000
Swaziland	R136 576 000
Lesotho	R161 086 000

	1986-87
Botswana	R232 796 000
Swaziland	R119 811 000
Lesotho	R144 259 000

Newsprint imported

412. Mr W J D VAN WYK asked the Minister of Finance:†

(a) How many tons of newsprint were imported in each of the latest specified five years for which information is available and (b) what was the rand value of these imports in each such year?

The MINISTER OF FINANCE:

(a) and (b)

	Ton	*R (value)*
1982	284,8	184 183
1983	150,2	54 384
1984	441,0	202 829
1985	110,6	171 694
1986	590,9	451 697

FRIDAY, 11 SEPTEMBER 1987

†Indicates translated version.

For written reply:

General Affairs:

[Reply *bound in Annexures of House of Assembly see M/119—1987.*]

219. Dr M S BARNARD asked the Minister

of National Health and Population Development:

(1) (a) How many community health centres were there in each province as at the latest specified date for which information is available and (b) what (i) was the staff complement of each such centre and (ii) were the functions performed by the staff of these centres as at that date;

(2) whether any further community health centres are planned; if so, (a) how many in each province and (b) when are they due to be completed in each case?

Detainee: nature/cause of injuries

238. Dr M S BARNARD asked the Minister of Law and Order:

With reference to his reply to Question No 70 on 23 February 1987, (a) what was the (i) nature and (ii) cause of the injuries of each detainee which required treatment in hospital and (b) which of these injuries were sustained (i) prior and (ii) subsequent to the detention of these persons?

The MINISTER OF LAW AND ORDER:

(a) (i) A variety of injuries, *inter alia* broken limbs, arm and hand injuries, head injuries, groin injuries, eye injuries, gunshot wounds, jaw injuries and dog bite wounds.

(ii) Because these injuries are unrest-related, it is, with the exception of gunshot and dog-bite wounds, difficult to ascertain what caused these specific wounds.

(b) (i) As far as could be ascertained, all the injuries were sustained before or during arrest.

(ii) Falls away.

Group Areas Act

310. Mr S S VAN DER MERWE asked the Minister of Constitutional Development and Planning:

(a) How many notices were served in terms of section 41 of the Group Areas Act, No 36 of 1966, during the latest specified period of 12 months for which information is available and (b) (i) on what dates, (ii) in which towns or areas and (iii) in respect of what specified properties was each such notice served?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

(a) Since 1 September 1986 notices have been issued in respect of 41 premises and forwarded to the relative offices of the SA Police to be served. Confirmation has not yet been received in respect of all notices and it is therefore not known how many have already been served.

(b) (i) to (iii) Fall away.

Annual reports

384. Mr K M ANDREW asked the Minister of National Health and Population Development:

(1) (a) (i) How many annual reports were produced in 1986 by his Department and/or statutory bodies falling under his Department and (ii) in respect of what bodies were these reports produced, (b) what was the cost of producing each such report, (c) how many copies of each report were printed and (d) who undertook the printing of each report;

(2) whether the printing of these reports was put out to tender; if not, why not; if so, (a) what was the (i) lowest and (ii) highest tender submitted, and (b) what was the amount of the successful tender, in each case;

(3) whether any copies of these reports were sold; if so, (a) how many, (b) to whom, and (c) at what price, in respect of each report;

(4) in respect of each of the latest specified five years for which information is available, (a) what was the total cost to his Department of these annual reports, (b) how many copies were printed, (c) how many of these reports contained (i) full colour and

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Hansard

(bb) to age of 18 years with effect from 26.08.66; to age of 16 years with effect from 5.12.80.

(2) (a) Repayment of the resignation benefit received plus interest.

(b) (A × B × C × D) × E plus interest where—

A = the rate at which the member contributes to the Fund.

B = pensionable emoluments at the date on which the member became a member of the Fund.

C = period member wishes to purchase.

D = an actuarial factor.

E = Government Service Pension Fund—3,47
Associated Institutions Pension Fund—3,04
Temporary Employees Pension Fund—3,00
Authorities' Service Pension Fund—3,25

(3) No.

(a) The Funds accept repayment on a monthly basis for a maximum period of 15 years on condition that any balance outstanding must be paid on or before the retirement date.

(b) The current interest rate charged on the outstanding amounts owing to the relevant fund is 5,5% compounded annually at the 31st March of each year.

(4) Yes.

(a) 1986/87
Government Service Pension Fund—R79 417 355,52
Associated Institutions Pension Fund—R33 054 264,86
Temporary Employees Pension Fund—R9 657 721,38
Authorities' Service Pension Fund—R598 441,05

(b) Information not readily available.

(5) Up to date only in respect of the Government Service Pension Fund. An estimated deficit of R1,5 milliard.

Newsprint industry

410. Mr W J D VAN WYK asked the Minister of Economic Affairs and Technology:†

Whether he will furnish the names of undertakings in South Africa which are involved in the newsprint industry; if not, why not; if so, what are the names of the (a) manufacturers, (b) dealers and (c) importers concerned?

The MINISTER OF ECONOMIC AFFAIRS AND TECHNOLOGY:

Yes.

(a) SAPPI Ltd and Mondi Paper Company Ltd are the only manufacturers of newsprint in the Republic of South Africa.

(b) SAPPI and Mondi supply newsprint mainly direct to members of the Newspaper Press Union of South Africa, ie newspaper publishers. A relatively small volume of newsprint which is used for purposes other than the printing of newspapers, is supplied directly to dealers of which the most important are as follows:
Haddons (Pty) Ltd.
VRG (Pty) Ltd.
Peters Papers (Pty) Ltd.
Spicers (Pty) Ltd.
Wiggins Teape (Pty) Ltd.
Press Supplies Ltd.
Main Paper (Pty) Ltd.

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(c) During the past three years no newsprint was imported.

State expenditure on education

465. Mr K M ANDREW asked the Minister of National Education:

(1) What was the total State expenditure on education in the Republic, (a) including and (b) excluding the (i) self-governing territories and (ii) independent Black states, in the 1984-85, 1985-86 and 1986-87 financial years, respectively;

(2) what amount was spent in each of these financial years on education in respect of (a) Blacks in the (i) Republic, (ii) self-governing territories and (iii) independent Black states, (b) Whites, (c) Coloureds and (d) Indians?

Hansard

The MINISTER OF NATIONAL EDUCATION:

(1) The total State expenditure on education in the Republic:

	1985-86	1986-87
(a) Including the self-governing territories	R6 130 262 000	R7 557 762 000
(b) Excluding the—		
(i) Self-governing territories	R5 446 522 000	R6 662 383 000
(ii) Independent Black states	The amounts are not available.	

These amounts do not include expenditure in respect of education in the independent Black states which do not form part of the Republic. The amounts for 1984-85 are not available.

(2) The expenditure on education in the Republic in respect of:

	1985-86	1986-87
(a) Blacks—		
(i) Outside the self-governing territories	R950 096 000	R1 265 185 000
(ii) In the self-governing territories	R683 740 000	R895 379 000
(iii) In the independent Black states	The amounts are not available.	
(b) Whites	R3 241 707 000	R3 698 469 000
(c) Coloureds	R799 526 000	R1 173 619 000
(d) Indians	R455 193 000	R525 110 000

These amounts do not include expenditure in respect of education in the independent Black states which do not form part of the Republic. The amounts for 1984-85 are not available.

The above-mentioned amounts include expenditure in respect of the following number of universities and technikons:

(a) (i) 5 universities, 1 technikon.
(ii) 1 technikon.

(b) 11 universities, 8 technikons.

(c) 1 university, 1 technikon.

(d) 1 university, 1 technikon.

FM 30/10/87 (159)

WALTONS STATIONERY

Acquisitive strength

Waltons Stationery's (Waltons) acquisition drive is now coming through to bottom line. Of the group's 82% increase in EPS in the six months to end-August, 50% was due to organic growth, with 32% derived from acquisitions made either during the current financial year or in the latter half of last year.

MD Frank Robarts says all group companies have improved their performances. That suggests Gala Group, which was making heavy losses, has reached profitability in only its second six-month period since Waltons bought it.

Helped by these acquisitions, interim turnover of R136m (R69,9m) was 52% up on the year-ago period, while operating profit grew by 84% to a record R18,2m (R11m) — a performance which underscores Waltons' claim to blue chip status.

Still expanding

Despite the abrupt market downturn the group still appears motivated toward spreading into all areas of the stationery business. Multipro Corporation, a computer media distributor, was acquired recently and the purchase of ribbon and fax paper manufacturer Copyreel was concluded last Monday.

Financial director Mark Davis says "Both these companies will become subsidiaries of a new, but as yet unnamed holding company, which will form our computer media and supplies operation and trade at arms length with our other businesses."

NEVER STATIONARY

Six months to	Aug 31 '86	Feb 28 '87	Aug 31 '87
Turnover (Rm) ...	69,9	144,8	136,3
Pre-tax (Rm)	11,0	22,0	18,2
Attributable (Rm)	4,1	8,9	7,8
Earnings (c)	6,6	14,9	12,0
Dividends (c)	1,9	5,0	4,0

The interim report, drawn up before the market shakeout, states that this new holding company will be listed during the next financial year. Davis sees no reason to change this view provided real underlying economic reason prevails.

After an 82% increase in interim EPS to 12c (6,6c), Waltons is forecasting at least 32,5c eps for the full year based on the traditional seasonal pick-up in business in the second half. That appears conservative. Last year interim earnings were 31% of earnings for the full year. I suspect earnings this year could be as high as 36c — 67% up on last year.

Dave Edwards

FM 13/11/87 194

NAMPAK

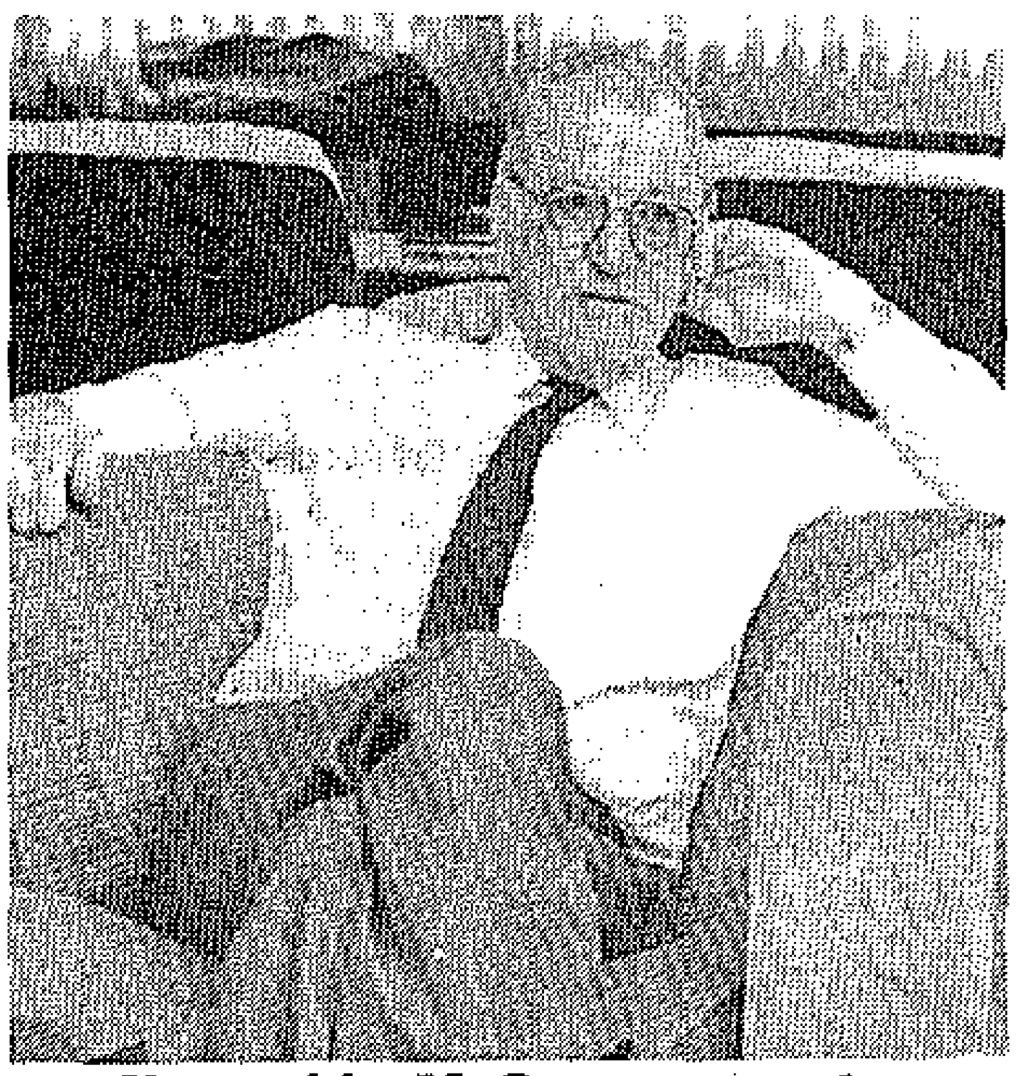
Packing punch

While some pessimists feel that the economic upswing could dissipate by mid-1988, Nampak's results for the year to end-September suggest the recovery could be more sustainable. That, at least, is the view of Nampak MD Don McCartan, who says: "The upswing is there and established. We see no indications that it is coming off — and I expect next year's results to reflect that."

Increased consumer demand was evident throughout the group's packaging business — claimed to be the most broadly-based in the world — although there has been a noticeable trend toward short-run business. Nampak Products achieved a 20% increase in turnover (6,2% in real terms), and 54%-owned Metal Box, helped by a turnaround in the glass division and an improved performance in the plastics division, increased its turnover by 19% (8,8% in real terms).

METAL BOX'S STRENGTH

Year to September 30	1986	1987
Turnover (Rm)	831	990
Pre-tax profit (Rm)	54,5	91,2
Attributable (Rm)	37,9	49,3
Earnings (c)	55,6	72,4
Dividends (c)	24	32



Nampak's McCartan ... the upswing is there

Real turnover growth resulted in better margins — Metal Box's operating margin increased to 9,3% (7,1%), and group pre-tax profit rose 45% overall, reflecting strong operating leverage. At year-end financial gearing was about 18%; but an increased tax burden resulted in taxed profits rising 31% to R124,5m (R95,1m). Bottom-line earnings increased 31% to 228c (174c), while the dividend was increased 27% to 100c (79c). These results put Nampak firmly back onto a long-term growth pattern after earnings and dividends dipped after the merger with Metal Box.

Such results are encouraging, not only for Nampak but also for business confidence. Packaging is regarded as an early economic indicator.

McCartan is nervous about raw material prices: "I feel the increases that are coming through are overdone," he says. "They continue the inflation spiral and affect the competitiveness of our export customers, an important part of our customer base." Still, while the rand is currently rising relative to the dollar, it is falling against other currencies. This could create export opportunities.

McCartan points out that non-dollar designated capital equipment will become more expensive. That suggests Nampak could well make an acquisition this year. "We are looking for something peripheral to our core business, and there's a lot out there," he says. "But the markets would have to settle first." Given Nampak's strong cash flow and low gearing, a large acquisition is possible, particularly as finance director Dave McFadden thinks a 50% financial gearing is possible under current circumstances.

NAMPAK UNWRAPPED

Year to September 30	1986	1987
Turnover (Rm)	1 734	2 067
Pre-tax profit (Rm)	160	231
Attributable (Rm)	72,3	95,7
Earnings (c)	174	228
Dividends (c)	79	100

After a number of years of rationalisation the group is enjoying improved profitability across all of its 14 divisions. Each contributes 8%-15% of group earnings — so the portfolio mix appears balanced. McFadden says that October, the first month of the current year, is "a little ahead of target." This augurs well for 1988. *Dave Edwards*

Cape Times 20/4/87

'Massive' blast rocks Sappi mill

JOHANNESBURG. — Forty-eight people were injured in a "massive explosion" at Sappi Limited's Ngodwana mill at about 3am, Sappi said yesterday.

A statement said 47 people received "minor injuries", while one person was hospitalized. No one died in the blast.

The cause of the explosion, which caused millions of rands' damage to the mill, was still unknown, managing director Mr Eugene van As said. He ruled out sabotage.

PAPER INDUSTRY (194)

Healthy recovery

Although both SA's major paper suppliers have suffered major setbacks — Mondi from the recent Durban floods and Sappi from last week's explosion at its Ngodwana mill — the outlook for the industry remains rosy.

Sappi CE Eugene van As says the group will buy in pulp to replace lost production following the explosion. Supplies of Kraft linerboard and newsprint to its customers should therefore not be affected.

According to Sappi Kraft MD Andre Vlok, the No 1 fibreline should be back in commission by the end of the week, but the No 2 fibreline — which produces two-thirds of Ngodwana's pulp — will be out for much longer as the control room was damaged. However, Van As says the damage appears to be superficial.

Mondi MD Tony Trahar says all three of the company's mills at Richards Bay, Umgeni Board and Merebank (the worst affected by the flood) are back in operation.

FM 27/11/87

Once they have got on top of their production problems, the future looks bright. International demand for paper products remains strong and they are fetching good dollar prices, says Ken Lechmere-Oertel, MD of Sappi Fine Papers. Neither he nor Trahar will say what percentage of their production is exported, but in both cases it could be around 25%-30%.

Lechmere-Oertel simply says exports constitute "a relatively high proportion of production, but not such as to constitute a make-or-break contribution to profits."

Both contend that sanctions have had a minimal effect on exports. "Paper is a rather anonymous product and is difficult for a sanctioneer to isolate," notes Trahar. However, he says the strengthening rand could pose a threat to exports in the longer term.

Lechmere-Oertel says sales on the local market are holding up well and generally reflect the upturn in the economy. But again Trahar claims railage rates, which have increased by 50% compounded in the past two years, pose a threat to profitability.

Partly as a consequence, the price of paper products on the local market is set to increase by 8%-10% on average, depending on the product, both companies have announced.

Earlier this week, a row broke out between the SA Timber Growers Association (SATGA) and the major paper manufacturers. The SATGA claimed the latter was trying to buy them off the land and paying depressed prices for timber. Van As, however, retorts that by SATGA's own admission the major companies only bought an additional 4% of independently owned forests in the last three years. This, he says, hardly constitutes an effort to force people off the land.

"In any event, anyone is entitled to sell his land if he wants to," says Van As. "The strategic objective is not to remove small growers, but to ensure a continuing source of raw materials."

The Forest Owners Association admits that prices are low at the moment, but maintains that this is simply because timber is in oversupply.

CAPE TIMES 3/12/87

Paper workers extend strike

Labour Reporter

ABOUT 40 workers at Nampak Paper Mill, Bellville, yesterday continued their work stoppage over grievances related to central bargaining.

Workers downed tools on November 29.

The Paper, Wood and Allied Workers' Union have demanded that Nampak Paper accept central bargaining.

The company could not agree to this level of bargaining because each mill was managed independently, the general manager of Nampak, Mr D Sabbatini said yesterday.

The union could not be reached for comment.

Nampak strike

ABOUT 150 Paper Printing, Wood and Allied Workers Union members downed tools this week in support of the union's demand for one national wage negotiation committee.

A union spokesperson said workers at the Nampak factory in Bellville took the action after a strike ballot last week.

She said no solution could be reached at the Conciliation Board. Over 200 workers voted in favour of the strike action.

A Nampak deputy general manager said the union had not followed the correct procedure. No dispute had been declared in terms of the company's agreement with the union.

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Nampak strike

3/12/92

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Waltons wears crown again

6/12/87

S/T TOP 100 COMPANIES SURVEY

FOR THE second consecutive year, Waltons Stationery Company is Business Times' top company for 1987.

Investors who held shares in Waltons for the five year period to August 31 achieved an average all-in compound return of 93,6% pa.

Business Times Reporter

An investor who bought R10 000 of shares in the country's biggest and most profitable stationer would have seen the investment grow to R271 973 in the five-year period.

Shares bought for R35 750 and held for five years would have escalated in value to R1-million.

By any measure, Waltons is an outstanding company and a worthy second-time winner of Business Times' competition.

Profit performance up to last year was breathtaking. Pre-tax profit soared from R4,8-million in 1982 to R19,9-million in 1986. In the six months to September, Waltons pushed up earnings by another 81% and was confident of maintaining the pace to the end of the year.

Better

"We perform well in the bad times and even better in the good times", said Waltons' blunt managing director, Frank Robarts.

Now that sales are heading for R300-million a year and Waltons has secured 50% of the total stationery market, it is diversifying into computer stationery.

Mr Robarts sees no reason why the pace of growth should slow.

"Every year financial commentators ask me when we'll saturate our markets and go ex-growth. It's not in sight yet."

Because Business Times' performance measure is based largely on stock exchange performance, some companies come to the top of the list because of high expectations for the future, rather than on-the-ground performance.

But what makes Waltons such a worthy winner is that it is in a highly competitive bread-and-butter business, which itself has not had outstanding growth.

Unlike the mining companies, which also featured this year, Waltons has not been a major beneficiary of the fallen rand, commodities prices or other factors outside its own control. There is more about the Business Times top company inside.

Second among the fastest running companies for South African shareholders was Metair Investments, which gave shareholders an average compound return of 78,3% pa for the five year period.

Metair, our top company in 1984 and 1985, has been the beneficiary of the outstanding growth of its associate, Toyota.

Initially it was little more than the body pressing shop for Toyota. Gradually that changed.

The company started pressing body parts for other manufacturers as well. This year the ties to Toyota were loosened further to make the non-Toyota customers happier.

Wesco, the top company in Albert Wessels stable reduced its stake from 76% to 42%. Institutions took the shares sold by Toyota and Wesco.

Cyclical

Now Metair manufactures for a number of Toyota's rivals. Because its partners were unprepared to put in more capital, Metair also sold out of Wesglas to consolidate Plate Glass's monopolistic hold on the windscreen market.

There are few businesses more cyclical than auto components. Because of depressed conditions in the motor industry, Metair's profitability has slumped in the five-year period. Pre-tax profit fell from R18,6-million in 1984 to R7,2-million in 1986.

Conditions have improved dramatically in recent months, suggesting a real gravy train for Metair. Unsurprisingly the shares have run, hoisting Metair up the Business Times rankings.

The average all-in return in Metair was 78,3% pa for the five years to end-August. The lucky holder who bought R10 000 of Metair shares and held them for five years would have seen his investment grow to R181 000.

New Bernica has streaked since its founder Arnold Witkin changed its nature about 18 months ago.

Mr Witkin stepped down after a distinguished innings as investment chief of Legal & General, now Lifegro, in 1982. Initially New Bernica was supposed to be an investment trust made up of JSE-listed companies, the attraction being Mr Witkin's investment genius.

About 18 months ago, Mr Witkin came to the conclusion that such a trust could offer only marginally better returns than the market as a whole. The lack of clarity on capital gains was another incentive to change the nature of the company.

Gradually the listed shares were sold off and the proceeds redeployed in investment banking. Today New Bernica's business is to back promising companies with capital.

Because of Mr Witkin's institutional connections, it can offer good companies access to virtually limitless amounts of money. Normally New Bernica takes pref shares, which are convertible into a minority stake once the company proves itself.

In the new listings boom, the strategy paid off handsomely. New Bernica brought Columbia and Mercedes Datakor to the JSE lists, two of the best performing new listings of the lot. It also has promising minority stakes in National Discount House, Joshua Doore and Chipkins, the food chain, which is still be to be listed.

The great stock market crash occurred after these returns were calculated. It goes without saying that five-year returns across the board have been diminished sharply.

Some companies have suffered more than others in the collapse and it is conceivable that the rankings would have been turned on their head if we calculated returns today.

Business Times rankings are a bit like a horse race over five years. Theoretically, positions can change virtually daily, as share prices go up and down.

□ To Page 20

ALL SMILES: Frank Robarts flanked by Len Chimes (left) and Alan Muirhead have reason to be delighted with their company's performance

P.T.O.

(194)

6/12/87

ST TOP 100 COMPANIES SURVEY (194)

Robarts pledges: I'll be back next year

Frank Robarts, managing director of Waltons Stationery Co, reckons his company can do it again.

"Only Toyota has been top company three times in a row," he told the Sunday Times awards banquet (held on Monday, November 23).

"Toyota's a great company and we would like to match it. I'm going to be here receiving this award next year."

The power of positive thinking.

Selling is in the blood of Frank Robarts. He started out as a stationery rep for the Dickinson Robinson Group in Cape Town and he still likes to slip behind the counter on occasions to clinch a sale.

When his salary increase in 1969 was not satisfactory, Mr Robarts took up a long standing offer from Mr Norman Walton, who ran a small stationery firm in Cape Town to join him.

Took off

The Cape Town company simply took off. Then Mr Robarts left a lieutenant in charge of Cape Town and opened a Waltons branch in Durban. This also boomed. Next, he did a deal with Alan Muirhead, who ran Field & Daine, the biggest stationer in Durban.

In 1976 Mr Robarts left him in charge of the thriving Durban operation and set off for Johannesburg.

The Johannesburg store was as successful as those in Cape Town and Durban. Then Mr Robarts persuaded Len Chimes, who owned Avalon Stationers to join the Waltons stable. Since then the trio has never looked back.

The key to Waltons success has been that it buys well and sells well. And that means companies as well as stationery. Behind the company's astonishing recent track record lie some inspired acquisitions and turn-arounds.

By David Carte

Two of the best acquisitions in recent years came from Kohler, which on-sold DRG's stationery interests in 1983.

Waltons bought 100% of Palladium Stationers, DRG's wholesale and retail arm. The company is run separately and in competition with Waltons itself but now makes profits instead of large losses.

In addition, Waltons and CNA took 50% each of DRG's manufacturing interests, which they renamed Silveray.

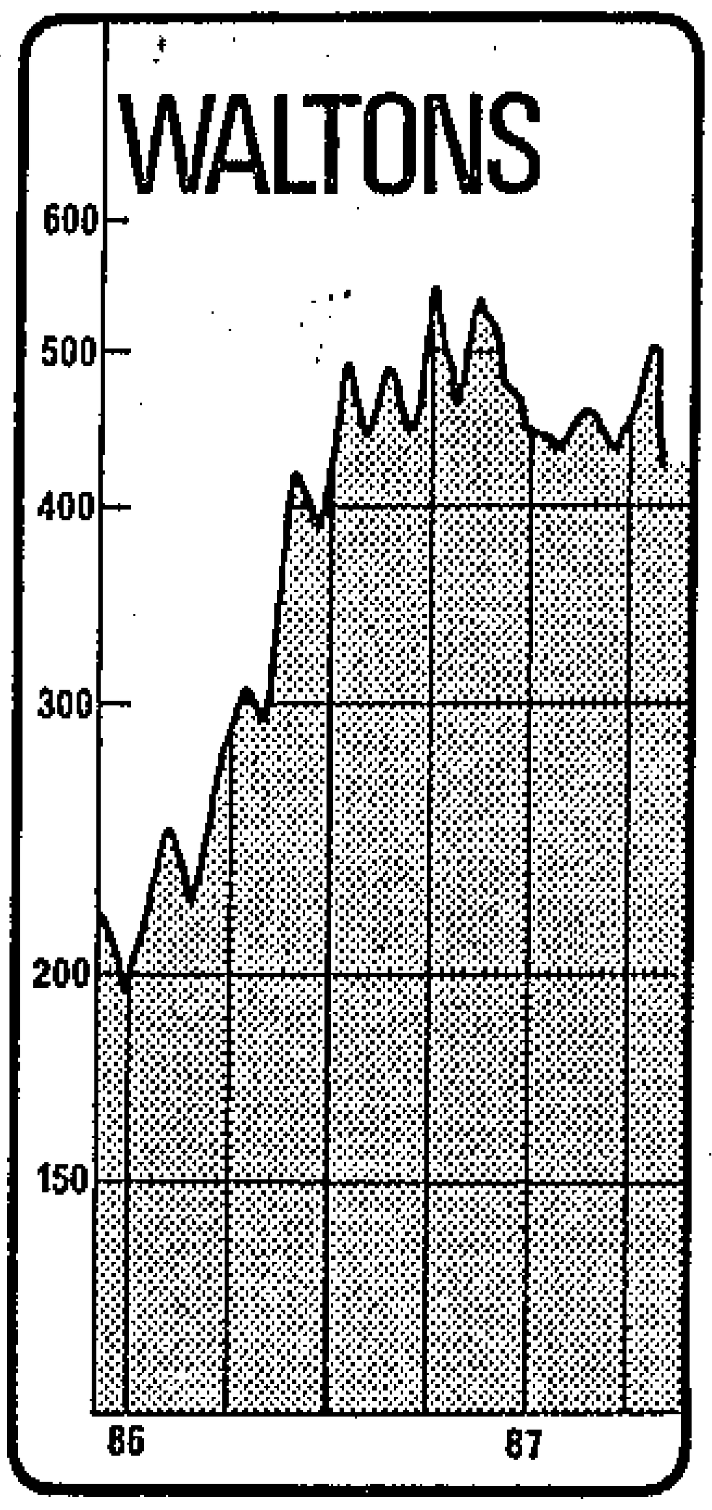
Waltons has management control and applied its own cost-effective methods to the former loser. The one-time "dog" is now a sensationally profitable winner.

In October 1986, Waltons bought the assets of the insolvent Robin Group. The manufacturing interests went into Silveray and the distribution operations into Waltons itself.

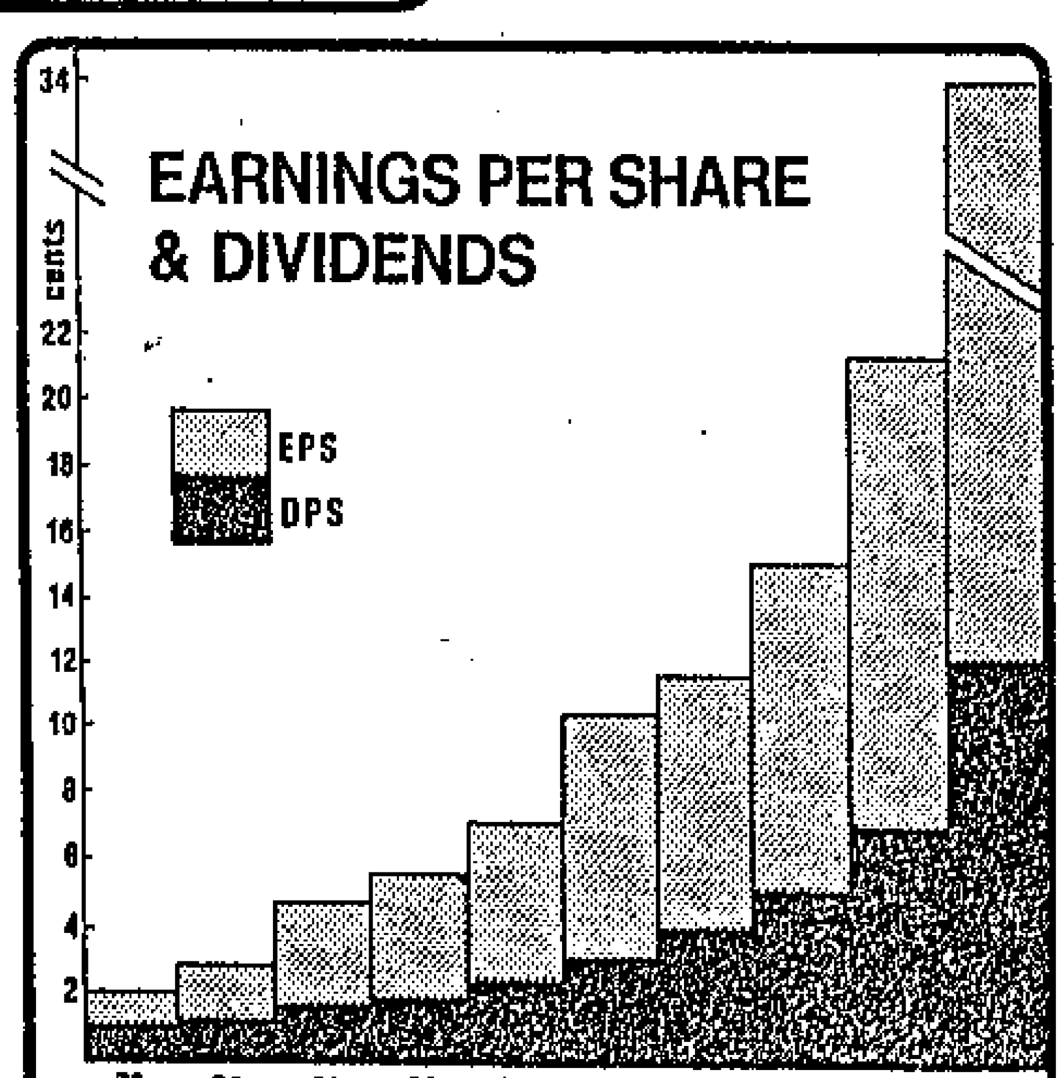
Waltons is still negotiating with creditors to buy the company. Another purchase, Tension Envelope, went into Silveray.

Waltons also acquired 50% of Pelikan Products, which wholesales and retails computer stationery. The idea is to put Pelikan, together with Multipro, Copy Reel, Kolok and Data Link, into one computer stationery supplies company.

In the year to February 1989, the computer stationery division is expected to have sales of R50-million and taxed profit of R3-million. It will eventually be listed.



Frank Robarts: Power of positive thinking



Last January, Waltons bought several office products companies from divesting European companies. From Esselte it acquired the franchise for Stabilo marker pens, Dymo tape and SA's biggest manufacturer of supermarket price labels. All these profitable lines are now in Statmark.

"We could list 10 companies," says Transvaal managing director, Len Chimes, "but buying and listing are not essentially what this company is about. The idea is to stick to the knitting and to buy only companies that fit strategically. All these acquisitions are logical to our development."

The toy division, Reggies, bought in 1980, has already been listed. This company, which also includes Redgwoods, Mothers World, Little People and Playthings, the Plasticine maker, is the biggest of its kind in SA and is expected to beat its listing forecast of R2,5-million after tax easily.

The Reggies interest is in Waltons books at cost of R5-million. Meanwhile Waltons share of the business even at the post-crash share price, was worth R30-million. Reggies declared a first half profit this year. So seasonal is the business that normally it only breaks even.

Waltons was so active on the acquisitions front last year that it broke its 82% first half earnings rise down, attributing 32% to acquisitions and 50% to organic growth.

According to Mr Robarts, Waltons has been run on a decentralised basis since inception.

Alan Muirhead, managing director, Natal, says the company is informal and everyone is on first name terms.

Profit

In 1979 Waltons employed 775 and taxed profit was R1-million. Now the company employs 3 500 and taxed profit this year is expected to be R23,6-million.

The company has more than 50% of the total stationery market in SA. Taxed profit per man has rocketed from R1 290 in 1979 to R6 740.

"Total sales for our first year as a listed company in 1979 were R11-million — half a year's profit after tax these days. Now Waltons is looking for sales of R300-million," says Mr Muirhead.

Financial director Mark Davis reckons one reason for the company's outstanding success is that more than 500 members of staff participate in an executive share trust. Many a Waltons staff member has the bulk of his personal wealth tied up in the company, hence its hunger.

There is no room in the lives of Waltons executives for pretence or ostentation — no air-conditioned ivory towers festooned with oil paintings, no sprawling low-rise gla's and granite edifices in park-like surroundings.

194

KOHLER

Tying up loose ends

Activities: *Subsidiaries manufacture a wide range of packaging and printed products.*
Control: *Malbak holds 61%.*
Chairman: *K Zirker; managing director: I Willis.*
Capital structure: *13m ords of 50c; 225 000 6,5% cum prefs of R2. Market capitalisation: R133m.*
Share market: *Price: 1 025c. Yields: 3,9% on dividend; 12,7% on earnings; PE ratio, 7,9; cover, 3,25. 12-month high, 2 000c; low, 900c. Trading volume last quarter, 159 000 shares.*
Financial: *Year to August 31.*

	'84	'85	'86	'87
Debt:				
Short-term (Rm) ..	26,8	11,3	10,3	0,04
Long-term (Rm) ...	66,2	74,6	71,4	53,3
Debt:equity ratio	1,20	1,09	0,99*	0,46*
Shareholders' interest	0,34	0,38	0,36	0,40
Int & leasing cover .	1,4	0,61	1,80	2,15
Debt cover	0,23	—	0,39	0,55

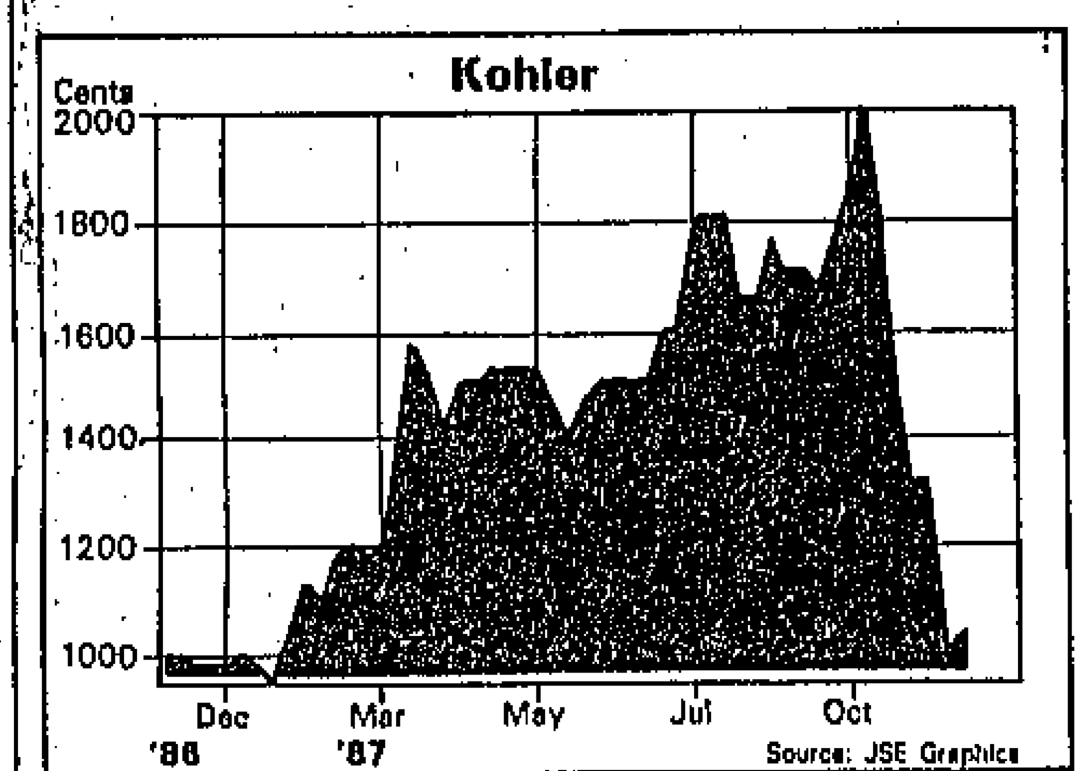
Performance:

	'84	'85	'86	'87
Return on cap (%) ..	13,6	5,2	12,4	8,5
Turnover (Rm)	361	362	449	386
Pre-int profit (Rm) ...	29,9	11,0	28,1	24,1
Pre-int margin (%) ..	8,3	3,0	6,3	6,1
Taxed profit (Rm)	12,0	(13,5)	14,8	17,0
Earnings (c)	99	(169)	122	130
Dividends (c)	53	—	35	40
Net worth (c)	774	669	765	830

† For eight month period
* Net of cash

With eight-month earnings that exceeded its previous full year earnings total, packaging group Kohler has proved it is firmly on the road to recovery after fighting a losing battle with financing costs in 1984 and 1985. The eight-month accounting period has arisen to bring Kohler's year end into line with its new holding company, Malbak.

As volumes increased across most of the group's products, turnover — at R386m — was 33% higher than in the comparable eight months of 1986, although static operating margins of 6,2% kept the operating profit growth to 34%. A 49% decline in financing costs resulted in pre-tax profit of R18,4m, 87% up on the R9,8m for the eight months ended August 31 1986. Borrowings fell by R29m, and this, with the acquisition for shares of the virtually unborrowed Bakke group, resulted in a decline in debt:equity to 0,46 at August 31 from 0,49 at December 31 1986.



Kohler's bottom line for the eight months ended August was aided by a 7,6% tax rate (13,4%), but low tax rates will soon be a thing of the past for the packaging group. Assessed losses will be fully utilised in the current year, causing a steep rise in the tax charge during the second half. Finance director David Price says the tax rate will still be below 30% in 1988, but will rise steadily thereafter, probably reaching full tax rate within two years.

Kohler aims to compensate for the rising tax rate with increased turnover and a widening operating margin. Price says the group will lift margins to 7%-8% through several means.

"Profitability in the plastics business is improving, and ongoing costs of rationalisation are reducing," he says. "For instance, vacant properties which arose due to the plastics rationalisation are now being let."

Also helping Kohler in the current financial year will be a buoyant first quarter. The second half of the calendar year is traditionally the busiest time for the packaging industry.

A number of acquisitions will contribute a full year's profits for the first time, including Bakke Formost, the dominant manufacturer of polystyrene and pulp products to the food and agricultural industries, acquired in July. In addition, the company bought, with effect from September 1, Beith Process Engraving, a graphic arts business in Natal, and Bud Packaging Corporation, the biggest carton and print business in Port Elizabeth.

Kohler says all the acquisitions are profitable and will contribute immediately to the group's growth, although one-time rationalisation costs are expected following the Bud Packaging purchase.

The 5,9% dividend yield on the R10,25 share price compares with the sector average of 4,6%. *Andrew McNulty*

NAMPAK 25/12/87 (194) FM

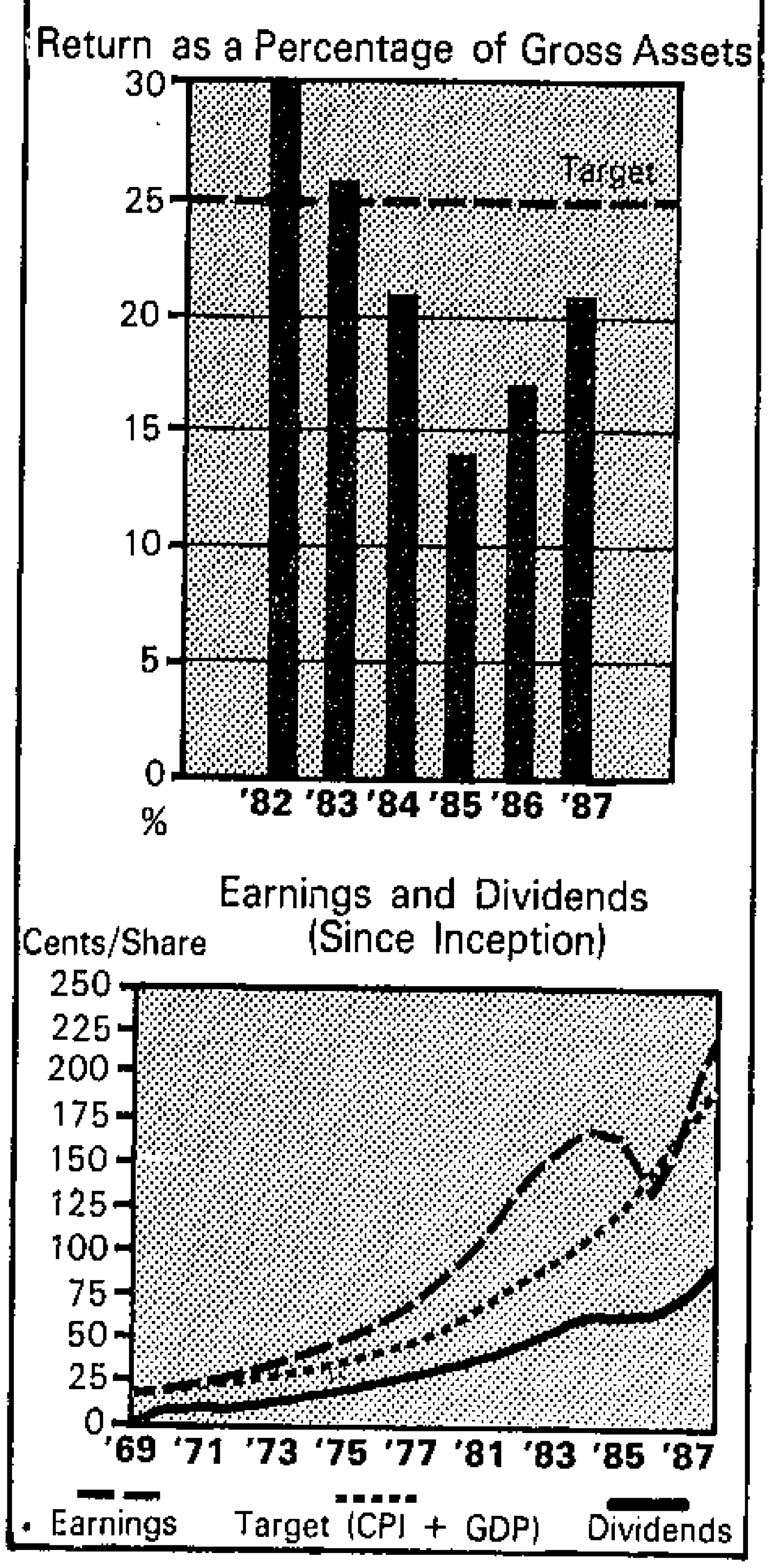
Expansion phase

Activities: *Manufacturing, marketing and servicing of: primary packaging products (through the group's 54% shareholding in Metal Box); secondary packaging and printing products and paper and related products.*
Control: *C G Smith holds 71,6% of the equity; the ultimate holding company is Barlow Rand.*
Chairman: *D Brown; managing director: D B McCartan.*
Capital structure: *42m ords of 50c each. 10 000 6,5% cumulative preference shares of R2 each. 100 000 6% cumulative preference shares R2 each. Market capitalisation: R914m.*
Share market: *Price: R21,75. Yields: 4,6% on dividend; 10,5% on earnings; PE ratio, 9,5; cover, 2,3. 12-month high, R31,50; low, R19,65. Trading volume last quarter, 451 000 shares.*
Financial: *Year to September 30.*

	'84	'85	'86	'87
Debt:				
Short-term (Rm)	58,3	92,3	46,7	37,0
Long-term (Rm)	129,8	163,7	120,2	83,2
Debt:equity ratio	0,45	0,47	0,22*	0,09*
Shareholders' interest	0,46	0,48	0,51	0,50
Int & leasing cover	4,5	2,8	4,2	7,4
Debt cover	0,7	0,6	1,3	3,5*
Performance:	'84	'85	'86	'87
Return on cap (%)	17,9	13,9	16,2	18,9
Turnover (Rm)	1313	1437	1734	2067
Pre-int profit (Rm)	162,4	156,9	190,4	249,9
Pre-int margin (%)	12	10,5	10,5	11,8
Taxed profit (Rm)	93,8	80,8	96,2	124,4
Earnings (c)	175	148	174	228
Dividends (c)	70	70	79	100
Net worth (c)	693	935	1025	1153

*Net of cash

Nampak's recovery



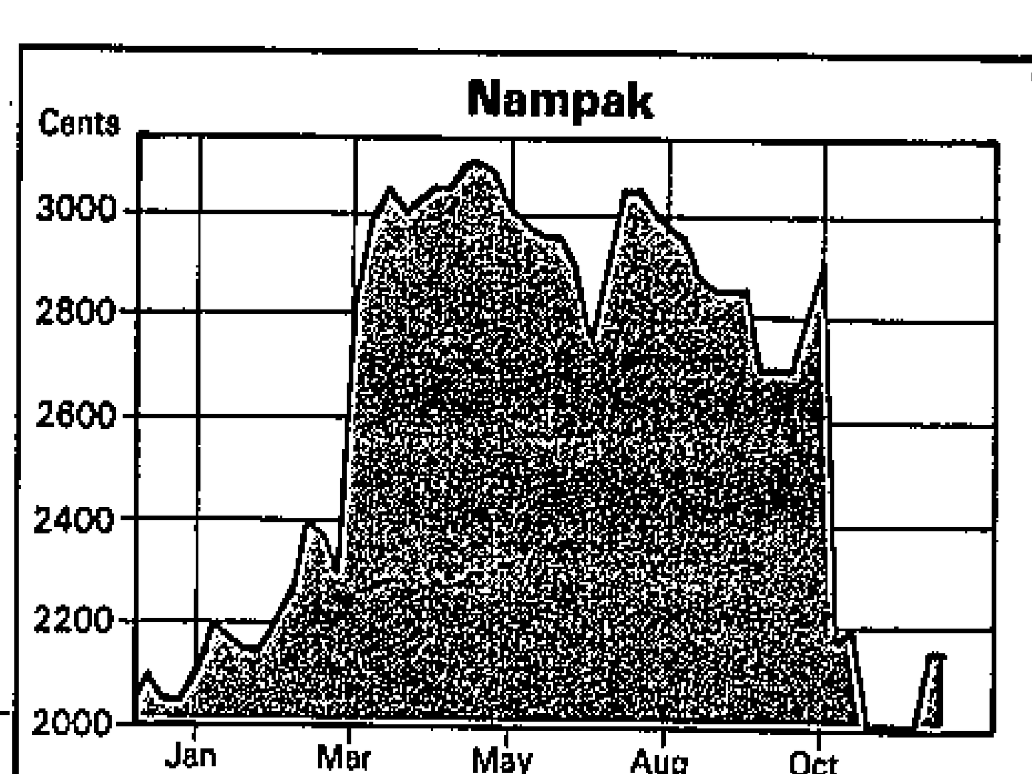
Nampak has spent R470m on expanding plant capacity over the past five years. Now the benefits are starting to show. Return on gross assets, which declined sharply between 1982 and 1985, has risen for the second successive year. Better efficiencies — and a 7,4% increase in volumes for the year to end-September — helped push Nampak's EPS back above its growth target.

On the basis that this positive volume growth trend will be maintained, chairman Dave Brown expects EPS to exceed target again this year. This prospect, a rapidly increasing cash reserve, and a debt:equity ratio below 10%, puts the group in a strong acquisitive position.

Out of a turnover of just over R2 billion last year, about R1,6m came from Nampak's packaging business so the group already has 50% of the country's R3,2m packaging market. This may mean that the chances of a large acquisition in packaging are limited.

Management, understandably, does not appear to be looking for acquisitions far outside the group's present proficiencies. "Products are the driving force of the group," the directors say. "Focus will be on improving and increasing the present range of products and managing technologies and materials." MD Don McCartan said last month that "we are looking for something peripheral to our core business, and there's a lot out there."

With imported paper now priced at parity with the local paper mills, there might be some point in backward integration to gain independence from suppliers. Brown warns that "import parity pricing could lead to the group reviewing its supply strategies in the interest of its customers." The group's Rosslyn mill is undergoing a major upgrade to improve paper quality. And Nampak built up paper stocks last year. The substantial entry barriers for new mills suggests that the only viable means of growth is through new products and product enhancement.



Significantly, no acquisitions have been made at Metal Box, Nampak's primary packaging business, though there were a couple of new products. Still, Metal Box's 55% increase in operating income shows that the existing business is doing well.

But management has been steadily working on Nampak's own divisions. In the paper and related products division, which last year improved its margin to 10,4% (9,6%), the group acquired Radimed, a film convertor business in the graphic arts market, while carbonless paper producer "Memix" reported significantly higher second half sales. Delta Soft was added to the group's tissue operations, though existing operations in this business had a "difficult" year.

Compuquip Electronics, a phototypesetting business, was added to the secondary packaging and printing division where the operating margin remained static at 13,1%. Nampak's business forms and chart printing subsidiaries are holding market share.

The immediate impact on group earnings may be slight, but these developments suggest the theme of future acquisitions. Comments McCartan: "One must realise that Nampak is a collection of small companies." I expect the rate of small acquisitions to step up this year.

At R21,75, the share is on a 9,5 times p:e — higher than Metal Box's 8,4 and the average for the sector of 8,5 — so investors seem to agree that Nampak's own divisions currently hold comparatively good growth potential.

Dave Edwards

PROBEAR

Bearing up

What was formerly Progo Industrial Holdings became Progo Bearing Man with effect from March 1 1986 in terms of an agreement concluded in August last year. This saw Progo acquire the engineering and distribution operations of Bearing Man Holdings, together with its property subsidiaries. Bearing Man in turn became the vehicle for the listing of Pep Stores.

To bring Progo's year-end in line with that of Bearing Man, the year-end was changed from June 30 to the last day of February, and thus the latest financial statements cover only an eight-month period to end-February 1987.

Activities: *Imports and distributes ball and roller bearings, fluid sealing elements and power transmission products, and manufactures and distributes a range of household appliances.*
Control: *Directors control 64% of the equity.*
Chairman: *R E Sherrell; managing director: G J Till.*
Capital structure: *46,6m ords of NPV. Market capitalisation: R19m.*
Share market: *Price: 40c. Yields: 22,9% on earnings; PE ratio, 4,4. 12-month high, 110c; low, 45c. Trading volume last quarter, 2,4m shares.*
Financial: *Year to February 28.*

	'86	'87†
Debt:		
Short-term (Rm)	4,4	5,4
Long-term (Rm)	0,5	4,7
Debt:equity ratio	1,4	2,2
Shareholders' interest	0,24	0,20
Int & leasing cover	2,8	6,1
Debt cover	0,49	0,45

Performance:

	'86	'87
Return on cap (%)	23,5	30,7
Turnover (Rm)	20,2	32,9
Pre-int profit (Rm)	3,4	6,9
Pre-int margin (%)	16,7	20,9
Taxed profit (Rm)	2,3	4,3
Earnings (c)	5,38	9,14
Dividends (c)	—	—
Net worth (c)	9,0	9,4

†for eight month period

With the sale of the Merbuild construction operations to Mercabank, Progo's major divisions are now mostly engineering related, with the bearings division comprising the major portion of the group. In the period reviewed, bearings accounted for 94% of turnover, with domestic appliances making up the rest.

Return to profits

Bearings also contributed all the profits, as the domestic appliance division suffered a loss of R92 014. Directors say they are "confident that efforts to achieve improved efficiencies and rationalisation of resources will result in a return to profitable operations. In view of this, the directors have decided not to provide for the losses suffered by the division."

The group provides a projection of performance for 1988, in which turnover is up 23% to R40,6m, operating profit is up 13% to R7,9m, and earnings are up 20% to 11c a share.

Apart from rationalisation in the domestic appliance division, the group also stands to benefit from reduced debt, as directors project a reduced debt:equity ratio of 1,3 in 1988, down from the 1987 year-end's level of 2,2. In addition, at year-end there were unutilised tax losses estimated at R6,6m.

The share is currently on a prospective p:e of 3,6, based on directors' projections of earnings, with the low p:e indicating some doubt about the group's ability to achieve projected 20% growth in earnings. The share is on an historical p:e of 4,4, well below the sector's average of 7,7. *Dave Edwards*

GOLDSTEIN COOPER

Going for housing

Activities: *Housing and land development, property and other investments and the merchandising of building materials.*
Control: *A change of control since year end has resulted in S M Goldstein buying 70% of the company.*
Chairman: *S M Goldstein.*
Capital structure: *4,2m ords of 50c. Market capitalisation: R9m.*
Share market: *Price: 210c. 12-month high, 275c; low, 170c. Trading volume last quarter, 551 000 shares.*
Financial: *Year to June 30.*

	'84	'85	'86	'87
Debt:				
Short-term (Rm)	—	—	—	—
Long-term (Rm)	4,9	4,4	4,1	2,5
Debt:equity ratio	0,69	0,61	0,15*	0,08*
Shareholders' interest	0,53	0,57	0,61	0,69
Int & leasing cover	2,24	1,49	1,29	0,47
Debt cover	0,22	0,12	0,08	—

Performance:

	'84	'85	'86	'87
Return on cap (%)	13,6	10,4	8,0	2,1
Turnover (Rm)	9,9	8,6	8,0	6,4
Pre-int profit (Rm)	1,8	1,3	1,0	2,4
Pre-int margin (%)	17,9	15,6	12,9	3,7
Taxed profit (Rm)	1,0	0,5	0,2	(0,3)
Earnings (c)	25,3	10,8	5,3	(7,2)
Dividends (c)	6,3	5,0	4,0	—
Net worth (c)	164	170	172	178

* Net of cash

The nature of K & L Timbers has changed dramatically since its year-end, following the purchase of the Gough Cooper group, which led to a change in the name of the company to Gough Cooper Holdings.

However, the company remains listed in the property sector, as Gough Cooper's main business is the purchase and development of land, and the sale of private housing. Gough Cooper currently builds and sells more than 900 houses a year, two-thirds of which are in black and Indian areas.

A pro-forma income statement for K & L for the year to end-June shows turnover, had the transaction been in effect for 1987, boosted to R52,5m from the actual R6,4m; operating profit lifted to R3,6m from a loss of R283 293; and profit after tax of R870 000, compared with an actual loss of R303 572.

Estimated earnings on the pro-forma income statement are 9,1c a share.

That some kind of restructuring was needed was obvious. The company has failed to perform for several years, with earnings diving from 25,3c in 1984 to a loss of 7,2c in 1987. While the group said last year it was possible the loss-making building material merchants operation could break even in 1987, in fact the opposite happened, with operating losses extended from R131 794 in 1987 to R766 797 in 1987.

Part of the restructuring following the purchase of Gough Cooper involves the rearrangement of the building material merchants division, so that Sand & Co will only be a supplier to Goldstein group companies with effect from January 2. A captive market should ensure better health for this division.

The directors note that Gough Cooper, which will be the new group's principal income-earner, has returned to profitability after showing losses for two years as a result of recession. The turnaround has been aided by "burgeoning activity in the housing market for black, coloured and Indian communities, and a return of interest in white housing."

The directors forecast earnings of 32c a share for the year to end-June 1988, and 37 cents for 1989, and say that a 2,5 times dividend cover will result in a dividend of 12,7c in 1988 and 14,8c in 1989.

At 210c, the share is on a prospective p:e of 6,6 and a dividend yield of 6%, compared with the sector average historical p:e of 14,9 and dividend yield of 7%. *Pat Kenney*

METAL BOX

More fizz

Activities: *The company and its subsidiaries manufacture and sell packaged containers made from metal, plastics, glass, paper and board; packaging wrappings and films; and build and sell of machinery and equipment for packaging and related industries.*
Control: *Nampak holds 54% and Metal Box Plc 25% of the issued shares. Ultimate holding company is Barlow Rand.*
Chairman: *D Brown; managing director: P L Campbell.*
Capital structure: *68m ords of R1 each. Market capitalisation: R416m.*
Share market: *Price: 610c. Yields: 5,2% on dividend; 11,9% on earnings; PE ratio, 8,4; cover, 2,3. 12-month high, 950c; low, 570c. Trading volume last quarter, 509 000 shares.*
Financial: *Year to September 30.*

	'84	'85	'86	'87
Debt:				
Short-term (Rm)	23,2	42,4	21,8	12,5
Long-term (Rm)	61,3	54,5	39,0	22,7
Debt:equity ratio	0,33	0,35	0,13*	—*
Shareholders' interest	0,52	0,51	0,54	0,52
Int & leasing cover	4,5	2,9	3,2	5,5
Debt cover	0,7	0,8	1,4*	2,9*

Performance:

	'84	'85	'86	'87
Return on cap (%)	11,6	10,7	11,7	15,4
Turnover (Rm)	666	716	831	990
Pre-int profit (Rm)	8,3	7,6	65,1	96,6
Pre-int margin (%)	—	—	7,8	9,8
Taxed profit (Rm)	34,5	36,9	38,0	49,4
Earnings (c)	50,5	54,1	55,6	72,4
Dividends (c)	22	22	24	32
Net worth (c)	379	408	439	480

* Net of cash

Metal Box's all-round improvement in financial ratios and more balanced performance from the operating divisions has emphasised the healthier position in the 1987 year, when earnings rose by 30% after three years of virtually static figures that started in 1984.

Less encouraging is the uninformative dis-

FM 25/12/87

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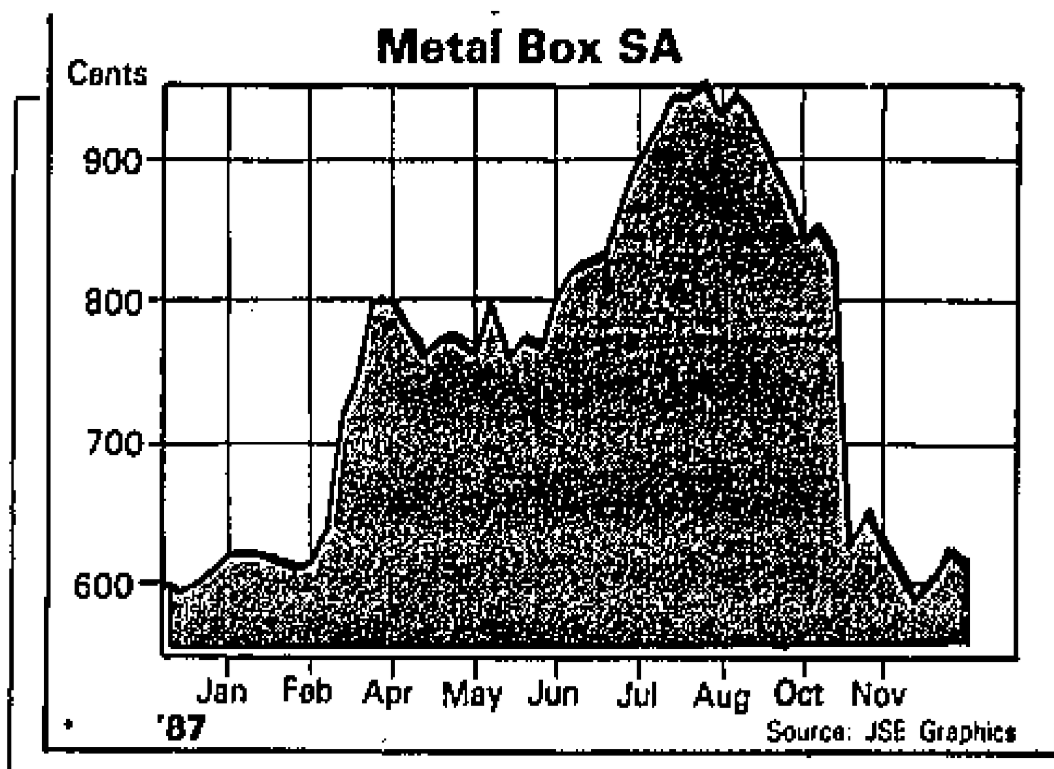
Metal Box's all-round improvement in financial ratios and more balanced performance from the operating divisions has emphasised the healthier position in the 1987 year, when earnings rose by 30% after three years of virtually static figures that started in 1984.

Less encouraging is the uninformative disclosure on the financial performance of the divisions, for which the competitive nature of the business is blamed. The group again gives no divisional breakdown for the year to end-September, so few meaningful comparisons can be made between the seven operating divisions.



Chairman David Brown singles out the glass and plastics division for special mention. The glass division made its first operating profit and captured a "satisfactory" share of the glass packaging market. Both the beer and soft drink market segments experienced major volume growth, and the overall market for glass containers consequently expanded after several years of stagnation.

The plastics division derived "significant" benefits from past rationalisations and achieved "good" new product growth. Helped by a general rise in volumes, there was a "very significant" improvement in profit and, according to Brown, plastics made an "important contribution to the group's growth in earnings."

MD Peter Campbell says that all divisions, with the exception of the flexible packaging division, which had a disappointing year, achieved "significantly" improved operating results. The fall in both sales volumes and profits in the flexible packaging division is attributed to a poor performance at Mobeni, where "a substantial" amount of business at the lower end of the market was lost to small manufacturers situated in the decentralised areas. Aluminium foil convertor, Rotoflex, also lost business. Divisional production facilities will be rationalised into one operation at Maritzburg.

The liquid packaging division at Isithebe is being rationalised after volumes increased when major competitor Consol withdrew from the market.

Divpac, which makes a variety of tin plate containers, experienced "good" growth in aerosol cans after the division disposed of its tube-making businesses at Paxellent and Olifantsfontien. Further development of exports contributed to a "successful" year.

The Bevcan division enjoyed "strong" growth in its carbonated soft drink and beer can sales products. "Profits increased in line with sales volumes." And the food can division, helped by a growth in black consumption, recorded real sales growth "well in excess of GDP."

Turnover rose by 19% to R990m (R830m). This was an 8,8% increase in real terms as the price of tinplate increased by only 10% last year. But operating profit rose by a creditable 57% to R91m (R56m), though a higher tax rate held back the EPS increase to 30%. The dividend advanced 33% to 32c (24c) and at 610c the yield is 5,2%.

A large earnings jump in 1988 will not be easy given the rationalisation taking place in two of the divisions. Brown, though, expects earnings to increase in real terms. The historic 5,2% dividend yield is slightly higher than the sector average of 5%.

Dave Edwards

MANUFACTURING - PAPER & PRODUCTS

1988

ARGUS

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Sappi strike over wages continues

Labour Reporter

A STRIKE at Sappi's Montagu Gardens plant over pay demands continued today.

About 65 workers downed tools on Friday after a meeting between management and the Paper, Printing, Wood and Allied Workers' Union failed to resolve the dispute.

A union spokeswoman said the company had refused to increase its offer of 70c an hour on the minimum rate of R2,41 an hour.

She said workers were demanding that Sappi give increases to bring wages in line with other companies in the industry.

NOVEMBER

Wage negotiations had opened in November and a dispute was declared by the union when talks deadlocked.

Mr M J Sharkey, general manager of Sappi Cape Kraft, said the company had telexed the union informing them the strike was a contravention of their recognition agreement and that, if necessary, it would seek a court order to force employees to return to work.

The union spokeswoman said they had asked for another meeting with management on condition that no disciplinary action was taken against the strikers and management gave an undertaking to make a substantially better pay offer.

CAPE TIMES 13/1/88

Sappi wage strike extended

Staff Reporter

THE wage strike at the Sappi Kraft mill at Montagu Gardens, Milnerton, entered its third day yesterday.

A spokesman for the Paper, Printing, Wood and Allied Workers' Union, which represents 64 workers at the plant, said yesterday that workers had downed tools on Friday in protest against management's final offer of 70c on the hourly wages of the lowest-grade workers.

Workers are demanding an across-the-board increase of R1,30 on the minimum wage of R2,41.

The spokesman said management had refused to give the union an undertaking to continue negotiations if the workers returned to work.

Sappi, the spokesman said, had experienced record profits last year, yet paid the lowest wages in the industry.

The mill's manager, Mr M J Sharkey, said yesterday that the strike was illegal, and in breach of the union's recognition agreement with the company.

rights issue. After the dividend was maintained at 4,5c.

Nampak gets ahead of set growth target

15/1/88 BDay

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LINDA ENSOR

NAMPAK's earnings for the first quarter of 1987/88 are ahead of target, chairman David Brown, said at the group's AGM this week.

Brown said all divisions were experiencing increased demand which in some cases had reached "unprecedented levels."

The group's target growth rate is based on the annual increase in the Gross National Product plus the inflation rate.

MD, Don McCartan believes the increase in demand is sustainable and was not merely a reflection of the pre-Christmas increase in production.

"The acceleration in volume continued right thruough to the shutdown and I do not see any reason why it should not continue," he said.

Capital expenditure — which over the past five years has totalled about R470m — is expected to exceed R50m this year, attention being given to the upgrading and modernisation of equipment.

As regards acquisitions, McCartan says "things are happening — we are continually looking around." But, he adds, negotiations have not been entered into.

For those predicting an economic recession towards the end of 1988 the paper and packaging industry — essentially linked to necessary consumption of food and beverages — should be a safe bet.

Some analysts regard the Nampak share — presently at about R21,25 — as a good buy at present, offering good value.

Walton coup links six stationery groups

(194) ST 24/1/88

By Ian Smith

Frank Robarts ... set to beat forecasts

STAR stock exchange performer Waltons Stationery Company, which has won the Business Times Top Company competition for the past two years, has pulled off a market coup.

Managing director Frank Robarts has pulled together six manufacturers, distributors and retailers of computer stationery, support equipment and supplies to form the first specialist national supplier in the fast-growing sector.

The established computer supplies division of Waltons will also go into the new company, Multipro, which will seek a JSE listing by February 1989.

Fastest

Waltons, which will hold at least 50% of Multipro, increased earnings by 82% to 12c a share in the six months to August and lifted the interim dividend from 1,9c to 4c.

Mr Robarts says the company's forecast of a 50% increase in earnings to 32,5c in the year to the end of February was conservative. "On current performance this will be easily exceeded," he tells Business Times.

He will be executive chairman of Multipro, and he forecasts turnover in the first year at R45-million to R50-million.

"Multipro is operating in one of the fastest-growing sectors in South Africa. We believe we have a great future."

Sales in the sector are estimated at R200-million a year, but Mr Robarts believes it is growing by at least 50% a year.

"The increasing number of computers in business and the increasing use that companies are making of their hardware will ensure rocketing demand for the products we sell."

The rationalisation in manufacturing and distribution that will flow from Multipro will add large operational savings. Mr Robarts believes the company will be well placed to score by offering big corporations a one-stop service. Multiprto's wide representation throughout SA and planned additions to the product range will also boost sales.

A start was made on the plan to form Multipro about a year ago after Waltons had watched the growth of its own computer supplies division. Over the months established companies like Multipro, Kolok, Copyreel, Websters and Datlink came into the fold. Waltons already owned 50% of SA's biggest office equipment ribbon manufacturer, Pelikan, and this company came into the stable.

"It has taken many long hours to bring everyone together, but there was great enthusiasm at Multipro's first meeting in Johannesburg this week," says Mr Robarts.

Incentive scheme

The fact that Waltons has moved from its position as a small Cape Town stationer in 1969 to a place in the Business Times Top 100 companies for the past five years on the back of a similar acquisition drive must augur well for Multipro.

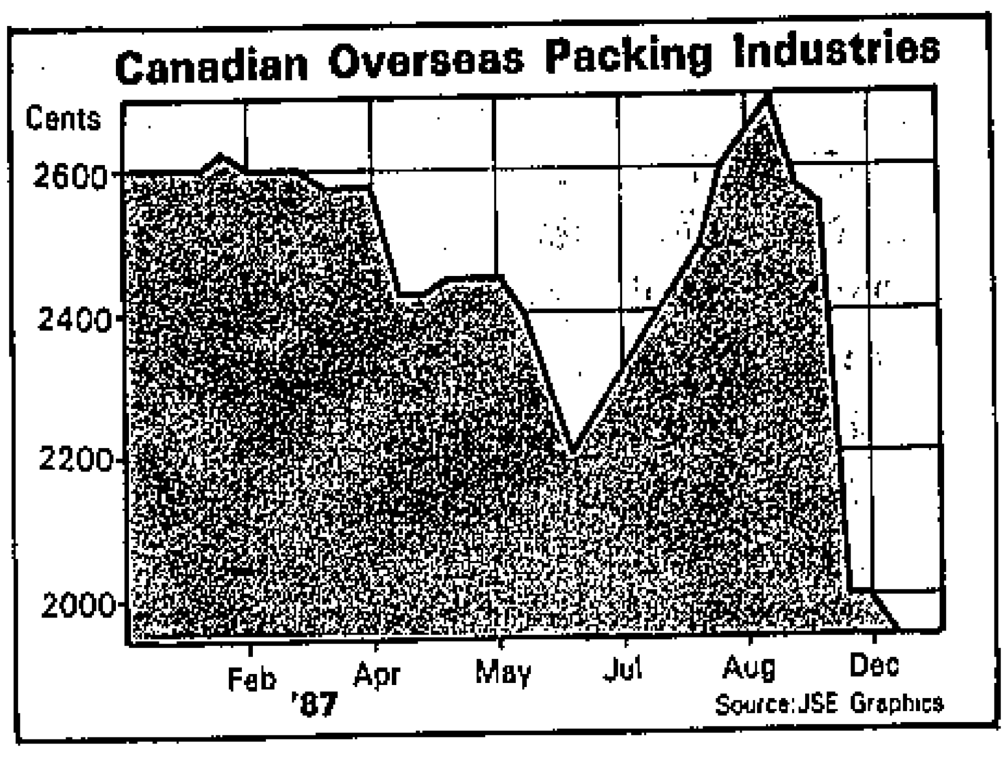
Outside of Waltons controlling interest, the balance of Multipro's equity will be held by principals of the other companies and there will be a share incentive scheme for staff.

Multipro's sales operation will be headed by Theo Christensen and Kevin Hurly, of Pelikan, will be in charge of manufacturing operations.

Imperial in Namibia

THE Namibian licence for Imperial Car Hire has been granted to Namib Car Hire, which has offices in Walvis Bay, Swakopmund and Windhoek.

Namib previously held the Hertz licence. Imperial managing director Carol Scott says: "The Namibian operation has great potential for growth."



Activities: *Makes packaging materials in the Caribbean, the UK and East Africa; also invests in securities and currency.*
Control: *Is thought to rest with the Kalmanson family.*
Secretary: *M C Johnstone.*
Capital structure: *17,6m ords of NPV. Market capitalisation: R352m.*
Share market: *Price: R20. Yields*: 3,2% on dividend; 11,1% on earnings; PE ratio, 9,0; cover, 3,5. 12-month high, R27; low, R20. Trading volume last quarter, 7 000 shares.*
** At R1 = 64,5c.*
Financial: *Year to June 30.*

	'84	'85	'86	'87
Debt:				
Short-term (C$m)	8,5	9,1	7,5	8,3
Debt:equity ratio	0,06	0,06	0,04	nil
Shareholders' interest	0,82	0,83	0,86	0,85
Int & leasing cover	23,5	19,9	16,5	21,6
Debt cover	1,9	1,7	2,9	3,3

Performance:

	'84	'85	'86	'87
Return on cap (%)	9,3	9,7	7,0	6,6
Turnover (C$m)	80	82	85	98
Pre-int profit (C$m)	15,0	16,8	14,9	15,1
Pre-int margin (%)	18,7	20,4	17,6	15,4
Earnings (c)*	90	75	175	144
Dividends (c)*	30	32	34‡	41
Net worth (c)*	733	802	1 028	1 085

* Canadian; ‡ Plus 5c 25th anniversary bonus.

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Mixed returns

Trading activities had a mixed year. The packaging subsidiaries in Jamaica, Trinidad and East Africa did better, but Trinidad Brushware was hit by falling consumer demand and the Barbados company and Encase (UK) both recorded higher losses. But the directors say the main reason for lower overall trading earnings was a sharp increase in tax, from C$2,1m to C$3,4m.

However, most revenue comes, as always, from the financial side, where there were remarkable swings. Profits on sale of marketable securities soared from C$3,9m to C$13,7m, but realised foreign currency gains slumped from the previous "exceptional" C$15,1m to C$1,6m. In 1985, earnings from this source were only C$748 000. At June 30, the market value of the remaining quoted portfolio was still C$11,4m above book value of C$75,7m.

Most trading subsidiaries seem to expect a better year. Overall, the directors repeat what is becoming their standard forecast, that results should be "satisfactory." However, it should be noted that most liquid assets last year were held in US$, to take advantage of favourable interest rates. It is to be hoped that the company will not suffer too heavily from the recent decline in that currency; investment realisations could also be hit by the market downturn.

What will constitute "satisfactory" results in these circumstances remains to be seen. While it would not be surprising if financial earnings suffer, the company, if it has read markets correctly (and it has a good record on this score), could put its June 30 cash and near-cash holdings of C$74,9m to good use.

The strength of the rand has detracted from the share's currency hedge merits. The price is now back close to what it was a year ago, but has been marked down in thin volume rather than sold down in recent months. Its unique attractions as a currency and geographical hedge will no doubt resurface in due course. Certainly, long-term it has been one of the JSE's best performers.

Michael Coulson

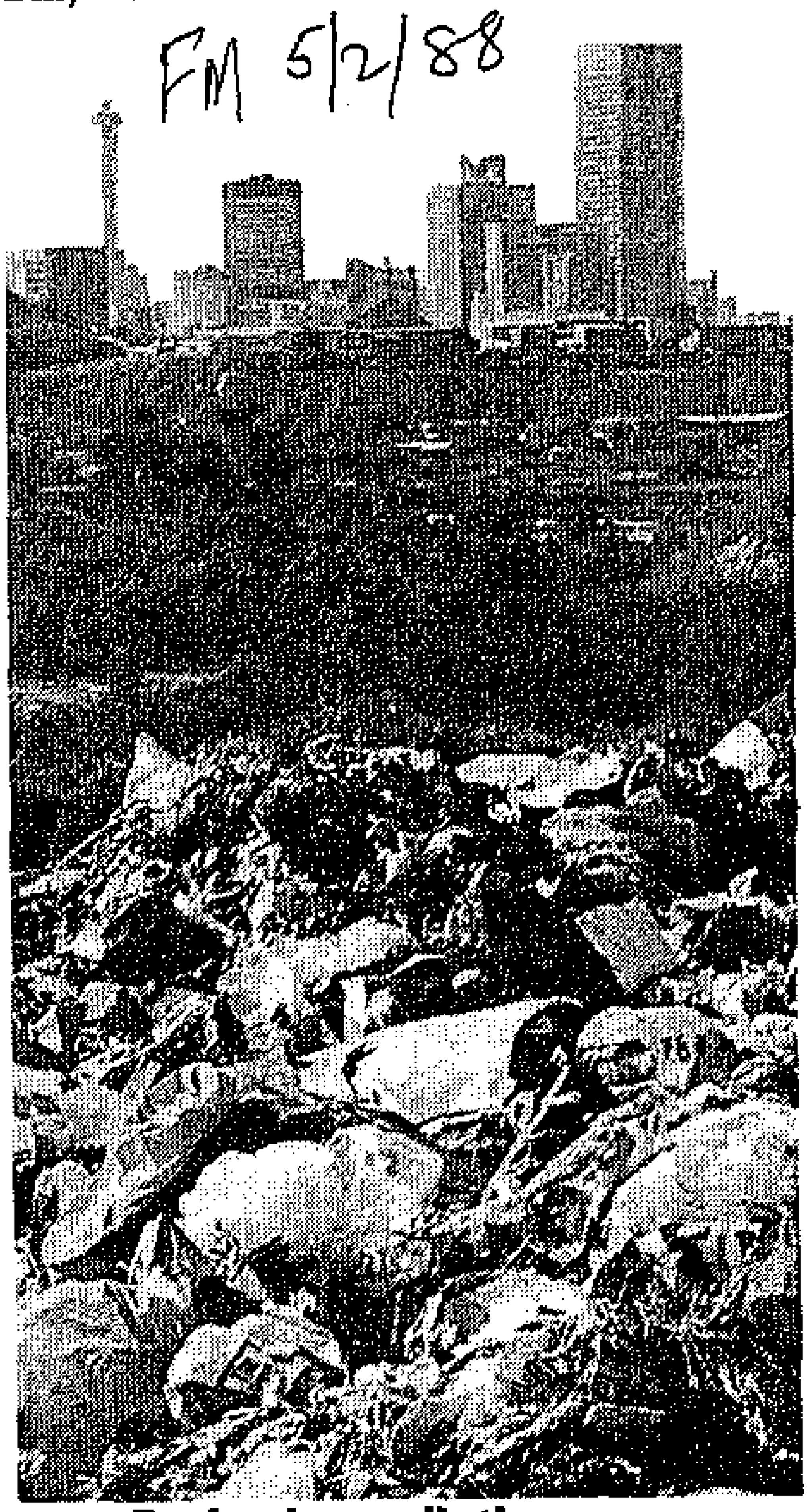
PACKAGING (194)

No to the Bill

FM 5/2/88

Government plans to pass legislation that will give it far-ranging controls over the whole packaging industry are meeting strong resistance.

The new Environmental Conservation Bill, which has the laudable objective of



Packaging pollution . . . reducing the garbage?

streamlining environmental regulations, contains a clause which empowers the minister of environmental affairs "to make regulations for the reduction of waste" by:

☐ Modifications in the design, marketing and packaging of products;

☐ Modifications to manufacturing processes; and

☐ The use of alternative products, packaging and containers.

To make matters worse, there is no indication that the industries involved will have any guaranteed representation on the minister's main advisory body, the Council for the Environment.

Packaging Council of SA (Pacsa) CE Owen Bruyns describes the proposed measures as "Draconian" and says the industry is concerned there is no recourse to appeal against the minister's decisions, except to the minister himself.

"We have always taken the problems of solid waste and litter very seriously. We are in favour of conservation but believe there must be a balance between economic development and environmental protection. The Keep SA Beautiful campaign was initiated by the industry.

"Yet we now see the government reject the process of voluntary codes in favour of further regulation."

A study of the effects of restrictive container legislation in nine American states and in South Australia found that this increased costs by 35%, says Bruyns. It also led to a reduction in demand, which in SA could mean the loss of many skilled and semi-skilled jobs in the container manufacturing industries.

Pacsa President Ian Willis says the Bill gives no recognition to improvements in recycling. Last year 617 500 t of material was recycled — or 23% of the total tonnage of packaging material produced, compared to 20% the previous year.

"Government seems to have forgotten that litter is caused by people and not by the packages themselves," he observes.

But Checkers MD Clive Weil argues there is some justification for further regulation: "Manufacturers are polluting the rivers and the air and this cumulative process could terminally damage this magnificent country.

"On the other hand, further legislation could be a great waste of our manpower resources and space, so we would resist any such moves," he adds. ■

CARLTON PAPER 194

Recovery forecast

The results of Carlton Paper (Carlcor) for the year to end-December must be a disappointment for 41% shareholder Malbak, not to mention majority shareholder Kimberly-Clark. Carlcor, says CE Ken Partridge, was caught in the classic squeeze of no volume growth and rapidly rising costs. Fierce competition, low prices and under-utilised capacity added to the problem. Though turnover

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rose 11,6%, taxed profit fell 15,3% to R7,1m and EPS dropped by a similar percentage from 53,3c to 45,1c.

Sullivan Code

Profits were also affected by some unusual factors. Kimberly-Clark in the US has been under heavy pressure to join the Sullivan Code, which it did last year. This involved R1,5m expenditure, of which R600 000 was not tax deductible. The result was a fall in operating margins from 9,8% to 8,2% and a rise in the tax rate from 45,9% to 51,9%.

But Partridge is very optimistic about the current year. There will be no more Sullivan Code-related expenditure, and the tax rate should be down to 48%-49%. In addition, there has been rationalisation, with plants closed and a number of retrenchments. Though capacity will remain under-utilised, steps taken to control costs are expected to help margins climb to the 13% levels seen in previous years. According to Partridge, 1% will be added by the ending of the Sullivan Code implementation alone.

Partridge also expects to reduce debt further. This will be important in a time of rising rates, as most of Carlcor's debt is short-term. Debt:equity improved last year from 57,3% to 52,1%, with long-term liabilities falling from R20,6m to R16,8m.

All this is a lot to achieve, especially at a time when Partridge expects competition to be fierce. If he does manage it, EPS could be 50% higher in the present year and that should please both Malbak and Kimberly-Clark, putting the share on a forward dividend yield of 11,4% at the current price of R6.

Pat Kenney

SQUEEZED MARGINS

Year to December 31	1986	1987
Turnover (Rm)	198,6	221,7
Pre-tax profit (Rm)	15,6	14,8
Attributable earnings (Rm)	8,4	7,1
Earnings (c)	53,3	45,1
Dividends (c)	30,0	26,0

Sappi boosts profit — and more to come

Star 9/2/88

(194)

By Finance Staff

Sappi results soared by a record 173 percent to 317c a share for the year to end-December and favourable market conditions are expected to further boost profits in the current year.

Because of the substantially improved results and the buoyant outlook for 1988, the directors have declared a final dividend of 90c a share, making a total of 130c for the year, compared to 40c in the previous year.

Looking at the year ahead, MD Eugene van As says the world market for most pulp and paper products continues buoyant and the prices for the main commodity grades have continued to firm. In South Africa there are signs of improved consumer confidence and the demand for the group's products is strong.

"However the world scene is uncertain and it is difficult to predict earnings levels for 1988."

He adds, however, that if current market conditions continue and if the rand maintains its present position against other currencies, there should be a further material improvement in attributable profits this year.

The results show turnover up 19 percent from to R1,312 billion and a 170 percent increase in operating income to R283,9 million — largely as a result of firm markets, both domestically and internationally, improving world prices for pulp and paper and a better performance from the Ngodwana mill.

A stable rand exchange rate, however, impacted marginally on export earnings.

Results were largely unaffected by the Natal floods and the explosion at Ngodwana as insurance covered lost profits and damages.

Cit Times 9/2/88 (194)

Sappi profits soar

By LAWRENCE TOTHILL
Investment Editor

THE giant pulp and papermaker Sappi increased the pace it set in the first half and achieved record earnings for the year ended December 31, 1988, and today's results from Sappi indicate that the company has fully recovered from its setback of a couple of years ago and once again is firmly on the ascent.

Attributable earnings per share have soared 173% to 317c a share compared with the 116c earned last year while on a distributable income basis, earnings are 248c a share, 97% ahead of the 126c a share achieved a year ago. Further good news from the company is that the preferred ordinary shares are to be converted into ordinaries earlier than expected.

Because of Sappi's substantially improved results and the buoyant outlook for 1988, the directors have declared a final ordinary dividend of 90c a share, making a total of 130c a share for the year.

In the 1986 financial year Sappi's total dividend was 40c an ordinary share. This enhanced dividend is equal to the increased preferred ordinary share dividend and in terms of the conditions of the issue of the preferred ords, this means that the preferred ords will be converted to ordinary shares from the start of 1988.

The results published today show that on a turnover that increased 19% from R1 100,9m to R1 312,3m, Sappi achieved a 170% increase in its operating income.

This rises from R167,0m to R283,9m largely as a result of firm markets, both domestically and internationally, improving world prices for pulp and paper and a better performance from Ngodwana.

Finance costs declined substantially, to R28,9m (1986: R61,3m,) and pre-tax income is 138% ahead at R256,7m (1986: R108,1m).

Sappi has made a provision for normal tax of R287 000 (1986: R454 000) which leaves a net income of R256,5m compared with the 1986 figure of R107,6m.

However, at the attributable level, after taking account of income attributable to outside preference shareholders in subsidiaries and preference dividends, Sappi's income amounts to R207,0m a massive 235% improvement on the previous year's R61,8m.

Sappi's MD Eugene van As says: "This level of increase is not evident in the distributable profits which are up 142% on last year at R162m because of the effect of a deferred tax appropriation of R44,9m.

In 1986 the deferred tax was a benefit of R5,3m. Sappi had no tax liability in the year and its attributable earnings were, therefore, R207m or 317c a share."

sappi limited

Reg. No. 05/08963/06

Audited consolidated results for 1987

• Attributable earnings up 235%
• Ordinary and preferred ordinary dividends raised to 130 cents

	Year ended 31 December		
	1987 R000s	1986 R000s	% Change
Turnover	1 312 328	1 100 931	+ 19
Operating income	283 882	167 042	+ 170
Net finance costs	28 925	61 271	− 53
Finance costs capitalised	573	843	− 32
Non-trading income	1 217	1 482	− 18
Net income before tax	256 747	108 096	+ 138
Provision for normal taxation	287	454	− 37
Net income	256 460	107 642	+ 138
Share of associated companies' losses	120	599	− 80
Net income attributable to outside preference shareholders in subsidiaries	27 969	23 688	+ 18
Preference dividends	21 416	21 603	− 1
Attributable income	206 955	61 752	+ 235
Deferred tax benefit	(44 883)	5 322	
Distributable income for year	162 072	67 074	+ 142
Transfer (to)/from reserves	(688)	576	
Available for distribution	161 384	67 650	+ 139
Preferred ordinary dividend	43 839	33 332	+ 32
Ordinary dividend	41 323	12 630	+ 227
Retained income for year	76 222	21 688	+ 251
Average number of ordinary and preferred ordinary shares in issue ('000)	65 364	53 100	+ 23
Earnings per share (cents)			
– based on attributable income	317	116	+ 173
– based on distributable income	248	126	+ 97
Dividends per share (cents)			
– ordinary	130	40	+ 225
– preferred ordinary	130	126	+ 3

COMMENTS

As predicted in the interim report the performance of the company continued to improve in the second half of the year and distributable earnings for the year reached 248 cents per share compared with 101 cents per share at the halfway stage. Both domestic and international markets remained firm and Dollar prices improved steadily in the second half of the year. The Rand/Dollar exchange rate remained remarkably steady averaging 48 cents for the full year and this high level depressed export margins. This was partly offset by the improved world prices for most pulp and paper products. In November 1987 the company's Ngodwana pulp and paper mill suffered severe damage from a massive chemical explosion. This partially disrupted operations for about 2 months because the control centre for the No. 2 fibreline was destroyed in the explosion. The group was able to source pulp from third parties to keep its paper machines running and there was, therefore, a minimal impact on market share. Whilst operations were disrupted for about 2 months all the resulting losses are covered by insurance. The mill is now back in full production.

The severe flooding in Natal in October disrupted many of the company's operations and although the group's mills were relatively untouched by the floods the destruction of bridges and water pumping stations severely hampered operations. The costs of these disruptions were largely covered by insurance.

RESULTS

Turnover reached a record level of R1 312 million (up 19% on 1986) whilst net income before tax increased by 138% to R256,7 million, another record achievement.

Attributable income was R207 million, an increase of 235% over 1986. This level of increase is not evident in the distributable profits which are up 142% on last year at R162 million because of the effect of a deferred tax appropriation of R44,9 million. In 1986 the deferred tax was a benefit of R5,3 million. The company had no tax liability during the year and its attributable earnings were, therefore, R207 million or 317 cents per share.

Interest costs were down by 53% at R28,9 million whilst preference dividends in subsidiary companies rose by 18% to R27,9 million.

The group's debt/equity ratio at the year end had improved from 0,93 in 1986 to 0,79 in December 1987.

In view of the substantially improved results and the outlook for 1988 the directors have declared a dividend for the year of 130 cents per share on the ordinary shares which is equal to the increased dividend on the preferred ordinary shares. In terms of the conditions of issue of the preferred ordinary shares, they will be converted to ordinary shares from the beginning of 1988.

OUTLOOK

The world market for most pulp and paper products continues to be buoyant and prices for the main commodity grades have continued to firm. In South Africa there are signs of improved consumer confidence and the demand for the group's products is strong. However, the world scene is uncertain and it is difficult to predict earnings levels for 1988. If the current market conditions remain and if the Rand maintains its present position against other currencies, there should be a further material improvement in attributable profits in 1988. Although the Group will not have any liability to pay taxation for several years, the current accounting policy requires conservative appropriations for deferred taxation. The impact of these appropriations may be expected to increase in 1988 and will reduce distributable earnings accordingly.

Signed for and on behalf of the board
T L de Beer *Chairman*
E van As *Group managing director*

DIVIDEND ANNOUNCEMENTS

Ordinary shares

The directors have declared a final ordinary dividend number 59 of 90 cents per share making, with the interim dividend of 40 cents per share, a total of 130 cents per share for the year ended 31 December 1987. The dividend will be payable on or about 8 April 1988 to ordinary shareholders registered at the close of business on 4 March 1988. The transfer books and register of ordinary shareholders will be closed from 7 to 11 March 1988 inclusive.

Preferred ordinary shares

The directors have declared a final preferred ordinary dividend number 5 of 67 cents per share for the year ended 31 December 1987 making, with the interim dividend of 63 cents per share, a total of 130 cents per share for the year. The dividend will be payable on or about 8 April 1988 to preferred ordinary shareholders registered at the close of business on 4 March 1988. The transfer books and register of preferred ordinary shareholders will be closed from 7 to 11 March 1988 inclusive.

In terms of the conditions of issue of the preferred ordinary shares, they will be converted to ordinary shares with retrospective effect from the beginning of 1988. Shareholders will be advised of the full details of such conversion in due course.

All dividends are declared payable in the currency of the Republic of South Africa and in terms of the Income Tax Act 1962 non-resident shareholders tax of 15% will be deducted from dividends payable to shareholders resident outside the Republic.

Sappi Management Services (Pty) Limited
Secretaries

Per D J O'Connor

8 February 1988

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Gencor Group

PG/SPP1537

FM 12/2/88

SAPPI FM 12/2/88 (194)

Paydirt

Sappi's results for the 1987 year were expected to be excellent but the figures released this week must have been at the upper range of the most optimistic forecasts.

Investors were quick to cast an unusually large vote of confidence for the present market, pushing the share upwards by 75c after the performance was published on Tuesday morning. With the 130c dividend declared on both the ordinary shares and the preferred ordinaries, even at the higher price of 1 850c the share yields 7% on dividend. And, even accepting that the group would be hard pushed to maintain this pace, more good growth should certainly be attainable during this year.

Sappi has maintained an explosive pace since profits took off in the second half of the 1986 year. The 1987 earnings even appear to be somewhat ahead of the management expectation of a year ago. CE Eugene van As favourably surprised the market when he said last February he would be disappointed if the conversion of preferred ordinary shares did not take place during the next 24 months.

Terms of the 14,4m preferred ords issued in October 1986 were that they would convert to ords when the dividend on the ords reached or exceeded the 126c dividend on the ords. In fact, the preferred ords are to be converted from the beginning of 1988. This date has been chosen "in view of the substantially improved results and the outlook for 1988." It is way ahead of earlier market expectations of conversion around 1990/1991.

SAPPI ACCELERATES

Year to December 31	1986	1987
Turnover (Rbn)	1,1	1,3
Operating income (Rm)	167,0	283,9
Pre-tax income (Rm)	108,1	256,8
Attributable (Rm)	61,8	207,0
Distributable income (Rm)	67,1	162,1
Earnings		
— attributable (c)	116	317
— distributable (c)	126	248
Dividends (c)	40	130

Not even the large chemical explosion at Ngodwana in November and the disruptive effects of the floods have curbed profits materially. Although the explosion disrupted operations for about two months, the group sourced pulp from third parties to keep its paper machines running, and avoid all but a minimal impact on market share. All resulting losses were covered by insurance and the mill is now back in full production. Costs of flood-related disruptions were also covered largely by insurance. Van As says that all the costs that could be quantified were recovered.

Despite the production problems, the group has continued to benefit from rising efficiencies. Turnover growth was 19%, only slightly faster than the inflation rate, but operating income soared by 170%, to R283,9m, reflecting improvement in margins from 15,2% to 21,6%. Price increases in international markets were a big factor. Van As says inventories of pulp are now the lowest for 23 years and he sees no sign of a softening in demand abroad. Exports clearly played a major part in the 1987 profit growth, although demand is also strong in the local market.

Higher margin

Van As has stated before that an operating margin of about 25% is needed to produce a reasonable return on investment (*FM* February 20, 1987), and that the figure should be near to target by end-1988. A return to normal production at Ngodwana could help towards this, as would any weakness of the rand against the dollar. Also, net finance costs, down by 53% at R28,9m for 1987, should continue to fall as the policy is to continue repaying debt — gearing was reduced last year from 0,93 to 0,79. Van As expects gearing will be between 0,60 and 0,69 by year-end.

Although no taxes will be paid for several years, the group last year appropriated R44,9m in deferred tax against the previously positive R5,3m, and the impact of the appropriations is expected to increase this year. This need not curb dividend potential: cover is being held around 2,5 times based on attributable earnings. *Andrew McNulty*

Spruced-up Sappi to grow taller

SF (194) 14/2/88

By Julie Walker

SAPPI spruced up its image with record earnings for the year to December 1987.

Attributable earnings a share rose from 116c to 317c a share, and distributable by 97% to 248c.

The increase in dividend for both the ordinary and the preferred ordinary classes of share to 130c means that the latter will be converted into ordinaries with retrospective effect from the beginning of 1988.

The company says that if buoyant conditions continue earnings will improve, but provision for deferred tax may be increased in 1988.

Both types of Sappi ordinary shares are trading at 1 900c. The company still has convertible preference shares to service.

Tax higher

Standard Bank Investment Corporation (SBIC) hardly kept the flag flying in the year to December. Pre-tax profit was 23% higher at R329-million, but the rate of tax was up by 75%, accounting for R122-million, or 37% of income.

The group's retained surplus was reduced from R126-million to R84,4-million after deduction of an extraordinary item of R49,2-million. This included a provision of R60-million for reduction in value of trade-related foreign investments. The rand's appreciation against the dollar and the fall in international stock markets were given as reasons for the provision.

SBIC's earnings a share increased by less than 5% to 225c. The shares are trading at 1 550c, at which price the PE is 6,9. The shares traded as high as 2 750c in May 1987.

Explosions

SA Eagle reported earnings of 211,8c in the year to December — 80% higher than in 1986. Gross written premiums rose to R528-million from R370-million in the previous year. The underwriting surplus rose from a deficit of R5,4-million to a net R8,3-million. Investment income increased by 29% to R31,3-million.

The fire department was the only section not to improve its performance in the wake of floods, hail and explosions as well as fires. SA Eagle paid a dividend of 125c. The share price is 1 250c, at which the dividend yield is 10%.

Da Gama, the East London textile manufacturing and clothing company, improved earnings to 73,1c — 86% higher than for the year to December 1986.

The company's dividend of 31,5c at the current share price of 425c gives a yield of 7,4%. Good results are being produced throughout the textile industry.

Ninian & Lester, which produces clothing, hosiery, curtain nets and elastomer fabrics, also bounced up. Its turnover increased by 43% to R10-million and earnings a share were 184c, an improvement of 45%.

Seasonal

Unispin, listed last year, declared a maiden dividend of 4c a share. Its interim results to December showed earnings of 11,9c a share. The business is seasonal and the company expects to achieve its forecast of 38,1c in the second half. Turnover was 18% ahead of budget in the first half year.

Wooltru, the holding company for Woolworths, Truworths, Topics, Makro and Bonwit as well as a clothing manufacturer, did not buck the trend. Its turnover increased by 92% in the six months to December 1987. Without the contribution from Makro, the increase was 27%.

Woolworths was the most improved performer and Makro is expected to make only a modest contribution to the bottom line in the current year. Management is confident it can jack up the business.

Chemical Services continued to outperform parent company AECI. Chemserv concentrated its efforts on niche gaps and has recorded compound growth of 44% a year in the past three years.

In the year to December 1987 turnover increased by 27% to more than R200-million, but profitability rose by 38% to 230c a share. Dividend cover was increased, the total being 80c. The company's gearing is 25%.

Acceptable

Irvin & Johnson (I&J) keeps on bringing home the harvest. The Anglovaal fish and frozen food company raised turnover by 21% to R422-million on better market conditions. This enabled margins to be restored to historically acceptable levels.

Earnings a share improved by 93% to 71,1c. The company expects continued growth and has renewed and expanded its productive assets.

The engineering sector came in from the cold. In the year to December 1987 Haggie earned 285c a share — 20% better than in the previous year — on a rise in turnover of only 12%.

At the current price of 1 625c, the share is on a PE of 5,7. The profit was achieved "against a background of a subdued domestic market, disruption in certain export markets and a stronger rand as well as the introduction of export tariffs on scrap metal and severe fluctuations in the copper price".

Similar

The tax rate rose to 41% from 36%. The company expects a similar growth pattern in the current year.

NEI Africa's turnover rose by 20%, but its earnings by only 15%. It earned 450c a share and paid 180c in dividend for the 1987 year. At 2 775c NEI is on a PE of 6 times.

Listed in the paper and packaging sector, Metal Closures (Metaclo) continued to record real growth in turnover of 34% to R54,5-million in the six months to December. Its earnings a share were 30% higher at 272,8c. The shares are trading at 1 800c, giving a PE of 6,6.

Turnaround

Timber company Yorkcor turned a loss into a profit in 1987.

Turnover rose by 33% and earnings reached 40,2c a share compared with a loss of 90c in the previous year. The management offers "auspicious cards for 1988 — forecast sees earnings at 125c and dividend at 35c".

The company improved its balance sheet although interest still took 65% of operating income.

Interleisure's interims showed an increase in turnover of 55% to R120-million and earnings up 41% to 6,5c a share. At the current price of 160c the PE is still a weighty 17 times.

Development Capital Market listing Aries Packaging packed a punch. Its turnover rose by 134% in 1987 and earnings grew 136% to 11,8c.

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Recogniti

PACKAGING

Uncertain prospects

On the outside, the South African packaging industry looks in good health, with the big three — Consol, Kohler and Nampak-Metal Box — all producing good results last year. But uncertainties exist.

Much of the industry's current strength is attributable to increased volumes. Officials estimate glass packaging production is increasing 5%-10% a year, corrugated paper 7,5% and plastic flexibles more than 5%.

The most disappointing area has been rigid plastics, where the 2*l* softdrink bottle has failed to penetrate the lucrative black market. But plastic converters hope SAB will take a leaf from the book of SWA Breweries, whose 2*l* Windhoek PVDC-coated bottle has proved a success.

SAB Public Affairs Director Gary May says SAB has no plans to introduce this package for the moment, but adds that "this could change."

At the moment, the returnable bottle is growing steadily (see **graph**) and accounts for

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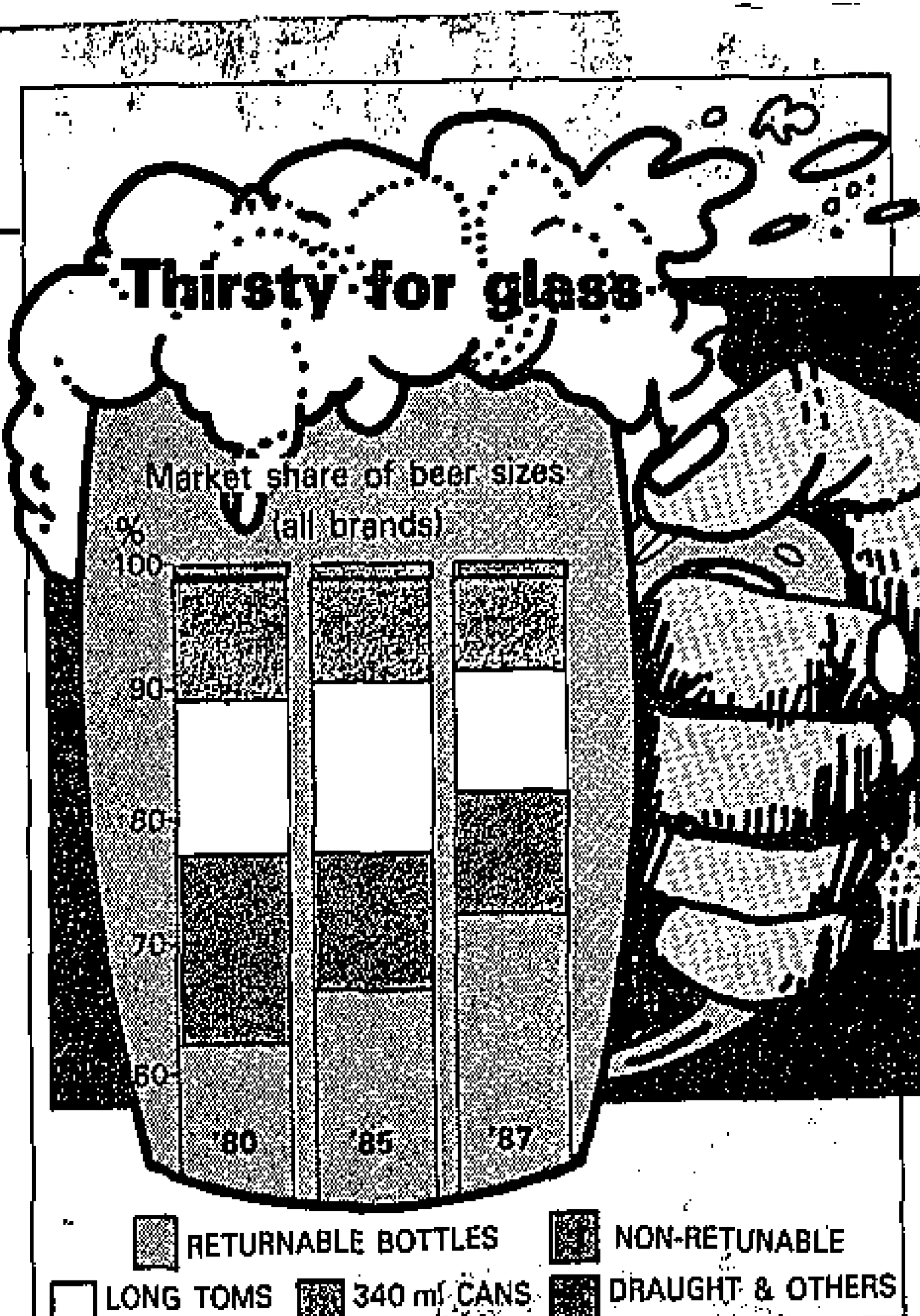
72% of the market. However, Metal Box is encouraged by SAB's recent price increases in favour of cans and hopes for a revival in their market share. Prices went up on average 9,6% on February 15, by 6-7% on cans and about 11% on bottles.

Kohler MD Ian Willis says plastics will inevitably gain ground over "mature" products — glass, metal and paper. He points out that while only 12,1% of packaging raw materials are plastics, they represent 34% of finished product value.

Consol MD Piet Neethling says diversification of the industry — his company into plastics and Metal Box into glass, for example — has been beneficial both for the industry and the consumer.

"Some of our consumers are powerful national organisations, who can ensure a competitive atmosphere," he says. SAB's May agrees: "We like to keep the industry



competitive and prevent any price-fixing cartel."

However, prices could be threatened by a shortage of raw materials. Kohler MD Ian Willis says the weak rand has encouraged primary producers — whether Sappi and Mondi in paper or Sentrachem and AECI in chemicals — to export. This could mean the industry won't meet demand.

"Imports of our primary products, except for specialised exotic film which we have to import anyway, would be prohibitive," he says. ■

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Government's legislative 'bulldozing' tactics criticised

Copyright Bill still a worry

CHRIS CAIRNCROSS

THE Copyright Amendment Bill, now passing through its final stages in Parliament, continues to attract the considerable concern of lawyers, patent attorneys in particular, who remain strongly critical at the way in which government has been seen to bulldoze the amendments through the legislative process.

Most vocal of the critics include the General Bar Council, Association of Law Societies, SA Institute of Patents and at least three engineering associations.

The main bone of contention is that the changes to the copyright legislation could *have serious implications for SA industry*, and yet the Parliamentary Standing Committee on Trade and Industry has consistently failed (or refused) to hear evidence from people who have a vital interest in the issue, despite requests for this to be done.

This includes the Statutory Advisory Committee on Copyright — set up specifically to guide government on these matters — which was not even canvassed to comment on the proposed amendments.

A Johannesburg patents advocate, Chris Job, who was one of the many who submitted requests to given evidence to the standing committee, echoed the complaints of several others that the Bill was produced at the beginning of February without any notice being given to interested parties to present their comments on the amendments.

Although certain persons and parties are stated in the Bill to have been consulted, Job *submitted that they only represented* one limited point of view, without the opportunity of many others to present their case as well. In fact, the Bill has been whipped through Parliament without the benefit of any public debate taking place.

A considerable body of foreign as well as SA technology is currently protected in SA against unauthorised copying and pirating by the existing Copyright Act. This will now be summarily removed when the Bill passes into law, Job observed.

Another complaint is that the motivation presented by government for presenting the Bill has been misleading. Economic Affairs and Technology Deputy Minister Theo Alant, who has piloted the Bill through Parliament, has explained that its purpose was to counteract sanctions against SA, and to combat the increasing incidence of litigation.

Peet de Pontes, chairman of the Parliamentary Standing Committee, denies that the amending legislation has been hurried *through Parliament at all.*

He told Business Day the standing committee had received many representations supporting the changes to the Copyright Act which, he maintained, had been introduced to remove anomalies existing between patent legislation here and elsewhere. The committee had also decided that no purpose would be served in hearing further evidence.

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Growing pains

Timber processors are barking up the wrong tree if they think independent pine growers are grateful for 1988 price increases.

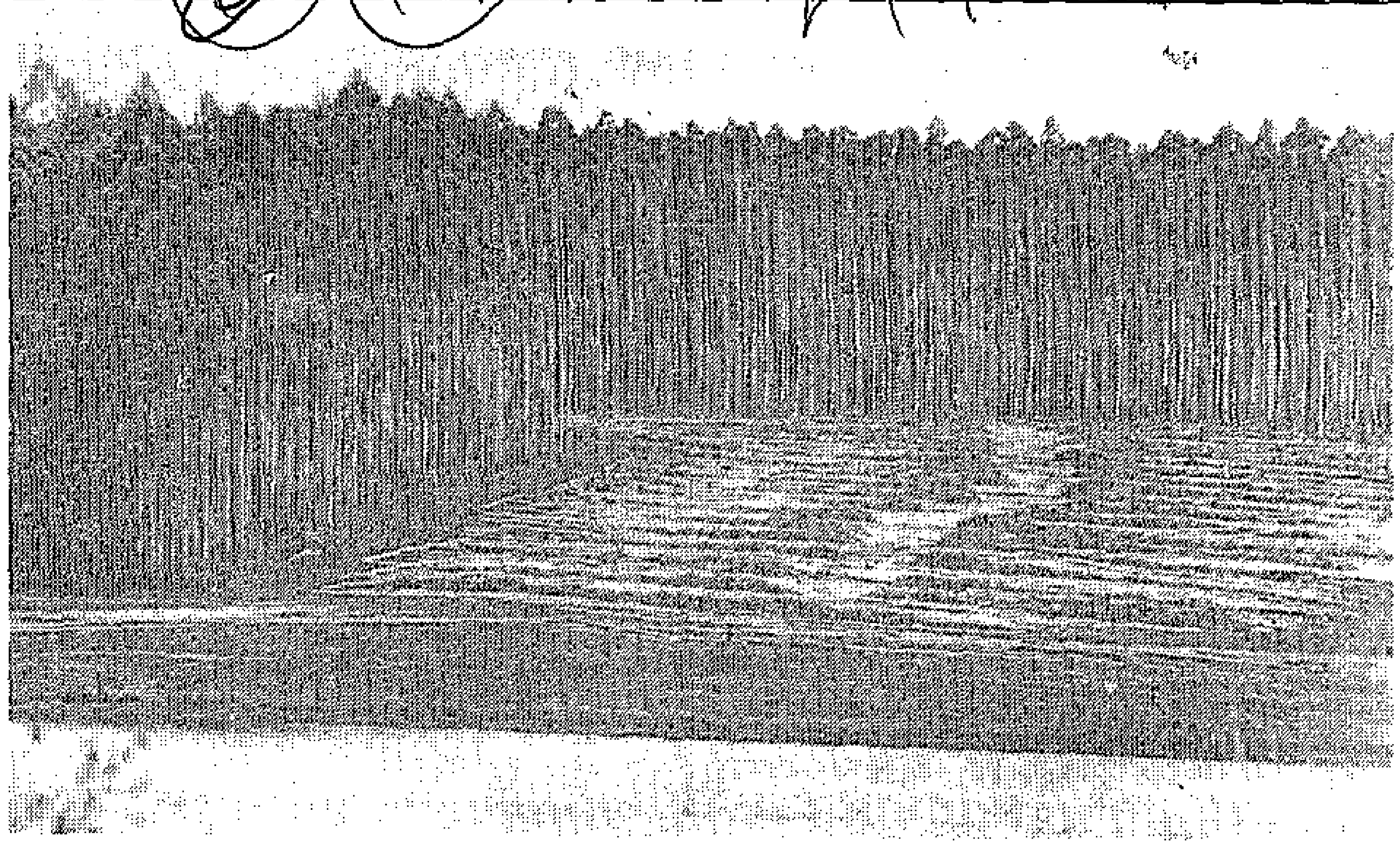
Forest owners say the increases granted by Sappi, Mondi and others are proof of the extent to which growers are at the mercy of processors.

They fear the limited increases will only hasten the rate at which independent growers are going out of business. In most cases, the only buyers for their forests are the processors themselves.

Processors, most of them in the Anglo American and Gencor groups, have increased their buying price for pine pulpwood by 11%-13%, hardwood by 12%-14% and mining timber by an average 16%.

The SA Timber Growers Association (Satga), representing independent forest owners, claims pine growers' costs rose at least 17% last year. It says prices have risen consistently less than costs for several years,

(194) FM 26/2/88



Commercial forest ... are private owners also for the chop?

but their bargaining power is limited because they must sell to the processors.

According to GM Bruce Ferguson: "We had hoped for considerably more than we got this year. We were hoping to at least recover costs, but in fact we're going backwards. Add that to a backlog of cost increases exceeding prices over the years and independent growers have problems."

Processors express sympathy but say prices are governed by what the market for processed timber will bear. They say they can't afford to pay for private growers' costs if it means harming their own bottom line. Satga argues that because timber is a long-term resource — taking years to grow — processors should take a long-term pricing view.

Hardwood growers are better off than their pine cousins because of a slight market shortage. Pine supply, however, exceeds demand. Forecasters expect the situation to even out by 1995 and then improve progressively. But, without "realistic" pricing, Satga maintains, many independent pine growers won't be around by then.

Adding to their resentment is the fact that when independent growers go out of business, the buyers are usually the processors themselves. Members of the Forest Owners Association (FOA) — who include Sappi, Mondi, Saiicor, Hunt Leuchars & Hepburn and other major companies — already control 74% of private sector forest plantations, including 81% of pine.

In just over three years, say Satga officials, processors have bought up another 4% of private sector forests. Since 1975, corporation-owned groups have increased their share of private sector plantations from 42% to nearly 75%.

FOA share increasing

The FOA confirms its members' share is increasing but denies there is a deliberate policy of forcing rival owners off the land. Rather, it says, new afforestation is increasing members' share. As they plant new forests of their own, so their share of the total rises.

Still unresolved, meanwhile, is the 1988 price for sawlogs. Sawmillers and the Department of Agriculture are nearing agreement on the price for State forest logs. An industry spokesman says the figure depends on whether the increase is retrospective to the beginning of the year. If it is, the increase is likely to be 17% — if not, 19%. ■

TAX STRATEGY

Sappi's happy

JSE-listed Sappi has played one of the best tax cards in town. It paid an effective rate of 0,1% in 1987 — well below the highest rate it has paid in the past six years of 6,8%.

Neither now nor in the past has Sappi dabbled in anything resembling tax evasion. It simply capitalises on legitimate incentives offered by the Income Tax Act.

And Sappi's tax rates, though low, are not a blatant exception. In the past 30 years, the manufacturing sector has not paid an effective tax rate in excess of 35%, against the current nominal rate of 50%. This has cost the Exchequer dearly.

With an official tax rate of 46,2% in 1984, and an actual/effective manufacturing sector 20%, Revenue's "loss" of revenue was R4,2bn. Incentives offered by the Act include allowances for plant and machinery, industrial buildings, regional development, training, exports, scientific research, and even sponsorship.

Some would say these incentives distort economic decisions and damage the allocation of resources. The Margo Commission simply said that it was "unable to discern any consistent policy in relation to the granting of incentives. Often they have been introduced to offset shortcomings in other areas of economic management, leaving the corporate sector no better off . . ."

Judging from Sappi's financial statements, it has invested, or organised investment in, massive items of plant and machinery.

In the early Eighties, these qualified for a tax write-off of 130% of cost, with about 70% coming up-front. However, amounts could only be written off against taxable income.

Sappi did not have profits running into hundreds of millions of rand. But the creative mind of Chase Manhattan Bank and Arthur Andersen invented a scheme whereby Sappi would syndicate tax losses to other companies, who would, technically, own pieces of Sappi's Ngodwana paper mill. The scheme was specifically approved, in principle, by Inland Revenue.

Ownership in the project was vested in a lessor trust and participation made available to companies who had taxable profits. For the privilege of buying a tax loss for its own *temporary* use, the outside company would pay Sappi its tax savings, and in return receive a "participation fee." These savings

SAPPI

Tax from paper

(R000's)

	1982	1983	1984	1985	1986	1987
Taxable income	67 659	106 081	100 256	60 106	108 096	256 747
Tax paid	162	6 969	5 821	4 105	454	287
Rate	0,2%	6,6%	5,8%	6,8%	0,4%	0,1%
Deferred Tax	(17 285)	(21 762)	(19 542)	5 322	5 322	(44 883)
Internal funds generated	99 325	110 273	139 603	195 575	255 883	—

are refundable in later years — thereby creating a timing difference.

A similar scheme had been put in place for Atlantis Diesel Engines (ADE). As Sappi and ADE both invested upwards of R1bn, the stakes were big.

Inland Revenue was not insensible of the damages the taxbase had been exposed to. After all, any company with losses was likely to copy the Sappi/ADE schemes. On March 15 1984, prevailing practice was instantly ended by official pronouncement. This effectively excluded Sappi plant which had not been commissioned.

Because of timing differences between accounting and tax, Sappi subsequently paid "high" tax rates of 5%-plus in 1984 and 1985. Nevertheless, it is impossible to say just how the March 1984 "decree" affected its internal affairs. But Sappi brought its 1986 tax rate down sharply again — to 0,4%.

The deferred tax account is used, in theory, to make provisions for tax which will be paid in the future. The sums follow *timing* differences, arising when an item is recognised at different times for accounting and tax purposes.

For example, the initial plant and machinery allowance is now worth 50% of cost in the first year. If this amount — rather than the, say, 10% the company uses for depreciation — goes through the income statement, it will hit distributable income.

The Accounting Practices Committee (APC) of the SA Institute of Chartered Accountants is trying to resolve the inconclusiveness regarding deferred tax. Neither the 1984 discussion paper nor 1986 exposure draft (ED) on deferred taxation met "sufficient support."

After a decision of the Accounting Practices Board last month, APC will issue another deferred tax ED in July, suggesting that the *comprehensive* method of accounting be used. In some circumstances, the *partial* method, so popular now, may still be employed, in a new form requiring provision to be made only for deferred tax liabilities "likely to crystallise."

Both ways, shareholders, creditors, banks and analysts will benefit from better disclosure. A company will have to disclose the deferred tax balance *and* its major components in the balance sheet or notes.

This would make it easier to get a handle on Sappi's highly efficient tax strategy.

What is known now? In 1986, Sappi's fixed assets (the main basis of its low tax rates) amounted to R1,964bn (1985: R1,975bn), with an enormous R569m (R542m) "estimated tax losses available for future set-off against income."

Capex in 1986 totalled R54m (R301m), with about R90m budgeted for 1987. With depletion of permanent tax differences comes an increase in the deferred tax *charge.* After a R5m deferred tax *benefit* in 1986, Sappi charged R45m against income in 1987 — with even more to come.

Sappi expects to start paying more tax in the Nineties, and has started making "conservative appropriations" to that end. Based on comparatively low recent investment levels, the 1988 deferred tax charge could rise to as much as R90m.

This, of course, would reduce distributable earnings accordingly — but not cash flow. Also, the company may (reasonably) be expecting a change in the exports incentive regimen. *Barry Sergeant*

Sappi to expand its board production

SP 4/3/88 (194)

Sappi Novobord is to launch a R70 million expansion project at its White River particleboard plant.

The expansion involves the building of two plants, a medium density fibreboard (MDF) plant and a new particleboard plant. The new plants will use advanced technology to make quality panels in a continous process, similar to the papermaking process.

Making the announcement, Sappi Timber Industries managing director Kim Jokipii explained that with its increased production Novoboard would be able to keep up with local demand as well as expand its current export markets.

"Demand for superior quality MDF, for use in the furniture industry, is growing fast and there is currently only one supplier in South Africa.

"We anticipate that demand for both MDF and particleboard can only increase as the country catches up with the low cost housing backlog."

Mr Jokipii added that the process that Novoboard has purchased from Siempelkamp in Germany is at the leading edge of particleboard technology.

"There are only eight plants in the world using this process at present although some 15 installations have been ordered.

"Sappi has awarded a turnkey contract to Siempelkamp to supply and erect the equipment which is equipped to produce panels with advanced features."

When completed in May next year the expansion is expected to boost Novoboard's current production by some 70 percent and will enable the company to add to its existing product range and make further progress in export markets, it says. — Sapa.

S/T (194) 6/3/88

Kohler ties up a wrapping stake

Ian Willis . . . a leader enters the fold

PACKAGING giant Kohler has moved into a new field with the acquisition of Sylko, one of SA's leading manufacturers of gift wrapping and household products.

Kohler bought Sylko from parent Malbak through the issue of 900 000 Kohler shares. At the current price of 1 300c the deal values Sylko at R11,7-million.

The three companies are in the Gencor stable.

Kohler managing director Ian Willis says the deal opens up marketing opportunities.

"We do not operate in this niche of the printed paper packaging market and Sylko is a leader in its field of gift wrap, household products, such as paper plates and napkins, greeting cards and Christmas decorations."

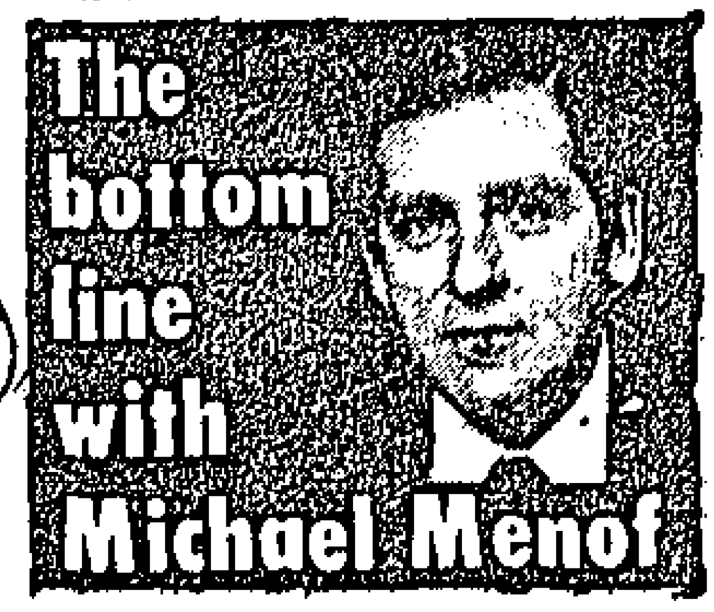
"Sylko, with turnover of R40-million a year, provides a base for us to enter this fast-growing consumer sector."

The company has manufacturing facilities in Durban, Cape Town and Worcester.

The deal is effective from September 1987 and is expected to make a "meaningful contribution" to Kohler's earnings.

Sparkling Nampak

Star 7/3/88 (194)



With thousands of manhours lost through strikes and stayaways, industrial Nampak still managed to post sparkling results for 1987 and a final profit of close on R100 million.

Nearly 20 years ago, National Amalgamated Packaging (Nampak) was formed to hold interest in National Packaging and Amalgamated Packaging. Subsequently, a number of strategic acquisitions, including Reed International in 1976 and Metal Box in 1984, were made. Today, Nampak has a virtual monopoly on the Southern African packaging industry.

All three of its market segments — primary packaging — secondary packaging and printing — paper and related products — improved turnover, margins and operating profits in 1987 despite the uncertain economy.

According to the 1987 annual report, the products offered are Nampak's driving force. The focus will be on improving and increasing the present range of products and managing technologies and materials with an emphasis on maintaining its healthy position and increasing exports. Highlights of the year were the strengthening of the many business units and the turnaround of Metal Box's glass division.

Net asset value, aided by R75 million in property revaluations, is R11,3 a share while the JSE market value is nearly double at around R22. Does Nampak deserve this high rating?

Turnover reached R2,07 billiom (1986 R1,73 billion). Improved margins helped operating profit increase to R242,2 million (1986 R181,7 million). With both rates and borrowings down, interest expense was a mere R18,5 million (1986 R8,7 million). Income from investments fell to R7,7 million (1986 R8,7 million).

Pre-tax profits totalled R231,4 million (1986 R159,7 million) after deducting a hefty R68 million (1986 R65 million) fixed assets depreciation. With the effective tax rate lifted to 47,8 per cent (1986 41,6 percent), tax was R107 million (1986 R63,5 million).

After deducting outside shareholders' share of profit (mainly Metal Box minorities) of R28,7 million (1986 R22,7 million) attributable profit was R95,7 million (1986 R72,3 million). Nampak Products contributed R69,2 million and Metal Box R26,5 million. Earnings per share was R2,28 (1986 R1,74) and the annual dividend increased to R1 (1986 — 79 cents).

Chairman Dave Brown was happy with the group's outstanding 1987 results ascribing them mainly to Metal Box improving operating margins from 7,1 percent to 9,3 percent while Nampak Products maintained their 13,5 percent.

The improvement in Metal Box's glass division supports management's 1981 decision to further diversify the range of primary packaging products into glass. Heavy capex of R470 million during the past five years has enabled Nampak to continue updating and increasing plant capacity. Acquisition opportunities are still being sought.

Disturbingly, the paper mills failed to modify their pricing and Nampak is set to review its future supply strategies. Surely this is not in the country's best interests?

The secondary packaging and printing division increased sales by 22 percent with operating profits of R45,7 million (1986 R86 million) and 13,1 percent maargin for both years. Paper and related products increased sales by 15 percent margin (1986 9,6 percent). Metal Box, owned 54 per cent by Nampak, increased its primary packaging sales by 20 percent with operating profits rising to R92,3 million (1986 R58,8 million) and a 9,3 percent margin (1986 7,1 percent). Export sales (no amount stated) increased by 40 percent.

During the year the group lost 9 350 man days through politically motivated stayways and 4 500 in industrial strike actions. A further 17 recognition agreements were signed with trade unions bringing the total to 46 which now covers 40 percent of the group's business units.

The balance sheet has strengthened with all shareholders funds totalling R664 million (1986 R597 million) by end September 1987. Total debt declined to R120 million (1986 R167 million). Working capital has increased to R271 million (1986 R216 million) with hefty cash resources of R61 million (1986 R34 million).

Metal Box PLC (UK) has an option to dispose of its undisclosed shareholding in Metal Box SA to Nampak at market price but no further details were disclosed.

Interestingly, of Nampak's 42 million shares issued, only 1,1 million are held by individuals with 40,8 in institutional hands; hence the possible high JSE listed price preventing true marketability.

Prospects based on the 1988 budgets continuing their volume growth trend, reflect "an improvement greater than the sum of the forecast economic growth rate plus inflation for the year ahead" is the best Mr Brown can do but he firmly believes budgeted earnings will be achieved.

Held by C G Smith, which is ultimately controlled by Barlows, it would be difficult for Nampak not to keep on its highly profitable track.

Attributable earnings during the past six years have never been lower than R58 million with 1987's R96 million the best ever — highly commendable for a recessionay climate and a business community lacking confidence but the question remains — how has this affected the country's high inflation rate?

Kohler buys Sylko from Malbak

CT 1/3/88 (194)

JOHANNESBURG. — Packaging giant Kohler has bought the Sylko Company, a leading manufacturer of giftwrap and household products.

Announcing the acquisition yesterday, Kohler said in a statement that it had acquired Sylko from its parent company, Malbak, and the purchase price would be settled by way of the issue of 900 000 Kohler shares.

At the current Kohler share price of 1 300c, this values Sylko at R11,7m.

Kohler's MD, Ian Willis, said the deal opened up exciting new marketing opportunities for his company.

"Currently, Kohler does not operate in this niche of the printed paper packaging market and Sylko is an acknowledged leader in its area of giftwrap and specialized household products. With Sylko, which has an annual turnover of some R40m, we have an established base to enter this fast-growing area of the consumer business," he said.

The deal is effective from September 1987 and it is expected that Sylko will make a meaningful contribution to Kohler's earnings. — Sapa

... machinery, while ... Earnings per share amounted to 14,9c again...
n, could not be relocated. 14c forecast

CAPE TIMES 7/3/88

Waltons buys Ozalid from disinvesting Dutch parent

Own Correspondent

JOHANNESBURG. — Waltons has acquired the office-equipment supplier Ozalid SA from its Dutch parent, which has decided to disinvest from SA — apparently because of political pressure.

About R50m was paid for Oce Van Grinten's 87% stake and for Old Mutual's 13% holding.

Waltons' shareholders were advised in a cautionary announcement on Friday that a deal was being negotiated and chairman Frank Robarts confirmed the details yesterday.

Oce Van Grinten's disinvestment follows the government security clampdown, and suggestions have been made that that measure was the last straw for the group, which operates world-wide and which has been under pressure for some time to relinquish its SA interests.

The acquisition of Ozalid — which manufactures and distributes drawing-office equipment, labels, markers and photo-copiers and which has an annual turnover of about R120m — will be paid for in cash by Waltons.

The funds would be raised through borrowings and though this would increase gearing, Robarts said yesterday that was not a matter of concern.

He said Waltons had been pursuing a takeover of Ozalid for about a year but had been unsuccessful until recently.

The company's activities complemented those of Waltons and, through its about 20 branches, serviced the same customer base.

It also gave the group an entré into "exciting" new areas in which it was not involved.

Robarts said an added attraction of Ozalid was the fact that it manufactured up to 90% of its goods and was not wholly dependent on imports.

PD 10/7/85 (23)

Waltons silent

(194)

JOHANNESBURG — Stationery company, Waltons, is negotiating to acquire another local company — believed to be office-equipment supplier Ozalid SA.

Waltons' managing director, Mr Frank Robarts, said yesterday that negotiations for the deal were "well-advanced" and details would probably be released later this week.

He refused to comment on a report that the company in question was Ozalid SA and that Ozalid's Dutch parent, Oce van Grinten, had decided to disinvest from South Africa, apparently because of political pressure.

The report said that the Waltons was acquiring Ozalid SA for R50-million from Oce van Grinten, which has a 87 per cent stake and Old Mutual with 13 per cent. — Sapa

Business Report

Further spurt in earnings seen

Sunpak doubles after-tax profits

CAPE TIMES 10/3/88 P4

By AUDREY D'ANGELO

Financial Editor

ATLANTIS-based Sun Packaging Holdings (Sunpak) has almost doubled after-tax profits for the six months to February, to R2,6m (R1,3m).

And the directors forecast a further spurt in earnings in the second half of the financial year as a result of two new projects starting soon.

Operating income in the first six months rose by 64% to R4m (R2,4m) and pre-tax income to R3,9m (R2,2m).

Interest bill

Earnings at share level were 95% higher at 6,7c (3,4c) and, although the tax bill has risen to R1,2m (R913 000), the interest bill is down to R84 000 (R160 000).

The directors say they have revised their earnings forecast for the year to August upwards to 16c a share, compared with 10,1c last year, "which is above our target of 50% growth per annum".

One reason for the rise is that the company will start exporting its new Foamtek synthetic papers from June and "all production of this exciting new venture has been sold ahead.

"In August/September we will consider doubling the Foamtek plant capacity."

From May the company will be the first in the Southern hemisphere to produce polystyrene free from chlorofluorocarbons (CFC).

The directors explain that the conversion to CFC-free blowing agents will benefit "the environment, the customer and our bottom line.

CFC-free material

"Increasing concern about the destruction of the earth's ozone layer has already led to many large consumers in the US and Europe insisting on CFC-free material."

Chairman Tubby Gericke said that "due to our imminent entry into the export field it is no longer in the best interests of Sunpak to reflect turnover figures."

But polystyrene food tray sales continued strongly "and we have increased our market share".

ST 8/3/88 (194)

New projects to lift Sunpak

By Ruth Golembo

CAPE-based Sun Packaging Holdings (Sunpak), which produced glowing interim results, has two projects in the pipeline which could lift earnings in the second half of the year.

The polystyrene packaging group doubled taxed profit and raised earnings a share by 98% for the half-year to February 1988.

Taxed profit shot up to R2,7-million from R1,4-million on a 64% increase in operating income of R4-million.

Sunpak has adjusted its forecast earnings for the year to August 1988 to 16c a share — 60% up on last year's 10,1c.

Financial director Carel van der Merwe says Sunpak's R2,5-million Foamtex plant which makes plastic labels for soft-drink bottles will soon be in operation.

From June this year the group plans to export its new synthetic papers.

Mr van der Merwe says: "We originally planned to produce the labels for the soft-drink industry which imported them from Germany.

"But we discovered potential for the product — it is cheap enough to replace paper used in packaging and labels.

"We have pre-sold all of the 1 700 tons of Foamtex we will make and by next year we plan to build the second phase of the plant to double capacity."

The Foamtex division alone will produce annualised taxed earnings a share of 13c.

From May the company will be the first in the southern hemisphere to produce polystrene free from chlorofluorocarbons (CFC).

The potential dangers of CFC-based products on the earth's ozone layer have caused objections to their use.

Mr van der Merwe says Sunpak's food tray sales continue to be strong. The group had increased its market share in recent months.

It has bought exclusive rights from a Japanese company to make a product which will "take the food tray market by surprise".

percent. The inflation rate could ...

Kohler lifts earnings by 56%

22/3/88 Star (199)

By Ann Crotty

Paper and packaging giant Kohler has reported a 56 percent increase in earnings per share to 115,5c (73,9c) for the six months to February. An interim dividend of 35c per share has been declared.

The performance was in line with market expectations of a continued strong recovery by this Malbak subsidiary. Turnover was up 50 percent to R370,6 million (R247 million). Signficantly improved margins meant that operating profit surged 91 percent to R28,3 million. The improvement at pre-tax-profit level was a massive 132 percent to R24 million (R10,4 million).

As expected, Kohler's tax charge was up significantly to R7 million (R1,3 million). Despite this, management was able to report a 92 percent improvement in attributable earnings to R16 million (R8,4 million). The increase at the per-share level was diluted by a 22 percent rise in the number of shares in issue from 11,4 million to 13,9 million.

The boost in turnover reflects the relatively buoyant level of consumer demand and management reports the group enjoyed a strong demand for most of its product ranges.

But market attention is likely to focus on the improvement in operating margins, which are up from 6 percent to 7,6 percent and brings the group close to the levels it enjoyed before the knocks it suffered in financial 1985 and 1986. In 1985, operating margins plummeted to 3 percent from the 1984 level of 8,2 percent.

On a P/E rating, the market's memory of those difficult years may be responsible for the discount at which Kohler stands vis-a-vis major competitors such as Nampak and Metal Box, which are on historic P/E ratings of 11,2 and 9,3 respectively, compared with Kohler's 6,5. However, the historic dividend yields are more in line, with Kohler on 4,6 percent, Metal Box at 4,7 percent and Nampak at 4,3 percent.

At this stage, the market is looking for full-year earnings of 240c a share, which are achievable, given management's optimism about a further improvement in margins in the second half. Because of the signficantly improved gearing position, management considers a dividend cover of just under 3 times to be appropriate, which suggests a dividend of at least 80c a share.

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Kohler profits up 92 pc

(194) DIP 22/3/88

JOHANNESBURG — Packaging group Kohler shook off the burden of an increasing tax rate to achieve a 92 per cent increase in attributable profit for the six months to end February.

The Malbak controlled company lifted earnings to R16,1 million (R8,4 million previous period), which — on the increased number of shares in issue — translates into earnings of 115,5c a share — 56 per cent up on the comparable period.

An interim dividend of 35c a share has been declared, compared to the single dividend of 40c a share paid for the eight months to end-August 1987.

Operating profit climbed 91 per cent to R28,4 million (R14,9 million) a feat which the newly promoted chairman, Mr Ian Willis, attributes to an increase in operating margins from 6 per cent to 1987 to around 7,7 per cent.

Turnover rose 50 per cent to R370,7 million (R246,9 million), reflecting a combination of improved volumes and the contribution from newly acquired companies including Bakke Industries, Budpac and Sylko.

Cape Times 1/4/88 — Reuter Reuter (194)

Nampak details Metalbox takeover

JOHANNESBURG. — Nampak is making proposals which, if accepted, will result in Metal Box SA (MBSA) becoming a wholly-owned subsidiary, the company disclosed yesterday.

Nampak currently holds 54% of MBSA.

The disclosure follows the news that Metal Box PLC of Britain is to sell its 25% stake in Metal Box SA.

Initial news reports said Nampak would pay R114m for the 25% stake in MBSA.

However, yesterdaythis afternoon Metal Box CE Peter Campbell, said the deal was not concluded at 669c per MBSA share, as stated in some press reports, but at 860c a share.

"Also, if one takes the Nampak offer of 35 Nampak shares for 100 MBSA shares at the current market price of Nampak shares, the price is more like 875c an MBSA share, which puts the value of the sale at some R150m," he said.

According to David Brown, chairman of Nampak, the bid for the additional stake in MBSA which would give Nampak control came from Nampak.

"The proposals were initiated by us and it would be incorrect to interpret what has happened as a divestment move by Metal Box PLC.

"It is a deal which will be to the benefit of all parties."

Wednesday'sYesterday's Nampak statement says the deal is designed "to create a unified packaging company able to maximize the synergy between Metal Box SA and Nampak."

It will offer MBSA shareholders increases in earnings, dividends and current market value and a modest decrease in the net asset value of their investment.

The proposals revealed by Nampak on Wednesdayyesterday afternoon offer MBSA ordinary shareholders an alternative cash payment for every 100 shares they hold.

Instead of accepting 35 Nampak shares for each 100 MBSAs, they may take R860 in cash, or some MBSA shares and, pro rata, some cash.

Nampak shares priced at 2 500c give a value of R875 to the offer against the price of R750 for 100 MBSA shares at the same date.

"MBSA shareholders will qualify for the MBSA interim dividend to be declared in May.

"Metal Box PLC has indicated that it intends to support the proposals and will elect to take cash for its 25% holding in MBSA."

If the proposals are accepted, holders of MBSA's 5% redeemable cumulative preference stock will receive R1,25 in cash for every stock unit held and will be entitled to their annual 5% dividend from April 1, 1988 to the date at which they qualify for the cash consideration. — Sapa

MBSA 'a perfect fit for Nampak'

Star 4/4/88

194

SVEN LUNSCHE

Nampak's acquisition of a further 25 percent of Metal Box SA (MBSA), will cost the Barlow Rand packaging subsidiary over R270 million, if all minority shareholders take up the offer. The deal will increase Nampak's shareholding in MBSA to 85 percent.

The sale, which was reported on Thursday, comes in the wake of the announcement that British group Metal Box Plc would sell its remaining 25 percent interest in the local subsidiary. MBSA will continue as a licensee of Metal Box technology and will be able to use the Metal Box name for two years.

According to a statement by Nampak the deal will be based on a share price of 860c per ordinary MBSA share or the exchange of 35 Nampak shares for 100 ordinary MBSA shares or a combination of both. Metal Box Plc will support the proposal and will take cash for its 25 percent holding in MBSA.

If all the minority shareholders take up the offer the transaction would cost Nampak around R270 million, of which R150 million would go to Metal Box Plc and the remaining R120 million to minorities, but analysts argue that at current market prices many institutions are likely to take up the share exchange.

Commenting on the deal Nampak chairman David Brown said that the impact on earnings would be negligible for the current financial year to end-September.

"But with the resulting rationalisation, earnings should grow over the next five years. MBSA is the perfect fit for our group and it will continue to benefit technologically from the ongoing agreement with Metal Box Plc," Mr Brown said.

He added that limited rationalisation would take place in the management area, "but nobody on the shop floor will loose a job".

A leading analyst said that the deal would not impact dramatically on the market place. "It won't influence Nampak's earnings that substantially as both groups have already been rationalised within the Barlow Rand group," he commented.

Barlow Rand also took up Metal Box's 25 percent interest in steel, metal and tube group Robor Industrial Holdings for R34,4 million, in which it already has a 60 percent stake.

Also on Thursday it was reported from New York that US mining group Newmont had agreed to sell its stake in five South African companies for a total of R363 million.

The transactions would be completed by the end of April and involved the mining operations of Palabora Mining, Okiep Copper, Tsumeb and Gamsberg Zinc and Anglo-American controlled Highveld Steel & Vanadium.

Anglo-American is said to be the ultimate beneficiary of the sale of Newmont's 10 percent holding in Highveld, as it has a substantial financial interest in Newmont through London-based Consolidated Goldfields.

But an Anglo American spokesman said it was official group policy not to comment on market movements. "We are still considering the situation," he said.

Nampak's David Brown — "Nobody on the shop floor will lose a job".

Nampak ties up a bargain

Business Times Reporter

THE withdrawal of Metal Box UK from South Africa after 55 years is the biggest disinvestment by a UK company since Standard Chartered's pullout last year.

By selling its 25% stake in Metal Box SA and its 25% stake in Robor Industrial Holdings, Metal Box UK is taking about R180-million out of SA. At the present financial rand rate, it appears that Metal Box UK is taking home £33,7-million.

Nampak will acquire the Metal Box SA shares. Nampak is making an equivalent offer to the 21% MBSA minority with a view to acquiring 100% and delisting the company, so its total outlay comes to R269-million, either in shares or cash.

Barlows will acquire the 25% Robor stake for R34,4-million.

Metal Box shareholders are offered R860 cash for 100 shares or 35 Nampak shares which before the deal were worth R25 each. The share alternative is worth R875, but those who elect to take shares will not get Metbox's interim dividend, so the effective share price is 860c.

The Metal Box share price has been as high as 900c, but after the October crash it plunged to 575c. It rose subsequently to 700c, so the offer is a premium of 23% on the pre-deal price.

It is 11,9 times earnings and a premium of 79% on net asset value — an apparently generous offer, which is worthwhile for Nampak because of synergy and rationalisation benefits.

The deal will dilute the holding of CG Smith in Nampak from 71,7% to 63,9%

Barlows is paying 430c a share for Metal Box UK's 25% of Robor. That is 5,9 times earnings and an 11% discount to net assets of 484c.

Running

Although the deal has been reported as a disinvestment from SA, Nampak made the running in the deal which will make Metal Box South Africa its wholly owned subsidiary.

"We approached the UK parent with the proposal," says Nampak managing director Don McCartan.

"The timing seems to have been propitious and after due consideration the British company accepted our offer."

Nsampak chairman David Brown says: "It is incorrect to interpret this as a divestment by Metal Box plc. It is a deal which will be to the benefit of all parties."

NAMPAK/METAL BOX

Taking the gap

(194)

Obviously the rumour was true. For months it has been suggested that the British company Metal Box Plc (MB) planned to disinvest and that Nampak would buy its 25% interest in Metal Box SA (MBSA). Despite Nampak's vehement and recent denials, this is what has happened, though even now Nampak chairman David Brown is insisting this is not a disinvestment.

Nampak, which initiated the proposals, already had a 54% holding in Metal Box, so it knew the company's potential and was eager to increase its holding. Good results are expected to be announced shortly, explaining Nampak's eagerness to buy MBSA. It seems probable that the current relatively high rand and the likelihood of a future weakening was the carrot Nampak used to entice the British parent to sell now.

MB opted for cash and will receive R860 per share, or R146m. Minorities have the option of cash, shares or a combination of both.

If all minorities also choose cash, Nampak must pay R269m, which it will probably borrow. At end-September, Nampak had net borrowings of only R60m, so the debt:equity ratio will be only about 0,30 after the deal. Cash flow was more than R200m in the year to end-September, so the purchase will probably need outside finance for a short period.

The situation will be even better should minorities opt for the box rather than the money — the box being 35 ordinary Nampak shares for every 100 MBSA shares held, or a combination of both cash and shares.

For the MBSA shareholder, Nampak's offer is attractive. Nampak's performance was very similar to that of MBSA over the past four years, but the deal is geared so that the earnings of MBSA shareholders will increase by 9,9% and dividends will be 9,4% more, based upon a market value for the shares 16,7% above the March 29 price — if shareholders take the Nampak share offer. The cost comes in terms of net worth which falls 24,2%.

Preference stockholders will benefit even more as the value of their investment will increase by 86,6% and their dividends by 75%. If the offer is fully taken up, MBSA's listing and that of its preference stock will be terminated. MBSA's shareholders will qualify for the MBSA dividend to be declared in May, but not for the Nampak dividend.

Although Nampak shareholders will have to forfeit an equivalent amount in the short term (1,3% of earnings and 9,9% of net worth on an historic basis), long-term benefits are expected. With MBSA as a 100% subsidiary of Nampak, this will create a unified packaging company, able to maximise synergy between the two divisions. MBSA also has much lower cost inflation than the paper divisions, because of Iscor's efficient cost control.

In a further deal, Barlow has announced the purchase of 25% of Robor Industrial Holdings (RIH), also from MB, for R34,3m. But Barlow says it does not intend to increase its holding in RIH further and the deal will have no effect on earnings or net worth.

Louis Venter

NEWMONT

Bowing out

Gold Fields of SA (GFSA) has jumped at the chance to increase its investments in base metals by picking up the interests sold off by US mining group, Newmont, in a number of mines where GFSA already had large equity stakes. Analysts suggest the result could be a new mining venture for the house.

Deputy chairman Dru Gnodde confirms that GFSA has picked up Newmont's 40% stake in northern Cape copper mine O'okiep, its 31% stake in Namibian base metals producer Tsumeb Corporation and its 27,5% stake in the Gamsberg zinc deposit in the northern Cape. He declines to disclose the price paid.

These acquisitions take GFSA's total holdings in O'okiep to 83%, in Tsumeb to 78% and in Gamsberg to 55%. Gnodde says that Newmont auctioned off its various South African investments and GFSA's bids for these interests were accepted. He adds that GFSA did not take over Newmont's stake in Palabora copper.

Gnodde says the disinvestment by Newmont is linked to the group's serious debt problems and is not politically motivated. He points out that Newmont has also put its Australian operations up for sale to the highest bidder. Newmont was the target of a failed takeover bid by US corporate raider T Boone Pickens last year. Its debt problems result from the defensive action.

GFSA had taken over management control of O'okiep and Tsumeb in previous years after Newmont had reduced its stakes in these companies from the absolute controlling shareholdings it once held. GFSA now has absolute control of Gamsberg, which is SA's largest zinc deposit. It previously had only an indirect stake through its 43% interest in O'okiep, which holds 27,5% of Gamsberg. O'okiep also holds the right to manage whatever mine may be set up at Gamsberg. Anglo American Corporation holds the re-

Boom time as timber ousts cane

10/4/88 S/Times (194)

A BOOM in pulp, paper and timber is expected to double the size of commercial forests in SA in the next 10 years.

More than a million hectares of agricultural land is expected to be planted to timber to meet SA and Far Eastern demand.

Most of the land is under sugar cane. Because forests diminish rainfall run-off, afforestation is strictly controlled by the Department of Forestry. It prefers high rainfall areas close to the coast to be planted with timber.

But the department has granted permits for the conversion of 130 000ha of agricultural land to forestry use in the past three years.

By the dozen

The department is receiving dozens of applications from farmers wishing to switch from cane to timber. Most of the applications are from Zululand, the Natal Midlands, the Vryheid-Tygerberg region and the Crocodile River valley in the Eastern Transvaal.

The Government has earmarked 1,25-million hectares of land for conversion to timber growing. Conversion on this scale would virtually double the size of SA's commercial forests.

Growers hope to cash in on the shortage of hardwood pulp, increasing demand for pine pulp, attractive export contracts with Japan lasting into the year 2002, the diminishing profitability of cane caused by the world sugar surplus, and Government incentives.

The privatisation of some Government forests, which comprise about 30% of the 1,2-million hectares used for timber has also stirred the interest in the industry. A White Paper is expected soon on the timber industry and forests.

SA needs to plant an extra 39 000ha

By Udo Rypstra

of forest a year to meet demand. In spite of the 130 000ha approved for conversion, an average of only 15 000ha a year has been planted in the past two years.

Forestry officials believe SA will run into a shortage of pinewood in five years. More than 81% of conversion applications are for hardwood.

Major players in the pulp, paper and timber industry are Anglo American's Mondi, Gencor's Sappi, Hunt Leuchars & Hepburn, which is part of Rembrandt and Saiicor. Sappi generated record turnover of R1 312-million (up 19% on 1986) in the past year and earned distributable profits of R162-million (up 142%).

Sappi expects even bigger turnover this year as exports grow.

Mondi, which derives 30% of its turnover from exports, provided Anglo American Invesment Corporation with earnings of R91-million last year — an increase of 81% on the R53-million in the previous year.

Competition

Most big timber growers belong to the Forestry Owners Association (FOA). About 1 800 independents belong to the SA Timber Growers Association (Satga). Their ranks could be increased by the entry of former cane farmers.

Some cane farmers, such as SA Cane Growers Association chairman John Chance, have sold out to the forestry majors. They are farming cane elsewhere.

Potentially a major entrant in the forestry industry is Shell, which has bought more than 8 000ha of land, including Mr Chance's farm in the past two years for forests. It is hungry for more.

Terry McCulloch, managing director of Shell's forestry division, says the oil giant is interested in taking over Government plantations.

Shell uses highly mechanised production techniques and prefers flat ground. It finds suitable land scarce and competition to acquire it keen.

Some farmers hoped that Shell's interest in cane lands indicated its desire to produce methanol from sugar. But Shell says it wishes to diversify into forestry — as it is doing in Brazil, New Zealand, Chile and Thailand.

Mr McCulloch says Shell planted 1 000ha of the 15 000ha of new plantations last year. It will plant another 1 000ha every year until all of its 8 000ha of land has been converted. It bought another 254ha two weeks ago.

Because of favourable climatic conditions trees grow quickly in SA. It takes about eight years — almost half the growth period in the northern hemisphere — for trees to reach cutting size.

Sources say Mondi, Sappi, Shell and HL&H are all bidding for cane fields and independent forestry plantations in Zululand.

HLH is said to be the most active buyer. The company is playing its cards close to the chest. Managing director Neil Morris says the matter is "strictly confidential".

Questions about Sappi's involvement were referred to forestry director Peter Stoker, who was "not available".

Mondi managing director Tony Trahar says his company bought land, including cane fields, last year. He refuses to say how much.

Mr Trahar says the new Mondi mill at Richards Bay has led to cane farmers, burdened by high transport costs to faraway sugar mills, selling out to timber and wood-pulp proces-

□ To Page 3

Timber boom

□ From Page 1

sors or switching to forestry.

The increasing stake of the major forestry players led to a dispute between Satga and FOA last year. Satga claims that the corporations kept wood pulp prices down in an effort to squeeze independents out of the market. But FOA denied this, saying the prices were market related and there was enough room for everyone.

Satga general manager Bruce Ferguson says land purchases by the majors is "a continuing process which we view with great concern".

New statistics on the state of the industry will be available soon, he says.

Production costs of independent growers increased by 17% last year, but processors increased pine pulp prices by only 10% a year in the past five years while inflation averaged more than 15%.

Incentive

The independents say the corporations can carry the losses by subsidising their forestry operations with processing profits.

The Government introduced a forestry incentive scheme last year. It offered loans at subsidised rates. The pool stands at R2,4-million and the first applications are being processed.

The Government granted the timber industry a two-year reprieve before introducing laws against price collusion in the sale of sawn timber. The exemption ends in December.

DID 14/4/88

Paper rise defended

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JOHANNESBURG — The criticism that has been levelled at the paper industry for the increase in prices is unjustfied states the chairman of Sappi, Mr Tom de Beer.

Writing in the group's annual report, released yesterday, he said: "It is an unfortunate fact that South Africa has a high rate of inflation and it is inevitable that prices are likely to rise when the economy starts to grow.

"The devaluation of the rand and the dollar against other major currencies had not been fully reflected in domestic prices and cost push was a major factor in price increases." — Sapa

CARLCOR (194)

Plodding along

Activities: *Manufactures, sells and distributes high quality disposable tissue and fibre-based products to the consumer trade, commercial and industrial bulk users, and to the medical and paramedical sectors.*
Control: *Malbak owns 40,8%, Kimberly-Clark Corporation 38,7%.*
Chairman: *K Zirker; managing director: K J Partridge.*
Capital structure: *15,8m ords of 50c each. Market capitalisation: R63,2m.*
Share market: *Price: 400c. Yields: 6,3% on dividend; 11,3% on earnings; PE ratio, 8,9; cover, 1,8. 12-month high, 800c; low, 400c. Trading volume last quarter, 988 000 shares.*
Financial: *Year to December 31.*

	'84	'85	'86	'87
Debt:				
Short-term (Rm)	4,8	11,8	11,4	12,2
Long-term (Rm)	16,8	19,3	20,6	16,8
Debt:equity ratio	0,57	0,74	0,57	0,52
Shareholders' interest	0,40	0,36	0,35	0,38
Int & leasing cover	5,8	3,2	3,5	3,4
Debt cover	0,57	0,53	0,52	0,46

Performance:

	'84	'85	'86	'87
Return on cap (%)	17,2	16,4	15,3	13,7
Turnover (Rm)	148	178	199	222
Pre-int profit (Rm)	16,3	19,1	19,6	18,2
Pre-int margin (%)	11,0	10,8	9,8	8,2
Taxed profit (Rm)	7,6	8,4	8,4	7,1
Earnings (c)	65,5	48,5	53,3	45,1
Dividends (c)	28	30	30	25
Net worth (c)	317	338	285	315

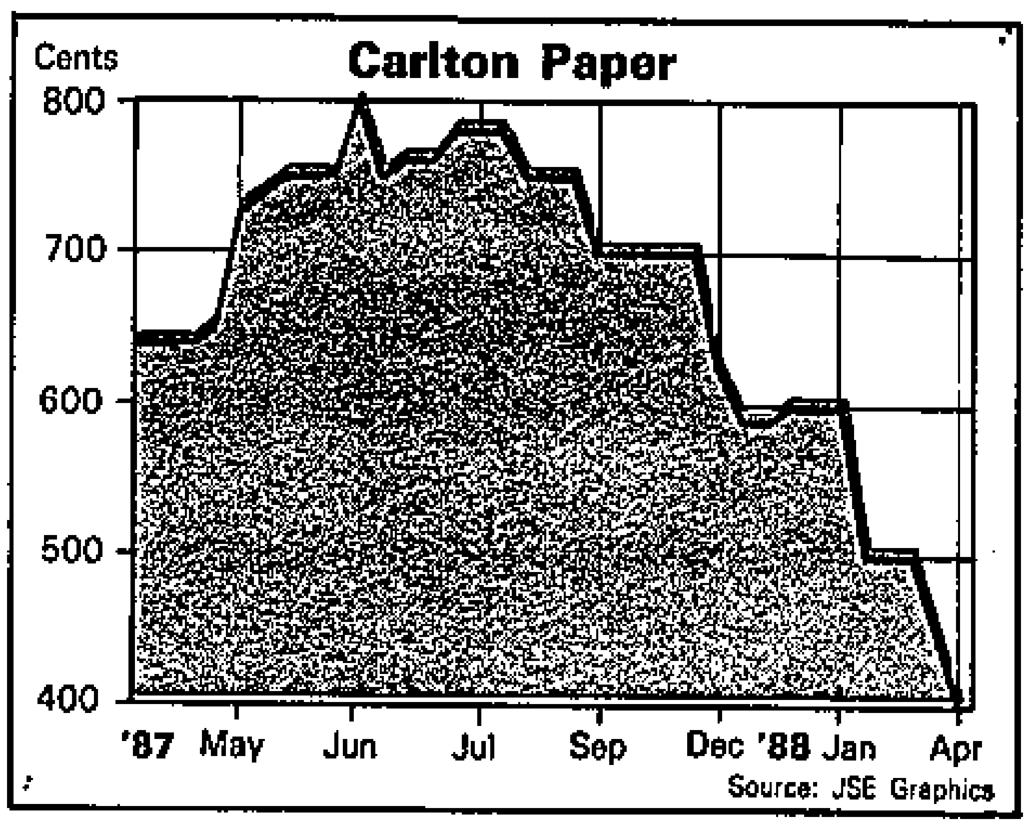
Carlcor's Zirker ... climbing costs

Carlton Paper Corporation (Carlcor), which contributed about 3% of Malbak's earnings last year, has a pedestrian profit history and strong growth in the short term will be difficult. Since 1980, taxed income, EPS and dividends have improved little. Even last year, when most industrial companies showed solid improvement, there was no earnings growth for Carlcor; in this case Malbak's ability to turn companies around will be fully tested.

Raw material cost increases did not help. Prices are mainly in US dollars and rose to an extent that more than offset the benefit of the improved rand/dollar exchange rate and outstripped selling price increases. Chairman Klaus Zirker states that costs of consumables, labour and distribution also climbed.

Despite better economic conditions, last year's earnings fell 15,3% to R7,1m. One reason was the increase in expenditure on social responsibility to achieve a Category 1 rating under the Sullivan Code for Labour Principles. This was once-off, but is not tax deductible. Another factor was the high interest bill of R3,3m, despite the debt:equity ratio improving from 57,3% to 52,1%. Interest took a large slice out of operating profit of R18,2m and cash flow dropped from R16,7m to R13,3m, pulling down return on capital from 15,3% to 13,7%. Return on equity fell from 18,7% to 14,3%.

A positive point brought out in the annual



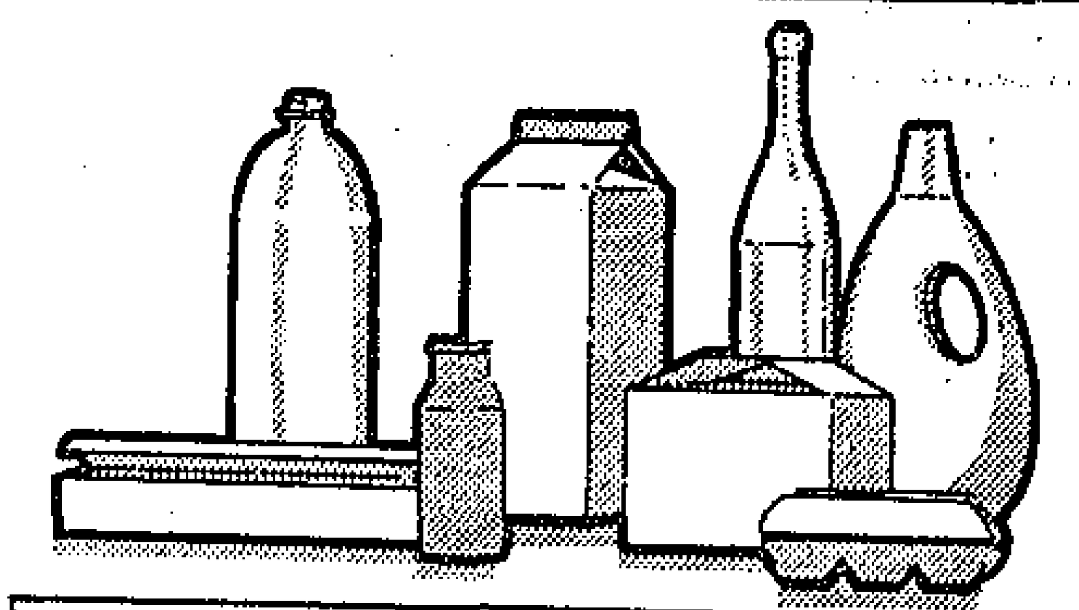
report is the substantial reduction in overhead costs after critical appraisal of the organisational structure. Another is the success of new products launched in 1986 and 1987, which are achieving market share targets and should contribute to operating income this year, especially as there is the possibility of exporting.

Zirker remains optimistic. "The growth in consumer expenditure, coupled with a leaner structure and the achievement of working capital targets, will greatly reinforce the group's determination to achieve improved results," he says. He believes that, in the longer term, focus on higher product quality and service standards should help achieve greater market penetration. To this end, Carlcor plans a capital expenditure programme to raise the quality of both raw material and finished products, as well as reducing manufacturing costs.

But the proof will be in the eating. Zirker bases his positive expectations on a relatively strong economy, though many predict an economic slowdown, which would imply sustained pressure on Carlcor. In addition, the company may be hit by higher interest rates and a weaker rand could put the company — whose margins have declined for the past three years — under severe cost pressure.

So some hard rowing will be needed by Malbak to turn Carlcor into a star performer in the short term. In the longer term, Malbak's influence could well have a greater effect than most would expect. *Louis Venter*

B/day 25/4/88 (194)



PACKAGING

A Business Day Survey

Written by SUSAN RAMWELL

Trim sector reaps profits

GREATER productivity and efficiency levels — that's the name of the game in the packaging industry in 1988 and although in many cases, leaders can claim to be operating at close to full capacity, it's to trimmer plant levels than in the boom times of the early eighties.

Kohler Group chairman, Ian Willis, says: "What was 100% of capacity in boom times is probably 75% today — it's full operation of a smaller capacity. A lot of companies have rationalised."

Cushioned to some extent through the economic downturn in consumer demand from '84 to '86 by its close links with non-cyclical, necessity products such as food and other consumables, the industry has seen a leap in demand for packaging products again from about May 1987 producing excellent growth results for the major companies to the end of 1987.

Estimated to be worth approximately R3,2bn in 1986, the value of the industry today is closer to R4bn.

For 1987, where higher volumes produced turnover growth for industry leaders Nampak Products and Metal Box in the region of 20%, they produced operating profit increases of 22% and 57% respectively showing the positive effects of years of rationalisation and improved productivity. Profit margins have improved throughout the industry.

For Metal Box, profit margins for the group rose from 7,1% to 9,3%. For Nampak Products, margins were maintained at 13,5%.

Nampak and Metal Box, which historically control more than 40% of the total packaging market, saw turnover rise to just over R2bn.

The Nampak group's five year figures for return as a percentage of gross assets, at a high of 30% in 1982, bottomed out at below 15% in 1985 and are now climbing again, currently at about 22%.

According to Nampak's 1987 annual report, prospects for the year ahead assume that "the trend in volume growth will be maintained, generally within the capacity of existing plant but with allowance for expansion and improvement. Kohler, which for its half-year to end February, 1988 upped pre-tax profits by 91%, saw profit margins rise from 6% to 7,7%. The group's turnover reached R370,7m.

Consol, with 60% of its turnover in glass products, also achieved increased volumes, particularly in sales to the beer and soft drinks industries. Turnover rose by 25% to close to R504m.

ing little and often, so manufacturers respond by placing smaller more regular orders," says Willis.

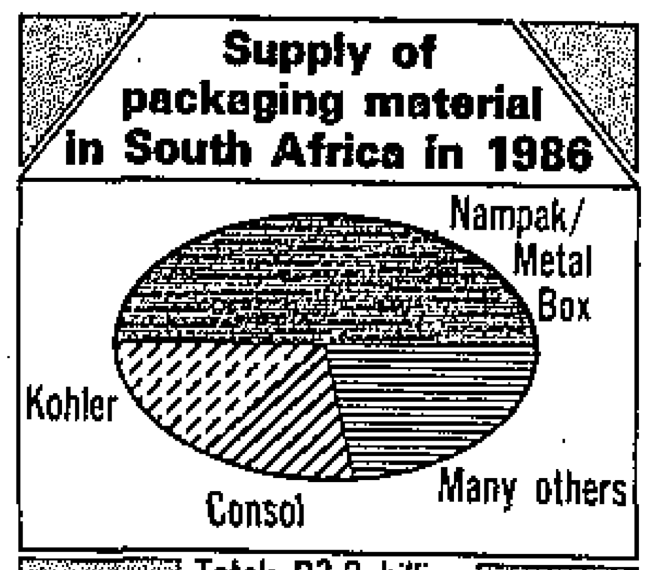
"Packaging suppliers generally are finding they have to gear up for shorter runs and this is a worldwide trend.

"It is now technologically possible to equip the industry for shorter runs, but until we see further improvements in earnings, it may be difficult to justify that expenditure in new equipment. All of the machinery is imported and therefore expensive at current exchange rates. But with nearly 75% of the industry shared by the four major operators, and the industry's long-term growth potential assured by factors such as population growth and increasing urbanisation, further investment will certainly come in time."

The impact of high inflation on the packaging industry, according to Don McCartan, was essentially to "increase the cost of stocks and debtors" another impetus for improving cash flow. A trimmer packaging industry can now reap some benefits in profitability.

Metal Box MD Peter Campbell points out that for the most part, increases in packaging prices charged out to manufacturers have stayed within the inflation rate as measured by the CPI. "Where they haven't" he says, "the reason has been sharp increases in raw materials prices as local suppliers match their prices to the landed cost of imported materials. This is our biggest gripe."

According to an investment outlook overview of the paper and packaging



Graphic: FIONA KRISCH Source: FOOD INDUSTRIES OF SOUTH AFRICA

sector compiled by Heidi Vollmer of stockbroker, Frankel Kruger, further price increases are expected in all raw materials in 1988, with heavier increases due to take place in the prices of paper and plastic.

The report notes that in 1987, the largest price increases were actually recorded for sackkraft, corrugated board and cold rolled steel.

Paper prices, say Nampak, rose by 60% over the last three years and a further 9% increase is forecast. To minimise the effects of this, the group increased paper stocks in 1987.

If import parity pricing in paper prevails, the group may have to supplement its local paper purchases with imports.

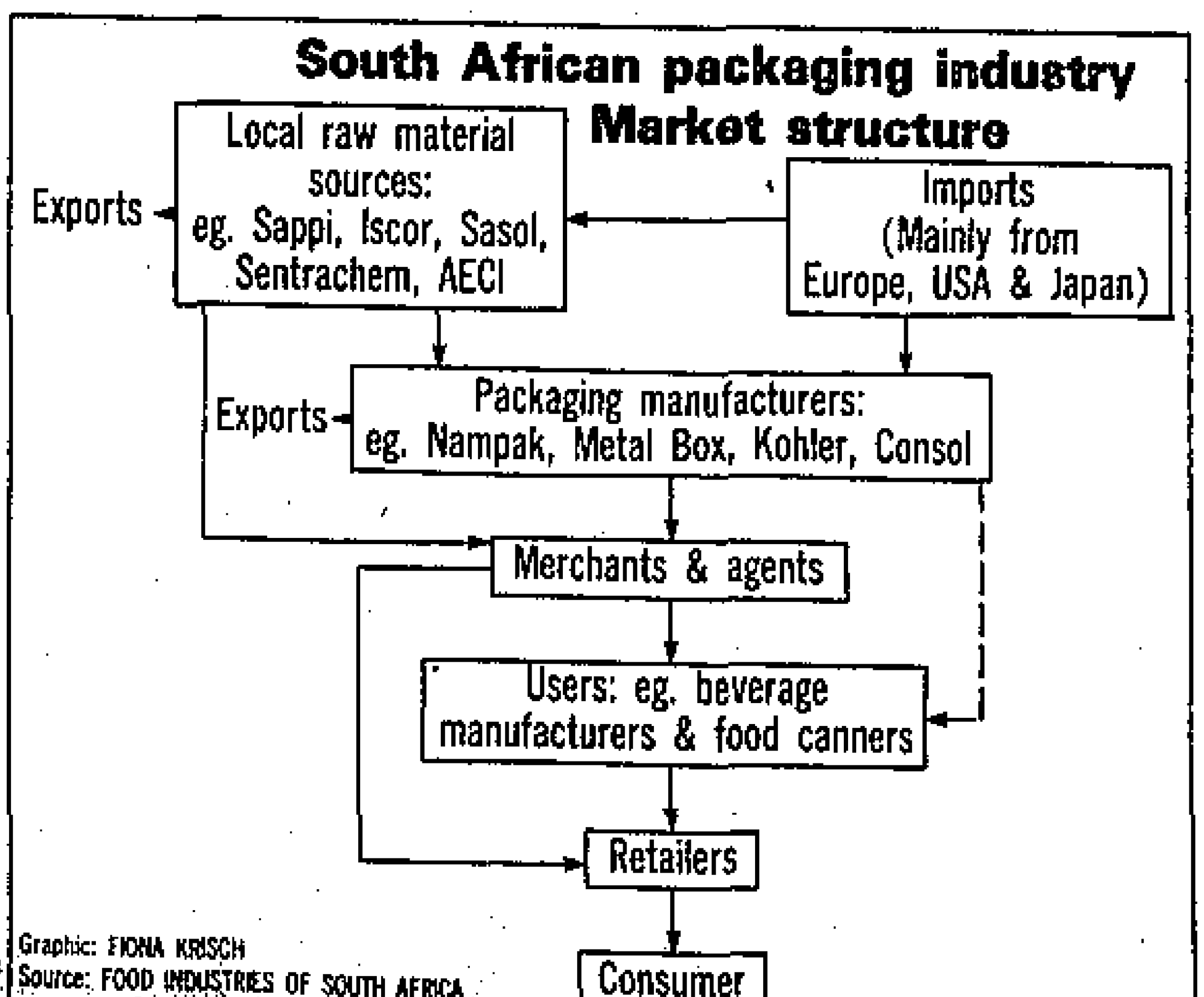
Plastic price increases for the last three years amounted to 38%, however due to the shortage of ethylene and related products, this year could see a sharper increase.

Metal Box notes that Iscor has been most reasonable in its price increases. Steel prices have remained below inflation, and tin plate has increased by 8% in 1987. A further 12% - 13% increase is expected this year though.

Approximately 90% of the packaging industry's raw material requirements are sourced locally. The only exceptions are polycoated fibre board, mainly for liquid packaging, certain plastics, and film requirements.

Sappi and Mondi are both experimenting with the production of liquid-packaging carton however it seems there is some way to go before this really becomes a true alternative for the local market. Sappi currently manufactures a duplex board, and Mondi, a fully-bleached board.

Frankel Kruger's report notes that "increasing urbanisation should contribute towards an increased demand for packaged goods in future. The packaging industry as a whole, looks much stronger for 1988."



Graphic: FIONA KRISCH Source: FOOD INDUSTRIES OF SOUTH AFRICA

Nampak MD, Don McCartan, says: "We're getting back to '82 levels in volume terms now after some years of negative growth. Nevertheless, over the past two years industry growth has been double that of GDP."

Kohler's Willis says: "Consumer spending still has a long way to go to reach levels of the early eighties but we will see increased earnings in 1988."

The pattern of consumer spending though is different to purchasing habits of the past.

"Housewives start buy-

Nampak, Metal Box link possibly a world-beater

THE full consolidation of primary packaging industry leader Metal Box under the all-South African umbrella of parent company, Nampak — by far the industry's biggest packaging company — creates what is probably the broadest based packaging concern in the world.

According to Metal Box MD Peter Campbell: "We are now the most diversely spread packaging group — probably anywhere in the world. Even the biggest companies internationally tend to be more niche-based."

Nampak MD Don McCartan agrees: "The combination of the activities of both companies is highly complementary. The fact that it will work in SA is really a function of the size of our economy which is small by world standards."

The combined activities of Metal Box as a 100% owned subsidiary of Nampak gives the group a firm hold on both primary and secondary sectors of the packaging market with activities spanning the full range of packaging materials — a full range of paper-based materials, plastic, glass and metal.

Together, the group has a market share of just over 40% and a combined turnover in 1987 in excess of R2bn.

Executives of both companies point out that no dramatic change is occasioned by the consolidation announced earlier this month.

Says Don McCartan: "The sale by Metal Box PLC (UK) of its remaining 25% shareholding in the South African operation was an entirely financial decision which was initiated by Nampak's offer to purchase. It is rather misleading to think of the move as a disinvestment in the same vein as many other disinvestments.

"At the offer price it was a favourable deal for Metal Box UK, at a time that it made sense for the UK company to relinquish its holding. For the group, having made steady but gradual steps towards rationalisation of the two companies over the past four years, the timing is excellent because we are well in place to take full advantage of the better outlook for the industry in 1988."

Peter Campbell adds: "It is an exciting time to be part of the group."

Industry analysts believe that Nampak's offer, which represented a premium of 79% on net asset value of the Metal Box shares, is well worth it in terms of the added synergy and rationalisation benefits which will flow.

Says Campbell: "Cost savings will be made. I imagine we will find that some divisions may be able to operate more closely. But for the most part, further rationalisation will be at corporate services level."

05/4/88

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Govt was too hasty 18/4/88 Assocom

THE Association of Chambers of Commerce and Industry (Assocom) says the amendments to the Copyright Act announced by government this week were too hastily accepted.

A spokesman for the chamber said it appeared all the implications of the move had not been fully considered, and all parties had not been adequately consulted. (194) B/day

Deputy Minister of Economic Affairs, Theo Alant, said earlier the move abolished copyright protection for many industrial articles, paving the way for cheaper local production.

He said this step was anti-inflationary, would stimulate local industries and bring SA's legislation in line with that of most Western countries.

Gearing up for shorter runs

PACKAGING converters have generally spent recent years installing new machinery to gear up for faster, shorter production runs, according to industry majors.

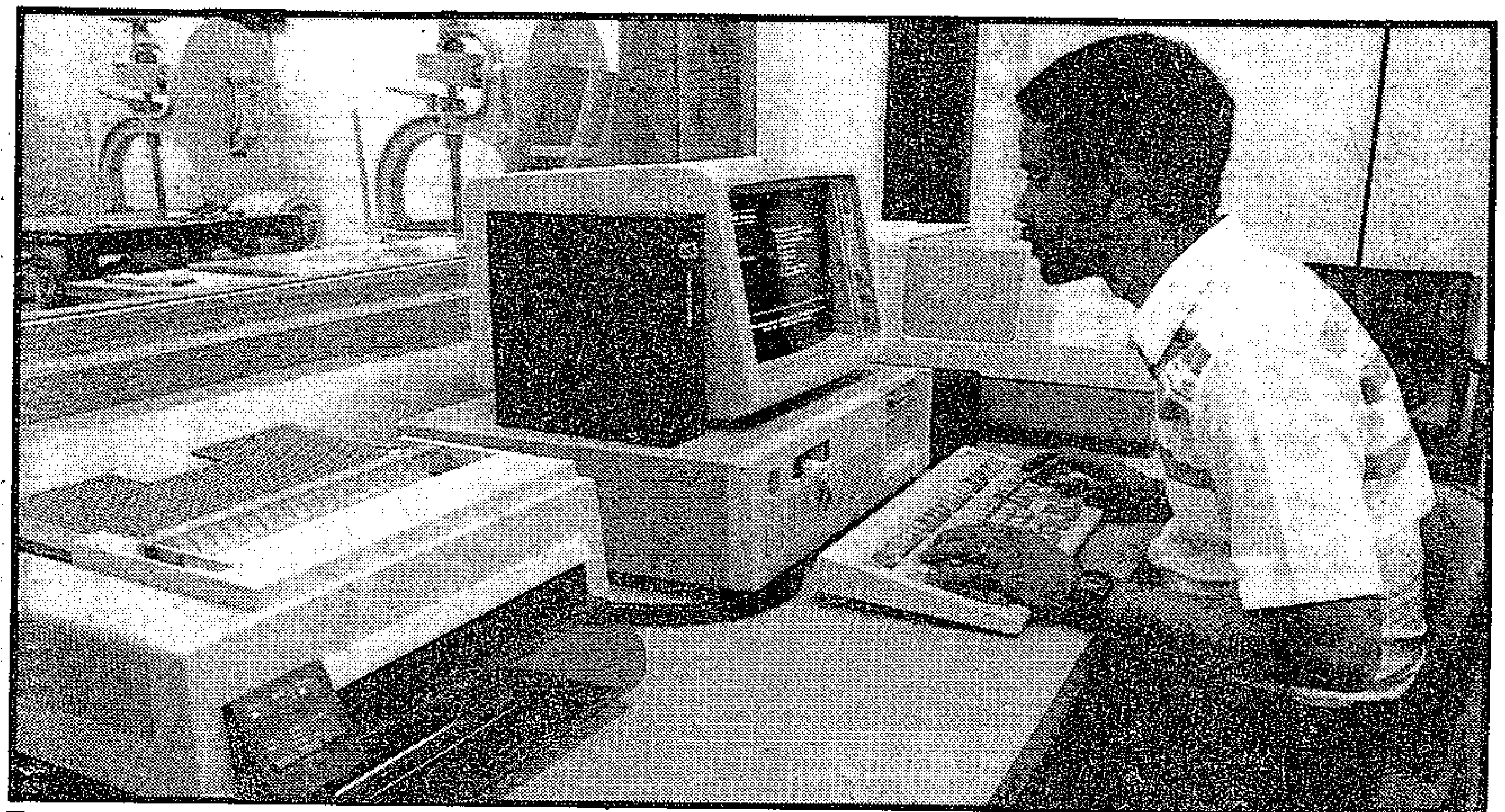
"Tony Rudston, MD of Interpak, a subsidiary of SA Breweries, says: "We are seeing an increased need for shorter runs as manufacturers reduce stock in hand levels but increase the regularity of their production runs."

Mike Spinks, MD of Nampak's Printpak division confirms the trend, saying the company is conducting a major exercise in "just-in-time" production at the moment.

"We tend to be replacing with smaller, high-speed machines with faster set-up times but lower volume capacities as the 'make ready' time becomes more critical."

He explains: "On larger machines we would usually do runs of say 200 000 or 250 000 cartons right up to a million at a time, the manufacturer then holding stock.

"Smaller machines are geared to make it economically feasible to do runs from 5 000 upwards."



An ink technician/colourist mans the computer terminal controls of Printpak Cape's Roland 800 litho offset press computerised colour-matching system

Now it's colour by computer

COMPUTERS are increasingly entering into packaging, with applications in factory management, design work and, recently, into control of electronic machinery, vastly improving precision and consistency.

Kohler Group chairman Ian Willis says: "The main impact of computerisation is in 'pre-packaging' for design work, cutting dies, moulds and so on, and in the prepress area in printing — for scanning transparencies instead of the old photo re-touching methods.

"It's advantageous too in self-diagnostic machinery — enabling electronic machinery to tell the operator the source of a fault."

Printpak Ltd, Nampak's folding carton division, has as its latest technological investment what it claims is SA's only computer colour-matching system — the Roland 800 litho offset press with computer-operated ink duct settings. The machine has been installed at Printpak, Cape which is the country's largest printing and folding boxboard converter.

Since 1984, the company has also used a computer controlled laser die-cutting facility which vastly improves precision creasing and cutting work. This equipment was installed in 1984.

Explaining the importance of colour-matching, Printpak MD Mike Spinks says: "Many customers want metameric quality to their colour, meaning that the colour will look the same in various lights — for instance, when the consumer takes it from the supermarket shelf out into the light of day, the colour will have the same richness.

"There is also a need, for example by house brands, for the same colour to be printed on to a variety of different packaging materials from plastic to cardboard.

"The colour you can achieve on a gloss material has to be matched on a matt material.

"In essence, computer colour systems quickly and accurately match colours to suit all printing processes on varying substrates.

"Computerised precision takes out the subjective element in colour appraisal, maintains standards in a computerised file not subject to fading or any other form of degradation, ensures metameric match, and keeps stringent quality and stock control of all ink systems.

"Through more effective use of the printing press, it also improves lead times."

The addition of remote colour terminals to the system is planned, to eventually extend the facility to other Printpak branches and to clients nationally.

Part of Printpak's development of the quality and range of its printed packaging products, this investment in equipment coincides with additions to its range of coating systems for sheet-fed converters. It has spirit-based, press, emulsion and ultra-violet (UV) coatings.

Spinks says the benefits offered by these coatings are scuff-resistance, moisture barrier properties, and heightened protection. The latter three all offer the possibility of being pattern-coated.

"The cigarette industry in particular is benefiting from pattern emulsion coatings with good gloss scuff and tactile properties," says Spinks.

In an effort to promote local material substitution, Printpak has conducted an on-going study of the uses of local board and has been able to use this, either coated or extruded, for certain products. Although some 70% of Printpak's raw materials still have to be imported, the company believes local board can be equivalent to imports for some purposes and is able to advise customers on alternatives.

Design — a jo for specialists

WHEN it comes to the design of a package and of its printing, packaging converters prefer to advise their customers before rather than after the fact.

Says Nampak's Mike Spinks: "Certainly as far as carton construction design goes, we'd prefer customers to come to us first to discuss the box design, then plan their graphics afterwards."

Specialist packaging design consultancies, such as that of award-winning Janice Ashby, have been in the market long enough to have developed extensive expertise in the field, believes Spinks, and are playing an important role.

"Our only gripe would be where a designer lacks experience in packaging and comes up with some pretty impractical ideas which by that stage, have wasted time and money."

Advice on developing new forms of packaging design, though admittedly not as specialist in the promotional arts as dedicated designers, comes free from most packaging companies. And to seek it as a first resort would seem to be a good idea for customers looking for new ideas.

During the recession of the last few years, new product launches or re-launches and, consequently, new packaging designs have been in far less demand, but both designers and packaging companies say this is picking up again now.

Interpak MD Tony Rudston believes the working relationship between manufacturers and packaging suppliers has already taken a more communicative turn as far as new ideas goes.

"We are no longer regarded merely as packaging converters to make up an order, but as a partner in our client's product development team," he says.

"We like to advise our customers on the most appropriate material for their packaging needs, to help them plan production including advice on form, fill and seal machinery, and to assist with new designs or re-developments. Technical skills are an important part of that decision making process.

"It also helps the marketer to reduce costs and add value to the product," says Rudston.

He points out that while local high inflation and a more stable exchange rate have narrowed the price gap between local and imported materials, possib swing back to imported materials, continuity a major consideration.

He says that locally produced PVC is one rial that is currently enjoying strong growth ly from the food industry for packs with visi adding to tamper-evidence, and on-shelf me appeal.

John McArdle, GM, of Interpak Plastic PVC's clarity offers a big plus for perishables and promotional packs as well as for inner strength is important for protection of frag

Rudston says: "Our design and developm ment has been expanded and we are taking approach to re-development of existing pac facet of the services we offer".

ENVIRONMENTAL DEBATE ON AMID CONTROL PLANS

AS GOVERNMENT proceeds with its plans to introduce legislation — the Environmental Control Bill — which would place significant controls on the packaging industry, the industry is at pains to point out the responsibility of its approach to recycling waste.

Piet Neethling, Group MD of Consol, serves on the Council for the Environment, a ministerially appointed body advising the Minister of Environmental Affairs.

"Packaging manufacturers are often given the blame for discarded packages, but it is after all people who litter, not the packs," says Neethling.

"The industry manufactures some 2-million tons of material a year which if handled irresponsibly could certainly impact on the environment. But by far the bulk of this goes into formal recycling and waste streams after use.

"Provision is already made for recovery and recycling. What cannot be recycled is stored permanently on waste sites."

The Packaging Council of SA, (Pacsa) has also strongly resisted the bill. According to Pacsa CE, Owen Bruyns, there has already been improvements by the industry in recycling.

He says: "Last year, the industry recycled 617 500 tons of material representing about 23% of the total. That was up on 20% for 1986."

He contends that "there must be a balance between economic development and environmental control. The Government is rejecting the process of voluntary industry controls in favour of regulation. We believe this could increase prices. A study of similar legislation imposed in certain parts of the US and Australia showed it increased costs by 35%."

Included in the draft legislation are provisions that would necessitate modifications to both packaging manufacturing processes, and packaging designs as well as the use of alternative materials.

Neethling says: "The quantity of waste produced depends on a number of other factors. The proposed powers are a direct and unacceptable interference in the principles of free enterprise and consumer choice. They run contrary to Government's deregulation policies."

He suggests better results would be achieved by promoting public education in environmental matters and stimulating recycling efforts.

Chemical breakthrough

CONSOL Plastics believes it has achieved a chemical packaging breakthrough with a new PET bottle designed for compatibility with solvent-based chemicals such as used in agrochemicals.

According to Howard Becker, PET marketing manager, "This eliminates disadvantages associated with aluminium and tinplate containers and has added safety for the user.

"The containers are sealed with an aluminium foil bonded to the neck. This is removed with a cutter which is handily moulded into the cap top reducing contamination risks.

"It is lightweight, and completely combustible after rinsing to dispose of residual chemicals and waste. The container is made of a tinted polymer to minimise degradation of the product in ultra violet light."

He adds that bottle trials should be conducted prior to commercial use.

Interpak sta expansion dr

A POSITIVE view of the growth potential in board and plastic packaging markets in which is prompting Interpak to pursue an ambitious programme involving significant capital ex

According to newly appointed MD, Ton "following some dramatic new internal effi fected over the past few years, and with the fi of parent company, SA Breweries, group man committed to capital investment and growt

Rudston says that capex is "critical to organisation's growth potential," but that w sion, Interpak can make "new impact" on its markets as well as aiming for new sectors of t ing industry.

A R14,5m expansion of Interpak's gravure printing facilities is already underway, the m which is to increase capacity.

Says Rudston: "We are installing some of sophisticated equipment of its kind in the w

"The overall objective of the expansion pro to increase our productivity by reducing our m and lost time as well as substantially incre running speeds.

"Computerisation will also further reduce both time and materials and, therefore, cost

"Production quality and precision is vital ticularly as our clients tend to have sophisti duction lines with marginal tolerance levels also be able to code-read labels, which is industries such as pharmaceuticals and moto

Rudston says the upturn in the general eco boosted levels of demand for Interpak's establi run business as well as increased demand regular short-run business.

(194)

Call for wide use of child-proof closures

"MANUFACTURERS need to become more aware of the importance of closures in packaging — particularly with regard to child-proofing," says Ian Reid, marketing manager of Consol's Rigid Plastics division.

Reid suggests going as far as "starting with the closure when designing a new package, and developing from the top down."

He says that internationally, manufacturers are becoming increasingly aware of the necessity of preventing the possibility of children coming into contact with their products, particularly household cleaners and pharmaceutical products.

"But it often takes an awful accident to get manufacturers to change their closures and make them more child resistant," says Reid.

While there is a growing number of products which claim their packaging is child-resistant, Reid points out that in the UK these must undergo stringent tests before they may be marketed as such.

"A product has to be submitted for testing at the hands of some 200 infants aged between 42 and 51 months, and this must be a truly random sample. There are also strict procedures governing the way the test is carried out.

"For instance, if after five minutes a child has not opened the container, an adult will clearly demonstrate how it can be opened then the child is given another five minutes to continue trying."

Reid believes that many SA manufacturers could improve the level of safety of their products as there have been major strides in closure design.

ADDED VALUE

Reid also points out that closures designed for added consumer convenience and appeal can add value to products. More marketing muscle may be given to long-established products.

"In overseas markets, manufacturers are using value-added packaging to differentiate products that are perceived by consumers to be essentially the same. Spurred by consumers' ever-growing appetite for convenience, dispensing closures are riding a wave of popularity," he says.

An example drawn from the SA market is that Ceres Fruit Juices is about to launch a new brand of juice in an aseptic carton which has a unique silver strip "pull tab" which allows the consumer the choice of either pouring or drinking directly from the carton instead of just the usual option of drinking with a straw.

CFJ and Tetrapak have made a significant investment in acquiring the packaging machinery to manufacture the new closure, the first in SA, and to protect its investment, CFJ has a limited period exclusivity contract on the method.

Reid says that closures now provide dispensing convenience to product categories that have been dominated by non-dispensing caps, particularly, household products.

He concludes: "Technology has enabled suppliers of closures to meet the more sophisticated needs of manufacturers.

□Kohler Flexible Packaging's solution to tamper-proof packaging which does not entail altering existing packaging. Fuji Seal of Japan, for which Kohler holds the exclusive SA licence, has been developed in a market which has long recognised the benefits of tamper proof packaging.

Whetting the buyer's appetite

ACCORDING to Brett Bowes, marketer and packaging design consultant with Media Graphics, on-pack appetite appeal and convenience of food packaging plays a major role in food marketing.

In fact, the more attractive the pack the more likely the consumer is to pick it up for inspection — and as marketing statistics show, that action is — more than half the time — a precursor to purchase.

Food is, in fact, the SA packaging industry's largest consumer, accounting for an estimated R2bn of packaging sales in 1986, according to the most recent statistics compiled by the Bureau of Marketing Intelligence (BMI).

In tonnage terms, about 63% of all packaging materials are used for foodstuffs.

Bowes, in a recent paper on the subject, points out that there is a lot more to professional packaging of food than just creative design.

"The pack has to be suitable for the mode of transport that will be used to distribute it. Its mass, size and protective functions can be key considerations."

Bowes believes that price — economy in pack design and of production costs — is even more critical in food than in other product areas because of lower profit margins in the food sector.

But he does not believe that good design, with effective promotional qualities, has to be expensive.

Another critical consideration in food packaging is stability between the package and its contents, since the product must reach the consumer in perfect condition.

An example drawn from the beverage market is that manufacturers of sorghum beer, which ferments, have preferred to use cartons rather than go for PET plastic bottles.

Specialist new plastic products are being developed all over the world to provide added protection to perishable foodstuffs. Kohler's plastics division is specialising in the production of high-barrier protective films for packaging of food products such as fish, cheese and meat.

Kohler's Flexible Packaging Division is specialising in a multi-layer plastic technique for which it has an exclusive manufacturing licence from Fuji Seal of Japan. This high-barrier technique, says Kohler chairman Ian Willis, "offers protection for oxygen-sensitive and light-sensitive foods."

Outside of the food industry, the technique will have particular application to aggressive chemicals and pharmaceutical products.

John McArdle, GM of Interpak Plastics, says: "protective packaging embraces the need to improve a product's shelf life and this is where barrier products, ie metallised substrates, plastic, board or paper and a very wide range of protective board finishes, can be of value to protect against ultra-violet light, moisture and air."

Apart from all these considerations in food packaging, Media Graphics' Bowes believes there are design and promotional aspects very specific to food.

He believes packaging tends to act as the main image vehicle for foodstuffs rather than other forms of promotion, because "advertising budgets tend to be lower for food than for, for example, toiletries where higher margins can accommodate more adspend.

And in its favour, says Bowes, packaging has the advantage of a much longer life cycle than any other form of promotion, with by far the biggest effect on consumer perception and sales.

International trends fall under the spotlight at fair

INTERNATIONAL trends and forecasts for the packaging industry globally are the focal points of PacPro '88 to be held from May 5 to May 11 in Dusseldorf, West Germany.

Announcing the fair, which covers packaging production, machinery, materials and processes, the South African-German Chamber of Commerce and Industry released a preview analysis of some of the major trends the fair highlights.

According to the chamber, the global production of packaging materials reached a new peak in 1986 of DM500bn. The world's biggest users are the US and Western Europe, with Japan a close third.

Although growth of packaging consumption worldwide is anticipated to stay ahead of national GNP levels, it is described as "moderate" for fully developed countries — for Western Europe, an anticipated 2% growth annually.

"Highly developed countries tend to have reached close to saturation levels in recent years," observes the chamber, concluding that "future growth rates will be obtained to a lesser extent than in the past by increased volume." New directions for growth for these countries will lie increasingly in "value-added" packaging, product innovation and new fields of application — not only in finished product packaging, but also in raw materials.

More positive growth in volumes, related to higher export activity, can be expected for developing economies.

Paper, cardboard and paperboard currently hold about 50% of the world market in volume terms, and are expected to hold this position, particularly through the introduction of new laminates.

A world trend, also true of SA, is development of new products in plastics, intensifying competition with glass and metal. Wood, says the chamber, will continue to be substituted by new paperboard versions.

The focus of new development will be on the reduction of required material yet achieving the same volume, such as lower grammage used in paper, cardboard, corrugated paper and fibreboard but with improved material strength.

In glass, tinplate and aluminium, producers will seek lower wall thicknesses without reducing performance.

"The maximal exploitation of these possibilities requires close dialogue between raw material producers and packaging material manufacturers," advises the chamber.

Another trend which is mirrored currently by the SA packaging industry is increased re-cycling of packaging materials to reduce environmental waste. This includes raw materials with an increasing percentage of recycled chemicals.

PacPro organisers report that new printing processes are being developed for superior printing for packaging material where the outside layer is made of aluminium foil or metallised material.

Growing importance is given to plastic laminates, and plastics co-extruded with other materials. These allow barriers to be developed to individual customer requirements, providing protection for the product and forming barriers against oxygen, carbon dioxide, hydroca flavours and additives, resistance to gases, humid solvents.

There are new plastics, such as the amorphous mide which resembles polycarbonates but wi proved barrier properties.

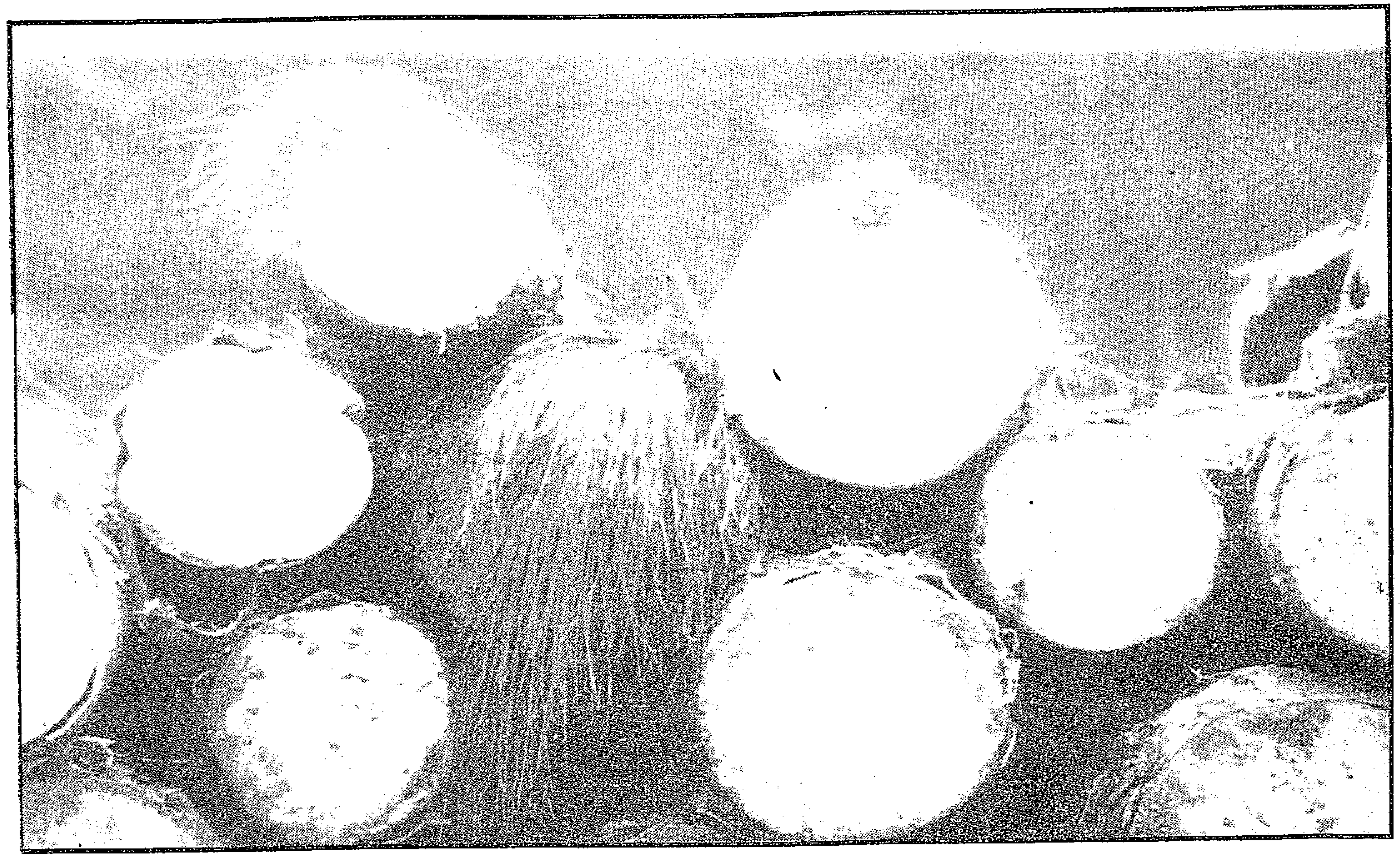
It is thought that new multi-layer concepts wh low production of blown films with seven layers, id the manufacture of bottles with optimal, product- barrier properties could seriously challenge the tinplate and glass, permitting large-scale substitut

In SA, Kohler is actively developing this technol part of its "niche-based" development strategy.

New development of such products is costing DM15bn a year internationally, for investment production and processing machinery, say PacP ganisers.

"The PacPro '88 exhibition will provide thoro formation about current developments and the technological standards, offering international co son," says the chamber.

More information about PacPro '88 can be ob from the chamber at (011) 482-1080 or from the P press office in Germany, code (0211) 4560-555.



□ Raw 'paper': Sappi says timber is one of 'the main industry cost inputs' (see report opposite)

Behind all the price blows

BOTH paper and plastic packaging converters are arguing for more restraint by raw materials producers in price increases, concerned about the impact on profit margins, and the upward pressure on packaging prices.

While paper prices have risen by 60% over the past three years and plastic raw materials by 38% according to Nampak, plastic has come under the most fire recently with a 36,8% rise in prices charged by bulk supplier, AECI in the past seven months.

Packaging companies fear they will be unable to pass on these increases and that, instead, plastic may lose market share to glass, tin and paper.

They have criticised AECI's contention that it is charging more because of the world increases in the price of polyethylene on the grounds that the ethylene sourced from Sasol is a by-product of coal and should not be subject to international factors.

AECI points out that its polyethylene business is fairly dependent on the SA packaging industry since 75% of all SA low density polyethylene (LDPE) and linear low density polyethylene (LLDPE) market has some packaging application.

In the short term, AECI says it is able to supply 80% of the market requirement from locally manufactured polyethylene and that Sasol, which supplies ethylene for the manufacture of polyethylene, are working on projects to increase the SA ethylene supply.

When additional ethylene is available, it will be possible to raise the rate of local LDPE supply to 90 000 tpa (from 80 000), and of LLDPE to 80 000 tpa (from 35 000).

SHORTFALL

The local market currently consumes 100 000 tpa of LDPE, and 45 000 tpa of LLDPE.

Says AECI: "We are trying to encourage local converters to further develop LLDPE applications to decrease their long-term dependence on imported material. While the imbalance exists, the shortfall of low density polyethylene is being imported at a time when a world shortage of supply has raised the cost of importing polyethylene from R2,200 a ton in January 1987 to R3,700 a ton today.

"We are concerned that the current high prices demanded for imported polymer and the extreme shortage of supply will jeopardise several sectors of the industry, and are therefore purchasing material on the world markets and subsidising its entry into the SA industry by R700 a ton."

Asked what other considerations governed its prices, AECI's spokesman said elements included: "the cost of competing products, including imported polyethylene; the cost of production; the desire for growth in the market; and the profit level which will justify further capital investment.

On the question of paper prices, Sappi Kraft has pointed out that increases in the price of paper have remained below the CPI. In the company's annual report it states that: "cost push was a major contributor to price increases. However, Sappi has been very successful in containing its unit cost of production in the past year and has also taken the opportunity to price its products nearer to the landed cost of imported products, contributing to improved margins."

Since this has met considerable opposition from the packaging industry, which questions the relationship of international and local paper prices, Sappi was asked for details of factors influencing paper prices.

A spokesman for Sappi Kraft explains: "The main industry cost inputs are timber, people, energy and transport. These input costs have risen rapidly during the last eight years, with a large proportion of the delivered cost of timber to a paper mill being transport related."

The company says that while inflation in prices relevant to paper production has generally run at about 18% over the past two years, Sappi has contained rising costs at the expense of operating margins and is only now attempting to restore these.

"Capital equipment is b increasingly costly as maintenance, which requ going reinvestment. An has to ensure acceptable through adequate volume a margins. The rand devalua also caused rapid rises in imported equipment and s

Sappi executives say th earnings, which increased in 1987 may look high, the be seen in terms of return of just 12%

Export markets look pa ly attractive to all potentia ers in view of the current e rate.

EXPORT ACTIV

Sappi, which is a major although it emphasises tha exports "surplus products like to increase its export as would many packaging ers.

Sappi claims that it gives preference to suppl domestic market" and t converting industry canno ploited by unrealistic pricing".

The domestic industry' says Sappi are "still below ed products".

The company estimates per's share in terms of to packaging is about 40% an significant move in this sha next few years.

GROWTH JUST AS GOOD AT SMALLER END OF MARKET

SOME 15% of the total SA packaging market, about R600m in value, is shared by companies of varying sizes, from those recently listed in the paper and packaging sector to a host of private, often family-owned and long-established concerns.

To all reports, it seems that recent volume increases for all types of packaging material have been felt at the smaller end of the market as much as by the industry leaders.

One such company in the secondary packaging market is Protective Packaging Ltd, a division of

One such company in the secondary packaging market is Protective Packaging Ltd, a division of Kahn & Kahn Plastics based in Eastleigh on the Rand.

According to sales director, Ted Kahn, the company has seen an approximate increase in orders in the past six months of about 16%, with improved demand for all its protective packaging products — mainly bubble plastic, foam and poly film product Instapak, Altapak polystyrene bubbles.

The company's main market lies in protecting high value consumer products, or products with a high quality of primary packaging, such as cosmetics and gifts. Pharmaceutical products compose a large section of PP's market and a growing market is from computer and electronic equipment and components.

Says Kahn: "Labour considerations urge greater use of plastic protective packaging such as polystyrene bubbles because they are dust free and much cleaner. There are definite cost savings in many cases because of lighterweight and lower bulk to achieve the same protection of the product. It is also faster to pack. There are savings in labour time and transport costs. What's more, the product is re-usable."

PP designs its own new products, and also custom designs packaging ideas for customers. A recent example was for Woolworths, where PP designed a special "shock absorbive" pack to protect fresh fruit while leaving the product visible.

END OF MARKET

Van Leer extends range

PACKAGING company, Van Leer SA, which is currently one of the country's leading suppliers of co-extruded barrier plastic packaging to the food industry, has extended its range to include co-extruded plastic pouches.

Laurie Johnson, GM of Van Leer's flexible packaging division says: "Increased efficiency in our manufacturing process has enabled us to turn out cost-effective pouches in high-gloss Shurseal film. These are particularly easy to open for maximum convenience for the consumer.

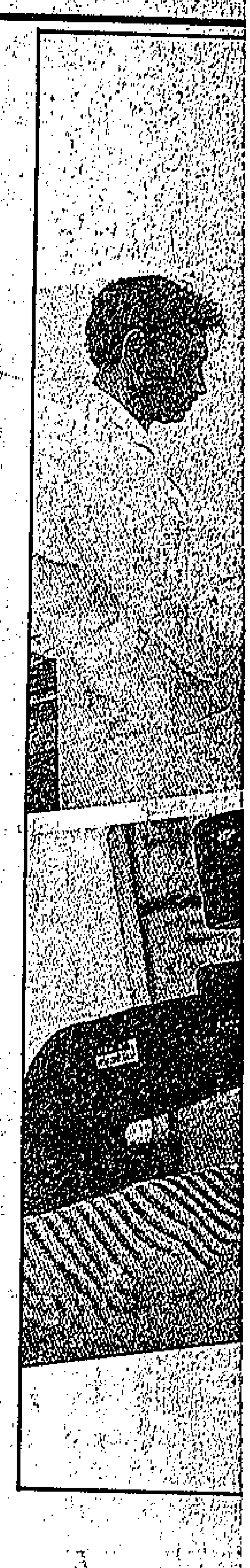
"Shurseal also lends itself to modern merchandising display techniques and is highly durable. Its low oxygen permeability ensures longer product shelf life."

In order to make this extension to its range, Van Leer recently upgraded facilities at its flexible packaging plant in Springs to incorporate the latest in West German pouch-making technology.

It now has the capability to produce three-seamed pouches in lay flat widths from 75mm upwards.

According to Johnson, "This initiative will offer greater versatility in package sizing and will also satisfy the growing need for improved print quality on packs."

Van Leer's range, designed for local food industry requirements, includes Vacbag and Shurseal vacuum bags and film.



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PACKAGIN
A Business Day Surve

Call for wide use of child-proof closures

"MANUFACTURERS need to become more aware of the importance of closures in packaging — particularly with regard to child-proofing," says Ian Reid, marketing manager of Consol's Rigid Plastics division.

Reid suggests going as far as "starting with the closure when designing a new package, and developing from the top down."

He says that internationally, manufacturers are becoming increasingly aware of the necessity of preventing the possibility of children coming into contact with their products, particularly household cleaners and pharmaceutical products.

"But it often takes an awful accident to get manufacturers to change their closures and make them more child resistant," says Reid.

While there is a growing number of products which claim their packaging is child-resistant, Reid points out that in the UK these must undergo stringent tests before they may be marketed as such.

"A product has to be submitted for testing at the hands of some 200 infants aged between 42 and 51 months, and this must be a truly random sample. There are also strict procedures governing the way the test is carried out.

"For instance, if after five minutes a child has not opened the container, an adult will clearly demonstrate how it can be opened then the child is given another five minutes to continue trying."

Reid believes that many SA manufacturers could improve the level of safety of their products as there have been major strides in closure design.

ADDED VALUE

Reid also points out that closures designed for added consumer convenience and appeal can add value to products. More marketing muscle may be given to long-established products.

"In overseas markets, manufacturers are using value-added packaging to differentiate products that are perceived by consumers to be essentially the same. Spurred by consumers' ever-growing appetite for convenience, dispensing closures are riding a wave of popularity," he says.

An example drawn from the SA market is that Ceres Fruit Juices is about to launch a new brand of juice in an aseptic carton which has a unique silver strip "pull tab" which allows the consumer the choice of either pouring or drinking directly from the carton instead of just the usual option of drinking with a straw.

CFJ and Tetrapak have made a significant investment in acquiring the packaging machinery to manufacture the new closure, the first in SA, and to protect its investment, CFJ has a limited period exclusivity contract on the method.

Reid says that closures now provide dispensing convenience to product categories that have been dominated by non-dispensing caps, particularly, household products.

He concludes: "Technology has enabled suppliers of closures to meet the more sophisticated needs of manufacturers.

☐ Kohler Flexible Packaging's solution to tamper-proof packaging which does not entail altering existing packaging. Fuji Seal of Japan, for which Kohler holds the exclusive SA licence, has been developed in a market which has long recognised the benefits of tamper proof packaging.

Whetting the buyer's appetite

ACCORDING to Brett Bowes, marketer and packaging design consultant with Media Graphics, on-pack appetite appeal and convenience of food packaging plays a major role in food marketing.

In fact, the more attractive the pack the more likely the consumer is to pick it up for inspection — and as marketing statistics show, that action is — more than half the time — a precursor to purchase.

Food is, in fact, the SA packaging industry's largest consumer, accounting for an estimated R2bn of packaging sales in 1986, according to the most recent statistics compiled by the Bureau of Marketing Intelligence (BMI).

In tonnage terms, about 63% of all packaging materials are used for foodstuffs.

Bowes, in a recent paper on the subject, points out that there is a lot more to professional packaging of food than just creative design.

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Metal Box meets market expectations

Star 5/5/88

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By Ann Crotty

Metal Box has reported a performance in line with market expectations for the six months to end-March with earnings up 27 percent to 50,8c a share from 39,9c. An interim dividend of 16c a share has been declared which is 33 percent ahead of the previous year's 12c.

The performance from Metal Box follows the pattern of most of the recent spate of industrial results with turnover showing a reasonable real increase but the significant gains coming through from improved operating margins and reduced interest payments.

The strong growth in group sales experienced in the second half of last year continued during the review period and enabled the group to show an 18 percent increase in turnover to R573,9 million from R487,8 million.

Management reports that the turnover improvment represents a nine percent increase in real terms and that this stronger performance was achieved by most divisions in spite of aggressive competition.

Operating profit was up 33 percent, reflecting the increase in margins from 8,5 percent to 9,7 percent that resulted from improved productivity.

A reduction in the level of borrowings produced a 42 percent drop in finance costs to R2,1 million from R3,7 million. The balance sheet shows that long term liabilities are down from R22,6 million to R20,4 million and gearing is down from 10 percent to 8 percent.

The combined effect of the increased turnover, improved margins and lower interest costs boosted pre-tax profit by 39 percent to R56,2 million from R40,4 million. But this improvement was partly reduced by a sharp increase in the tax bill from R13,1 million to R21,5 million. This represents an increase in tax rate from 32,6 percent to 38 percent.

Management points out the change in the basis of accounting for deferred tax from the comprehensive method to the partial method and notes that the comparative figures for the 1987 tax have been restated accordingly.

If the comprehensive basis had been applied the tax would have been R26,3 million and R18,4 million in 1988 and 1987 respectively. This means that although the tax bill is lower under the partial method the change has resulted in a large percentage increase in the tax bill which in turn has reduced the growth rate at the earnings level. Taxed profit was up 27 percent to R34,6 million from R27,2 million.

Deferred tax

According to the balance sheet the deferred tax balance remains unchanged at R69,9 million. Had the comprehensive basis been maintained the deferred tax balance at end-March 1987 would have been R81,8 million and increased to R86,6 million at end-March 1988.

According to management "current trading suggests that the growth in earnings should be maintained in the second half of the year."

These latest figures may be the last that Metal Box reports as an independent listed company. The majority shareholder, Nampak, recently made an offer to acquire the 25 percent holding in Metal Box SA held by British Metal Box, and is making a similar offer of 860c a share or 35 Nampak shares for 100 Metal Box shares, to the balance of the minorities.

If the offer is accepted, Metal Box SA will become a wholly-owned subsidiary of Nampak and the shares will be delisted.

Waltons 'record' results show earnings up 84,6%

HELENA PATTEN

BY BOTH organic growth and acquisition, Waltons Stationery has done well to lift earnings 84,6% to R22,1m in the year to February 29.

An extraordinary item of R2,3m, representing the net effect of profits on the disposal of investment and goodwill written off on acquisition of subsidiaries, pulls down the bottom-line attributable earnings to R22,1m.

Earnings a share rose 81,4% to 39c a share on a slightly increased number of shares in issue, while a healthy dividend of 13c a share has been declared — up from 6,9c last year.

The announcement also makes known the company's acquisition of Ozalid, approval for which was given by shareholders at a general meeting yesterday.

The stationery company's turnover was boosted by 53,5% to R329,8m, but trading margins dropped slightly as operating income before finance costs and tax rose 45,9% to R52,5m.

The directors say they are delighted with the "record" results. While the growth came from both internal factors and recent acquisitions now trading profitably, the results were especially pleasing because of the already high base off which they came.

The company's share closed 10c higher yesterday at 400c a share, putting the company at an historic PE of 10,2, suggesting good value when compared with a sector average of 13,6.

The dividend represents a yield on the share price of 3,25%, less than the 5% average of the retailers and wholesalers sector, while earnings yield is at 9,75%.

Holding company Walhold Consolidated Investment Holdings, whose sole investment is 50,2% in Waltons Stationery, also makes its profit announcement today, with attributable earnings up 95% to R4,4m.

On an increased number of shares in issue, EPS grew 80,8% in the year to 37,8c, while the dividend is the same as Waltons Stationery, declared at 13c — up 88,4% from 6,9c last year.

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Rembrandt takes first step in regrouping

HLH makes attractive offer for Bonuskor

194

Magnus Heystek
Finance Editor

The first step in the rationalisation and regrouping of the massive Rembrandt Group was taken yesterday when Hunt Leuchars and Hunt (HLH) announced a very attractive offer to minority shareholders in Bonuskor.

The offer is bound to be accepted and Bonuskor will most probably be delisted.

Rembrandt is the ultimate controlling shareholder of both groups.

The Rembrandt Group is in the process of a major restructuring and regrouping of its widespread interests in South Africa as well as overseas. More announcements are expected soon.

HLH is making an offer to acquire the entire shareholding of Bonuskor through a scheme of arrangement with shareholders. In terms of the offer HLH will issue 186 shares for every 100 Bonuskor shares held. This puts a value of R4,65 on each HLH share and a value of R8,65 on Bonuskor shares which were at R5,40 when the cautionary announcement was made last month.

Bonuskor was trading at R7 a share yesterday while HLH was at R4,55.

Bonuskor shareholders are also being given the option to swop all their HLH shares for Huntcor shares on the basis of one Huntcor share for every two HLH shares. This offer is unlikely to be taken up as Huntcor is trading at a discount to HLH. Theoretically Huntcor, which closed at R8 last night, should be trading at twice the ruling price of R4,55 for HLH.

Commenting on the developments, HLH's Chief Executive, Neil Morris, said: "Present shareholders of HLH and Bonuskor will benefit from the transaction. Looking at it from Bonuskor's shareholders point of view, the softwood timber interests will have access to the extensive experience HLH has built up over its long involvement in the timber industry, an attractive premium for its share and a company with a considerably enlarged base of shareholders' funds with virtually no borrowings.

"For HLH's shareholders there is an immediate positive impact on earnings, productive use of the considerable cash resources at its disposal, and involvement in attractive new market segments which will help to balance the dependence on the mining timber market."

Sales to the mining industry accounts for roughly 60 percent of total turnover. This dependency has in recent years made the company vulnerable, particular during last year's general mining strike, resulting in a drag on turnover and earnings growth.

Along with the widespread timber interests of Bonuskor, HLH will be entering the food market. Bonuskor is the sole shareholder in Transvaalse Suikerkorporasie (TSB), a major producer of sugar in the Eastern Transvaal, as well as Consolidated Grocery Products, owning among others, the Robertson's spice trade marks.

This diversification should enhance HLH performance which has tended to be fairly undramatic in recent years.

Turning to the new HLH he says: "The company will certainly be very different. Total assets will be in excess of R600 million with attributable earnings above R50 million. In addition, the company, with little or no gearing, will be able to support substantial growth in its activities."

STimes 8/5/88 (194)

Full package

FOR THE third consecutive year, Nampak has hoisted first-half earnings by more than 30%.

Thanks to buoyant consumer spending, SA's biggest packaging group lifted sales 21% to R1,2-billion and operating profit 33% to R145,5-million.

The interest bill fell 31% to R6,9-million, leaving pre-tax profit 40% ahead at R138,6-million.

Investment income was down slightly and the tax rate rose to 38% (37%). The minority slice of earnings rose 20%, so taxed profit was 39% better at R68,4-million.

Earnings a share rose 39% to 163c (1987:117c) and the interim dividend was lifted 35% to 54c (40c).

Borrowings

Chairman David Brown says volumes increased by 11%. Both packaging and other products, such as business forms and tissues, were in heavy demand.

Nampak's borrowings have more than doubled to R83-million because it has stocked up on raw materials. Suppliers — Sappi and Iscor — are trying to serve export markets, hence Nampak's caution.

The Metal Box buy-out will absorb at least another R147-million and at most R260-million of cash, but Mr Brown is confident that Nampak can keep on hoisting earnings in spite of rising interest rates.

Business Times Reporter

Managing director D B McCartan says the buoyant informal sector and an increasingly sophisticated population will underpin growth. Exports are rising.

Strong performance all round at Nampak

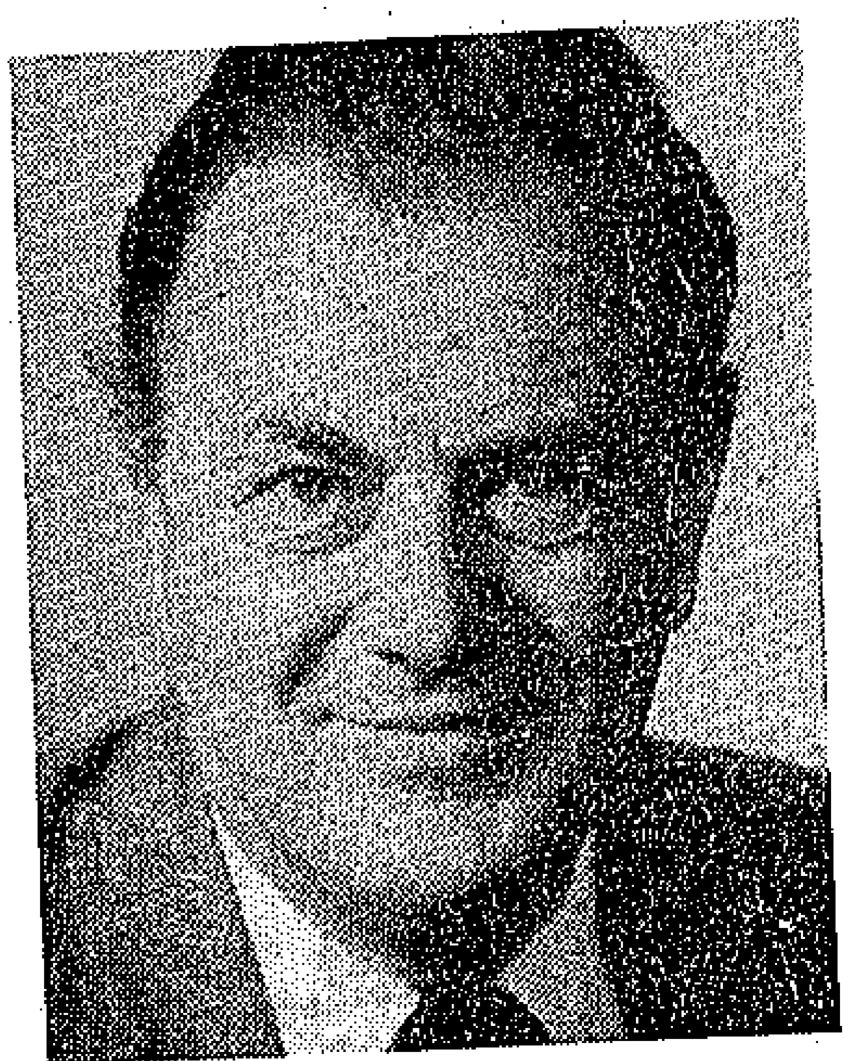
(194)

Star 9/5/88

By Ann Crotty

Barlows packaging subsidiary, Nampak, has reported a 21 percent increase in turnover — an 11 percent increase in real terms — to R1208,4 million for the six months to end-March.

Improved margins and reduced interest payments helped to lift earnings by an even stronger 39 percent to 163c a share from which a dividend of 54c has been declared, 35 percent up on the previous year's 40c. Chairman David Brown is looking for a considerable improvement on financial 1987 earnings.



Chairman David Brown

The group operating profit was up 33 percent to R145,5 million (R109,3 million) due to a improvement in operating margins from 10,9 percent to 12 percent.

A break-down of the contribution from Nampak Products and from the 54 percent stake, that was held in Metal Box during the review period, shows that margins have improved significantly in both divisions.

Nampak Products remained the stronger, contributing R644,8 million (R516,6 million) to turnover and R89,6 million (R67,2 million) to operating profit, reflecting operating margins of 13,9 percent, a strong increase from the previous year's margins of 13 percent.

Management reports that the increase in turnover was enjoyed by all divisions of Nampak Products, by most divisions of Metal Box and in both domestic and export markets.

Metal Box chipped in with sales of R574 million (R487,8 million) and operating profits of R55,9 million (R42,1 million) which meant that operating margins were up strongly from 8,6 percent to 9,7 percent.

Interest paid by the group was down 31 percent to R6,9 million (R10 million) due chiefly to lower borrowings over the period as a whole. This was achieved despite the fact that both Nampak Products and Metal Box experienced the usual seasonal net cash outflows which reduced deposits sharply and led to a more than doubling in short-term borrowings to R83 million. But at end-March gearing remained at a conservative 20 percent.

A slight reduction in income from investments and an increase in the tax rate, due to higher taxation at Metal Box, held back the improvement at the taxed profit level to 34 percent.

But the rate in profit growth was restored to 39 percent at the attributable stage, equivalent to R68,4 million (R49,2 million) by a reduction in outside and preference shareholders' interests.

Management points out that there has been a change in the policy of accounting for deferred tax from the comprehensive to the partial basis. The review results have been computed on the partial basis and the comparative figures for interim 1987 have been restated.

If there had been no change in policy and the comprehensive basis had been maintained then taxed profit would have shown a 35 percent increase to R75,1 million (R55,7 million) and earnings would have shown a 37 percent increase to 139c (101c) a share.

The change to a more liberal treatment of deferred tax has been accompanied by an increase in the dividend cover from around 2,5 times to 3 times.

tection Act, 1962 (Act 71 of 1962) which is administered by the Department of Justice.

Pensions for Blacks: applications received/granted

965. Mr D J N MALCOMESS asked the Minister of Constitutional Development and Planning:

(a) How many applications for pensions for Black persons were (i) received and (ii) granted in February 1988 and (b)(i) how many applications were still under consideration as at the latest specified date for which information is available and (ii) what is the date of the earliest application still under consideration?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING:

This information was furnished by the different Provincial Governments:

TRANSVAAL
(a) (i) ± 7 000.
(ii) ± 2 000.
(b) (i) 9 700 on 15 April 1988.
(ii) December 1987.

ORANGE FREE STATE
(a) (i) 1 288.
(ii) 992.
(b) (i) 1 579 on 13 April 1988.
(ii) 11 February 1988.

CAPE PROVINCE
(a) (i) 1 994.
(ii) 3 205.
(b) (i) 3 551 on 25 March 1988.
(ii) March 1987.

NATAL
(a) (i) 1 318.
(ii) 616.
(b) (i) 1 200 on 15 April 1988.
(ii) November 1987.

Visas: applications received/refused

973. Mr S S VAN DER MERWE asked the Minister of Home Affairs:

(1) How many applications for visas to visit South Africa were received by his Department in 1987;

(2) (a) how many of these applications were refused, (b) from whom were they received and (c) why were they refused in each case?

The MINISTER OF HOME AFFAIRS:

(1) to (2)(a) The hon member is referred to page 24 of the Department's latest annual report which was tabled in this House on 18 April 1988. Owing to the fact that the report covers the period 1 July 1986 to 31 December 1987, statistics were obtained accordingly. Total figures for 1987 only are, therefore, not readily available.

(2) (b) and (c) It is not considered expedient to disclose particulars of this nature, as an application for a visa is a personal matter between the applicant and the Minister of Home Affairs.

Newsprint: cartel situation in paper industry

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992. Mr C J DERBY-LEWIS asked the Minister for Administration and Privatisation:

(1) Whether a cartel situation existed in the paper industry in respect of newsprint for a period of approximately two-and-a-half years; if so, (a) during what period and (b) what was the nature of this situation;

(2) whether a temporary exemption was granted in this regard; if so, (a) when, (b) why and (c) what were the effects of the granting of this exemption;

(3) whether he will make a statement on the matter?

The MINISTER FOR ADMINISTRATION AND PRIVATISATION:

(1) Yes.
(a) Since 1965.
(b) Horizontal price collusion and horizontal collusion on market sharing.

(2) Yes.
(a) Until 1 December 1988.
(b) To allow the contracts which have been entered into by the suppliers and customers to remain legal until they expire.
(c) Maintenance of the contractual status quo between the parties.

(3) No.

Fertilizers, Farm Feeds, Agricultural Remedies and Stock Remedies Act: prosecutions/convictions

994. Mr R W HARDINGHAM asked the Minister of Agriculture:

(1) (a) How many (i) prosecutions were instituted and (ii) convictions were obtained in respect of contraventions of the provisions of the Fertilizers, Farm Feeds, Agricultural Remedies and Stock Remedies Act, No 36 of 1947, during the latest specified period of 12 months for which figures are available and (b) what was the general purport of these prosecutions;

(2) whether he will make a statement on the matter?

The MINISTER OF AGRICULTURE:

(1) (a) (i) Twelve, during the 12 months ending on 31 December 1987;
(ii) nine admissions of guilt and three convictions in Court;
(b) sale or exhibition for sale of stock remedies after the expiry date thereof;
sale of an unregistered farm feed and agricultural remedy;
sale of an unlabelled stock remedy and fertilizers; and
practising as pest control operator by an unregistered person;

(2) no, a statement is not considered necessary.

Own Affairs:

Schools: pupil capacity

124. Mr M J ELLIS asked the Minister of Education and Culture:

(1) (a) How many pupils are there at (i) Glenmore Senior Primary School, (ii) Carrington Heights Junior Primary School, (iii) Dirkie Uys High School and (iv) Andries Pretorius Primary School, (b) what is the pupil capacity of each of these schools and (c) in respect of what date is this information furnished;

(2) whether any consideration has been given to combining (a) Glenmore Senior Primary School and Carrington Heights Junior Primary School and (b) Dirkie Uys High School and Andries Pretorius Primary School; if not, why not; if so, with what result?

The MINISTER OF EDUCATION AND CULTURE:

(1) (a) (i) 140
(ii) 87
(iii) 516
(iv) 330,
(b) (i) 460
(ii) 300
(iii) 1 100
(iv) 780,
(c) 26 April 1988;

(2) (a) yes,
negotiations on the possible amalgamation in respect of Glenmore Senior Primary School and Carrington Heights Junior Primary School are taking place;
(b) no, the Department is not considering the amalgamation of Dirkie Uys High School and Andries Pretorius Primary School since departmental policy prescribes separate facilities for high and primary schools.

White education: amount budgeted

126. Mr A GERBER asked the Minister of Education and Culture:†

What amount was budgeted for White education in the Republic in each financial year since 1978-79?

The MINISTER OF EDUCATION AND CULTURE:

Financial year	amount
1986/87	: R3 698 469 000
1987/88	: R4 141 247 000
1988/89	: R4 377 474 000

Figures as from 1978/79 until 1985/86 are not readily available since White education was under control of the Provincial Education Departments and the then Department of National Education.

The above amounts include all funds for education, irrespective of the budget vote in which they were contained.

Sappi predicts better profits

Cape Times 10/5/88

194

Financial Staff

SAPPI'S chairman Tom de Beer is bullish about the giant pulp and paper company's prospects for 1988.

Speaking at Sappi's AGM held in Johannesburg yesterday, De Beer gave shareholders some indication of the latest trends in the business.

He said: "The flash results for the first four months of the current reporting period indicate that Sappi's attributable profits are more than double those attained in the same period last year.

"While I do not expect this rate of growth to be maintained for the full year, I expect earnings for the eight-month period to be significantly better than in the comparable period in 1987."

As far as markets are concerned, De Beer noted that the domestic pulp and paper markets have shown encouraging signs of growth.

"The decision to go ahead with the R70m expansion of Novobord's facilities and create a state of the art particleboard plant in the Eastern Transvaal, looks as though it was well-timed and the plant should come on stream in time to benefit from the boom in housing which is expected later this year and early next year."

He added that in international markets prices continue to rise.

"Bleached kraft pulp is now trading at 30% about the dollar prices attained in the same period last year in the contract market, while in the spot market prices are 50% above last year."

He told shareholders that linerboard prices are 20% above those achieved in 1987 and fine paper prices have shown a steadily increasing trend with a further 10% price increase in the first quarter of this year.

With the rand declining against the dollar, De Beer said that the current level of the rand value of exports is significantly higher.

In the domestic market price increases have been modest after the rapid rises in 1986/87.

He added that the commissioning of the new turbine at Ngodwana, which is scheduled for August this year, should introduce greater stability in the mill and add a further 15c a share to earnings in a full year.

He repeated that the introduction of minimum tax on companies will not affect the group's dividend policy and reiterated that Sappi will continue to cover its dividend 2,5 times by attributable earnings.

Sappi, which has indicated that it will be changing its financial year to August 31, to coincide with that of its holding company, Gencor, plans to rephase its dividend payments so as to minimize the impact of changed dividend payment dates on shareholders' income stream.

For this reason no interim dividend will be paid for the current period, but a final dividend for the eight months ended August 31, 1988 will be paid in October.

Future interim dividends will be paid at approximately the same time as the final dividend was paid in the past, that is in April.

London stocks afterhours: Blyvoors 538, Bracken 125, Driefontein $10\frac{3}{8}$, E Rand Pro 5, Freegold $8\frac{5}{8}$, Grootvlei $1\frac{1}{2}$, Harmony 7, Leslie GD 133, Randfontein $71\frac{1}{4}$, Southvaal 33, Stilfontein $4\frac{1}{8}$, Venters $2\frac{3}{16}$.

Commodity Index	**1728,3**
Platinum	**$527,00**
Palladium	**$122,00**
Raw Sugar	**£120,90**

Hansard

HOUSE OF ASSEMBLY

†Indicates translated version.

For written reply:

General Affairs:

Independent Black states/South West Africa: overseas loans guaranteed by South African Government

792. Mr C J DERBY-LEWIS asked the Minister of Foreign Affairs:

(1) (a) What overseas loans were guaranteed by the South African Government on behalf of (i) each of the independent Black states and (ii) South West Africa during the latest specified period of 10 years for which information is available and (b) what were the conditions of repayment in each case;

(2) whether any of these loans have been repaid; if so, (a) how many of these loans have been repaid by (i) South Africa in terms of guarantees given by the South African Government and (ii) these states themselves and (b) in respect of what date is this information furnished?

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The MINISTER OF FOREIGN AFFAIRS:

(1) The hon member will understand that in order to protect sources of overseas loans, particulars of each specific transaction should under present circumstances not be published. In terms of Section 13(6) of the Exchequer and Audit Act (No 66 of 1975), the State furnishes information in respect of its guaranteed liabilities only on a global basis, which information is published annually in the Government Gazette.

(2) The South African Government has in no case been called upon to make payments in terms of guarantees made by it in respect of overseas loans to the TBVC States and South West Africa during the past ten years ending 31 March 1988.

Tugs: *Willem Heckroodt/Danie du Plessis*

807. Mr C J DERBY-LEWIS asked the Minister of Foreign Affairs:

(1) Whether his Department was involved in the sale of the South African tugs *Willem Heckroodt* and *Danie du Plessis* to the Government of Mozambique; if so,

(2) whether any agreement was reached on assistance to Mozambique in respect of the operation and maintenance of these tugs; if so, what are the terms of this agreement;

(3) whether it is the intention to ask South African citizens to volunteer to assist in operating and maintaining these tugs; if so, (a) what will be the conditions of service of these volunteers and (b) by whom will their salaries and expenses be paid?

The MINISTER OF FOREIGN AFFAIRS:

I will gladly furnish the hon member with the relevant details verbally.

Diplomatic missions/representatives in countries with which RSA does not have official diplomatic ties

894. Mr C J DERBY-LEWIS asked the Minister of Foreign Affairs:

Whether he will furnish information on whether South Africa has diplomatic missions or representatives in countries with which it does not have official diplomatic ties; if not, why not; if so, (a) in what countries and (b) to what extent?

The MINISTER OF FOREIGN AFFAIRS:

I will gladly furnish the hon member with the relevant details verbally.

Staff complement in RSA/countries abroad

931. Mr C J DERBY-LEWIS asked the Minister of Foreign Affairs:

What was the staff complement of his Department in respect of Whites, Coloureds, Indians and Blacks, respectively, in (a) the Republic and (b) countries abroad (i) in the (aa) 1978-79, (bb) 1982-83 and (cc) 1986-87 financial years and (ii) as at the latest specified date for which figures are available?

The MINISTER OF FOREIGN AFFAIRS:

I will furnish the hon member orally with relevant information.

HOUSE OF ASSEMBLY

SAPPI / 194

All round strength

Like many export-orientated companies, Sappi's fortunes will continue to depend on domestic inflation, the performance of the rand, interest rates and effects of sanctions.

Financially, the group is in a sound position, posting in 1987 some of its best results since formation in 1936. Turnover increased 19% while attributable income rocketed 235%. Debt:equity is about 0,5 against 1,2 in 1985. Interest and leasing cover, as well as the debt cover, have improved just as sharply

FINANCIAL MAIL MAY 20 1988

Activities: *Manufactures and sells pulp and paper and wood. Wholly owned management companies are Sappi Forests, Sappi Timber Industries, Sappi Fine Papers, Sappi Kraft and Sappi International.*

Control: *Gencor owns about 60%.*

Chairman: *T L de Beer; managing director: E van As.*

Capital structure: *31,8m ords of R1 each; 33,7m pref ords of R1 each; 6,7 irredem cum part prefs of 1c each and 649 000 red cum pref shares. Market capitalisation: R1,5bn.*

Share market: *Price: R22,50. Yields: 11,6% on dividend; 14,1% on earnings; PE ratio, 7,1; cover, 1,2. 12-month high, R33; low, R16. Trading volume last quarter, 1,7m shares.*

Financial: *Year to December 31.*

	'85	'86	'87
Debt:			
Short-term (Rm)	180	199	220
Long-term (Rm)	975	671	520
Debt:equity ratio	1,2	0,59	0,48
Shareholders' interest	0,40	0,54	0,57
Int & leasing cover	1,61	2,74	9,15
Debt cover	0,14	0,24	0,52

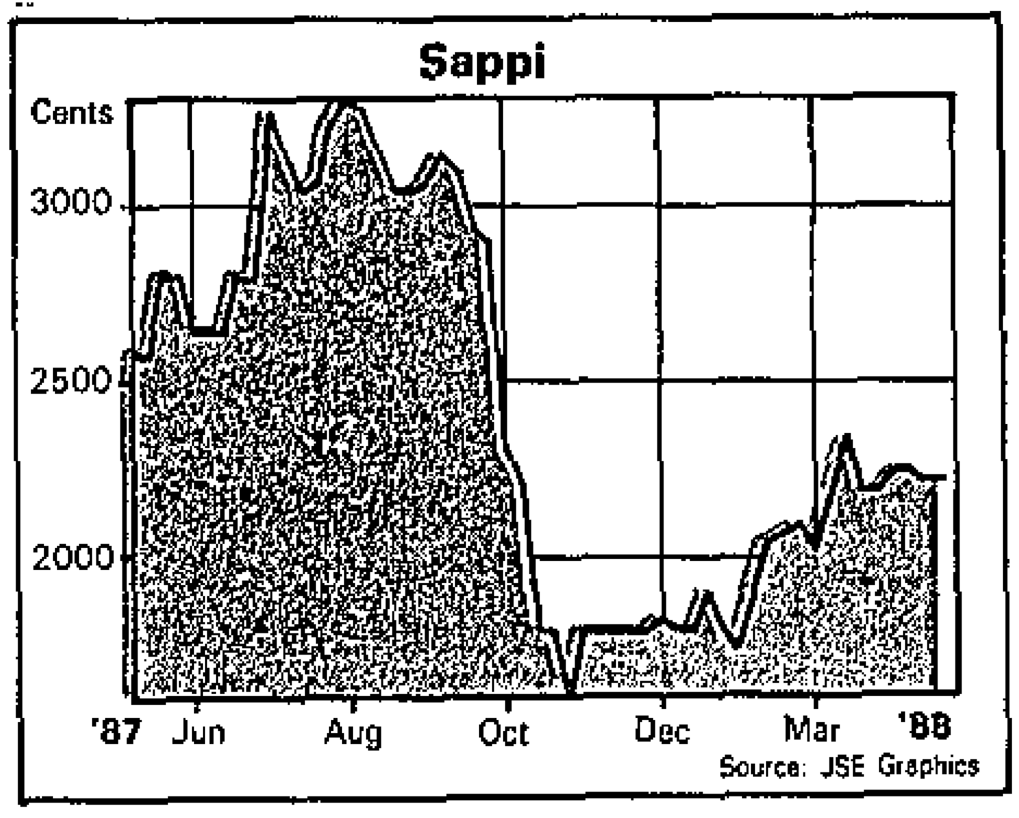
Performance:

	'85	'86	'87
Return on cap (%)	6,7	6,8	11,0
Turnover (Rm)	846	1 101	1 312
Pre-int profit (Rm)	157	170	286
Pre-int margin (%)	18,5	15,5	21,8
Taxed profit (Rm)	56	108	257
Earnings (c)	31	116	317
Dividends (c)	—	40	130
Net worth (c)	1 494	1 581	1 764

Over the past three years, interest charges have fallen by more than two-thirds to R29m. Profitability was helped by increased production, particularly from Ngodwana, healthy world prices and the recent upswing in private consumption expenditure.

Productivity and efficiencies continue to improve. One of the main ideas behind Ngodwana was to rationalise overall operations. Ngodwana involved high costs (aggregated book value of fixed assets is currently R2bn) and high borrowings. One of the major benefits was substantial tax concessions. The recently announced minimum tax on companies, enacted retroactively on 1987's accounts, will cost Sappi close to R30m in 1988. The tax may be offset against future liabilities and, in any event, internal generation of cash — R384m in 1987 — will help to absorb the unexpected tax. Earnings will not be affected.

Another major factor in 1988 — when the year end will be changed to August 31 — is deferred tax. After two years of R5m credits,



FINANCIAL MAIL MAY 20 1988

Sappi's De Beer . . . prices still rising

Sappi charged R45m deferred tax to the income statement in 1987. This year, on information available, I would expect that somewhere around double this amount is likely to be deducted, affecting earnings but not cash flow.

One factor that could change the deferred tax account to the benefit of shareholders is larger-than-expected expansions in future. Deferred tax, of course, delays the cash payment of tax but distributable earnings remain unchanged. Capital expenditure (the source of deferred tax) was R95m in 1987, up from R53m in 1986, but down from R301m in 1985. After the R70m expansion at White River, due to come on stream in 1989, the group expects further outlays of R150m during 1988.

Reflecting this, capital commitments approved but not contracted rose from R7m in 1986 to R96m in 1987. Resulting tax benefits, with the effects of reduction in long-term borrowings from R975m in 1985 to R520m in 1987, place the group in an all-round sound position.

Sappi has a diversified range of forestry products with clearly defined markets. Fine paper (R428m) and Kraft (R483m) contributed most of 1987's R1,3bn turnover. Wood products (R164m) earned more than newsprint (R104m), with tissue and others making up the balance. Though the group is silent on the proportion of its export earnings, Kraft linerboard and newsprint appear to be the most important. From January 1986 to January 1988, Kraft prices increased from \$260/t to \$475/t, while newsprint rose from \$500/t to \$750/t.

The annual report, silent also on the sanctions issue, highlights the surge in world prices. Chairman Tom de Beer says that, as of the first quarter of 1988, "world prices are . . . continuing to rise." They have continued to rise strongly since the report was published.

But sanctions are a worry. Another uncertainty is lack of finality on the export incentives due to replace the current categories A to D, taking effect in the first quarter of next year. Even so, De Beer's "anticipation is for improved profits in the year ahead."

Three major factors currently underpin the outlook: some labour problems in the international forest products industry; low world stockpiling, and little, if any, international over-capacity. And, for those investors interested in rand hedge stocks, the share must be one of the better candidates. Overall, Sappi appears underpriced at current levels.

Barry Sergeant

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Consol worth a nibble

IT is clear that Consol is a fine share, but difficult to trade.

Like so many members of the Anglovaal group, Consol shares scarcely change hands. There are only 6,2-million in issue, of which 55% are with the holding company and another 20% in the hands of an institution.

SA's financial giants do not tend to follow stock in which they are unable to trade in sizeable volume, but there is nothing to prevent an individual from looking for quality investments and buying the odd 100.

THREE AREAS

Consol's business spans three areas in the packaging industry, and includes 22 manufacturing plants spread across SA and employing 7 500 people. Raw materials are mainly sourced in SA.

It started as a glassworks in 1944, making bottles and jars. In the 1960s it expanded its range to include tableware.

About the same time a material with packaging potential was in its infancy — plastic. Managing director Piet Neethling says that Consol "sort of inherited" a plastics business from parent Anglovaal.

"Plastic was seen as the big threat to glass. The acquisition of a plastics business was seen as a defensive counter more than a positive diversification," says Mr Neethling.

The plastics company was largely neglected, and had to prove its worth before Consol's pro-glass management would inject capital. Towards the end of the 1970s plastics had shed its Cinderalla status and Consol started to get interested.

This particular plastics business made such things as toys and toilet seats. But Consol redefined its focus in the packaging business and took the plastics company along that road.

It produces rigid goods, such as bottles and flexible plastic products. One innovation has been woven polypropylene bags to replace imported hessian sacks.

In 1980 the paper division was established and started with corrugated boxes, advancing to folding cartons. This remains the smallest of Consol's divisions.

Consol's branching into non-glass business was not without repercussions. "We were virtually a monopoly as far as glass went, but five years ago one of our major competitors started glass production and has a market share of about 20%.

STRATEGIC

"Consumers welcome a choice of supplier and we embarked on some strategic thinking to improve our competitiveness."

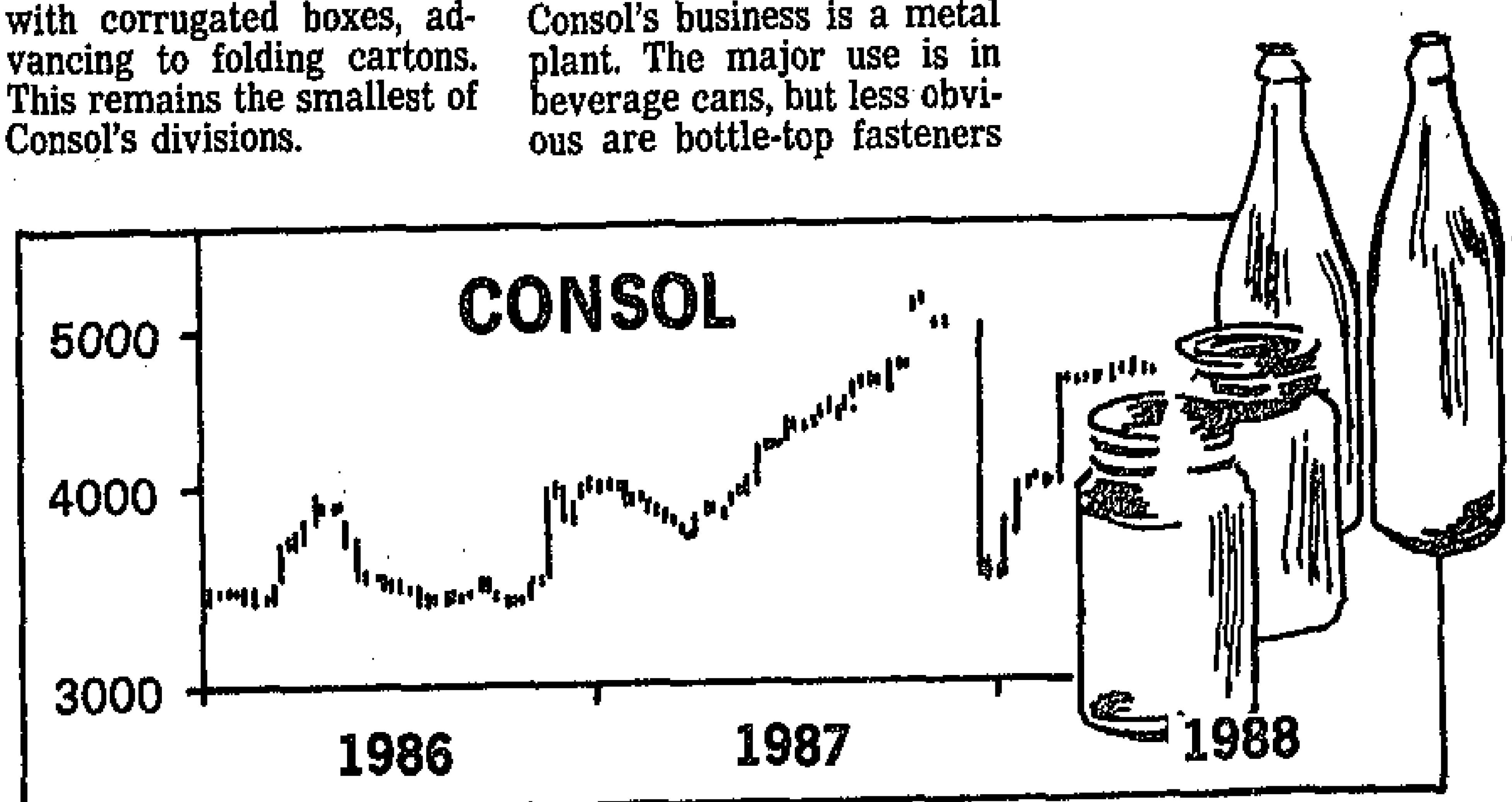
The notable omission in Consol's business is a metal plant. The major use is in beverage cans, but less obvious are bottle-top fasteners for soft drinks, beer and lower-quality wines.

Consol's gearing is 11% on long-term borrowings of R23-million which cannot be got rid of. However, the cash pile is R50-million.

Consol operates in a near-recession-proof industry.

"Provided the wheels do not come off we will continue to do well," says Mr Neethling.

I see no reason to dispute that claim.



Fast-growing Barlow Rand showing a new dynamism

Star 24/5/88 (194)

By Magnus Heystek
Finance Editor

A spectacular increase in earnings from the industrial interests of giant conglomorate Barlow Rand more than offset the drop in earnings from its mining interests with attributable earnings in the six months to end-March increasing by 32 percent.

The market is expected to react favourably as these results are further proof of an emerging dynamism at Barlows after many years of fairly undramatic performances.

The results of strategic long-term planning are now falling into place as the announcement of one big deal after the other in recent weeks testifies. And, according to senior management at Barlows, the best is still to come.

According to the interim results released this morning turnover in the six-month period increased by 23 percent from R8,077 billion to R9,89 billion while the operating profit before interest increased by 30 percent to R894,3 million.

With interest charges virtually unchanged at R125,9 million (R125,1 million), operating profit soared by 37 percent to R768,4 million.

While attributable earnings increased by 32 percent from R236,2 million to R312,6 million, a slight increase in shares issued diluted the rise in EPS to 31 percent from 131,6c to 172,3.

The interim dividend has been increased from 30c to 39c a share.

On yesterday's trading price of 2010c the shares are yielding 13,6 percent and 5 percent on historical earnings and dividends respectively.

	Six months ended March 31				
	1988 R million	%	1987 R million	%	Increase %
Mining and mineral beneficiation	150,1	26	164,3	-9	
Industry	233,9	41	135,9	31	72
Food	155,0	27	113,2	26	37
International	39,6	7	38,0	9	4
Property, finance and administration	-5,5	-1	-16,6	-4	67
	573,1	100	434,8	100	32

Contributions to group profit after taxation.

Outlook good

And the outlook for the remainder of the year is good. Says Mr. Derek Cooper, deputy chairman of Barlows: "With the mining sector expected to show an early recovery and most other divisions maintaining if not accelerating the pace, the outlook is for the growth rate to be sustained for at least the rest of the year.

"In addition, group companies initiated a number of strategic acquisitions during the six months and these should add to the quality of future earnings as well as providing the platform for expansion and development into the next decade."

Some of the acquisitions refered to by Mr Cooper include:

- Joint control of IBM distributor ISM and setting up the giant computer supplier Technology Services International.
- Full control of Metal Box for R269 million.
- 50 percent of Langeberg Co-op for R80 million.
- Previously US-owned Sterling Drug Company for R52,5 million.
- An additional 25 percent of Robor Industrial Holdings, thereby increasing its holdings to 85 percent.
- Control of Logos Pharmaceuticals, formerly known as MSD.

These strategic acquisitions in fast-growing sectors of the market are likely to further boost the flow of earnings from its industrial interests, now the major contributor to group profits.

The sharp increase of 72 percent in earnings from its industrial interests in the first six months the financial year, from R135,9 million in 1987 to R233,9 million, increased its contribution to total profits to 41 percent, surpassing the contribution from its mining and associated interests. (See table).

Lower grades, reduced profits from its coal mines and sharp increases in costs, contributed largely to the 9 percent drop in earnings from mining and mineral beneficiation from R164,3 million in 1987 to R150,1 million.

The earnings from its food interests rose by 37 percent from R113,2 million to R155,0 million, steadily maintaining its contribution to group profits at 27 percent (1987:26 percent).

Internationally

The contribution of its international interests declined from 9 percent(R38,0 million) to 7 percent (R39,6 million), largely as a result of an indifferent performance from J Bibby and Sons.

The US-based packaging and security printing operation Interchecks is in the process of being sold-off to management for $40 million, a move which will hopefully eliminate the drag on earnings of Bibby.

Prospects for the second half of the year are good while an increase in gold and mineral prices should further boost earnings. Any downturn in the economy will not impact on earnings in this financial year, says Mr Cooper.

MNews 25/5/88 (194)

COMPANIES

Waltons shareholders give all-clear for Osa purchase

By MAGGIE ROWLEY, Business Staff

SHAREHOLDERS of Waltons Stationery — which has turned in sparkling results for the year ending February 29 — have given the go-ahead for the group to purchase the entire issued share capital of Osa Holdings (Pty) for R44-million.

In an interview following the shareholders meeting yesterday, MD Frank Robarts said the acquisition was expected to boost turnover by 25 percent.

It would be funded by cash reserves and loans from banks and institutions which would have to be repaid within two to three years.

Waltons has been on the acquisition trail in recent years and further acquisitions were in the pipeline, he said.

The company acquired Osa Holdings and its subsidiary Ozalid from its Dutch parent company, Oce Van Grinten, which has been under pressure to disinvest. The Dutch company owned 87 percent of Ozalid while Old Mutual had a 13-percent stake.

Ozalid manufactures and distributes drawing office equipment, labels, markers and photocopiers.

In its 10th year as a listed company, Waltons reported an 84,6-percent increase in after-tax profits to R24,3-million on a turnover of R329,6-million, up 54 percent on last year's R214-million.

After an extraordinary item of R2,3-million, which represented the net effect of profits on disposal of investments and goodwill written off on acquisition of subsidaries, profit attributable to shareholders amounted to R22,1-million (R12,6-million).

Frank Robarts

While new acquisitions accounted for 30 percent of turnover, they only brought in 10 percent of profits, Mr Robarts said.

Earnings a share soared 81,4 percent to 39c from 21,5c last year.

A final dividend of 9c, up 80 percent on last year's 5c, brings the total payout for the year to 13c, almost double last year's 6,9c.

Taxation at R19-million was 17 percent higher than last year's R16,7-million. However, finance costs dropped marginally to R2,2-million from R2,8-million.

Current assets stand at R148,8-million (1986: R94,2-million) while current liabilities total R82,4-million (R62,6-million).

Mr Robarts said that, while it was too early to tell how trading was going this year, the group expected earnings to show a further improvement.

Waltons Consolidated Investment Holdings, which has a sole investment of 50,2 percent in Waltons Stationery, lifted operating profit before taxation by 95 percent to R4,5-million (R2,3-million).

COMPANIES

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Waltons Consolidated Investment Holdings, which has a sole investment of 50,2 percent in Waltons Stationery, lifted operating profit before taxation by 95 percent to R4,5-million (R2,3-million).

BOWLER METCALF

194 Fr

18/6/88

Holding steady

Activities: *Manufactures plastic packaging for household and personal toiletries, food, motor oils and pharmaceuticals involving blow moulding and injection moulding.*
Control: *Directors hold 75%.*
Chairman: *E G Tindale; managing director: H W Sass.*
Capital structure: *25m ords of no par value. Market capitalisation: R8m.*
Share market: *Price: 31c. Yields: 15,8% on earnings; PE ratio, 6,3. 12-month high, 55c; low, 25c. Trading volume last quarter, 98 500 shares.*
Financial: *Year to December 31.*

	'86	'87
Debt:		
Short term (Rm)	0,4	0,2
Long term (Rm)	0,5	0,7
Debt: equity ratio	n/a	0,13
Shareholders' interest	0,12	0,51
Int & leasing cover	2,96	3,59
Debt cover	1,21	1,57

Performance

	'86	'87
Return on Cap (%)	21,6	17,4
Turnover (Rm)	7,0	7,2
Pre-Int profit (Rm)	0,8	1,1
Pre-Int margin (%)	11,9	15,2
Taxed profit (Rm)	0,7	1,0
Earnings (c)	3,8	4,9
Dividends (c)	—	—
Net worth (c)	5,8	12,9

A virtually unchanged forecast EPS until the end of 1988 hardly provides much incentive to buy Bowler Metcalf shares. Last year net income was 6,1% and EPS 16,7% up on the listing forecasts — only because of a correction in the weighted average number of shares. A normal tax rate for the first time since 1983 will prevent any material improvement in earnings, even though net income is expected to be up by 70%. A maiden dividend, an interim of 1c, will be paid in September 1988.

On January 1 the company bought Call Tech — which last year showed profit of R355 000 — for R400 000 cash. Resulting improvements in mould production will be felt towards the end of the year.

Chairman Edgar Tindale says certain production machinery will be commissioned shortly, but because of "the lean times in the plastic industry, we do not believe this plant will have a material effect on turnover or profit this year."

If this sounds rather dull, the risk profile is limited in that the company's plastic packaging is produced for essential commodities, on which cyclical economic downturn might not impact directly. The p:e of 6,3 is probably adequate.

Louis Venter

The Star

A wrong turn in tackling squatting

THE WHOLE thrust of the Government's squatter legislation is wrong. What the State intends with its Illegal Squatting Amendment Bill is to "deal with" squatters. What it should be doing is relieving the unbearable pressure on land and housing that has built up through rapid urbanisation, a process in which squatters are the victims, not the culprits.

Squatting is a problem South Africa has come nowhere near defeating. The difficulties have been further aggravated by the still prevalent white perception that squatters are aliens to be somehow got rid of. They are nothing of the sort. They are fellow South Africans caught in a tide of economic desperation. Their plight deserves sympathetic redress.

The worst of the new legislation is punitive action against landowners who give permission for squatters to occupy their premises. It permits a squatter to be expelled even if he has the owner's permission to live on particular land, and it prevents him from using that permission as a defence against eviction. The owner or lessee would meanwhile face fierce fines.

There can be no excuse for such arbitrary intrusion into a landowner's rights, unless the owner is in breach of land use regulations or is responsible for disturbing the peace (neither of which requires a squatting law to be attended to).

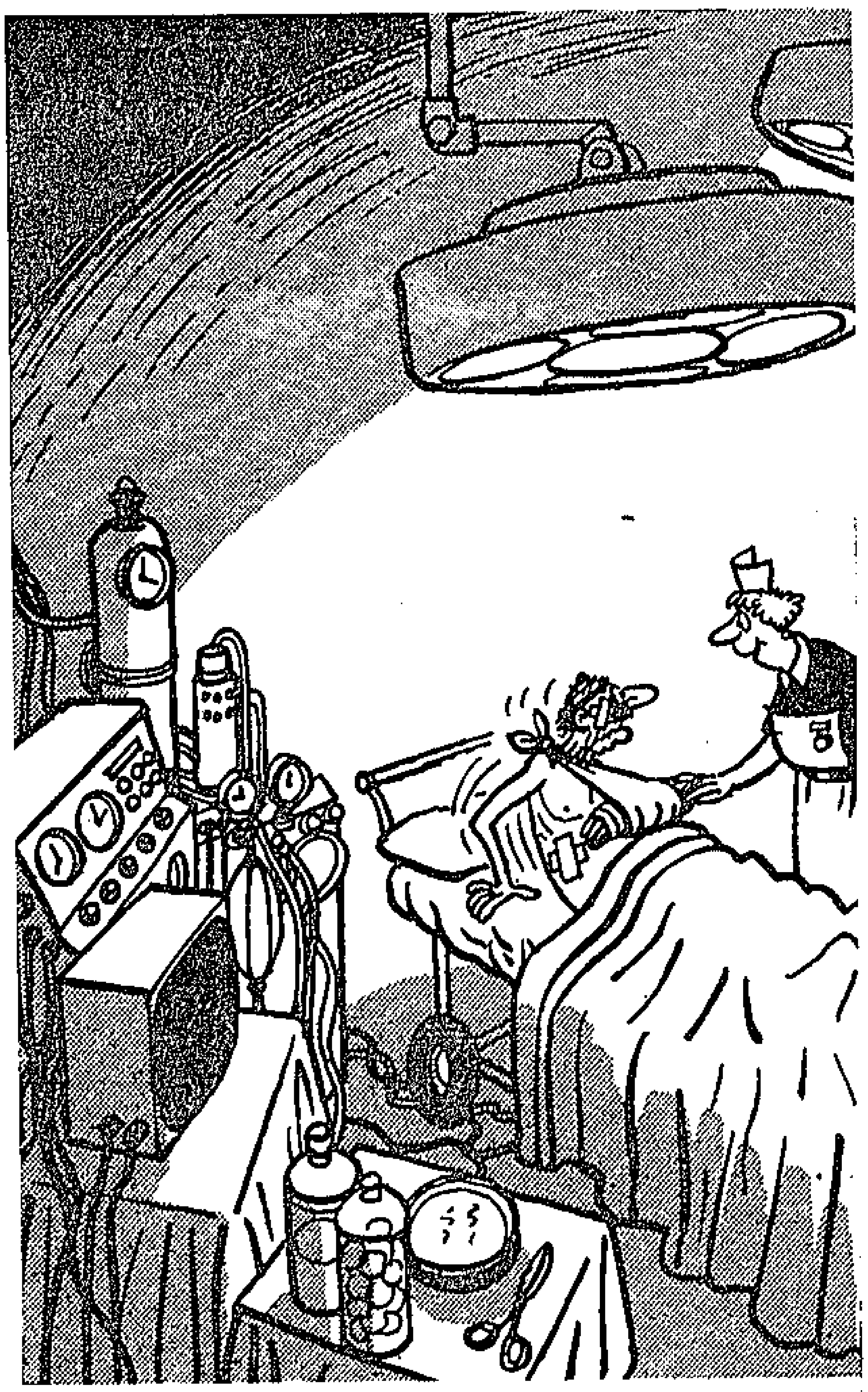
Clearly squatters should not have carte blanche to live where they like, but they also cannot be wished away. The Bill appears to make some attempt to address this issue by providing for "designated areas" where the growth of informal towns will be allowed. This is an important advance, the first official recognition of the inevitability in present circumstances of squatter towns, until the housing backlog can be overcome.

The real answers to squatting lie in a totally different direction from forcible evictions and punitive prosecutions. They lie in upgrading existing informal settlements into more livable places and in a sustained crash programme to eliminate the horrendous housing shortage. A start has been made in the PWV metropolitan complex, for instance, with the allocation of more land for township growth. Now we need to see the houses.

A bizarre twist

THE FACTORS which are said to have compelled Daimler-Benz to reconsider its position in South Africa are regrettable in the extreme. Neither West-

who was fired at another factory which supplies Mercedes parts. It rendered the plant, in the words of a Stuttgart executive, Mr Manfred Gentz, "al-



"Good news! They've caught your young assailant a

Did Russians

— O

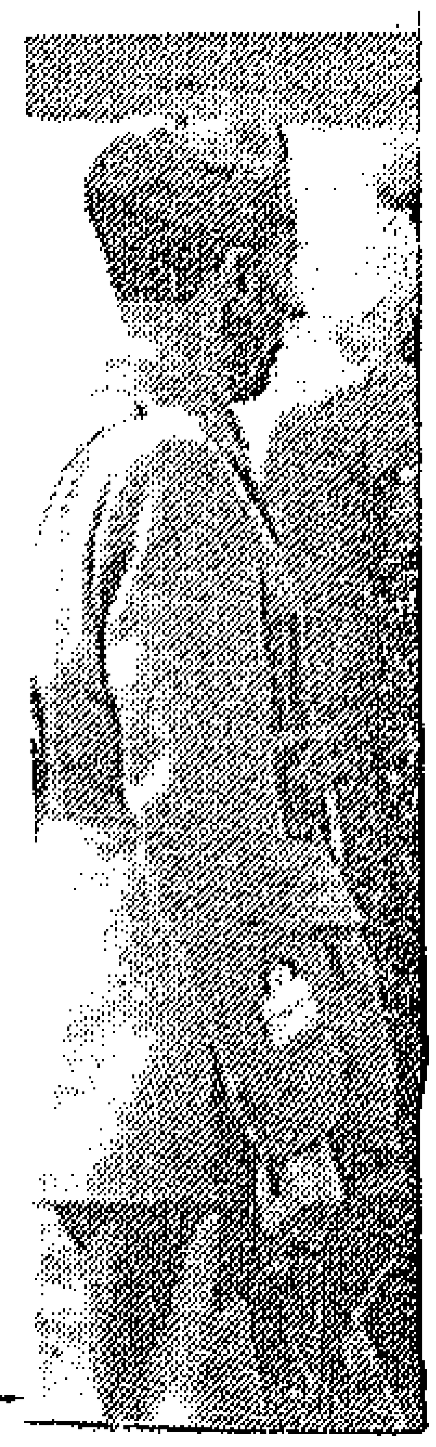
WALDHEIM: The Missing Years by Robert E Herzstein (Grafton Books, R44,99, pp303)

Robert Herzstein has brought a remarkable scholarly sledgehammer to bear on this recalcitrant nut.

Waldheim's "missing years" have been investigated as thoroughly as possible, with archival sources from all over the place.

Although I expected to be bored by the whole silly story, the fact is that Herzstein tells it well (some tabloid prose apart) and answers a considerable puzzle.

There are two central mysteries. How did Waldheim come to figure on a list of war criminals established by the Yugoslav government *in 1947? Why was this accusation* then quietly buried for the next four decades? Rumours abounded to the effect that Waldheim must have been blackmailed by the Soviet



Key to Mondi's rapid growth is its R1-bn Richards Bay

Str 20/6/88 194

Mondi Paper Company, which celebrates its 21 years in business this year, has developed rapidly into one of the most integrated timber products' enterprises in the world.

A subsidiary of Anglo American Industrial Corporation, Mondi has a turnover of more than R1 billion, with six operating divisions covering forestry; sawmilling; manufacture and distribution of timber products; manufacture of pulp, paper and board; and paper merchanting.

Apart from supplying the domestic market with a wide variety of products, Mondi is a major exporter and is a holder of the State President's Award for Export.

The paper division at Merebank, Durban, is one of the largest individual paper mills in the world. It produces newsprint, fine papers and supercalendered mechanical papers from five paper machines. These machines are equipped with computerised process control, automatic reel wrapping and computerised weighing systems.

Merebank can produce about 290 000 tons of newsprint, 90 000 tons of mechanical papers and 70 000 tons of fine papers a year.

The board mills division consists of three boxboard mills at Springs, Umgeni and Bellville, a linerboard mill at Piet Retief and a mill at Felixton, which produces fluting from bagasse (cane fibre).

The three mills have a total annual production of 150 000 tons from six machines. Piet Retief has a capaciaty of 85 000 tons of linerboard while Felixton can produce 90 000 tons of fluting.

The key to the company's growth, however, lies in its massive R1 billion Richards Bay pulp and linerboard mill, which was commissioned at the end of 1984.

It produces bleached and unbleached softwood and hardwood pulps, fluff pulp, whitelined packaging boards and food boards. The pulp is also used by the other six paper and board mills in the group.

The Richards Bay mill, the largest single-line greenfield pulp facility with self-contained chemical plant in the world, is laid out in four main islands — woodyard, chip storage, power and recovery; cooking and bleaching; chemical manufacture; and pulp and paper machines. The pulp line and linerboard machines have a combined production capacity of 420 000 tons a year.

Production of chemical pulp, previously imported by Mondi, represents a large saving of foreign exchange for South Africa to complement the foreign exchange earnings generated by the export of Richards Bay products.

About 6 000 tons of timber is needed daily to keep the giant mill running. The wood comes mainly from Natal and South-East Transvaal.

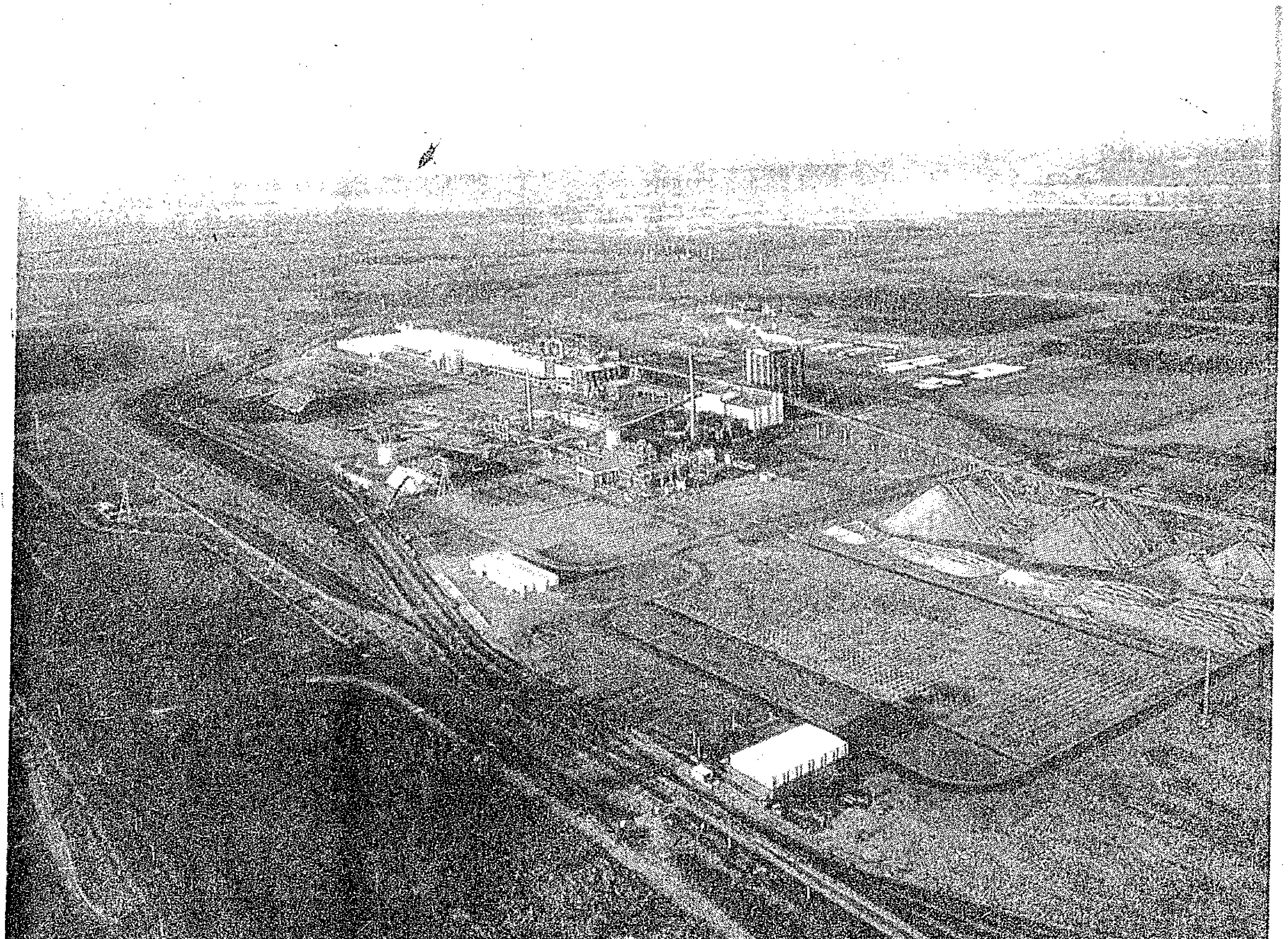
Like other mills within the group, the Richards Bay pulp and linerboard operation contains state-of-the-art computer controls for processes and production.

It also uses the latest environmental control technology — more than R45 million having been invested on this aspect — and is highly energy-efficient.

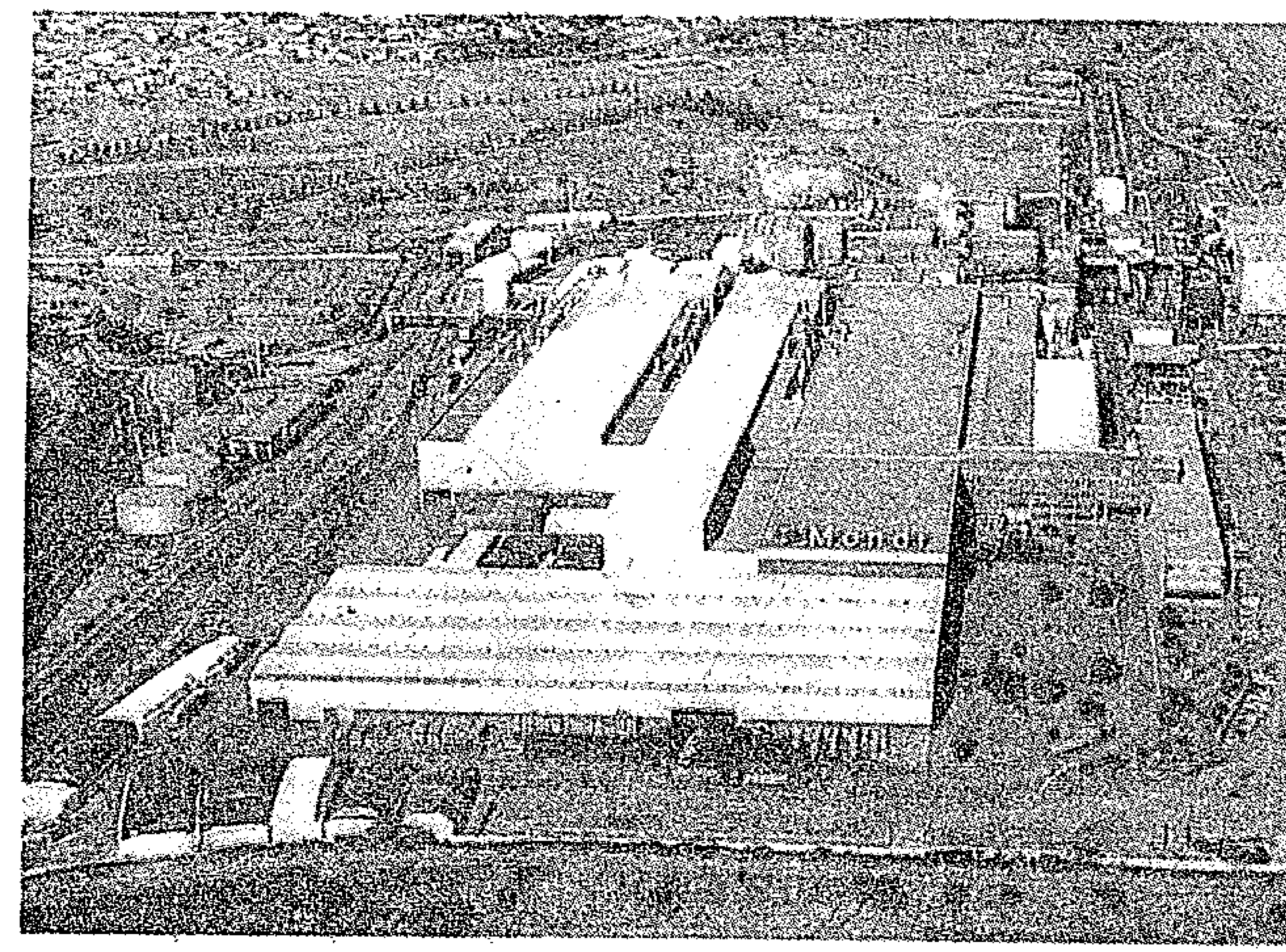
This year, the mill made a R10 million investment in a new hydropulping plant that will increase the capacity by five to 10 percent. Construction started mid-January and work is on track to commissioned two hydropulping lines in October. It will be the South African paper industry's first fully automatic hydropulping insrtallation.

Overall, it will increase efficiency in that spare capacity in the mill's bleach plant will be taken up and materials presently wasted will ... the producti...

Mondi's f... plies quality... construction... ture and as a... and board.



The giant Mondi Richards Bay pulp and linerboard mill, which is laid out on a site of more than 380 ha.



An aerial view of Mondi's Merebank plant where five paper m... total rated capacity of 450 000 tons.

Market leader in carbonless pap...

194 Str 20/6/88

Pioneered by NCR Corporation in the US in 1948, the development of carbonless paper reached its peak in 1953 when it was manufactured by Appleton Coated Paper, part of the NCR group.

This brand-named NCR Paper was first sold commercially in 1954 and the company was bought by BAT Industries in June 1978.

Wiggins Teape introduced NCR Paper to South Africa in 1956 and it was the only supplier of carbonless paper to the SA market until 1970 when the first competitive brand made its appearance.

In 1972, Wiggins Teape developed its own carbonless paper, called IDEM, which in Latin means "the same as". The product was launched in 1973 and since then has remained the market leader.

Though a very involved and highly technical product, it can be described as a paper product with two different coatings. The most complex coating, called CB, is coated on to the back of a sheet of paper. It consists of special dyes which are enclosed in microscopic capsules. The second coating, called CF, is a reactive substance and is coated on to the front of the paper.

When the two sheets are brought into contact with each other and pressure is exerted on the top sheet, the pressure breaks the micro-capsules, resulting in the release of the special dyes. At this stage they are colourless. The dyes are then absorbed by the CF coating and a reaction takes place which forms a visible image.

Numerous copies are produced by coating middle sheets with both coatings to produce a CFB sheet.

Besides assisting the printer in the production of various copying forms, it also affords the public many advantages in the use of business forms.

Carbonless paper is smear and smudge resistant. It produces sharp and clear copies, it does not soil the hands or clothing and eliminates the extraction and disposal problems associated with carbon paper.

It has an inherent safety factor in that the copy cannot be erased without dete... nates carbon... self, contains... mation on the...

In short, c... sists in the q... copies, maint... fies servicing... cious time. A... prove custom... tivity, legibi... morale.

It adds pr... versatility, a... bulky forms... space, total c... carbon nuisan... plications, it h... and flexibility... procedures in... fessions.

N KENNEDY

Sappi recognised as a company that cares

Star 20/6/88 (194)

As one of South Africa's biggest employers, Sappi has long recognised its responsibility to the community.

Last year, it proved this commitment by providing assistance to flood victims in the affected areas of Natal and kwaZulu, where the company has several large operations. A donation of R500 000 was provided in the form of building materials for emergency shelters and water supplies and, in some cases, food and clothing to assist the victims of the flood.

Its contributions run far deeper than mere donations of money or corporate sponsorships, however. The company believes it has an inherent duty to support all those engaged in production and so it makes a substantial re-investment in communities where Sappi plants are situated and those from which employees and customers are drawn.

Traditionally, papermakers are large consumers of water and Sappi continues to invest considerable resources in developing methods of reducing its water consumption. By developing and implementing the Sapoxal proceess, for instance, the company has been able to reduce its water comsumption per ton of paper produced to less than 25 percent of that required by most pulp and paper manufacturers in other countries.

Sappi has also devised a method of reusing treated effluent water and at Ngodwana Mill waste water is piped to a farming area where it irrigates pastures to support cattle.

Forests are the birthright of every South African and Sappi has made its contribution in protecting them. It invests and maintains picnic spots such as those in the Karkloof Falls area in Natal and the public hiking trail in the Elandshoogte area in the Eastern Transvaal.

In 1983, the company sponsored the highly sought after "Sappi Collection", an illuminating study of South Africa's wildlife heritage. The proceeds were given to the SA Nature Foundation to be used in the preservation of the natural environment.

Education is another of its priorities. The company provides many ongoing training facilities for its staff and an extensive bursary programme for students at universities and other tertiary level educational insitutions.

To celebrate its 50th anniversary in 1986, it expanded its community involvement by donating 50 000 indigenous and exotic trees to various municipalities. It also sponsored a rescue vessel for the National Sea Rescue Institute in support of coastal communities and the extension of its support to the universities and other tertiary education institutes.

A project to provide smaller farmers with saplings and constructive advice on the growing of these trees has, since 1983 when it was launched, cost almost R1 million.

Metal Box/Nampak deal offers additional benefits

Star 20/6/88 194

By Sven Forssman

Metal Box South Africa shareholders taking the Nampak share option could enjoy an additional earnings boost of more than 20 percent in the 1989 financial year, says Mr David Brown, chairman of both companies.

Nampak announced in March its intention of taking over the 46 percent balance of ordinary shares in Metal Box South Africa not already held by it, as well as the preferred stock.

Basis of the deal

The basis of the deal was that Nampak would offer 35 Nampak ordinary shares or R860 in cash for every 100 Metal Box SA ordinary shares.

Metal Box in Britain indicated that it would elect to take the cash offer for its 25 percent holding, but the ratio of the deal suggests that most shareholders would prefer the share swop.

Mr Brown says the pro-forma calculations that show an earnings improvement of more than 20 percent is based on four considerations.

"They are the strategic plans of both companies, the recently adopted partial deferred tax system, the assumption that all Metal Box SA shareholders take the share alternative and the proposed structural changes," he says.

In the original announcement, it was stated that the implementation of the deal calculated retrospectively to September 30 1987 would have added about nine percent to earnings, 9,4 percent to dividends and 16,7 percent to the market value. On the same basis, Nampak's earnings would have decreased by 1,3 percent.

Synergistic benefits

According to pro forma calculations, existing Nampak shareholders should benefit by about four percent in earnings growth if the Scheme of Arrangement is implemented.

The main synergistic benefits of the deal, according to Mr Brown, are the "accommodation of future projects and expansion without minority constraint, increased gearing to be repaid from the strong combined cash flow, wider management deployment and further minor rationalisations".

Since the scheme, if approved, would only be operative for two months of the current financial year, it would have little effect on the earnings of either company this year.

Standard Merchant Bank, acting on behalf of Metal Box SA, and Finansbank acting on behalf of Nampak, have both declared the scheme to be "fair and reasonable" to the parties concerned.

4000

PAPER WORKS EXHIBITION PREVIEW Compiled by STAI

Star 20/6/88

(194)

International flavour for exhibition on paper-making

Paper mills from England, Belgium, Canada, Austria, Brazil, Holland, USA and Italy join with local paper mills in an exhibition on paper-making at Wits Club, Cape Dutch Barn, Milner Park Showgrounds, starting tomorrow and running to Thursday.

The same exhibition, Paper Works expo, which was held in Cape Town earlier this month, will open in Durban on July 12 and run for four days.

It has been organised by Wiggins Teape and is being supported by local paper manufacturers Mondi and Sappi.

The international flavour will be enhanced by examples of prize-winning entries from Hong Kong, Britain and the US in the corporate stationery competitions run by Wiggins Teape in these countries. The *1988* art of design competition run by Wiggins Teape will also be featured.

The exhibition will show the development of paper and its conversion from converters and printers through to end-users and consumers and will highlight paper-making itself, quality testing at the mills, a live advertising studio and modern trends, such as laser printing.

From left: Mr Vincent van der Byl, national marketing director, Wiggins Teape; Jane Raphaely, editor, Cosmopolitan; and Mr Derek Smith, managing director, Wiggins Teape, at the Cape Town exhibition.

Mr Vincent van der Byl, managing director, Wiggins Teape, says: "The exhibition is intended to elevate paper as an integral part of the medium of communication and design.

"A major highlight will be corporate identity and corporate image in which design, print and paper will be shown as a co-ordinated concept to support a company's image and identity. It will show that the correct choice of paper will enhance image and promotion.

"Hopefully, the exhibition will educate those not totally versed in paper and print, like technikons, universities and art colleges, as well as the end-user and consumer who may not be aware of the integration and co-ordination required by mills, merchants, advertising agencies, designers and printers."

It is targeted at a broad range of consumers and end-users — converters and printers, stationery manufacturers, inplants, merchants and stationers, industrial editors, advertising agencies and designers, graphic art students and the business community.

● How to get to the exhibition. Turn into Yale Road off Empire *Road then take first turn right* through tunnel into old showgrounds.

Fostering new standards of excellence

Sappi Fine Papers, a major division of Sappi, has always endeavoured to foster standards of excellence within the South African paper and printing industries.

It was with this goal in mind that it established the Sappi Printer of the Year Award in 1980.

"This is a title proudly born and a true mark of excellence afforded to the elite few who have demonstrated a superior edge to their industry peers," says marketing manager, Sappi Fine Papers, Mr Ralph Clay.

In 1984, it established the coveted Sappi Form of the Year Award.

Says Mr Clay: "It has been a great privilege to reward oustanding designers in their quest to create brilliant cost-effecient office documentation."

The Specialist Press Association Award was sponsored by Sappi for the first time in 1987. It is an award which recognises excellent achievement in the print and design of magazines in the burgeoning trade and technical sector of the publishing market.

"We believe that technological, as well as service standards, can only be improved once a relationship of real interdependence has been estabished between paper manufacturers, publishers, merchants and consumers," he says. "Right now we are producing your child's first salary cheque and growing your grandchild's first school book.

"However, our responsibility towards future generations runs much deeper than merely economic considerations. Although we are the market leaders in our product category, we prefer to focus on qualitative rather than quantitative factors.

"That is the cornerstone of our philosphy."

Mr Clay says that while the South African paper industry ranks with the best in the world, Sappi is not content to rest on its laurels. It will continue to produce new paper technologies as it is totally orientated towards the future.

"We don't take a merely utilitarian view when it comes to paper matters. We believe that paper shapes our lives, figuratively and literally. Quality, magnificent colour, the very essence of life finds expression in the style of paper we use."

Pioneers of paper merchandising

Star 20/6/88

Wiggins Teape, formerly, Alex Pirie, opened its offices in Cape Town in 1896 and pioneered the geographical spread of paper merchandising here.

It was the first company to open in Johannesburg, Pietermaritzburg, Port Elizabeth, Durban, Pretoria, Gaborone, Bloemfontein and Windhoek.

The company is owned by Wiggins Teape UK, which has just over 75 percent shareholding and by Eagle Trust, with just under 25 percent. Wiggins Teape UK is wholly owned by BAT Industries, the third largest industrial group in the United Kingdom.

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It is the biggest manufacturer of carbonless paper internationally, having carbonless operation at Ely, England, and Nivelles, Belgium.

Wiggins Teape SA introduced carbonless paper to South Africa in the 1960s. It distributes both Mondi and Sappi products as well as Wiggins Teape's manufactured products and it represents mills in 12 countries.

Dedicated to servicing the needs of the paper and print industry, it also initiated the drive to service the major specifiers of paper — advertising agencies, design studios and large businesses.

This year is a special time for Wiggins Teape as it was in 1888 that Conqueror, a corporate stationery paper and board was developed.

Over the past 100 years it has maintained its market leadership in the UK and Europe. With constant innovation and change in Conqueror, the range has been expanded through the introduction of a brilliant white paper, new tints and smooth wove finish in a variety of tints.

Wiggins Teape is one of three major merchants — there are seven altogther — operating in the South African market with a share of just over 20 percent. With the other two companies, Peter's Papers and Haddons, they have a total market share of 66 percent in a market that is worth about R600 million a year.

Aggressive marketing pays off at CNA Gallo

Star 27/6/88

(196)

By Sven Forssman

While the improvement in economic conditions played a role in the earnings growth of CNA Gallo, much credit must go to management's well-timed decision to lay the main emphasis and stress on aggressive marketing and sales policies, chairman Tony Bloom says in the annual report.

"Sales at more than R429 million were 22 percent ahead of last year. This compares with an increase in the Consumer Price Index for the same period of 13 percent and a growth in general non-food industry retail sales of approximately 18 percent.

"Attributable after tax and minorities profits amounted to R23 million, an increase of 76 percent on the previous financial year. At the pre-tax level, all operating divisions reported substantially improved profitability."

Mr Bloom says the group anticipates further real earnings growth, despite the much higher base.

"Given economic and political stability, I have every confidence that these budgets will be achieved," he said.

Mondi earmarks R170-m for capex

Star 30/6/88

494 194

By Sven Forssman

Mondi Paper Company plans to spend R170 million over the next two years in a programme to increase production capacity and upgrade quality within its board mills division, says chief executive Tony Trahar.

He said yesterday the programme was aimed at meeting the increased demand for board products in the packaging, printing and sationery industries. Further upgrading and expansions would be considered in phases.

"To finance this expansion and Mondi's ongoing fixed asset replacement, shareholders have undertaken to inject new equity of R126,5 million. The balance of the funds required will be provided from Mondi's internal resources and banking facilities."

The capital expenditure includes R154 million for the rebuilding and doubling of capacity of the No 6 board machine at Mondi's Springs plant, which is expected to be completed by the end of 1989.

Another R12 million has been allocated to general upgrading at the Springs board mill, including quality control in the water-effluent and stock-cleaning systems and the installation of wastepaper processing and collection plants.

The remainder of the expenditure will be on effluent disposal at the group's fluting mill at Felixton, Northern Natal.

Said Mr Trahar: "The demand for folding boxboard over the past 18 months has increased considerably because of the trend towards import replacement and general growth in manufacturing industries that use board to package their products.

"We're committed to providing cost-effective alternatives to imported products and to the development of new product grades."

Mondi boards are used in a wide variety of end products, including packages for detergent, cereal, footwear, confectionery and cigarette cartons, matchboxes, gypsum board, bookbindings and textile cores, as well as corrugated containers for packing citrus and deciduous fruit, beer, beverages and soaps.

MONDI'S R174m SPLURGE

Mondi is to spend R174m at its board mills over the next two years to meet increased demand for folding boxboard and corrugated containers.

CE Tony Trahar says the figure includes R154m to rebuild the Number 6 board machine at Springs. This will increase Mondi's annual board capacity by 12% from 325 000 t to 365 000 t. The machine's capacity will double to 81 000 t, with the potential to expand further to 100 000 t.

A further R12m will be spent on general upgrading at Springs, including quality control in the water effluent and stock cleaning systems. Another R5m will be spent on effluent disposal at the Felixton fluting mill and R3m on boiler improvements at Bellville.

Says Trahar: "Over the past 18 months, demand for folding boxboard has increased considerably because of the trend towards import replacement and general growth in manufacturing industries that use board to package their products."

FINANCIAL MAIL JULY 1 1988

Mondi to spend R170m on expansion

4/7/88

MONDI PAPER CO is to spend R170m over the next two years in a programme to increase production capacity and upgrade quality within its board mills division.

The expenditure is over and above the group's normal capital requirements.

The programme aims to meet the increasing demand for board products in the packaging, printing and stationery industries.

Further upgrading and expansions will be considered in future phases.

Mondi CE Tony Trahar says that the capital expenditure includes R154m for the rebuilding and doubling of capacity of the No. 6 board machine at Mondi's Springs plant. This is expected to be completed by the end of 1989.

The rebuilt machine will produce a high quality range of boards and will have a capacity of 81 000 tons a year with the potential to be expanded further to 100 000 tons a year.

"Over the past 18 months demand for folding boxboard has increased considerably because of the trend towards import replacement and general growth in manufacturing industries that use board to package their products," says Trahar.

Mondi has also allocated R12m to general upgrading at the Springs board mill, including quality control in the water effluent and stock cleaning systems and the installation of waste paper processing and collection plants.

About R5m is being spent on effluent disposal at the group's fluting mill at Felixton in northern Natal and boiler improvements worth R3m have been carried out at the Bellville mill in the Cape.

"This is a major investment decision which reflects the shareholder's confidence in Mondi.

"To finance this expansion and Mondi's ongoing fixed asset replacement programme, shareholders have undertaken to inject new equity of R126,5m.

"The balance of the funds required will be provided from Mondi's internal resources and banking facilities.

"Mondi is committed to providing cost-effective alternatives to imported products and to the development of new product grades.'

Sappi gains market share in R1,5bn deal

CAPE TIMES 16/7/88

(194)

By AUDREY D'ANGELO
Financial Editor

SAPPI will acquire control of Saiccor (Pty) and of the Swaziland-based Usutu pulp mill in a R1,5bn transaction, it was announced yesterday.

The deal, resulting from a decision by British-based Courtaulds to withdraw from the wood pulp industry worldwide, sent Sappi shares R2,25 higher yesterday to R31,75. They had already risen on Thursday on rumours that the deal was pending.

The purchase of the Usutu pulp mill is subject to the consent of the Swazi government.

Saiccor was originally set up by the Industrial Development Corporation (IDC) in partnership with British Celanese and an Italian company, Snia Viscosa, to produce pulp for the manufacture of viscose cellulose for the textile industry. It now supplies 11% of the world market.

A statement issued by Sappi yesterday said that as part of the deal it would link up with the international marketing consortium which has bought control of the Speciality Pulp Trading Group (SPT) from Courtaulds.

In addition to marketing both Saiccor and Usutu's products world-wide which it does at present, SPT would also assume a pivotal role in the international distribution of Sappi's other products.

The purchase of Saiccor also gives Sappi an additional 82 000 hectares of high growth timberlands located conveniently to its own resources and operations.

The statement says that "flowing from Courtaulds' decision to get out of the woodpulp industry world-wide, the opportunity arose for Sappi to acquire, with overseas investors, 80% of Usutu.

"This part of the transaction is subject to the approval of the authorities of the kingdom of Swaziland. The Swazi authorities will retain their holding of preference shares in Usutu."

Usutu, a low cost producer, is located near Manzini in Swaziland, and supplies about 12% to 14% of the world's unbleached kraft softwood pulp. About 40% of its product is sold on the SA market and the balance is exported.

Sappi has undertaken to invest a further R30m in Usutu to increase production.

Sappi, along with overseas investors, is buying Courtaulds' stake in Usutu and part of that held by the Commonwealth Development Corporation (CDC).

The deal is complex. Sappi is buying direct control of 33,3% of Saiccor and shareholders' claims of R17m from Industrial Selections (Indsel), National Selections (Natsel) and the IDC. This portion of the transaction, involving about R305m, will be effected by the issue of a total of 10 520 000 new Sappi ordinary shares to the three parties.

The purchase of the remaining 66,7% of Saiccor from Courtaulds and shareholders' claims of R34m against Saiccor, and the acquisition of 80% of Usutu, will be effected by the issue of a further 10 016 000 new Sappi shares, and a R41m cash payment.

In addition Sappi will assume certain liabilities amounting to approximately R480m and will repay these in instalments over an extended period of time.

The announcement says the 10 016 000 new shares issued will be renounced in favour of Gencor.

Sappi MD Eugene van As said that the deal made Sappi one of the largest suppliers of pulp and paper in the world.

Journalists' register is 'close'

20/7/88 (194) B/Day

Major papers may feel heat of news rules

MAJOR commercial newspapers could be affected by the latest media regulations which demand the registration of all people working for news agencies.

This was the view of Sidney Kentridge SC, in legal opinion to the SA Society of Journalists.

The demand for registration is part of the Media Emergency Regulations promulgated on June 10 under the Public Safety Act. The regulations demand registration by July 31.

It is Kentridge's opinion that according to the regulations, if a newspaper, in addition to its ordinary business of publication, provided news on a regular basis for other publications, it would fall within the definition of "news agency business".

Kentridge found that even though such a wide definition would demand the registration of major commercial newspapers, it would have no effect on the validity of the regulations.

ELSABÉ WESSELS

TML chairman Pat Retief yesterday condemned the media regulations and said he found the regulations came dangerously close to creating a national register for journalists.

Retief said recently the company could not advise or encourage its employees to breach those regulations. To do so could be an act of civil disobedience on the part of the company and a criminal offence.

SAPA reports that the repercussions are likely to be far-reaching. News organisations are preparing to challenge the regulations.

"It is a crisis for SA as much as it is for journalism," The Star editor Harvey Tyson said yesterday.

"Despite assurances to the contrary, this regulation violates the very basis of freedom of information and independent journalism."

Sullivan withdrawal helps SA company

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Finance Staff Star 12/7/88

The Carlton Paper Corporation will benefit to the tune of R2 million this year after its Sullivan Code-initiated social responsibility programmes were stopped when the Rev Leon Sullivan withdrew from the programme.

The Sullivan Code of Principles monitors the treatment of black workers by US companies in South Africa and after pressure on its major US shareholder, Kimberly-Clark, Carlton last year spent about R2 million on education, training, community development and social justice in adherence to the code.

Says Carlton chief executive Mr Keith Partridge: "We achieved a category one rating for our efforts, but the expenditure was not tax deductible and was a financial liability."

Mr Partridge added that none of the 90 management jobs shed as part of a major cost-cutting programme were related to the administration of the social responsibility programmes.

"We still have a large social responsibility budget, which we spend internally on our own staff, and not on external programmes as prescribed by the Sullivan Code," Mr Partridge said.

Carlcor ups eps

STAR 22/7/80 (194)

Carlton Paper (Carlcor) earned more in the first six months of its current financial year than in the preceding 12 months.

Earnings per share more than doubled to 46,2c (22,3c) in the six months to June.

The interim dividend has been doubled to 24c.

Operating income rose 76,2 percent to R15,8 million on turnover up only 10 percent to R117,6 million.

Debt was slashed to produce gearing down from 67,2 percent to 35,4 percent. Interest paid dropped from R1,6 million to R1,4 million.

With a reduced tax rate of 49 percent net income more than doubled from R3,5 million to R7,3 million.

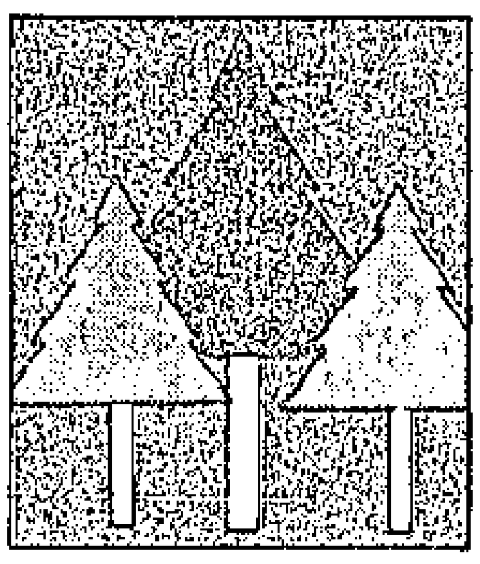
"Earnings for the second half should slightly exceed those for the first half," chairman Klaus Zirker said, adding that the lower rand had boosted export opportunities.

SAPPI/COURTAULDS

Money on trees

(194)

The R1bn deal is even more impressive when long-term effects are considered



Sappi's Van As ... spin-offs well into the future

If there is one lesson that investors should have learnt from Sappi's R1,5bn Ngodwana expansion, it is that the forestry, pulp and paper industry is essentially a long-term business.

Expansions can be hugely expensive and a lot of patience may be needed while they are brought to fruition — but when the pay-off does come it can bring bonanza profits. That all makes Sappi's R1,05bn purchase of control of Saiccor and Swaziland-based Usutu Pulp Company an even more impressive coup than size alone may suggest.

In one swoop — after seven months of negotiations — Sappi MD Eugene van As has pulled off a highly strategic transaction which should bring immediate benefits in cash flow and profitability. Unusual though the deal may be, in that bottom-line dilution should be avoided despite issue of 20 536m Sappi ordinary shares, it will be years before all the ramifications are clear.

Talks started last November after Sappi approached the UK-based Courtaulds — an international chemicals, textiles and industrial products group — and offered to buy Courtaulds' southern African forestry and pulp interests. Last week, Courtaulds signed unconditional agreements to sell its 66,7% stake in Saiccor to a consortium headed by Sappi, which will also acquire the remaining 33,3% from the Industrial Development Corporation (IDC) and its two listed subsidiaries National Selections (Natsel) and Industrial Selections (Indsel).

There is also a conditional agreement, subject to approval of the government of Swaziland, that Sappi and some unnamed overseas investors will buy Courtaulds' 50% stake in Usutu Pulp Company, as well as 30% held by the Commonwealth Development Corporation (CDC). Sappi will hold most — about 75% — of this. The CDC will retain 20% and the Swazi government will retain its preference shareholding. Failure to obtain approval from the Swazi government would kibosh the Usutu part of the deal but Van As, for his part, says he is confident it will be obtained and that government is comfortable with the announcement being made. Sappi is to invest R30m in Usutu if the takeover goes ahead.

Official line from both groups is that the deal is not a disinvestment. Courtaulds chairman Sir Christopher Hogg says that the woodpulp business, although very strong, is different in kind from the rest of the UK group and requires ongoing commitment to spend considerable amounts of capital. "Given the competing demands for investment from our other business sectors, we decided some time ago that this business, despite its strength, could not offer Courtaulds a long-term growth opportunity."

Courtaulds, Van As pointed out at Friday's press conference, has grown into a people and management-intensive business while the pulp industry is capital-intensive. In 1987-1988, the UK group had annual turnover of £2,4bn and employed 68 500 people.

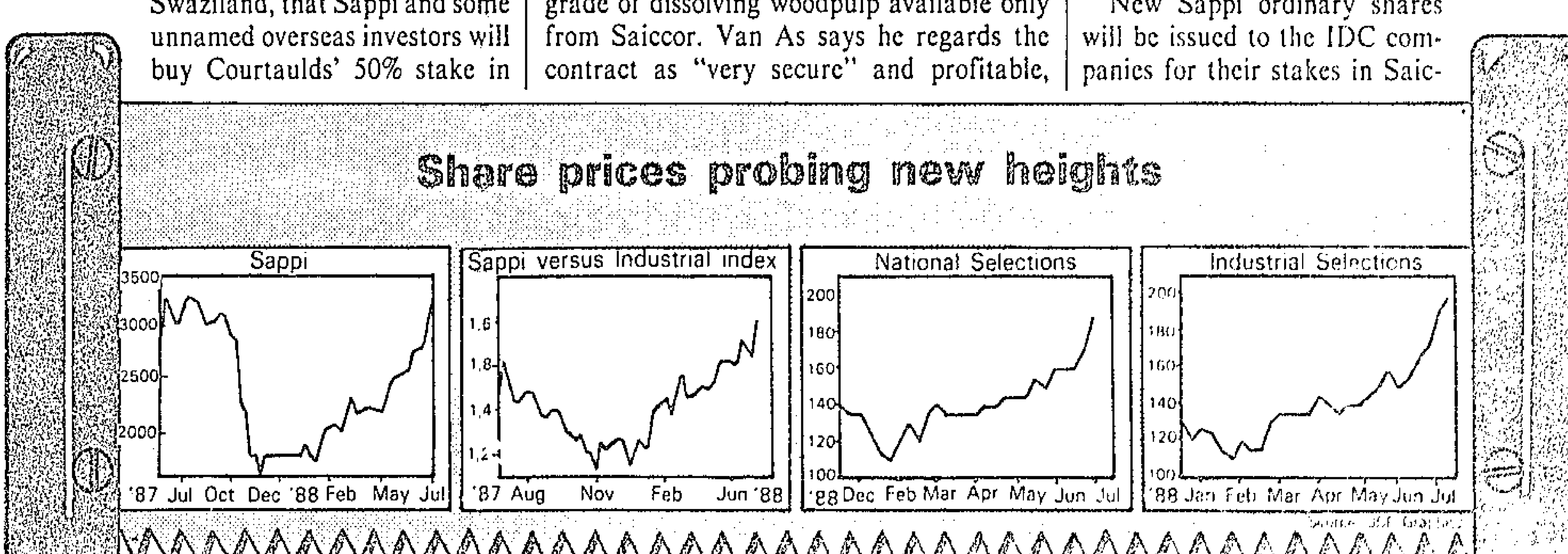
Be that as it may, Courtaulds has not been overlooked by disinvestment lobbyists, so that thorn has been removed from its side — if only partially. It has stated clearly that its viscose fibre and cellophane film operations together consume just under half of Saiccor's output and the group has signed a long-term supply contract to ensure continuity.

The agreement is essential for Courtaulds North America whose viscose plant in Mobile, Alabama, is technically dependent on a grade of dissolving woodpulp available only from Saiccor. Van As says he regards the contract as "very secure" and profitable, with prices at world market levels. The product is specifically excluded from the US sanctions against imports of SA agricultural products (although effects of a Dellums-type Bill are less certain). The Mobile plant employs 600 Americans.

On Courtaulds' figures, the businesses it is giving up are highly profitable. In total its dissolving pulp operations — comprising Saiccor and supporting trading and investment companies of which the principal is Hong Kong-based Speciality Pulp Trading (SPT) which Sappi is not buying, and the Usutu stake — produced operating profit of £33m on turnover of £103m. Ignoring exchange rates, that suggests a trading margin of 32%; Sappi's own trading margin in the year to end-February was 21,6%.

That raises the question of price. After allowing for interest charges, share of related company profits tax and minorities, the contribution to Courtaulds' earnings was £22m. In theory, the p:e paid was about 11,6 times — hardly cheap. But after taking account of immediate tax gains the effective price was lower and, on available details, it seems difficult to gainsay Van As's assertion that the price is attractive.

New Sappi ordinary shares will be issued to the IDC companies for their stakes in Saic-



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cor: the IDC, which holds 10,3% of Saiccor, will get 3 253 934 shares; Natsel holds 9,6% and will get 3 032 793 shares; while Indsel holds 13,4% and will get 4 233 273 shares. For Courtaulds' 66,7% stake in, and R34m shareholders' claims against Saiccor and the holding in Usutu, Sappi will issue 10,016m new shares, pay about R41m cash and the equivalent of R480m in instalments. These shares will be renounced in favour of Gencor, whose stake will drop from 61% to 57%.

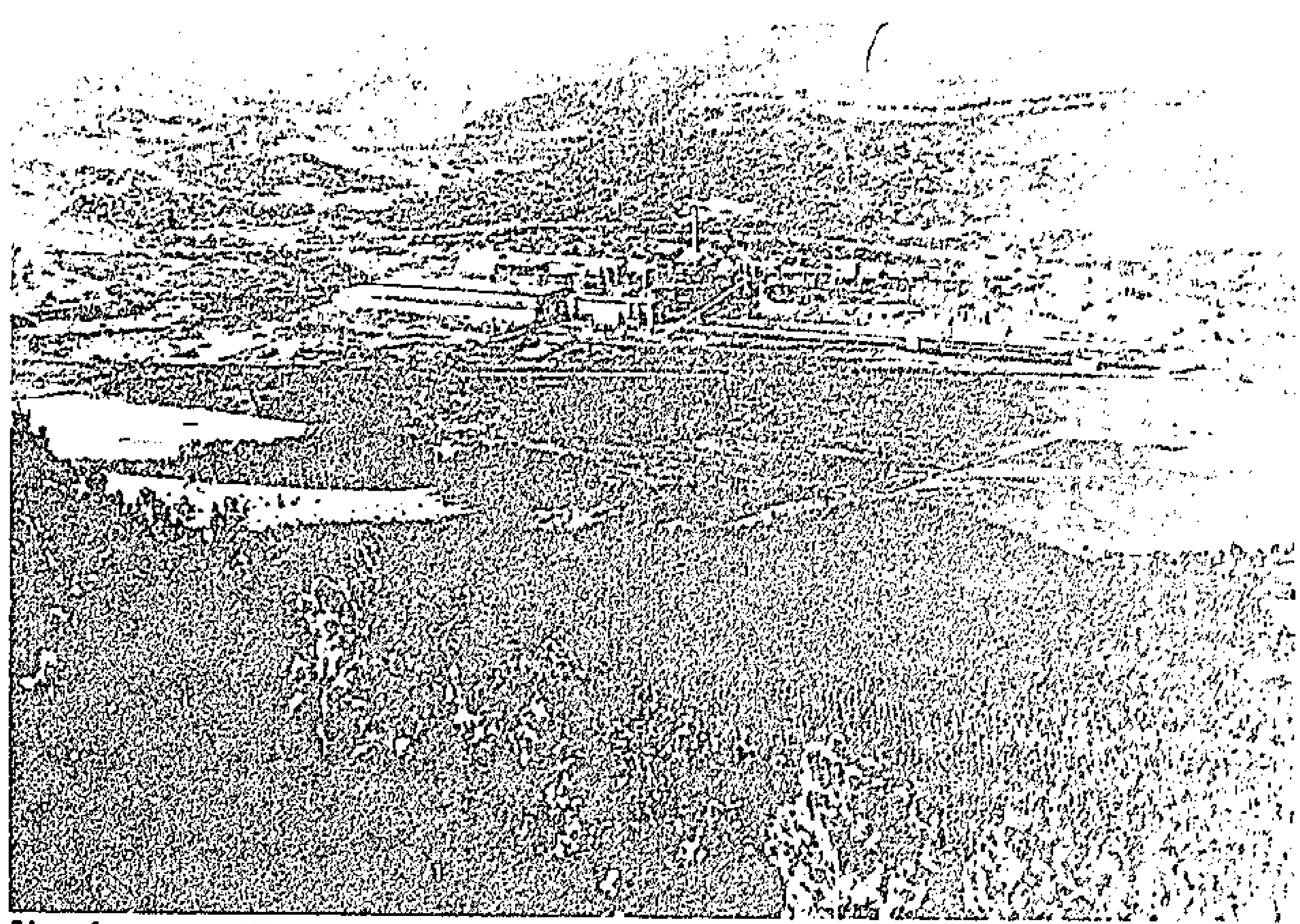
Based on the fact that 65,56m ordinary Sappi shares are currently on issue, issue of more than 20m ords could have meant a significant dilution — depending on cash flow acquired. With the Saiccor transaction taking effect from April 1 1988 and on historical earnings to March 1988 for Saiccor and to December 1987 for Usutu, the full payment would have had no significant effect on Sappi's attributable or distributable EPS. Net tangible asset value per Sappi share would have increased 9%, from 1 863c to 2 031c.

However, Van As says the deal should add about 30c per share to attributable earnings in the current year, implying no dilution, and he tells the *FM* the deal should lift the group trading margin by a couple of percentage points while return on equity should also increase. Sappi's enviable tax position — it currently pays no tax thanks to large allowances on Ngodwana and on exports — will not be upset but the group expects to provide a tax umbrella for Saiccor, thereby achieving financial efficiencies. Saiccor completed a major investment some two years ago but the tax shield on this is running out.

Although debt:equity will revert to about 80% after heading towards 70% this year, this is seen as simply a deferment of expected improvement in gearing. "I would see gearing continuing to go down fairly rapidly, say by about five or 10 points a year, depending on what we do on capital development," Van As says. The equivalent R480m to be paid in instalments will stretch over about five to six years; the precise period will depend on profits but the currency exposure is effectively covered against dollar earnings. Outstanding amounts bear interest linked to the SA prime rate.

Sappi thus appears to have achieved a major expansion without facing a dip or slowing in earnings. But the real benefits are longer term. These include the cost advantages that should come from rationalisation of forestry resources, procurement of substantial forestry reserves, much greater exposure to international markets and enlarged marketing muscle abroad.

Saiccor, whose plant is at Umkomaas in Natal and has annual capacity of 440 000 t, exports all of its product and is one of the world's largest producers of fully bleached dissolving pulp for viscose used in production of rayon fibre and cellophane film, supplying about 11% of the world market. It owns and leases 82 000 ha of high-growth timberland in Natal and is about 75% self-sufficient in its woodpulp needs.



Ngodwana mill under construction . . . immense scope for rationalisation

Usutu, near Manzini, owns 61 000 ha of timberland, which satisfies its own pulp requirements; it supplies 12%-14% of the world market for unbleached kraft softwood pulp. Usutu's mill is unusual in that it is located in the middle of a 50 000 ha plantation and timber has to be transported no more than 30 km to the plant. "It is probably the lowest-cost producer of unbleached kraft pulp anywhere in the world," says Van As. "Its dilemma is that prices for its products are highly volatile. What we can bring to the party is to give them a steady offtake with a stable price scenario."

Sappi, however, has long had cause for concern about its own timber resources; only about 25% of its timber needs are currently sourced internally and management wants to lift this to 50% by 2010. With this deal, the percentage rises to 47% by 1989. In size of timberland, Van As says, Sappi will be slightly larger than Anglo American and about 50% bigger than HLH/Rembrandt. However, he notes that Saiccor's timberland is high quality, with the yield on the 22 000 ha around Richards Bay (where Mondi's mill is located) probably about double the SA average.

Volumes aside, the geographic location of the various timber blocks is the key to what looks like large rationalisation potential. Transport is a critical cost factor in the pulp industry, where 4 t of timber are needed for 1 t of pulp. Apart from the Richards Bay timber, Saiccor holds extensive reserves inland of Umkomaas, conveniently located for Sappi's plants at Stanger and Tugela. Much of Sappi's present timber is in the eastern Transvaal, with some in northern Natal and even less in southern Natal.

Several types of rationalisation over five or more years are seen: various plants in the enlarged group could obtain timber more cheaply than before; deals, perhaps large scale, could be done with competitors; and species of trees planted could be changed over time. Saiccor largely uses hardwood trees while other local producers consumer softwoods. Economies of scale could be achieved by integrating export shipments through Durban with Saiccor. For political reasons, Sappi's exports are widely spread and single shipments are, therefore, small.

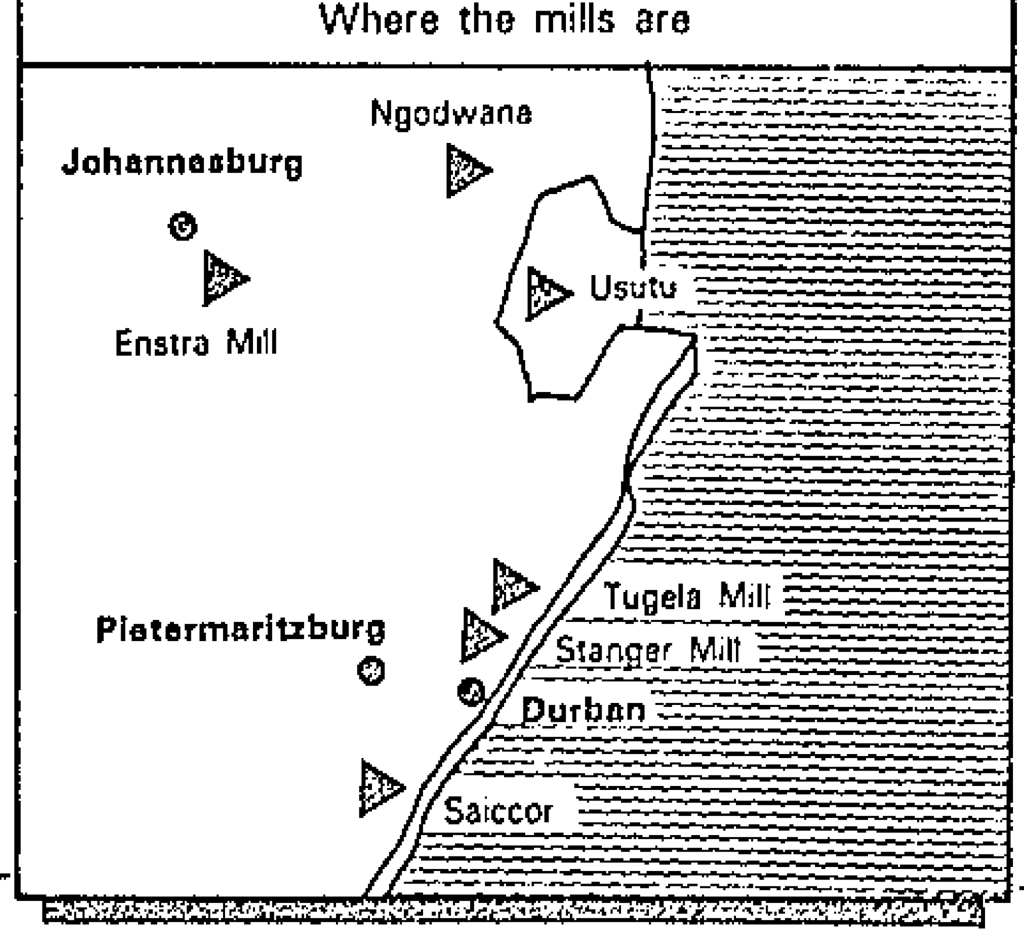
Given the large export operations of Saiccor and Usutu, Sappi's export revenues should soar. Van As estimates export contribution to group turnover would rise from the current 25% to around 40% (even with help from the rand, domestic sales are currently slightly more profitable). Notably, though, the fact that the R480m liability is covered by dollar earnings means the group would not get full benefits of a weaker rand until the amount is paid off.

Exports go to more than 33 countries, although most is sold at dollar-denominated prices with the yen, D-mark and sterling rates also affecting profitability — for better or worse. The deal with Courtaulds includes an arrangement that SPT will assume a major role in Sappi's international marketing. Van As says Sappi management will be moved into SPT, which will use the group's existing network. Unidentified foreign investors have bought SPT for about £45m.

Focusing of management and output on specific products at each of the Sappi mills

Growing together

Where the mills are



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since Ngodwana came on stream has enabled continuing efficiency improvements. "The bottom line is that we're really able to compete," says Van As. "We're in the bottom 25% of cost producers around the world yet the quality of our modern equipment is in the top 25%. That combination has made us very comfortable with our trade position. We've not had a sanctions problem anywhere."

Another strategic gain is that Saiccor provides an ideal site for a new Sappi mill and such sites are extremely difficult to come by in SA, largely because of effluent and water problems. An expansion was being considered anyway and a decision could now be taken in 12-18 months on a unit to produce 100 000 t of pulp for internal use. Van As declines to estimate cost but it would be far cheaper than a greenfields project.

Sappi had forecast capex of about R220m for the current year, although somewhat less will be spent. Following the acquisitions, total capex is expected to rise by about R40m/year. Included in the group capex is about R20m, which is all that is needed to lift Ngodwana's linerboard capacity from the installed 450 t/day to the designed 750 t/day. Until now Ngodwana's ability to expand has been constrained by a shortage of pulp.

With the deal still being assessed and approval from the Swazi government awaited, Sappi's share price, at R32,50 on Tuesday, could well have further to run (see graph). Whether security was quite as tight as many thought is a moot point; prices of Indsel and Natsel have recently soared. Both of these will benefit substantially in terms of asset value of the Sappi holdings if not in cash flow. The deal also represents a coup for Gencor. The house has whipped the UK group's assets from under Anglo's nose, achieving greater international exposure and — coming after the Mossgas deal — moved to fulfil hints chairman Derek Keys gave in his annual report of major expansions ahead.

Andrew McNulty

THE GULF CEASEFIRE

Reaching to the roots

The future of Opec's pricing policies rests on the outcome of the war

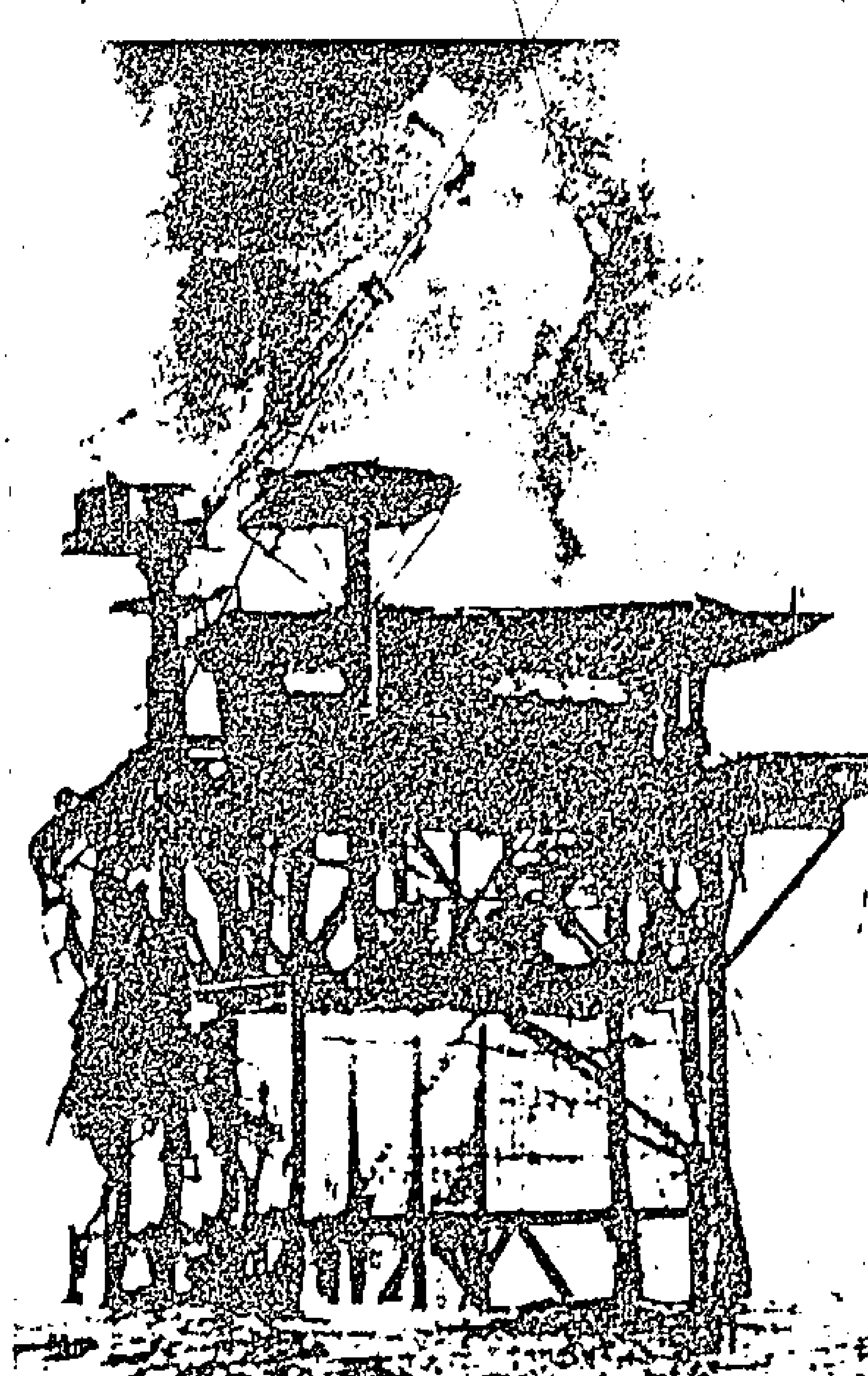
It seems too bizarre to be true, even by the standards of the *mullahs* who dethroned the Shah in Iran's Islamic Revolution. But at 10.55 am on July 3, when the *USS Vincennes* launched the missiles which 20 seconds later destroyed the Iranian Airbus Flight 655, killing all 290 civilians on board, it provided the catalyst which finally persuaded the Teheran regime to sue for a peaceful end to the war with Iraq.

That was spelt out in President Ali Khamenei's letter to United Nations Secretary General Javier Perez de Cuellar in which Iran unconditionally accepted the year-old Security Council Resolution 598 calling for a ceasefire in the Gulf and a negotiated peace. Khamenei said the "fire of war" started by Iraq's invasion in 1980 "has now gained unprecedented dimensions, bringing other countries into the war and even engulfing innocent civilians." The shooting down of Flight 655 was "a clear manifestation of this contention."

The linkage was amplified by Iran's most powerful politician, who took the step which rocked international perceptions this week. Speaker of the Iranian parliament Ali Akbar Hashemi Rafsanjani said the Airbus tragedy was "America's declaration that it might commit huge crimes if Iran continued the war."

For some time now it has been clear that Iran's 52m people were becoming increasingly weary of a conflict which could not be won. The costs have been enormous: an estimated 1m casualties on both sides; 2 000 villages and towns reduced to ruins. The Iranian economy was in a catastrophic state. Unlike Iraq, funded by Arab neighbours fearful of the Ayatollah Ruhollah Khomeini's revolution, Iran has had to pay its own way out of falling oil revenues (90% of foreign earnings). Shortages of goods sent the inflation rate to over 50%, even with subsidies, and from a state of near self-sufficiency Iran was reduced to importing US$2bn in food. In money terms, the overall price of the war is put at $360bn.

Murmurings in the bazaars grew in volume, especially as the onslaught on the cities continued. This year, for the first time, there was no Iranian offensive. Instead, Iraq counter-attacked, driving Iranian forces out of the Fao Peninsula and the bridgehead for the siege of Basra. And even the Airbus failed to engender popular fervour. Calls for volunteers for martyrdom fell flat.



Blazing Iranian oil rig ... the pressures became too great

Thus even though the surprise appointment last month of Rafsanjani as Iran's military supremo, uniting the army and the Revolutionary Guards under one command, was seen as the prelude to a more effective war effort, it proved the opposite. Rafsanjani has long been regarded as the pragmatist in Iran, straddling and balancing the positions of the radical fundamentalists and the moderates. At his instigation, Iran switched from belligerence to diplomacy this year, a process helped by the Airbus, and with some success; Canada has just announced the restoration of diplomatic relations between Ottowa and Teheran.

Against this, however, was the seemingly implacable Ayatollah Khomeini, who condemned all talk of peace with Iraq as "blasphemous." Nothing but the head of Iraq's President Saddam Hussein and international condemnation of the Baghdad aggressor would suffice to end Khomeini's *jihad*. Yet reports from the holy city of Qom have said Khomeini had become aware of the practical futility and was only asking for the would-be negotiators to wait until he was dead.

That, plus the fact that Khomeini's son, Ahmed, has given full support to the acceptance of UN 598, gives credence to the belief that the Ayatollah is at last near the point of death.

Not unnaturally, Iraq is suspicious of the sudden volte face in Iran. Its Information Minister was talking of a "tactical programme" enabling Teheran to regroup and strengthen. But the rest of the world is cautiously optimis-

— Alfa Manufacturing Industries

Whopping increase in earnings per share

STK 25/7/88 (194)

While company turnover increased 247 percent, and attributable income of R1,4 million by 259 percent, the growth in earnings a share in the year ended December 1987 was restricted due to the Natal floods and the subsequent shortage of paper and board.

But who would complain when it is known that earnings a share rose from 4,7c in 1986 to 13,4 percent in 1987?

The acquisition of the Ysebrand group of companies on June 1 last year had an adverse effect on gearing but this was partly offset through the rights issue in November 1987.

The acquisition, however, gave the company a strategically important entry into the plastic packaging market and further expanded its paper and production facilities.

The nature of the company business requires high investment in stock, particularly raw materials, and debtors. Mr Christo Biermann, chairman, said the ratio of interest-bearing debt to shareholders' equity is acceptable at 78 percent.

The net asset value at end-December 1987 was 71,5c a share compared with 6,1c a share at end-December 1986.

Compiled by STAN KENNEDY

Company objectives defined

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Alfa is a packaging manufacturer and distributor quoted on the Johannesburg Stock Exchange.

It controls a group of companies that manufactures and distributes a wide range of plastic and paper packaging products.

The range includes kraft paper and greaseproof bags, cardboard boxes, high- and low-density plastic bags, paper carrier bags, single-faced corrugated rolls, multiwall sacks and other custom-designed flexible packaging products.

To achieve its primary goal of optimising profitability it defined certain objectives in its prospectus at the time of its listing in April last year.

These were:

- To provide a wide range of packaging services and superior quality assurance for the support of its customers.
- To achieve a high level of productivity and maintain cost-effectiveness to supply products at a fair price.
- To maintain an informal management style accommodating the spirit of its employees to ensure that they can progress to the maximum of their capacities.
- To provide a satisfactory long-term return for investors.
- To achieve a growth in earnings a share which, over a period of time, should be in excess of the annual inflation rate.
- To achieve a dividend growth to ensure increased shareholders' wealth.

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Alfa aiming for main board listing

Listed on the Development Capital Market in April last year, Alfa Manufacturing Industries has applied for a main board listing in the Paper & Packaging sector of the Johannesburg Stock Exchange, according to Senekal, Mouton & Kitshoff.

When it happens — and it is forecast the company will move up in a few months — it will join the many successful DCM companies which have moved up in the last year or two.

Alfa supplies packaging products to fast food outlets, cafes and major supermarkets and specialises in the manufacture of cake boxes for the confectionery trade.

The strategic acquisition of the Ysebrand makes Alfa one of the largest suppliers in the domestic paper-based flexible packaging market. The fact that it is one of the few manufacturers which service the fast food market with a comprehensive range of products gives it the competitive edge.

It is always looking for new products to enhance its product range. New additions are expected in the next two months, provided skilled labour can be found.

Managing diector Mr Christo Biermann says: "Things are looking up" for the group. In the first six months of this year, it imported a great deal of its raw materials requirements. Although he is aware there could be problems in the future, particularly if the rand continues to slide, he would not like to go back to the situation when he was forced to rely on local sources.

Senekal, Mouton & Kitsoff say attributable profit of the group should hit R2,8 million in the financial year ending December 1988.

"Translated into earnings, this will stand at 17c a share, which is line with Mr Biermann's forecast that the group will grow nominally by 20 to 25 percent over the next five years."

Plastics growth

The most exciting growth area lies in its plastics products. At present, it holds only a small slice of the market which Mr Biermann reckons to be no more than six percent.

But this is expected to grow with the acquisition of Ysebrand which opened the doors in this area and the Pride Pack and Unipak acquistions helped to strengthen its position. Extra equipment has also been obtained to boost plastic production.

On the paper side, he considers that Alfa has captured as much as 80 percent of its target market which, he says, accounts for the PWV area. So there is the possibility of making inroads into the rest of the country where it holds between 10 and 20 percent of the market.

The group's export drive is progressing well with plenty of inquiries although firm orders have still to be secured. He is confident they will be forthcoming as the group has a permanent exhibition in Taiwan.

● Alfa continues on its winning way with results for the six months ended June 30 showing net attributable income rising 74,5 percent over the same period last year.

While turnover was not disclosed, the report says it increased 134 percent over January to June last year. Earnings a share rose from 6,6c to 7c.

Commenting on the results, Mr Biermann says the group achieved satisfactory trading results despite production being disrupted as a result of the move of the group's six factories to a single location. The move started in December last year and continued well into March 1988.

He says: "Most of the production problems which resulted from the consolidation of the production facilities have been sorted out and it is expected that the benefits of rationalisation under one roof will be felt in the second half of the year."

Consolidation spurred growth

Frustrated and disillusioned by the service of a paper bag manufacturer, which took nine months to deliver his order, sweet merchant Mr Johnny Geritis decided to make his own paper bags.

That was 30 years ago. He thought that since he had waited so long, the manufacturer must be fully booked up with orders and that it must be a profitable business.

When he said he would go into business himself, he was laughed at. But he went ahead and bought a paper bag-making machine and produced, not only his own requirements but those of many other small businesses.

In 1970, Alfa, as the company was called, started making cake boxes and some years later, it acquired Dashpak, a maker of single-faced corrugated rolls.

The company marked time, with no thought of expansion in Mr Geritis' mind as he was planning to retire. In 1986, the business was put up for sale. The auditor and financial consultant to the company, Mr Christo Biermann, seeing its potential, bought it.

"At the time of my take-over it had a good profit record and there was a great deal of scope for rapid growth," says Mr Biermann, now the executive chairman. "There had been no fireworks but it had a nice and steady growth over the years."

The company, which produced paper and greaseproof bags and single faced corrugated paper, was listed on April 2 1987 to raise capital for expansion. Soon after, Mr Bermann acquired three other companies and changed the name to Alfa Manufacturing Industries. Later he bought Ysebrand, a major competitor, which gave him an entry into the plastics market.

It has now moved into the manufacture of high-density check-out bags, carrier bags and litho printed boxes and increased its market share significantly. It also expanded its paper bag side after buying Unipak.

But in August 1987, the situation became critical when, after buying Pride Pack which made low-density plastic bags, there were six facilities spread around the country, making management control difficult.

"One of the major problems was getting enough good people. As one who likes to keep things simple and to know what is going on, I bought this 17 ha site in Benoni South which has about three hectares under cover.

"So I started to move the plant and equipment here and a lot of my competitors said: 'Bye bye, Alfa'. But today, it is 'surprise, surprise'.

"It took some time to consolidate, longer than I anticipated. The staff did a marvellous job and at this stage we are well on our way."

Mr Biermann claims that his company is the only one in South Africa in its own market sector that gives a comprehensive package of self-manufactured goods.

"Now, through our pricing structure and marketing strategy, we are getting a bigger slice of the market because we are showing both wholesalers and customers that it is in their interest to buy from us."

Although the market is not easily defined and he could not give any idea of its size, in the PWV area Alfa holds about 70 percent of the market segment in which it is involved.

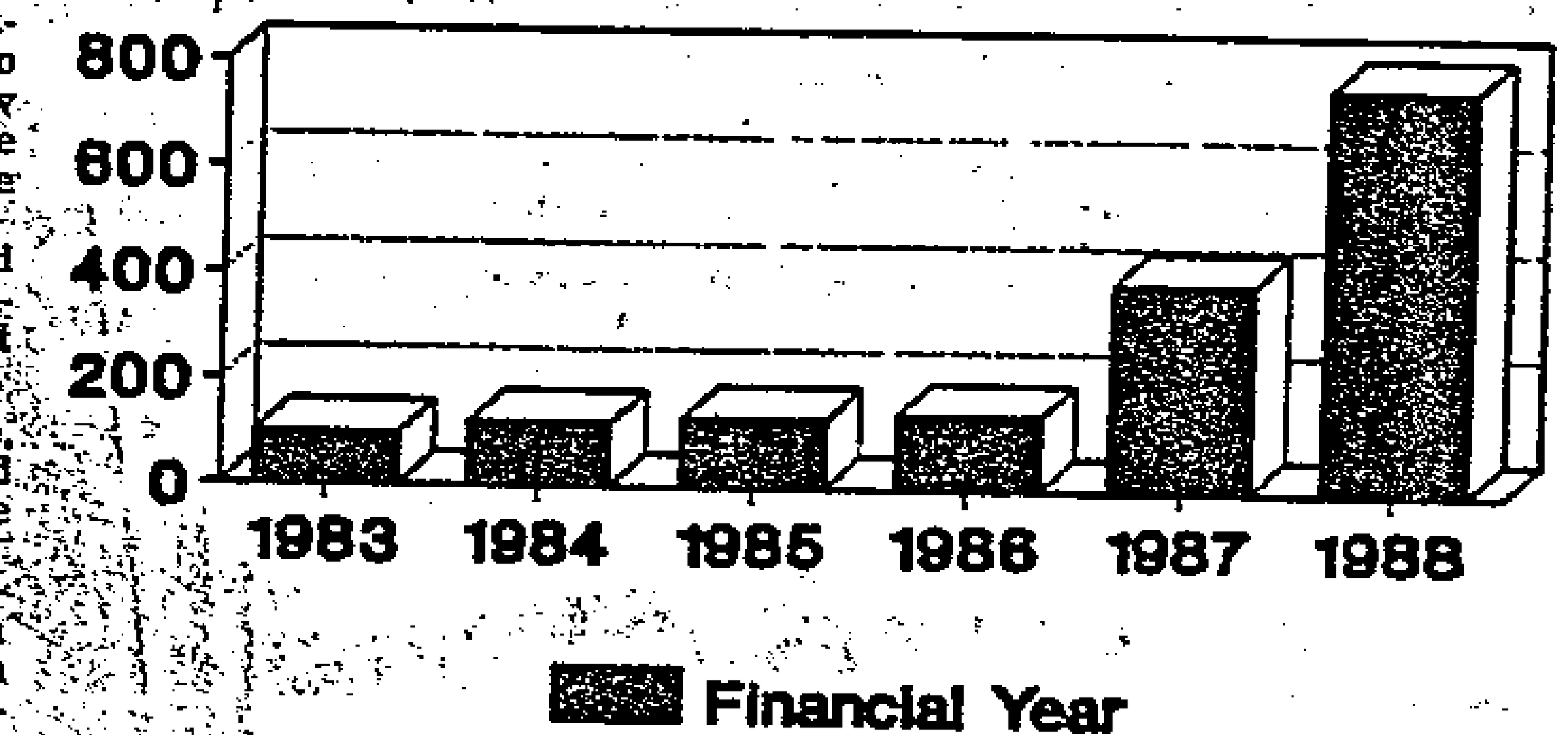
There is also a huge undefined informal sector market in which many blacks sell fruit and vegetables, hot dogs and carrier bags on street corners.

"My ultimate objective is to have a one-stop shop where a customer can get his whole range of packaging at Alfa, so we are looking at expanding our product range."

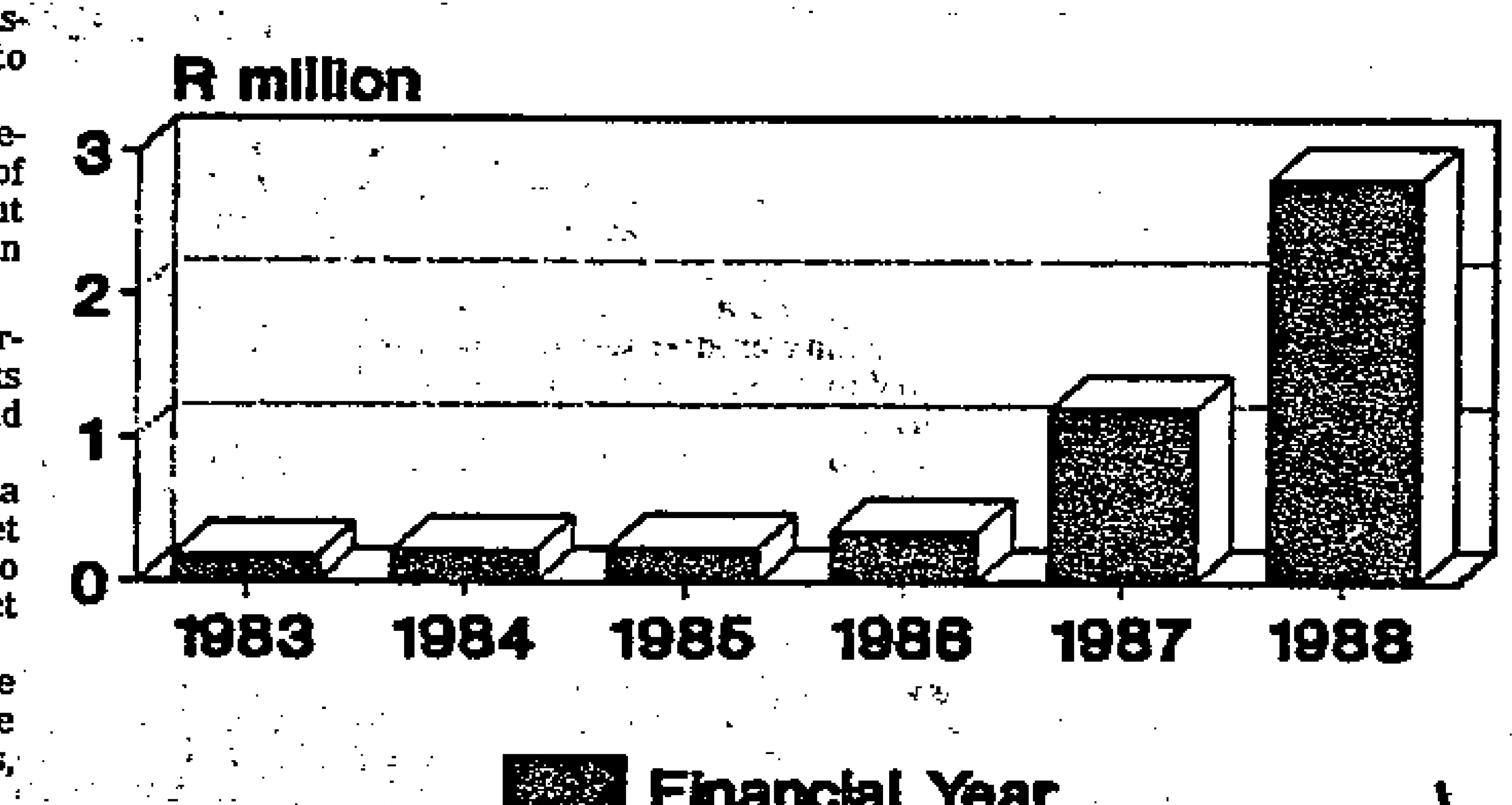
This ambition can be reached in five years and then, with tongue in cheek, he says: "If it continues to grow as it is, we'll be as big as Nampak".

Alfa - Sales Index

(1983 = 100)



Alfa - Attributable Income



Skilled labour shortage

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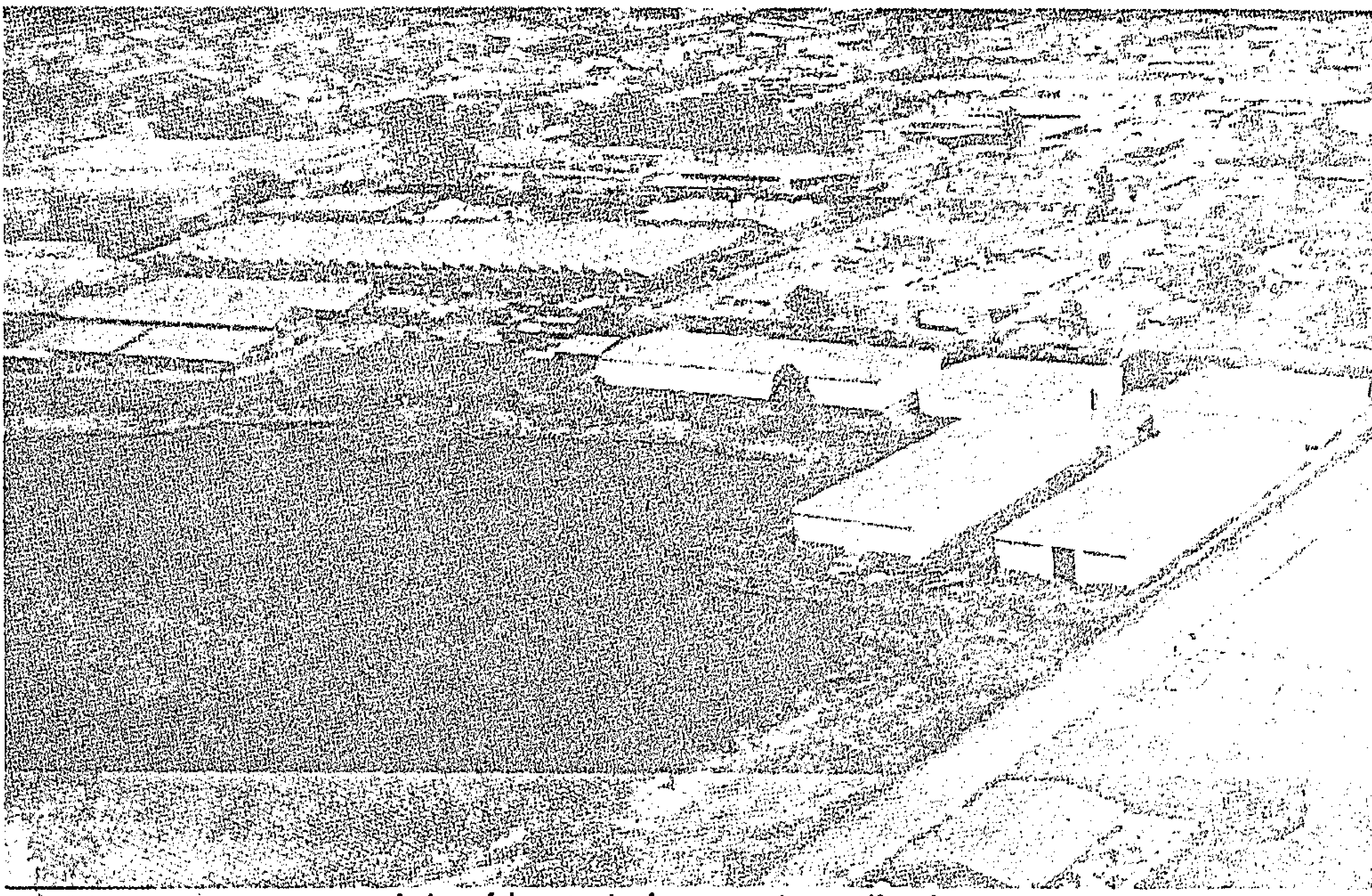
The company's manpower policy is aimed at optimal utilisation of all its human resources and, therefore, at the development of all workers to their full potential.

Management will place emphasis on labour relations, particularly with a view to improved communications.

A shortage of skilled labour remains one of Alfa's major problems and it is envisaged that this shortage will not be reduced in the near future.

The first six months of this year was a period of consolidation and rationalisation of production facilities. In addition, the company restructured its marketing and administrative infrastructure to accommodate increased volumes.

Although it is competing in an extremely tough environment, management is satisfied that the company will achieve taxed earnings in 1988 which will exceed that of 1987 by at least the inflation rate.



A view of the extensive factory premises at Alfapark, Benoni.

Sappi still shines despite setbacks

(194) B/day 26/7/88

LINDA ENSOR

PULP and paper giant Sappi has followed its recent announcement of a R1,05 bn acquisition with a remarkable performance in the six months to June. Attributable earnings are up 64,4% to 201,7c (122,7c).

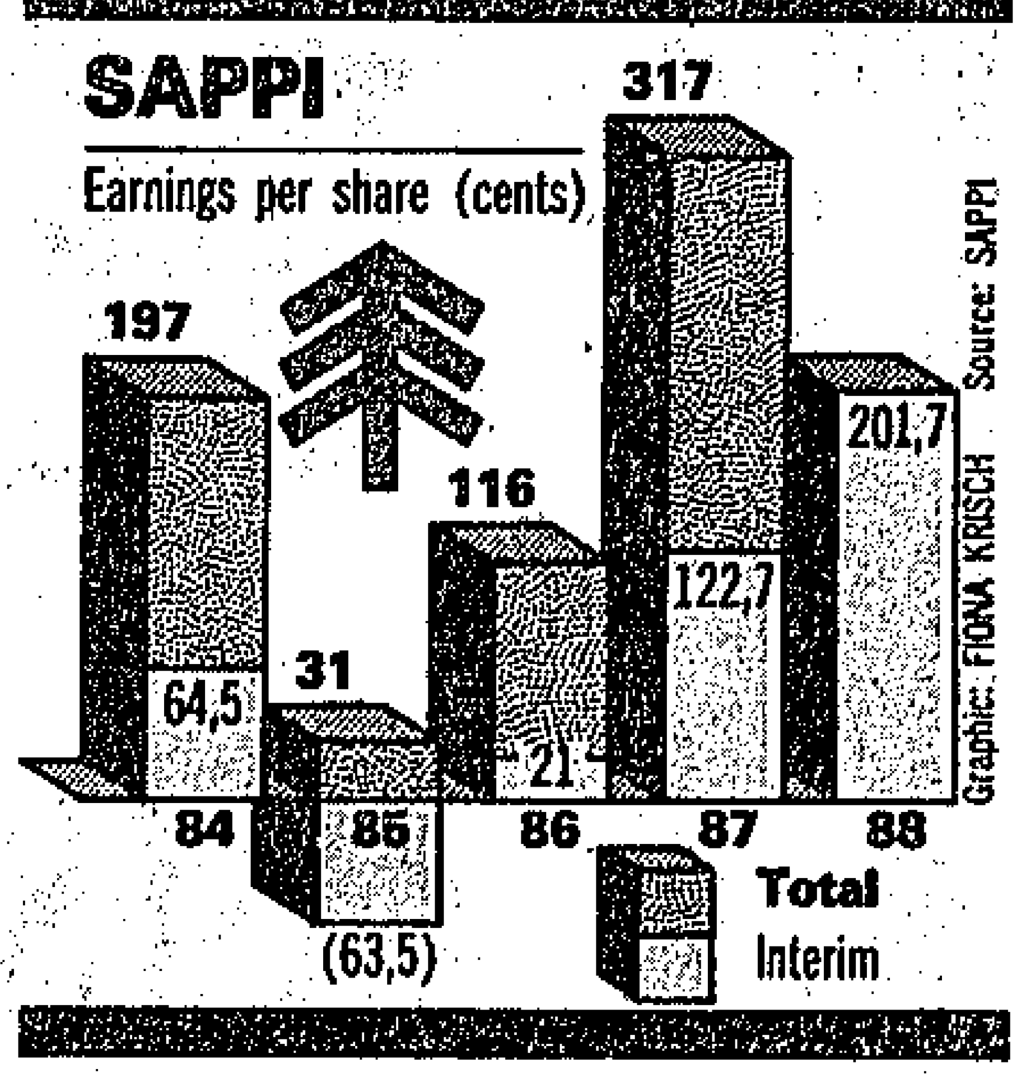
Strong world demand for its products and dramatic increases in prices saw turnover rise 24% to R744,9m (R601,4m). Disruptions at the Ngodwana mill, however, caused by an explosion in November and a one-month maintenance shutdown, meant the 3,1 percentage points rise in margins, from 19,9% to 23%, was not as high as CE and MD Eugene Van As would have wished.

The dividend was increased 37,5% to 55c (previous interim 40c).

Distributable earnings grew by 11,9% to 113c (101c) due to a hefty R58m (R13,9m) deduction for deferred tax.

Van As describes the results as very encouraging though he is disappointed at the 43,5% rise in operating income to R171,5m (R119,5m).

Lower finance costs also contributed to the strong performance by dropping



16,9% to R13,2m (R15,9m). Attributable income was 65% up at R132,3m (R80,2m) and distributable income rose to R74,3m (R66,4m).

"Before we concluded the Saiccor/-Usutu deal we had announced that we would change our year-end and report to August and, on that basis, we arranged

● To Page 2

Sappi overcomes blast and shutdown

(194) B/day 26/7/88

● From Page 1

to shut certain of our plants in June for planned maintenance."

"This has meant results do not reflect the proportionate increases which were recorded in the first quarter and which we expected to report for the eight months to August."

The dividend increase, Van As says, recognises both Sappi's improved results and the outlook for continuing good results.

The dramatic decline in the value of the rand will have a significant impact on results for the eight months to February 28, 1989, which will also reflect the acquisitions of Saiccor and Usutu, which become effective from April 1. The two mills have a combined turnover of about R600m

Debt:equity declined to 70% (90% at year-end) though the acquisitions pushed this up to about 80%. Interest-bearing debt stands at R752,7m.

(194)

Nampak sparkles

Star 30/7/88

SHARESPOT
Lynne Peach

Nampak is now more firmly established in the packaging market, thanks to its recent acquisition of an additional 46% of Metal Box. The latter is wholly-owned by Nampak.

Metal Box shareholders were given the option of R850 cash or 35 Nampak shares for every 100 shares held. Those who have not as yet stated their preference, will be obliged to take up the Nampak share option.

This alternative does, however, appear to be the preferred one. Mr David McFadden (financial director) confirms that so far most Metal Box shareholders have chosen to receive Nampak shares rather than the cash. An exception is the UK parent which swapped its 25% stake for about R147 million in cash.

Nampak is involved in the manufacture, marketing and servicing of primary packaging products (Metal Box), secondary packaging and printing poducts, and paper and related products (Nampak Products). The latter is made up of 4 packaging divisions, 3 paper mills, a tissue converting operation and a small transport division.

Mr McFadden explains that primary packaging refers to, say, a bottle while secondary packaging would involve making a carton that a fixed number of these bottles would fit into. Containers are made from glass, plastic and paper and Nampak also handles some re-cycling of these raw materials.

In the first half of the current financial year, Nampak Products accounted for 53% of group turnover while Metal Box contributed 47%. Their respective contributions to attributable profit were 72% and 27%. The increased stake in Metal Box will, however, lift its bottom-line contribution to about 40%.

Historically, Nampak has tended to perform well — mostly exceeding its target growth rate (economic growth and inflation). It has also blossomed to be a dominant force in the packaging market, having a market share of approximately 50%. While the potential to increase this large slice in the future is limited, demand for packaging is set to rise on the back of population growth which will ensure that an increasing number of products need to be made available.

Mr McFadden says that, while acquisitions are likely to feature in the future, immediate emphasis is being placed on digesting the enlarged holding in Metal Box. Some rationalisation benefits are expected to materialise in the 1989 financial year.

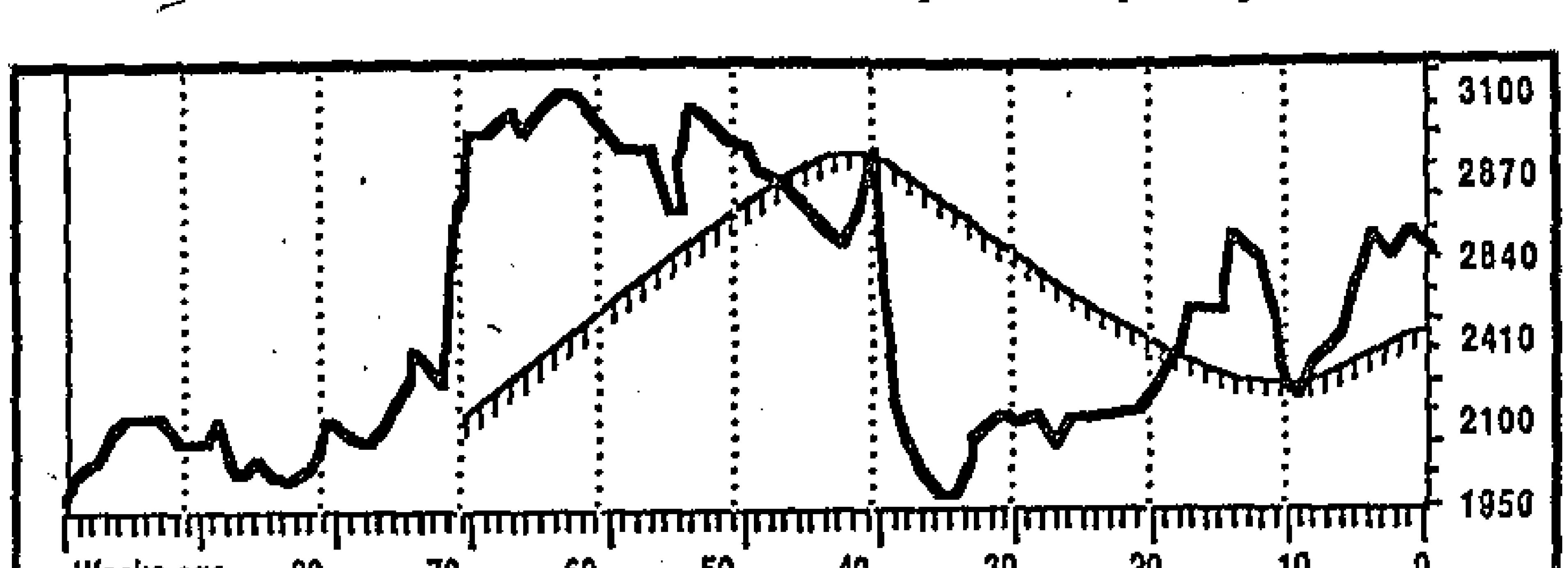
Another anticipated effect of the deal is that CG Smith's holding in Nampak will be diluted from 71,6% to around 64%. The number of shares in the hands of individuals, however, is not expected to differ much from the current 1,1 million. The total number of shares in issue will increase to lie between 42 million and 47 million.

Nampak interim results to March 1988 showed a strong 39% rise in earnings, from 117 cents to 163 cents. This was after a 21% increase in turnover to R1 208,4 million. Volume climbed by 11% on the back of stronger local and export demand.

Mr McFadden comments that, while foreign business is expected to continue to expand, it is moving from a low base. It has been speculated that exports represent 30% of sales which Mr McFadden says is not true. He elaborates that the undisclosed figure is not nearly as high as this.

Nampak is currently trading at a price of 2 500 cents, placing the share on a price: earnings (PE) ratio of 8,1. This is roughly in line with the average for industrial companies. If, however, earnings of around 360 cents materialise for the financial year to September 1988, the PE ratio will improve to just under 7.

Unless, earnings growth in 1989 comfortably exceeds the expected 20%, the share appears to be fairly priced rather than particularly cheap.



Nampak — weekly closing price. Nampak's share price has been moving in a positive fashion for the last 7 months. It will especially look promising if the price breaks above 2 700.

Nampak strike over shift dispute enters fifth day

Labour Reporter

The strike by about 80 members of the Paper, Printing, Wood and Allied Workers' Union (PPWAWU) at Nampak's plant in Chamdor, Krugersdorp, continued for the fifth day today as legal representatives of the parties attempted to resolve the dispute.

PPWAWU spokesman, Mr Sipho Kubheka, said workers had downed tools after management introduced a new shift from 6pm to midnight, "which would put the lives of workers in danger". He accused management of introducing the shift without consulting workers or the union.

"The workers requested management to arrange transport to take them home after work on Saturday nights, but this request was turned down without any valid reason."

Three workers had already been dismissed as a result of the dispute, according to Mr Kubheka.

Nampak spokesman, Mr Ian Cameron, confirmed the Chamdor strike, which he said was illegal.

He said the company had made a proposal to PPWAWU lawyers concerning the strike and was awaiting a response. "It should be noted that the company's attitude is that it has not acted unfairly in any respect and the proposal has been made simply in an attempt to end the strike," Mr Cameron said.

● The Black Health and Allied Workers' Union of SA and Kemtrade Distributors of SA have reached a wage agreement guaranteeing a new minimum rate of R520 a month, plus an across-the-board 33 percent rise.

A union spokesman said the parties also agreed on an overtime rate increase. May Day and June 16 were granted as public holidays.

of these shares cannot be expected yet."

Andrew McNulty

CLEGG/CONSOL (194)

Brief encounter

The terms of Consol's proposed takeover of Clegg carry striking implications for minority shareholders, who have held the share for less than nine months.

Clegg Holdings, previously one of the largest privately owned packaging and label manufacturers, was listed last November, following a private placing of 7,5m shares, or about 25% of the equity at 60c. The forecast earnings at the time were 6,3c. At the interim stage shareholders were told that the company expected to meet its forecast for the year to end-June, despite six months' earnings of 2,5c. First reason for the listing mentioned in the prospectus was to "enhance the group's public identity."

This week it was announced that Consol, Anglovaal's packaging arm, is to acquire 75% of the equity from the controlling shareholders and a further 20% from other major shareholders at 40c. Consol is to offer minorities, subject to certain conditions precedent, 60c which is the original issue price. Prior to the announcement the shares stood at 50c. If the deal is concluded and the minorities accept Consol's offer, it is the intention to delist Clegg.

Attempts to get comment from Clegg Holdings directors on Tuesday were unsuccessful. MD Gerhard Eggar, who is to remain with Clegg, said that he had nothing to add to the statement announcing the deal.

On published information this appears an astonishingly good deal for Consol. After all, to acquire overwhelming control of a listed company at 20% below the price of the shares in the market is, to say the least, unusual.

The date of the private placing of the shares was obviously unfortunate, occurring as it did shortly after the October crash in

(194)

industrials. Presumably the underwriters to the offer, Max Pollak & Freemantle, who are also sponsoring brokers to the latest deal, believe that this is a sensible way to save something from the misfortune, even though it appears to be at a cost of around R1,2m. This is the cost of underwriting 5,979m shares at 60c, and reselling to Consol at 40c.

Gert du Toit, MD of Consol's paper division, tells me that conditions precedent to the deal include earnings for the year to June by Clegg at around two-thirds of the forecast figure. He says that Consol's objective in buying the business will be to develop it, and he notes that labelling and packaging business from major consumer-products companies is not easily gained.

Assuming that the conditions precedent are met, and that minorities are consequently offered 60c for their shares, it appears likely in current markets that many will accept the money with haste. *David Ross*

Aries boosts turnover from existing business

LINDA ENSOR

HEIGHTENED sales activity in DCM-listed Aries Packaging resulted in turnover climbing 58% in the six months to June to R7,6m (R4,8m).

The increased was generated wholly within Aries' existing business of manufacturing corrugated cardboard as no acquisitions were made.

As the company's policy was to focus on large-volume, lower-margin business, margins declined from 16,7% to 14,7% to give a pre-tax income rise of 39% to R1,1m (R806 000).

The tax rate increased from 41,6% to 46% due to businesses outside the decentralised area contributing a larger proportion to profits. This resulted in attributable earnings registering a growth of 28,5% to R605 000 (R471 000).

Earnings a share reached 5,5c (4,3c) on which a dividend of 1,75c (1,25c) was declared. Dividend cover was a lower 3,1 times (3,4).

The directors say that all operations worked to full capacity and productivity improved in the first six months of the year.

MD Dieter Neckel says the second half will show an improved performance as it is seasonally better than the first half and has more working days.

The opportunity exists for gaining market share, he adds, with capacity and financial limitations proving the only constraint. By year-end capacity would have increased by about 20% through the installation of machinery worth R500 000. Shifts have also been altered to improve utilisation.

Neckel says Aries applies a conservative financial policy. It has no borrowings, is ungeared and will grow only in line with performance.

Sappi takes Business Achievement Award

SAPPI was presented with the Business Achievement Award by Business Day last night in recognition of its outstanding performance and its contribution to the SA economy.

The presentation to Sappi CE Eugene van As was made by Business Day Editor Ken Owen at a banquet at the Johannesburg Sun. PFP MP Helen Suzman addressed the businessmen and women present.

LINDA ENSOR

The award has been made every year since 1972, first by the Rand Daily Mail and then by Business Day.

Last year the United Building Society received it for its role in the deregulation of financial markets and for its successful listing on the JSE.

The citation to Sappi said in part: "In particular (the award) recognises the vision and daring of the group's strategic planning, notably the massive capital investment in the Ngodwana mill and the recent R1bn investment in Saiccor and the Usutu pulp mill. These acquisitions entrench Sappi as one of the world's top 25 pulp and paper producers.

"It was the early success of Ngodwana which led to a remarkable revival in group profits: rising 235% to R207m in the year to end-December 1987. Investors, who had to forego dividends in 1985, were rewarded with a total dividend of 130c a share."

● See Page 7 & special survey

(194) B/Day 10/8/88

Transpaco branches out

LINDA ENSOR

PACKAGING company Transpaco is to branch into the retail and wholesale of stationery with the help of former key personnel from DCM-listed Fincord Stationers, which was recently taken over by CTP Holdings.

Joint-MD Mike Abelheim says a new company has been formed, Transpaco Stationers which will be 51% owned by Transpaco and 49% by the three people who have left Fincord — Stan Whiting, Fincord former sales manager, Clive Katz, former sales manager of Fincord's corporate division, and Eli Asaraf, one of Fincord's top former salesman.

Abelheim said the approach by the former Fincord men coincided with a long-term plan of Transpaco to enter the stationery market.

Transpaco Stationers will retail and wholesale stationery to business and industry and use the customer base and branch network of holding company Transvaal Paper.

Joint-MD Phil Abelheim says it will be using Transvaal Paper's infrastructure.

Initial start up costs are estimated at R1m which will include the acquisition of plant for the manufacture of certain items for sale. The Abelheims say turnover for the first 12 months is estimated at R4m-R5m.

WALTONS

Not stationary

After excellent results yet again in the 1988 year, investors are asking how long Waltons can continue its growth pace of the past 10 years.

"That's what they were asking four years ago," retorts MD Frank Robarts. The group's EPS have grown at a compound annual rate of 34,6% over the past 10 years and 41% over the past five years. In the year to end-February, EPS were 81% higher on a 53,5% growth in turnover.

Robarts says profits are running well ahead of budget which, on the standard of past years, must be ambitious. He is concerned about a slow-down in the economy, but says Waltons would be among the last to suffer. He is also concerned about sanctions, but says the group is protected because most of its products are made locally.

But where will further growth come from? As in the past, much will be organic, arising from extra profitability sweated from a tight operation. But what could add the icing this year is the turnaround to profitability of acquisitions made in the past few years, of which only two were profitable when acquired.

Last year acquisitions accounted for a mere 6,2% of taxed profits, but the past year was a hectic one for takeovers. In July and September, Datalink, Kolok and Multipro were acquired and in October it acquired 30% of listed Lithosaver, a major manufacturer and distributor of continuous stationery and business forms. Reggies, the specialist toy chain in which Waltons holds 52,5%, was listed in June 1987 and Ozalid, acquired for R44,1m cash, effective from March 1, was not included in the balance sheet.

Only the acquisition of Lithosaver was funded with shares. The number in issue hardly increased, but the issue, nevertheless, helped to push up shareholders funds, which were also boosted by a climb in retained income. This improvement was one of the reasons gearing was virtually unchanged at 0,55. The Ozalid acquisition raised the debt: equity ratio, but Robarts says he expects the acquisition will pay for itself within a few years.

Waltons is still examining ways of listing Multipro and Ozalid, but these may have to wait for a better stock exchange climate. All the computer stationery and supplies interests have been rationalised into Multipro, which appears to have particular scope for rapid growth.

Although Robarts says Waltons does not need to make acquisitions to expand, further acquisitions have been — and will be — examined and disinvesting companies are obvious candidates.

Waltons seems to have an ability to consolidate, digest and expand simultaneously. The market has long recognised its attributes and the share, on a p:e of over 10, is not far below its 12-month high. But the stock should go higher on any recovery in the market, as profits can be expected to continue their growth pattern.

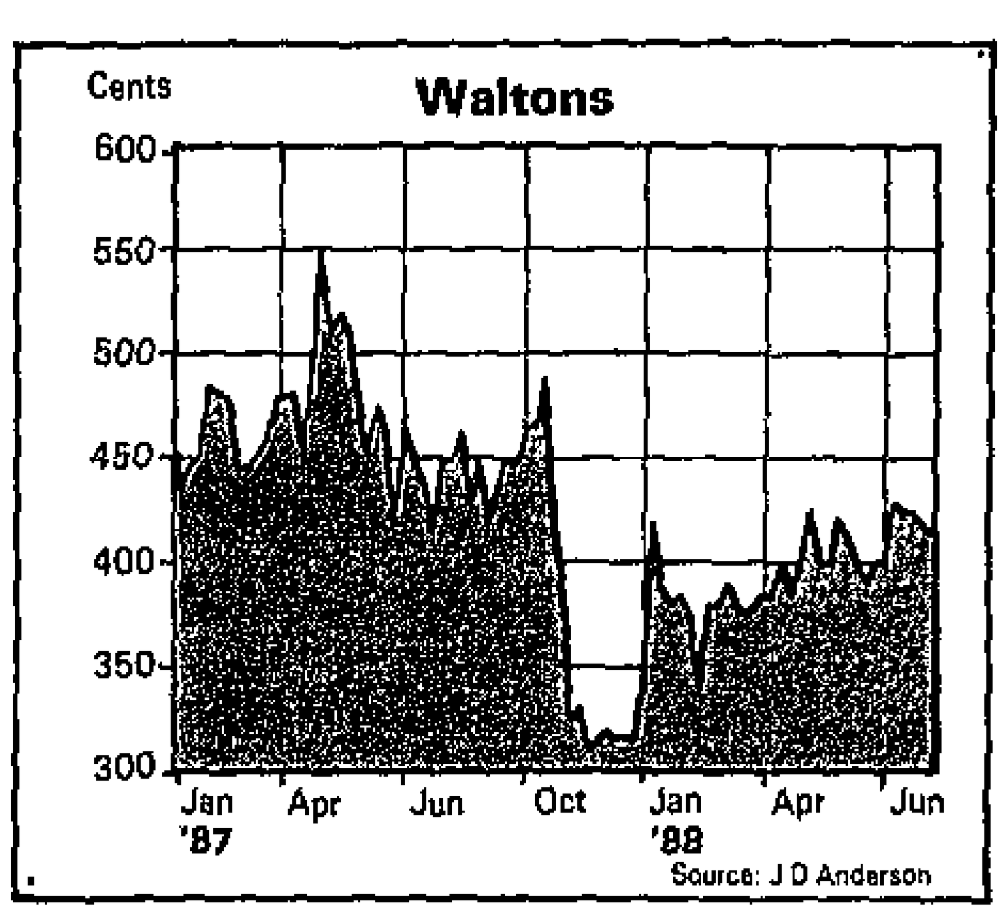
Teigue Payne

Activities: *Manufacturer, wholesaler and supplier of stationery, toys and babyware.*
Control: *Waltons Consolidated Investment Holdings (Waltons) owns 50,2%.*
Chairman: *J M Parrington; managing director: F E A Robarts.*
Capital structure: *64,2m ords of no par value. Market capitalisation: R270m.*
Share market: *Price: 420c. Yields: 3,1% on dividend; 9,3% on earnings; PE ratio, 10,8; cover, 3. 12-month high, 530c; low, 285c. Trading volume last quarter, 782 000 shares.*
Financial: *Year to February 29.*

	'85	'86	'87	'88
Debt:				
Short-term (Rm)	5,3	8,0	10,0	10,9
Long-term (Rm)	9,7	8,0	13,7	34,5
Debt:equity ratio	0,56	0,44	0,51	0,55
Shareholders' interest	0,40	0,42	0,36	0,39
Int & leasing cover	3,9	5,6	12,1	23,3
Debt cover	1,13	1,54	0,82	0,81

Performance:

	'85	'86	'87	'88
Return on cap (%)	28,4	28,9	28,4	27,2
Turnover (Rm)	122,0	144,3	214,7	329,6
Pre-int profit (Rm)	18,8	24,0	34,6	52,3
Pre-int margin (%)	15,4	16,6	16,1	15,9
Taxed profit (Rm)	7,7	10,3	16,4	32,6
Earnings (c)	11,8	14,7	21,5	39,0
Dividends (c)	4,0	4,8	6,9	13,0
Net worth (c)	37	45	59,9	89,0



Sappi shows 65% growth in earnings

CAG Times 20/8/88

194

JOHANNESBURG. — World demand and strong price increases resulted in pulp and paper manufacturer Sappi posting a 65% increase in attributable earnings for the six months to the end of June.

Dividends were up 37,5% to 55c (1987: 40c).

Turnover reached R745m for the half year, up 24% on last year's R601m. Attributable income was R132m (R80m).

Distributable income, however, rose by only 12% to R74m (R66m) because of increased appropriations for deferred taxation. The absorption in 1987 of permanent tax differences accumulated in previous years necessitated this increased appropriation, the directors said.

"Results have been adversely affected by planned plant maintenance shuts, particularly in the last month of the period under review and have accordingly not maintained the proportionate increases achieved in the first quarter," the directors said.

The financial year of the group has been changed to February 28 and the current financial period will be for 14 months.

The directors forecast that world and domestic market conditions would remain positive. It seems likely to maintain high levels for at least the remainder of this year with a strong possibility of a continuation into next year.

This, coupled with the value of the rand that had declined dramatically over the last few months were favourable to the group and "will improve the results for the second reporting period which will be eight months," they said. — Sapa

Consol on expansion course

31/8/88 Star (194)

Mr Piet Neethling . . . increased sales

By Derek Tommey

Consol, one of the "big three" packaging companies, has come up trumps with record profits, fully justifying its large investment in recent years in diversifying into plastic and paper packaging.

It has increased earnings by 68 percent from 484c to 815c a share for the year to June and has raised its annual dividend by 54 percent from 175c to 270c.

To continue to meet the strong demand for glass packaging, Consol is embarking on a major expansion programme. It will cost about R26 million this year and ultimately between R50 million and R60 million.

Managing director Piet Neethling says increased sales of plastic, paper and glass packaging lifted turnover by 26 percent from R503,7 million to R636,9 million.

The rise in turnover led to plant being run at full capacity and this helped boost profit margins from 12,7 percent to 15,7 percent and operating profit from R62,4 million to R96,2 million.

The effective tax rate dropped slightly from 47,6 percent to 46,2 percent and taxed earnings rose 70 percent from R30,4 million to R51,7 million.

Mr Neethling says the profit margin is now back at the rate prevailing before the company entered the paper packaging market. Because competition is tough in the packaging business, he is not expecting any further improvement in this area.

The R26 million for expanson is to be spent on a second glass furnace at the Clayville (Midrand) glass container factory. It should start production by the middle of next year.

CAPACITY

Consol is expanding capacity to meet the demands of the buoyant beer and carbonated softdrinks markets, as well the needs of other customers. To ensure that Consol is able to meet the seasonal increase in demand later this year, it has built up large quantities of finished stocks.

"Even though the recent trend in interest rates and credit curbs indicate a flattening of the economy, Consol is unlikely to be seriously affected," says Mr Neethling.

"The market segment it serves, such as the beverages and food industries, should be not be affected to any great extent by these restraints."

ly to continue. ... equal to ...

Glass helping Consol to pack in the profits

3/8/88 (194) B Day

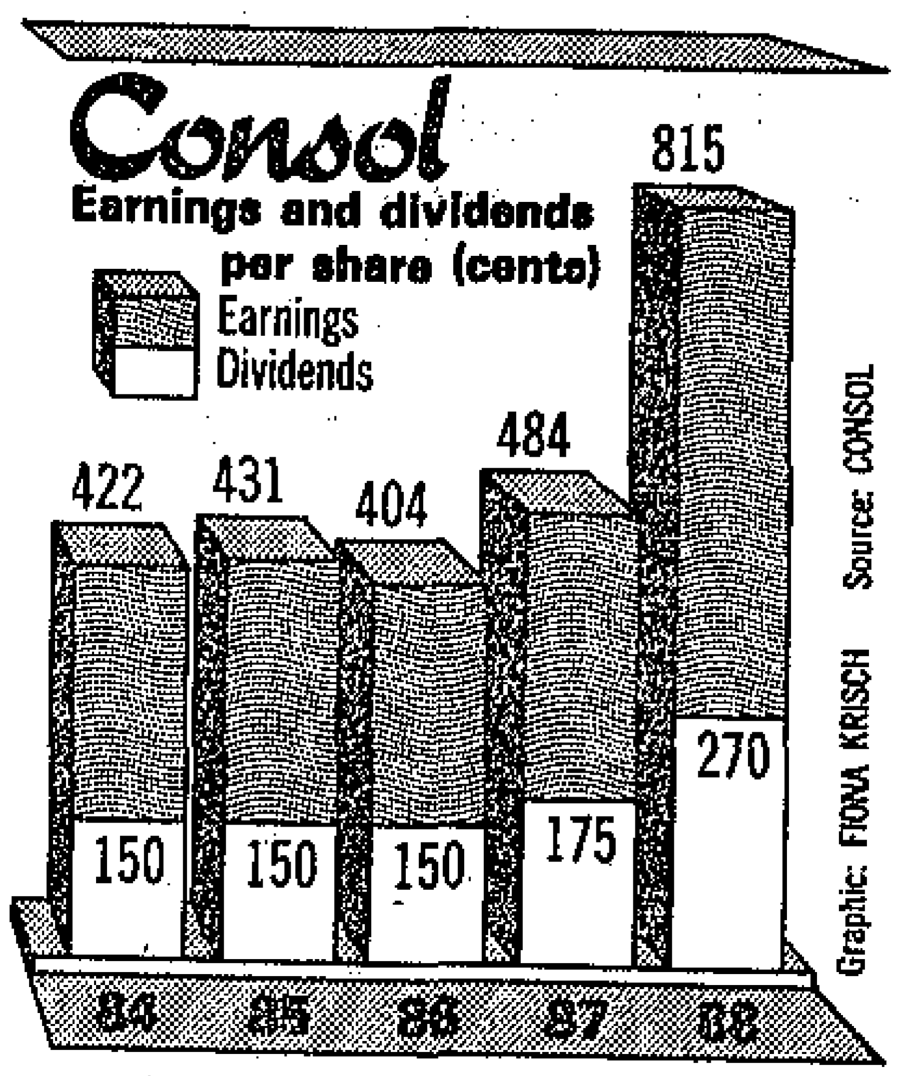
ROBERT GENTLE

PACKAGING giant Consol, riding on the tide of the consumer-led upturn during the year to June 1988, has posted a solid 70% jump in earnings to R51,7m (R30,4m).

This was achieved on a 26% increase in turnover to R637m (R504m), with the traditionally dominant glass division still accounting for the lion's share of this figure.

Turnover was also helped along by organic growth of existing businesses, market share improvements, import substitution of glass tableware and product innovations in plastic sheeting — the latter receiving a further boost from a recovery in the low-cost construction industry.

Operating profit increased 54% to R96,2m (R62,4m), mainly the result of increased demand and the effect of greater utilisation of installed capacity in the Glass Packaging, Glass Tableware, Rigid Plastics and Corrugated Cardboard divisions.



A more than two-fold jump in income from investments, a lower interest bill and a sharp upward swing in extraordinary items all contributed to a total profit for the year of R52,1m, more than double last year's R24,4m.

The dividend per share for the year rose 54% to 270c (175c) while dividend cover, which had been hovering around 2,8 for the past six years, finally edged up to 3,0.

Commenting on the record performance, group MD Piet Neethling said yesterday that Consol was one of the few SA companies to have achieved real profit growth in the inflation-ridden '80s.

In spite of the concern generated by the anticipated slowdown in the SA economy, he felt Consol was well able to weather the storm because of its policy of diversifying into as many packaging-related areas as possible. Markets like food and beverage were relatively immune to economic downswings, he said.

The group's balance sheet continues to show exceptional strength, with all key financial parameters moving in the right directions. The debt/equity ratio, for example, is now down to 10,5% (18,1%).

Malbak in bid to set up overseas

Star 5/10/88

(194)

By Ann Crotty

Malbak said yesterday that a Malbak/Abercom company had launched a £43 million bid for control of London-listed MY Holdings, which would give it a significant footing in the UK packaging industry.

Although the acquisition would initially have the effect of reducing the net asset value and earnings of Abercom, the news could boost the Abercom share price above the 400c level to which it rose on investor perception that Abercom would be used as Malbak's overseas arm. It also seems likely to lift the Malbak share price.

Malbak has often been compared with Anglo's industrial arm, Amic, and has tended to be rated negatively on only one consideration: Malbak does not have enough assets generating foreign income. This seems set to change to a major degree. Malbak chief executive Grant Thomas has said: "The board of Malbak is strategically committed to the expansion of overseas activities and it is intended that Abercom, listed on the LSE, will be the vehicle. We see this as a first step and we are being cautious."

MY's main business is the manufacture and marketing of packaging and consumer products. Its acquisition is being effected via Tawneydown, owned 53:47 percent by Abercom/Malbak, and apparently established to effect the acquisition.

Tawneydown's assets consist of funds of £18 million. Some £13 million represents cash (including Abercom's £9,5 million cash from the sale of Davidson Fan) and the rest is borrowings.

Tawneydown is offering 100p per MY share, payable in cash with a loan-note alternative. The offer puts a value of £43 million on MY, compared with a tangible net asset value of £14,2 million. It is as a result of the immediate write-off of the goodwill that Abercom and, in turn, Malbak, see a reduction in net asset value. It should be noted that the £14,2 million is at book value and not replacement cost.

The offer price is 31,6 percent above Monday's closing price and represents an historic P/E rating of 17 times. This may seem expensive in SA terms. But as Malbak executive director Peter Beningfield points out, while normal London trading sees P/Es of 11 to 12 times, when it comes to taking control this has to be increased by around 50 percent. He says that MY is not particularily expensive, compared with similar groups on the LSE and adds that on a prospective P/E the price is closer to 14,5 times.

There certainly does seem to be profitable scope for the Malbak touch at MY where operating margins are currently in the region of 7,4 percent. Some months ago Malbak executives said they were looking for margins of around 10 percent from their packaging and paper interests.

Mr Beningfield said yesterday they were hoping to pick up a maximum 70 percent of the group (with a minimum acceptance level of 50 percent). It seems that the Malbak team is keen for MY to retain a strong listing on the LSE. If it receives 100 percent acceptance, it will attempt to sell off some of the shares to UK financial institutions.

A stake of 70 percent will cost Tawneydown £29 million, which means it will have to gear up its £18 million with additional borrowings. Mr Beningfield, who stressed that Tawneydown could fund the entire deal, said the borrowings would be at at the Libor rate plus a margin.

● Abercom earned a net income from its only income, Abertech Industries of R9,3 million for the 14 months to end-August. Earnings per share were 50c and a total dividend of 15c was maintained.

2/9/88

CONSOL

(194) FM

Suddenly lively

Expansion of industrial capacity is something of a rarity these days. Consol, Anglovaal's packaging giant, announced this week that glass bottle capacity is to be increased at the Clayville (Midrand) factory with the addition of a second glass container furnace.

The decision was taken to accommodate demand from the buoyant beer and carbonated soft drinks market. MD Piet Neethling believes that, even though the economy is starting to flatten following the recent increases in interest rates and credit curbs, the flattening is unlikely especially to affect the beverage industry. He notes also that during the slow-growth period of the Eighties it has been the drinks and food businesses that have helped Consol to achieve earnings to pull through.

The expansion, for which the total cost will be about R59m-R60m is to be undertaken in two stages, with the first stage to be commissioned at a cost of about R26m by mid-1989. Consol ended the year to June 30 with the debt:equity ratio at 0,11 (0,22). The group has cash or near-cash totalling R55,9m, so the proposed expansion should not affect the ratio seriously. Neethling expects that Consol will end the current year with a d:e of around 0,22.

Announcement of the expansion was made at the same time as issue of the annual report. Following an unexciting earnings performance since 1982, Consol last year pushed up earnings by 68%, from 484c to 815c. The dividend has been increased from 175c to 270c.

Turnover improved by 26%, from R503,7m to R636,9m. Organic growth of existing businesses, market share improvements, import substitution of glass tableware and product innovations in plastic sheeting contributed to the turnover improvement, though the major increase was from beer and soft drinks, resulting in improved sales of glass and plastic bottles and corrugated boxes. The operating profit hike of 54%, from R62,4m to R96,2m, followed upon increased utilisation of installed capacity. Neethling says that Consol has budgeted for further improvement in earnings in the current year.

Consol shares are not well traded. At a price before the announcement of 5 650c, the latest results put them on a yield of 4,8%, and a p:e of 6,9. While latest results certainly make the shares more attractive, it is obviously difficult for the three packaging majors, which between them control about 75% of the market, to beat the numerous smaller companies on pricing.

David Ross

...to cyclical business fluctuations, and should not be seriously af-

but insufficiently to show a profit for the year as a whole. For plastics, potential for

Source: J D Anderson

Revamped Kohler on growth path

Sharespot

LYNNE PEACH

(194) Star 5/10/88

Kohler, an old hand in the packaging game, has at last sorted out the problems in its plastics division, says chief executive, Mr Derrick Minnie.

The division has been reorganised to comply with a focused management approach, which has resulted in more clearly defined and efficient utilisation of resources and the identification of specific market areas for major emphasis.

This, together with strong growth in Kohler's other division — paper — and benefits from the recent acquisitional expansion, should ensure above-average growth in the foreseeable future.

Kohler's plastics division accounts for 40 percent of group turnover and, in line with the industry as a whole, has high growth potential. Both rigid and flexible plastic packaging is manufactured, the latter especially set for strong growth, says Mr Minnie. A lot of innovations have been made in flexible packaging and the division has a dominant share of the SA market.

The paper division makes a more important 60 percent contribution to turnover.

Its subdivisions include corrugated, carton and print and multiwall sacks. The corrugated division is the backbone of the group, having a 30 percent share of the SA market. The recent acquisition of Sylko will more than double turnover of the carton and print subdivision, which will become the second-biggest contributor to group turnover.

Mr Minnie says the corrugated arm has so far not met with much success in its efforts to enter the low-cost housing market. However, he says the problems have related to obtaining the necessary approval from the authorities. Once this is obtained, consumer support is likely because of significant cost savings.

Kohler's major markets are currently the food industry, agriculture and, to a lesser extent, beverages.

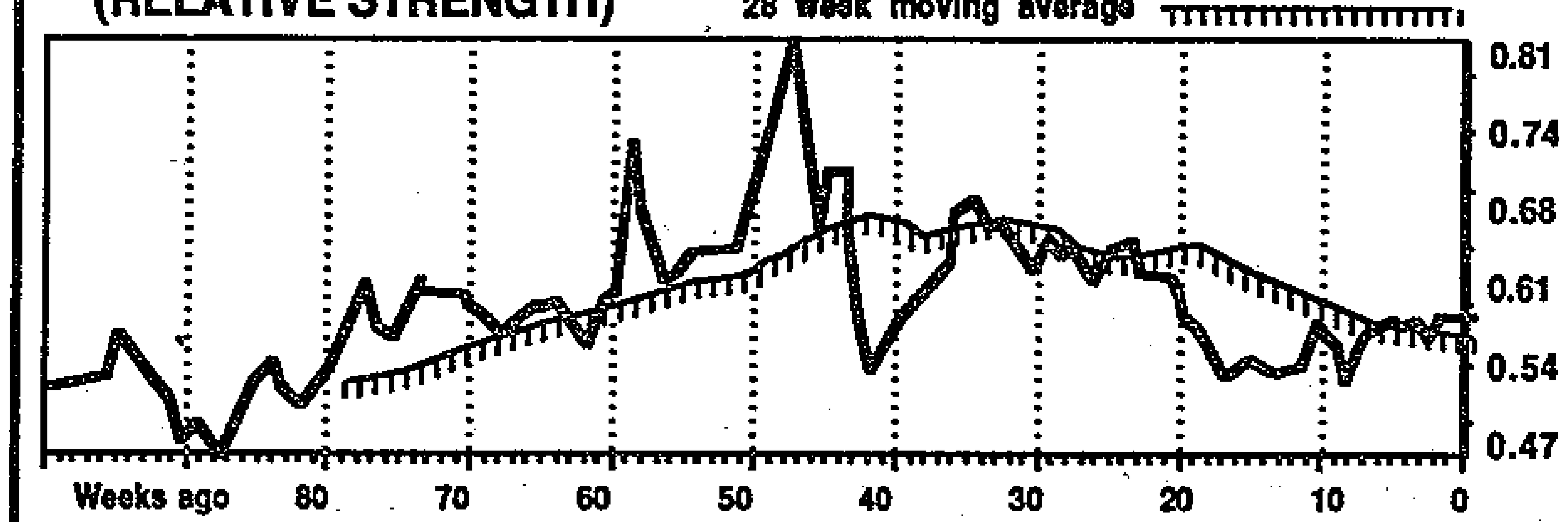
Mr Minnie says the group's indirect export business is significant, while its direct export activities are growing.

The packaging industry has, however, become highly competitive, especially over the past two years.

Mr Minnie attributes this to new entries into the market and to general increases in capacity. This has also prompted Kohler to place a great deal of emphasis on the research and development of new products.

Kohler has changed its year-end to August so as to conform with that of its holding company, Malbak, which has 61 percent of the equity.

KOHLER vs JSE PAPER & PACKAGING INDEX (RELATIVE STRENGTH)



Kohler's share price has been clearly not performed well against the JSE paper and packaging index for nearly a year. However, since its acquisitional expansion and reorganisation, the fundamental outlook is more favourable. The chart shows marginal outperformance in the past month, which could well be followed up by stronger relative performance.

In the six months to February 1988, earnings increased by 56 percent to 115c and the dividend was 35c. This was after a 50 percent increase in turnover and an improvement in the operating margin from six percent to 7,7 percent and despite a higher tax rate and a greater number of shares in issue.

Because of the utilisation of assessed tax losses, the tax rate is expected to climb strongly in financial 1988, probably to the vicinity of 35 percent. Earnings in the second half are likely to exceed those of the first half, largely due to recent acquisitions. Normally interim earnings are higher because of the Christmas period.

Earnings for the financial year to August 1988 are, therefore, expected to exceed 230c and the dividend will probably be more than 69c.

At the current share price of R14,50, the prospective P/E ratio is approximately six and dividend yield about 4,8 percent.

Afcom and Pactape hold merger talks

Star 11/10/88

194

By Ann Crotty

The listing of Afcom, which has had a brief but sparkling career in the paper and packaging sector, has been suspended at the company's request. Pactape, which is in the same sector and is part of the Rale-Farm/Ag group, has also requested that its suspension, effective since September 30, be continued.

A joint announcement from the two groups states: "Negotiations regarding the merger of the business interests of Afcom and Pactape are being continued and a further announcement in this regard will be made as soon as possible.

Sources at Pactape indicated that the suspension should be lifted within a few days.

Cape Times 20/10/88 (94)

Kohler improves earnings by 61%

JOHANNESBURG. — Packaging giant Kohler enjoyed an "excellent" year and reports a 61% increase in attributable earnings.

For the 12 months to end-August, Kohler achieved ordinary shareholders earnings of almost R35,0m compared with the previous year's R21,7m.

On a per share basis, earnings amount to 250,1c, some 36% ahead of the 1987 annualized earnings of 183,9c a share. (As the group has changed its year end to August, all the comparative figures for 1987 are annualized.)

From the improved earnings Kohler has declared a 55c a share final dividend which makes 90c a share for the full year. In the eight months to end-August 1987 a single dividend of 40c was paid.

On turnover which rose 42% from R544,5m to R774,6m, the group has achieved an operating profit of R59,7m (R34,2m) and dramatically improved operating margins.

Says Kohler CE Derrick Minnie: "Operating margins rose from 6,3% to 7,7% as a result of increased volumes and Kohler's recent acquisitions.

Having used almost all its assessed tax losses, the group has an effective tax rate of 25% (1987: 9,1%) and future tax rates will be significantly higher, cautions Minnie.

The group's balance sheet remains strong and, in spite of adding over R100m in assets in the past year, close attention to asset management has resulted in gearing at 45% — still well within the targetted maximum of 60%.

Looking ahead, Minnie says that continued investment in more efficient plant and equipment, improved profit from the rigid plastics division and the recent acquisitions should result in a further increase in earnings in fiscal 1989. — Sapa

The Star Finance

star 26/10/88 (194)

Kohler come up trumps

By Ann Crotty

Paper and packaging giant, Kohler, has turned in strong results in line with market expectations for continued recovery by this Malbak subsidiary.

On a 42 percent increase in turnover, earnings rose 61 percent and a dividend of 90c a share has been declared for the year to August.

Turnover was up R774,6 million (R544,5 million) and operating profit surged 74 percent to R59,7 million (R34,2 million), reflecting an improvement in margins from 6,3 percent to 7,7 percent. Financing costs were up 19 percent to R10,2 million (R8,5 million), leaving pre-tax income showing a 93 percent rise to R49,5 million (R25,6 million).

An increase in the tax rate from 9 percent to 25 percent resulted in a massive increase in the tax bill from R2,3 million to R12,4 million. This left taxed profit showing a 59 percent advance to R37,1 million (R23,3 million). Attributable earnings were up 61 percent to R34,9 million (R21,7 million). The improvement at the per-share level was a more modest 36 percent to 250,1c (183,9c), reflecting the 18 percent increase in shares in issue.

The directors say although acquisitions helped lift turnover, the operating divisions achieved an average volume growth of 8 percent in real terms.

In the second half, rationalisation was undertaken in the rigid plastics division, which has been a drag on group performance for a number of years. This has "resulted in increased focus on the strategic business units of this division".

The group has continued its programme of modernising plant and equipment in all operating divisions.

These moves should help lift margins above their current levels, which compare unfavourably with the other major players in the industry. Earlier in the year, Malbak management said it was looking for margins of 10 percent from its packaging interests.

This level would still be on the low side for the industry, but on financial 1988's turnover it would have provided operating profit of R77 million and would have shown a return (at operating-profit level) of 32,6 percent on Kohlers' funds employed. The actual return achieved was 25,2 percent.

Kohlers' weaker margins are reflected in the market's weaker rating, compared with other major players. Given the progress reported so far and management's optimism for further improvement, the share could benefit from a re-rating.

Afcom to wind up off-shore interests

STAR 31/10/88

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Afcom Group Limited, whose subsidiaries manufacture and distribute packaging, stapling, fastening and insulating equipment, lifted profits before tax by 94 percent to R6,09m (R3,1m) for the six months to August.

This was achieved from a 48 per cent increase in turnover to R32,7m (R22,0m). Retained profits were also up by 48 percent to R3,04m (R2,05m) after provision for an extraordinary item of R400 000 for close-down costs of overseas operations.

Earnings a share increased by 29 per cent to 11c (8,5c).

Afcom recently announced the takeover of Pactape Limited from March 1 1988 which is expected to result in a new group, listed as Afcom Packaging and Industrial Corporation Ltd (Afpac), with a combined turnover of R100 million a year.

The takeover is the third acquisition by Afcom since its listing in December 1986. Pactape subsidiaries are market leaders in pressure-sensitive tapes.

Acquisition

With the addition of Pactape results for the six months, the turnover of the combined operation to August would have been R45,9 million with a profit before tax of R8 million.

Afcom's joint managing director, Siemon Mandell, says the outlook for the balance of the current year is favourable.

He says the good trading results for the six months to August 1988 were achieved in all sectors of the group's business. He adds that Pactape results will be consolidated in the results for the year to February 1989.

Afcom expects to wind up its offshore operations before the end of the current year, and anticipates no further losses after the provision of R400 000 for final close down costs.— Sapa.

The Star Finance

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Sappi to increase coated-paper output

Star 4/11/88

Responding to the increase in demand for coated papers, Sappi fine papers is adding considerable capacity to its Stanger paper mill.

Stanger is the only plant in South Africa manufacturing coated paper.

Managing director Kim Jokipii said: "By investing some R15 million at our Stanger plant over a 12-month period in a de-bottlenecking exercise we will be able to increase capacity by 15 000 tons a year. The new capacity will start to come on stream during the second quarter of 1989.

"Our decision to increase production capacity at Stanger is tied to growth in the coated paper market. With this additional capacity we will be able to satisfy demand for the foreseeable future and still maintain our export markets."

Mr Jokipii went on to say that as the only manufacturer of coated paper in SA, Sappi had a responsibility to its customers to satisfy their demand.

"We recognise that the only alternative printers and packaging companies have is an imported product and we are reacting to the growing demand for coated papers."

Looking to the 1990s he said that Sappi was well advanced with its project to install a new paper machine and off-machine coater so as to be in a position to meet customer demand for a wider range of coated products.

"We anticipated that the present growth in the demand for coated papers will continue and Sappi wants to be in a position to satisfy that demand."

The coated papers manufactured by Sappi are top-of-the-range shaka, dukuza and impi and quality compares with similar products manufactured elsewhere in the world.— Sapa.

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Healthy growth at Waltons

Star 4/11/88

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Finance Staff

Waltons continued its strong performance of the past few years, increasing earnings by 54,1 percent to 18,6c a share for the six months to end-August. The interim dividend was raised by 50 percent to 6c.

The figures included for the first time the contribution of the Ozalid group of companies, which was acquired in March this year and which was reflected in the 86 percent rise in turnover to R253,4 million.

Group managing director, Frank Robarts says that apart from the significant growth in turnover, all the group's subsidiaries were performing well and trading ahead of budget.

"The group's move in the previous financial year into the computer stationery and supplies arena has had a beneficial impact on earnings and will continue to impact favourably on future earnings," he comments.

Group financial director, Mark Davis, points out that the group's gearing is higher than for the corresponding period in 1987 as a result of increased borrowings resulting from the Ozalid acquisition, but this will improve by year-end. Prospects for the year are also good, Mr Davis says.

Waltons Holding Company, which owns 50,1 percent of Waltons and whose sole investment is its stake in Waltson, also increased its interim dividend by 50 percent to 6c.

Star 4/11/88

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Nampak improves but falls short of best expectations

By Ann Crotty

Nampak, which now includes 100 percent of Metal Box, has not quite made the bullish end of analysts' profit expectations, although it has reported a solid improvement in turnover for the 12 months to September and a 37 percent surge in earnings to 358c (262c) a share.

Turnover was up 22 percent to R2,5 billion (R2,1 billion), with operating profit rising 28 percent to R310,9 million (R242,2 million). The interest bill rose 15 percent to R21,3 million (R18,5 million). This, combined with a slight reduction in the tax rate, left taxed income showing a 31 percent increase to R188,8 million (R144,5 million).

The improvement at attributable level was 39 percent, taking it to R153,3 million (R109,9 million). After allowing for an increase in the weighted number of shares in issue (after the acquisition of the 46 percent of Metal Box that Nampak did not hold), the increase at the per-share level was 37 percent to 358c (262c). A dividend of 133c (100c) a share has been declared.

The improvement in turnover was in line with market expectations and reflects a real increase of about eight percent. Some analysts had felt that if the group was putting this sort of additional volume through the plant, it might achieve a significant increase in operating margins, from 11,7 percent to as high as 12,9 percent.

As things turned out, the group managed to increase margins to 12,3 percent, which, in terms of margin performance, still sees it at the top end of the packaging sector. Of the majors, Consol is way out in front and Kohler is holding up the rear.

With Metal Box now 100-percent owned by Nampak, no break-down is given of the performances from the group's two major interests. A break-down was given at the interim stage when Nampak accounted for 53 percent of turnover and Metal Box for 47 percent. Nampak's operating margins were 13 percent, compared with Metal Box's 9,7 percent.

There is some disagreement among analysts over the scope for rationalisation benefits in the wake of the merger.

Some believe that with the Metal Box minorities now out of the picture, Nampak head office could introduce some cost-cutting measures. But others argue that because the two divisions are in totally different areas of the packing industry the scope for rationalisation is very restricted.

Nampak is trading at 27[illegible]c, which puts it on a P/E rating of 7,6 times, compared with a sector average of 7,9.

Sappi gets R100 000 in blaze claim

Pretoria Correspondent

Paper manufacturing company Sappi Management Services was awarded R100 000 in the Pretoria Supreme Court yesterday for damage done by a fire which raged through four Sappi farms, destroying 156 hectares of timber.

Two Lowveld businessmen, Mr Paul Greyling and Mr Jan Stander, both of Mooiland Estates and Mooiland Cabanas, which adjoin the Sappi plantations, were ordered to pay the amount, including costs.

The action against the third and fourth defendants, Mooiland Estates and Mooiland Cabanas, was dismissed with costs by Mr Justice Esselen.

The 156 hectares that went up in smoke had consisted of pine, gum, poplar and wattle.

NAMPAK

The reasons why

After tidying up, bottom-line growth should continue to outstrip inflation

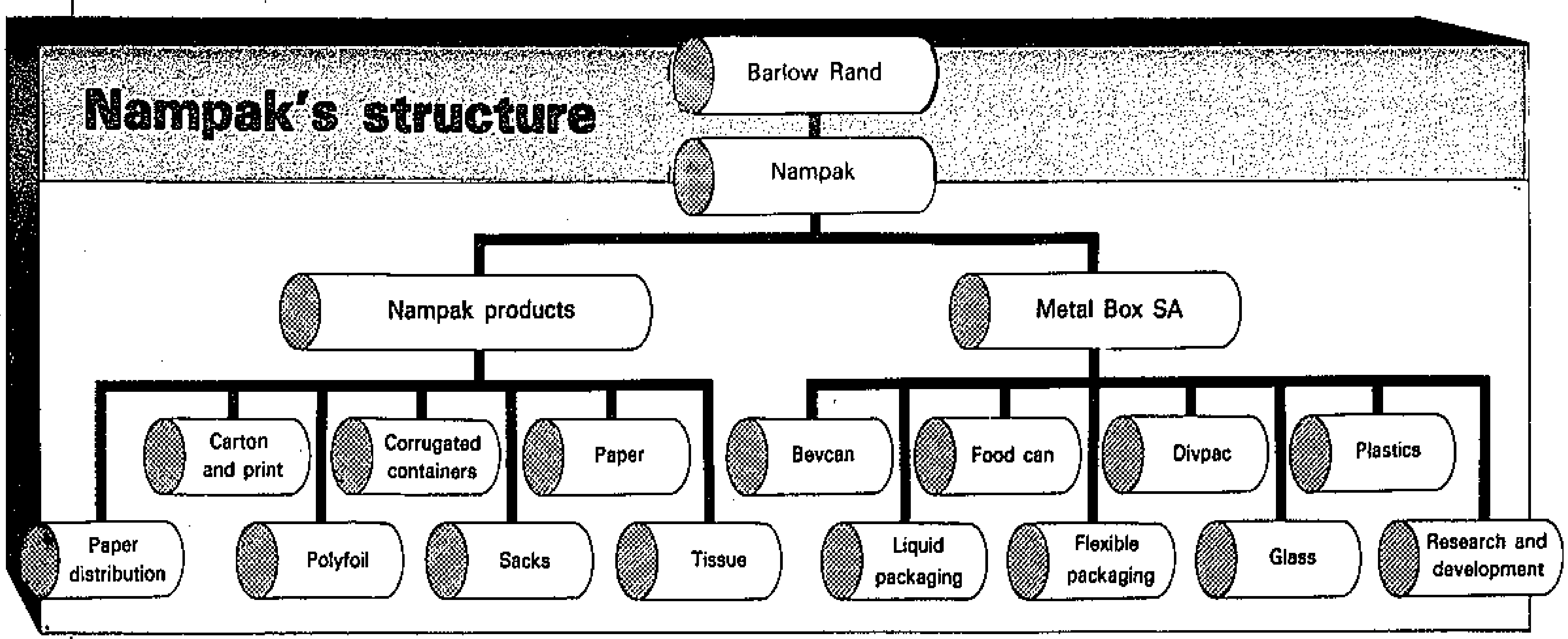
The merging of Nampak and Metal Box two months ago created one of the world's largest and most diversified packaging groups. But, size apart, what does Nampak hope to gain by its purchase of the shares it did not already own in Metal Box?

Metal Box had long been a Nampak subsidiary — it held 54% before the deal — so there were already firm links between the two companies, which together represented Barlow Rand's interests in the R3,6bn a year packaging industry.

Nampak, for years the dominant player in the industry, now towers above its rivals when measured by size. Preliminary figures for the year to end-September show that Nampak produced operating profit of R310,9m (R242,2m) on turnover of R2 526m (R2 066,9). In the year to end-June, Anglovaal's Consol made operating profit of R96,3m (R62,4m) from turnover of R636,9m (R503,7m); and in the year to end-August Malbak's Kohler produced operating profit of R59,7m (R34,2m) from turnover of R774m (R545m).

Unlike many other large acquisitions, management does not explain this one on the strength of opportunities for internal rationalisation. What there was to be achieved in this area has largely been done in the few months since the deal took effect.

As MD Don McCartan puts it, the old Nampak and Metal Box were complementary, the former involved in secondary packaging and printing and related products, and the latter in primary packaging products. Thus, in the new structure the primary packaging operations held in Metal Box have essentially been placed alongside Nampak products. That does not mean there hasn't been plenty of tidying up. The number of companies in the enlarged group will be slashed from 121 to only 13 (excluding the foreign interests), and management expects synergies over time. Advantages are seen in the wider spread of activities. "A problem in the packaging industry worldwide is the frequent change from one type of product to another as technologies develop," says McCartan. "By broadening

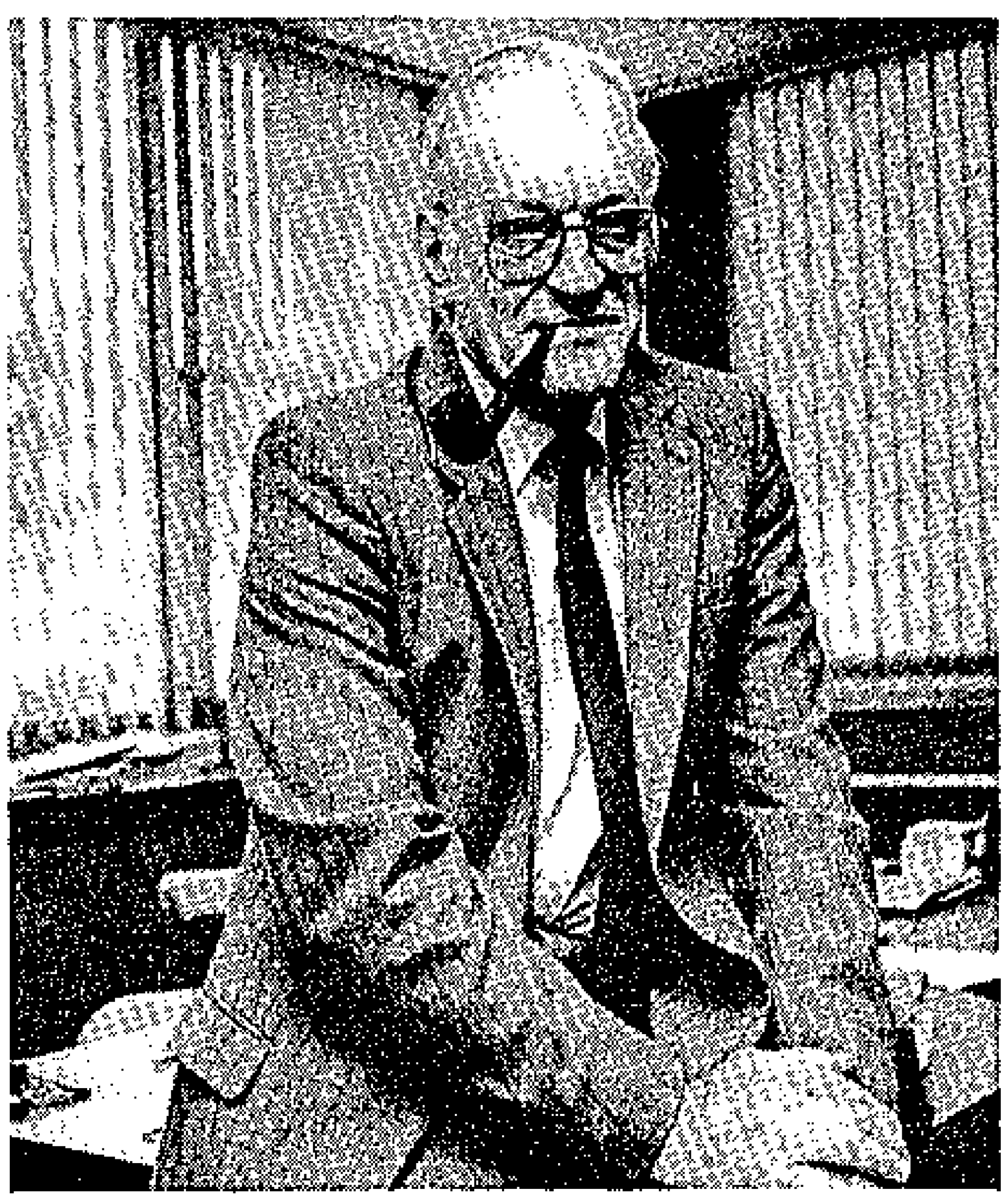


the group we have extended the net and can take the opportunities this creates."

Chairman David Brown contends that, product ranges aside, part of the motivation lay in the relative strengths of the groups. Metal Box had become known for its skills in technology and manufacturing, while Nampak was considered more market-orientated. "Lack of flexibility was a weakness of the individual groups," he says. "We have a combination that is going to do Nampak a lot of good over the next 10 years."

McCartan adds that Nampak had not been greatly inclined towards research and development. "We were inclined to get a new idea and then run with it. Metal Box tended to want to prove it first."

With the restructuring in place, management will be focusing on volumes and trading margins. Nampak wants to maintain its record of generating annual earnings growth ahead of GDP plus the CPI, and there appears to be scope for better returns in the Metal Box operations. One hurdle for Metal



MD McCartan ... extending the opportunities net

Box in recent years has been its R100m investment in glass manufacture. Two years ago this was a lossmaker, but it broke even in 1987 and is now contributing to group profits.

As it was, in the 1988 year, the enlarged Nampak's turnover rose by 22%; its operating margin climbed from 11,7% to 12,3%; and EPS rose by 37%. It reported EPS of 358c, which included an estimated 5c relating to the acquisition. With the deal effective only for the last two months of the financial year, more effects will come this year: one analyst estimates it will add about 30c to Nampak's 1989 EPS.

The breakdown in the table shows that in the 1988 year primary packaging accounted for 39,2% of operating profit and 43% of turnover; secondary packaging and printing produced 42,3% of profit and 36% of turnover; and paper and related products generated 18,5% of profit and 21% of turnover.

Buoyant markets have helped boost margins, as have efforts to improve productivity. However, pressures on margins include the need to import certain raw materials. Iscor has apparently reached the upper limits of its tinplate capacity, and local producers of polyethylene are running into similar constraints. Imports mean higher costs for Nampak, not all passed on to customers.

SEGMENTAL PERFORMANCE

	1985	1986	1987	1988
Turnover (Rm)				
Primary packaging	716,0	830,7	989,7	1 176,1
Secondary packaging and printing	549,8	656,3	795,0	967,4
Paper and related products	279,3	383,1	438,4	572,7
Intra-group	(110,4)	(136,0)	(156,2)	(189,9)
Total	**1 434,7**	**1 734,1**	**2 066,9**	**2 526,3**
Operating profit (Rm)				
Primary packaging	54,2	58,8	92,3	121,8
— % of turnover	7,6	7,1	9,3	10,4
Secondary packaging and printing	57,3	86,0	104,2	131,5
— % of turnover	10,4	13,1	13,1	13,6
Paper and related products	30,5	36,9	45,7	57,6
— % of turnover	10,9	9,6	10,4	10,1
Total	**142,0**	**181,7**	**242,2**	**310,9**

Most of the divisions enjoyed strong real growth this year, particularly those supplying consumer markets. Brown says that October has been "a magnificent month." Given the expected boom Christmas season, the group should see a solid first half. "But for the second half we are guessing — we are worried about it," he adds. McCartan comments: "It's not in business's hands to plan for the future anymore."

Export turnover rose by about 56% last year, but its value, which has not been quantified, remains less than 10% of group sales.

Longer term, it's hoped that growth will be fuelled by the mushrooming informal sector and by the group's investment programme. Capex for 1989 is budgeted at R200m, of which about 50% is for replacement and modernisation.

This includes two major projects — a new beverage can line in Durban to provide additional capacity; and a new corrugated carton facility at Mariannhill near Durban, which involves the relocation of the Jacobs plant and should also result in larger capacity owing to a more efficient layout. The capital programme includes moves into new areas which are not part of the core businesses, but these plans are being reassessed.

Brown points out the group has established various grassroots businesses in recent years — the glass division was the first major competitor to Consol in decades. He adds that 100% ownership of Metal Box has improved financial flexibility and this should enable more efficient funding of capital projects. Metal Box is seen as the better cash generator, and might have ended the year with liquidity that could have been used better elsewhere.

Following the merger, Nampak's ratio of gross borrowings to liabilities has increased from the year-ago 0,18 to 0,38. Despite next year's capex, financial director Dave McFadden says gearing is expected to remain stable and may decline.

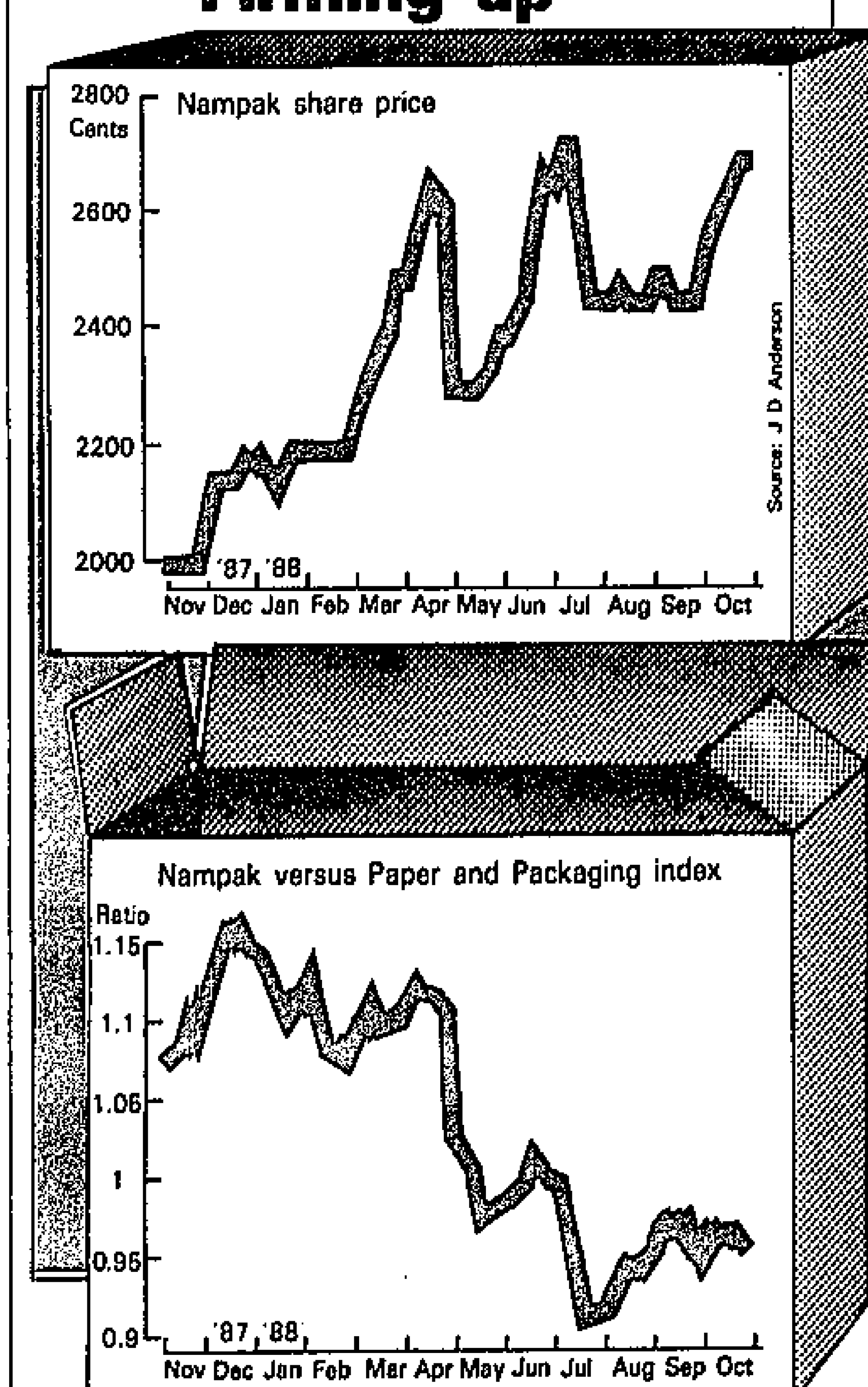
Spending is likely to remain high: more capital projects are expected, and will become more expensive. These could include geographic expansion of existing businesses, such as glass production in the Cape, capacity expansions, or new products. "Few realise how diverse we are," says McCartan, "but there are a lot of opportunities in these areas." As the biggest player in the sector, the group needs to continue bringing to the market about two out of three of the industry's new products.

This year has seen rationalisation at various plants, aimed at improved efficiencies and curbing costs. In Metal Box, for example, canning factories at Paarl and Cape Town have been rationalised, and in the liquid packaging and flexible businesses there have been closures and relocations. More such moves were made seven to eight years ago, and the benefits helped Nampak to cope with the stodgy markets of the mid-Eighties. But management is not anticipating much more of this.

With the economy showing signs of turning downwards, the group is viewing 1989 as a year for consolidation. However, management remains confident that bottom-line growth will continue to outpace inflation. One of Nampak's strengths is that its sales should remain relatively stable in an economic downturn, with about 50% of turnover derived from packaging for food and drink, and soaps and detergents the next biggest component. Earnings growth of 22%-25% looks attainable, indicating EPS of about 445c and a prospective p:e of 6,3 times.

Andrew McNulty

Firming up



Former Metbox boss in £29m bid

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By Richard Rolfe
LONDON

DEREK Jacobs, former managing director of Metal Box in SA, has launched a £29- million cash bid for UK packaging group Cundell.

The bid is opposed by Cundell, which has arranged an agreed merger with another packaging company, Ferry Pickering.

Although Mr Jacobs is offering 160p a share cash, the Ferry Pickering terms for Cundell are 138p.

Advised by small merchant bank Close Brothers, formerly part of Consolidated Gold Fields, Mr Jacobs has obtained irrevocable acceptances for his bid from insurance group Abbey Life, which owns 24% of Cundell. He is thus in a strong position.

Mr Jacobs' vehicle is *Crown Industrial Group*, a private company which he formed with two other packaging executives, Tony Evans and Michael Sykes, to expand in niche markets.

Medical

Established only in October 1987, Crown has made several acquisitions and has also started some businesses. It is involved in corrugated cases and specialist printing supplies to the medical market.

It has 15 operational centres — in Scotland, the north of England, South Wales, the south and west of England and in Belgium.

DEREK JACOBS

If Crown is successful in its Cundell bid, indications are that the combined group would have initial annual turnover of about £50-million and pre-tax profits approaching £4-million.

Cundell, Mr Jacobs says, would complement Crown's geographical spread, bringing in operations in the UK Midlands to give the post-merger group national coverage.

The UK packaging sector is looking more interesting. Malbak, which has acquired the £40-million MY Holdings group, will be competing against Crown, with or without Cundell, in several areas.

Impressed

In recommending the Malbak terms, the MY Holdings directors said they were particularly impressed by the group's expertise in packaging, which would enable a faster rate of growth to be achieved.

MY Holdings is also involved in corrugated cartons and high-quality printed packaging for the pharmaceutical industry.

S/T Times 4/12/88

PIPPED AT THE POST

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After two great years at the top, Waltons loses its crown — but still has plenty to smile about

STATIONERY group Waltons has been pipped at the post for the honour of being The Sunday Times top company for the third year in succession.

Natbolts' average all-in compound return over a five year period of 62,2% was good enough to edge Waltons, with a return of 57,8%, into second place.

Waltons managing director Frank Robarts admits to a little disappointment that the fates have robbed the company of a chance at a hat-trick in the No 1 spot — a feat achieved by only one company, Toyota.

But, overshadowing any disappointment is the knowledge that the company is still running, and running hard. The achievements of the group in its 10th year as a listed company give rise to hopes that it will still be among the contenders for some time to come.

Mr Robarts is the first to admit that Waltons' field is not a high profile business. "We do not have a glamourous commodity, but, on the other hand, everyone needs us. We are involved in a very exciting business."

The company's unbroken record of earnings growth over the last 10 years has made it a share to watch.

By IAN SMITH

Certainly, Waltons' results for the half-year to August 31 do not indicate a company that is running out of steam, and new developments hold our good prospects for solid growth in expanding markets.

"We are delighted with the interim results," says managing director, Transvaal, Len Chimes. All the divisions of the group are trading well and results for the first two months of the new financial year are ahead of budgets.

With the results of Waltons' acquisition of Ozalid from the beginning of the financial year coming through for the first time in the latest interims, group turnover jumped 86% to R253,4-million for the six months to August 1988, compared with the same period last year.

Net attributable income was up 61% to just over R12-million and earnings per share were up 54%, from 12c to 18,6c a share. The interim dividend was increased from 4c to 6c.

Although the inclusion of Ozalid contributed to the massive turnover hike, financial director Mark Davis says Waltons' own turnover improved by a hefty 40%.

Ozalid is also more than paying its way. While borrowings are substantially higher at R42,3-million than the R34,6-million shown at the year-end and the R13,3-million outstanding at the midway stage last year Mr Davis says Ozalid's profit in the half-year will exceeded interest paid on the funds borrowed to buy the company.

Mr Davis says rising interest rates will inevitably mean that greater attention is paid this year to managing group assets and to reducing debt. Year-end figures to February next year will show that borrowings have been reduced rom the mid-year level but they will still be above the last year-end total.

He points out that Waltons' purchase of Ozalid for R44,1-million in cash is in line with normal group practice. Only once before has a purchase been made through the issue of shares.

The other major development this year, the establishment of Multipro as a national specialist supplier of computer stationery and support equipment, has gone smoothly and the division is on track to meet its turnover and profit budgets. It is expected to benefit heavily from the rapid expansion of computerisation in the office.

Both Ozalid and Multipro operate at arms length from Waltons, and both companies will probably be listed seperately. "It's a question of timing — we must wait for the right market," says Mr Davis.

Behind Waltons' remarkable success is a story of a company that is run by a team of dedicated professionals who are determined to stay in areas which they know best.

The leadership comes from Frank Robarts in Cape Town, Len Chimes in Johannesburg and Alan Muirhead in Durban.

"Three of us making decisions leads to flexibility, which is one of our major strengths," says Mr Robarts.

"The whole staff works as a team. We have dedicated people who know the business. They know what the customer wants and what they have to do to provide the service to back up the product."

He says that the company's share purchase scheme has acted as a great motivator. More than 900 staff members — or 25% of the total employees — have taken advantage of the scheme to participate in the fortunes of the company.

Membership of the scheme extends right down to the all staff levels, and the value of shares issued through the scheme now totals more than R15-million.

Mr Chimes also says that much of the group's success is due to the fact that all the management "is still on the road". The group's decentralised operating style has helped it to keep an effective and motivated management in place in all its divisions.

He says that Ozalid, which is in a less volatile sector of the market, has strong management.

"They are performing in a line with a budget they set themselves, and we are very happy with that budget."

Multipro also operates largely independently, and it does compete with some Waltons operations in certain areas.

"It deals directly with the trade and customers, and we have found this increases our credibility in the marketplace," says Mr Chimes.

Walton's 52,5% interest in listed toy and babyware group Reggies also paid off well in spite of a difficult period of integration and rationalisation.

Reggies' manufacturing operations are benefiting from greater throughput after the acquisition of babyware divisions, and the group's concept of combining babyware and toys in retail outlets has also proved highly successful.

The prospect of a downturn in the economy does not particularly worry Waltons.

"Traditionally our markets are not as seriously affected as other sectors by recessions," says Mr Chimes.

And he does not believe that sanctions pose a serious threat. "We are vulnerable to an extent in some areas, but we are continually moving towards more local manufacture.

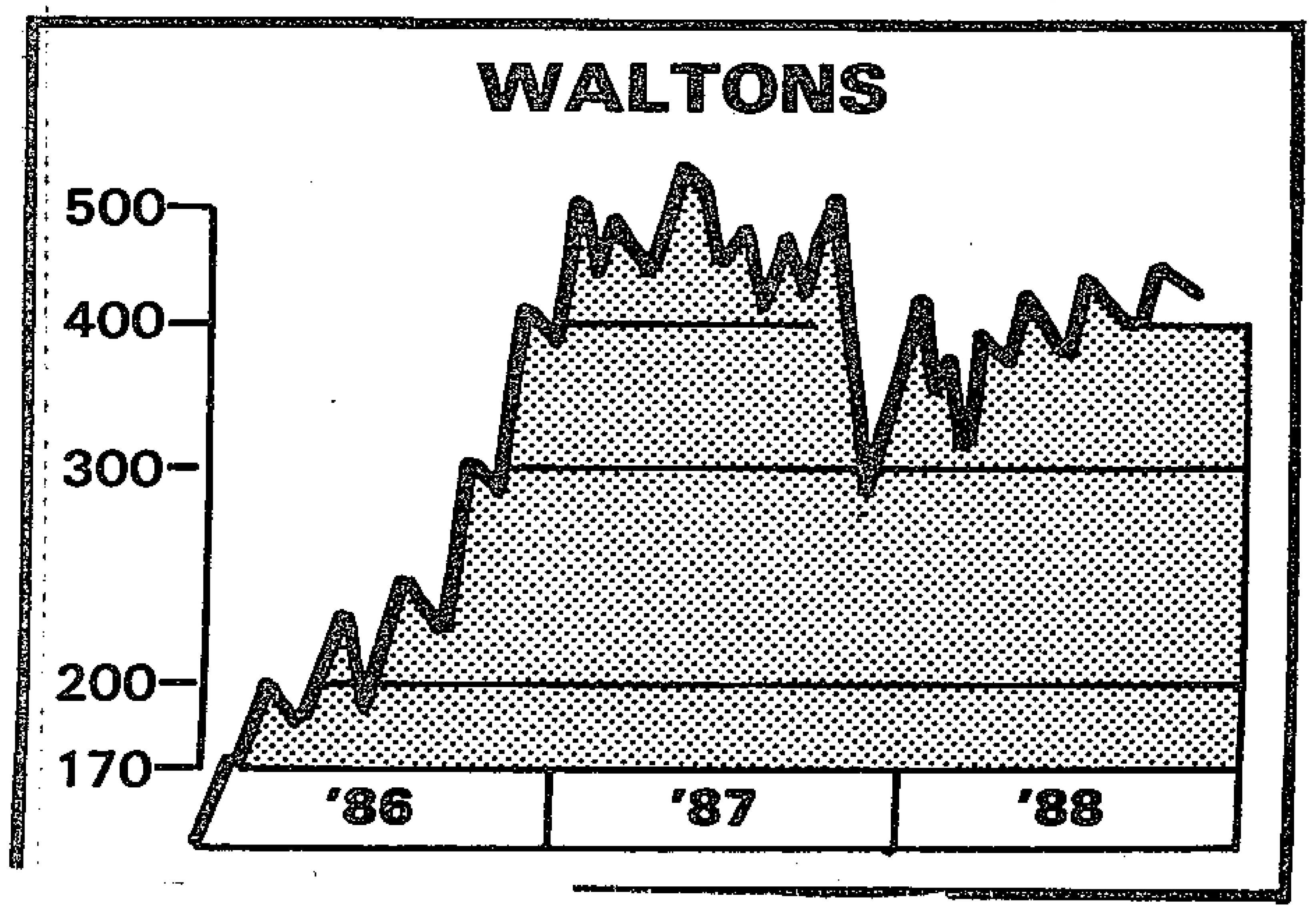
"Wherever we have seen a potential risk we have taken action to get around the problem."

For the future, he sees Waltons continuing on its present path. "We are looking at new projects all the time, but I don't see the likelihood of any change in direction."

Any formula which has seen group sales rocket from barely R18-million in 1979 to R329,6-million last year while attributable incomed soared from just over R1-million to R24,4-million must have merit.

Frank Robarts says there is still organic growth potential in the group's traditional lines and there are new areas to be examined.

"One of our great achievements has been the ability to convert turnover into profits. We have taken over a company making a loss of R5-million a year and turned it into a R10-million a year profit-maker, leaving the same people in charge. That is where our strength lies."




FRANK ROBARTS


LEN CHIMES

... and declared a doubled-up interim dividend of 1c (0,5c).

The associates' contribution plummeted 42% to R792 000 (R1,4m), with a 48% decline in Lucem's attributable profit to R641 000 (R1,2m), having uti-

... relocations.

Turnover rose 21% to R3,8m (R3,1m) and buoyed by improved margins — 14% (12%) — helped operating profit to a 38% increase to R509 000 (R370 000).

Higher interest charges — R77 000 (R10 000) — but a lower effective tax

... have been obtained recently.

"In addition the Fisherman's Village project at Bruma Lake is in progress and should be completed by the second half of the coming year."

Although ordinary earnings were lower at R1,1m (R1,6m), income from

Packaging giant ends positive first quarter

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BDay 12/12/88

LINDA ENSOR and LIZ ROUSE

PACKAGING giant Kohler has just completed a positive first quarter.

Speaking to shareholders after the annual meeting, director Klaus Zirker said Kohler's order books had held up well since the end of the past financial year to August. Results to date were on budget.

Zirker said: "There is no doubt that business is slowing — the signs are all there — but we are pleased with the level of orders our divisions are reporting."

He said Kohler's decision to broaden its operating base to include more consumer-oriented companies was proving to be wise and the recent acquisitions were contributing handsomely to Kohler's overall results.

Kohler stock is recommended as a good one to hold or to buy on weakness by researcher Heidi Vollmer, of stockbrokers Frankel, Kruger, Vinderine, in a recent research report on the group.

"Although the share is regarded as a buy, Kohler's share price may not hold up in the face of an overall decline in the industrial index," Vollmer writes.

"Kohler shows signs of moving down against both the industrial and the paper and packaging indices in the short term. Indications are that the Kohler ordinary share price could have come to the end of its recovery phase."

Vollmer adds that while prospects for the ordinary share price (presently near its year's high at R16,50) are bearish in the short term, support exists at R15 and R14,50. However, were the share to break through R14,50, it will have broken through the support line of its bull run.

She says the giant packaging group is growing off a high base after the recovery from its 1985 losses. Higher volumes, improved efficiencies and additional earnings coming through from acquisitions, are expected to compensate for increased input costs as well as a higher tax rate.

The tax rate is expected to level at about 40% (25%) for the 1989 financial year. Earnings a share are forecast to rise by 21% to 303c (250,1c) in 1989, by 20,7% to 365,6c in 1990 and by 37,6% to 503c in 1991.

The forecast dividend growth is 12,2% to 101c (90c) in 1989, by 20,8% to 122c (101c) in 1990 and 37,7% to 168c in 1991.

Although Kohler is rendered relatively non-cyclical through its close correlation to the food and beverage industries, it is less diversified than other major players in the packaging sector.

Nampak shows its mettle

Star 14/12/88

Diagonal Street

ANN CROTTY

In financial 1988 Nampak achieved a 37 percent increase in earnings. For financial 1989 management is budgeting for at least a 20 percent increase.

This is in line with most analysts, who feel that the group is well placed to ride out any downturn in the economy and that earnings well in excess of the inflation and GDP growth rates will be achieved over the next three years.

The release of the financial 1988 results and the market's generally bullish sentiment towards the group has helped to lift the share in recent months, bringing it back into line with the stronger trend in the paper and packaging index.

As one of the strongest performers in this sector, both in terms of current margins and prospects, Nampak's share performance should be at the head of the pack. At its present level of R29,50 the share is on a price/earnings rating of 8,2 times and a dividend yield of 4,9 percent which is in line with the sector's average.

Assuming the group achieves a 22 percent increase in earnings per share in financial 1989 and a similar increase in dividends, then the share is currently on a prospective P/E rating of 6,6 times and a forward dividend yield of 5,6 percent.

Nampak's underlying net asset value currently represents about 44 percent of the share price.

Referring to the group's prospects in the latest annual report, the directors point to a number of negative factors on the horizon. These include an expected economic slowdown, higher interest rates and increasing inflation. There is additional concern about raw material availability and pricing.

On the positive side, the group's high exposure to food and beverage-related industries (particularily since it acquired the outstanding 46 percent of Metal Box) means that it is relatively non-cyclical.

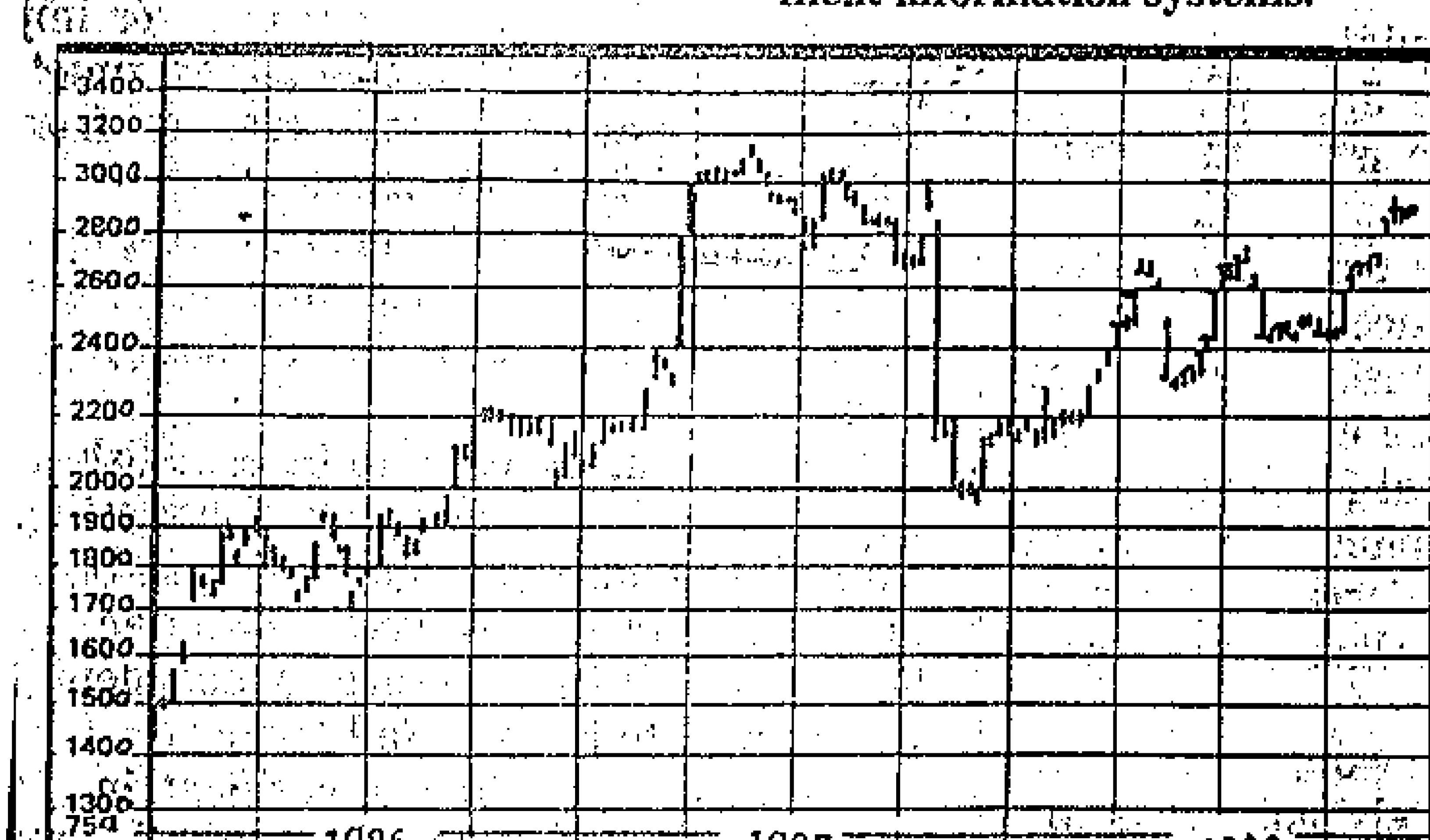
Furthermore higher volumes, a lower tax rate, additional capacity and earnings from 100 percent of Metal Box for all of financial 1989 should ensure that the negative factors are more than outweighed.

After a change in the basis of accounting for deferred tax, from the comprehensive to the partial method, the group's tax rate is expected to settle at around 37-38 percent unless there are major changes in capex.

Capex for the current financial year is budgeted at R200 million which will be financed out of the group's cashflow and depreciation and so will not raise gearing above the 38 percent reached at end-financial 1988.

The increase in gearing (from 18 percent) reflects the impact of the acquisition of the outstanding 46 percent of Metal Box. Even at its higher level the gearing situation looks comfortable and, as a recent report from brokers' Frankel, Kruger, Vinderine notes, interest payments are adequately covered at 14,6 times.

While there is some scope for rationalisation following the Metal Box deal it is unlikely to have any significant benefit in terms of operating margins. As MD Don McCartan points there will be benefits from all divisions in the group using the same accounting systems and management information systems.



NAMPAK share price

MANUFACTURING — Paper & Products

1989

250 locked out strikers dispersed

POLICE yesterday dispersed about 250 striking workers who congregated outside the gates of Nampak Corrugated Containers in Epping.

The workers, members of the Paper, Printing, Wood and Allied Workers Union, were locked out and interdicted by management on Monday after embarking on a legal strike last Wednesday.

Meanwhile company MD Mr A J Andrew yesterday reaffirmed the company's refusal to bargain wages with the union, which is asking for a R60 across-the-board weekly increase for all grades.

The company stood by its final offer of a 50% increase for minimum wage earners from R109,30 to R164, he said.

25. January 1989

Court warns strikers off

Supreme Court Reporter

WORKERS — excluding three shopstewards — on strike at the Nampak factory in Epping were yesterday interdicted and restrained from intimidating, assaulting or threatening non-striking staff members after an urgent application was brought before the Supreme Court.

In an interim order, Mr Justice E L King ordered that the 227 workers be restrained from entering the premises without permission and that they be interdicted from hindering the normal operation of Nampak's business. The order was not extended against shopstewards Mr Patrick Hlakula, Mr Peter Palmer and Mr Derek Booysen.

Prospects look good for paper industry growth

BDay 30/1/89 (194)

ZILLA EFRAT

GROWTH prospects look promising for the paper industry in 1989 and the concept of a paperless society is dismissed by people in the industry.

Sappi MD Eugene van As says the concept of technology developments reducing paper usage is a fallacy.

Mondi CE Tony Trahar says: "If anything, additional growth is generated through increasing computerisation, fax machines, copiers and similar products."

● TRAHAR

Developments do not cut paper consumption. They just shift it elsewhere, says Van As.

Both executives are confident of sound growth for the industry in 1989.

Trahar says he expects the paper market to increase by 2% to 3% in volume.

They say increased spending on education, particularly black education, indicates strong growth in paper products. Van As says increasing literacy has a compounding effect on the industry every year.

Trahar says further opportunities exist for import substitution and large strides have already been made, but he would not disclose details.

Largest growth areas on the domestic market in 1989 will be in office, scholastic, writing and printing papers. And good expansion will come from packaging papers, says Van As.

The major variables that could affect the industry in 1989 are increasing sanctions, the exchange rate and domestic economic activity. A major concern remains rapid inflation in production costs in SA, says Trahar. But the exports prospects still look good, especially for pulp and linerboard.

Price increases

International competition is strong and will become tougher for some grades of paper, creating increased pressure for SA producers, says Van As.

In general paper prices should rise in line with inflation over the year. Increases in prices are expected in the first quarter of 1989 and there may be some increases towards the end of the year, says Van As.

And long-term growth for the industry will come from less developed nations which presently have low per capita consumption of paper. South East Asia and China will be major expansion areas in the next 20 years, says Van As.

31/1/89

CAPE TIMES

Nampak strike continues

Staff Reporter

MORE THAN 230 striking workers at Nampak Corrugated Containers, Epping, yesterday continued with their week-long legal stoppage, but revised their original wage demands, a Paper, Printing, Wood and Allied Workers' Union spokesman said.

Dropping their demand for a 60% across-the-board weekly increase, workers accepted the company offer of a 50% weekly increase, but demanded an extra R5 after July 1, he said.

Workers were locked out and interdicted by the company last Monday following allegations of non-strikers being assaulted and intimidated.

Pupils flee from faction strife

MARITZBURG. — Thousands of schoolchildren in strife-torn Shongweni and Mpumalanga, near Hammarsdale, have fled the area and are seeking education elsewhere in the province, leaving many of the existing schools empty.

At the senior primary school in Shongweni, which has 19 teachers, only five pupils have registered.

At the only high school in the area, Wozamoya, no pupils have arrived.

A community meeting yesterday discussed ways of ending the factional violence between Inkatha and the Amaqabane — supporters of the United Democratic Front.

The violence erupted in November last year and has since destroyed the fabric of community life. Shops have closed, families have fled and public transport has been disrupted.

The meeting agreed that the schooling crisis could not be overcome until the political violence ended.

A committee is to investigate means by which the two factions could be brought into negotiations leading to a permanent truce.

The committee is to discuss the crisis with the KwaZulu Department of Education and Culture and ask for police protection for children wishing to register at local schools. — Sapa

Dividend doubled

Star 1/2/89

194

Finance Staff

Further evidence that the manufacturing sector is enjoying buoyant times caomes from Carlton Paper Corporation which increased its earnings by 72,1 percent in the year ended December from 45,1c to 95,1c a share. It hs raised its final dividend by 115 percent from 13c to 28c making a total payment of 52c (28c) for the year.

Carlton's turnover rose by 16,5 percent to R258,2 million, but an improvement in margins from 8,1 percent to 12,3 percent led to operating profit rising 75,4 percent to R31,8 million.

Net income was R15,8 million against R8,7 million in 1987.

A further real growth in earnings is expected this year.

Carlton Paper wraps up impressive year's results

B/Day 1/2/89 194

TANIA LEVY

CARLTON Paper's year-end results prove that its impressive interim results were nothing to sneeze at.

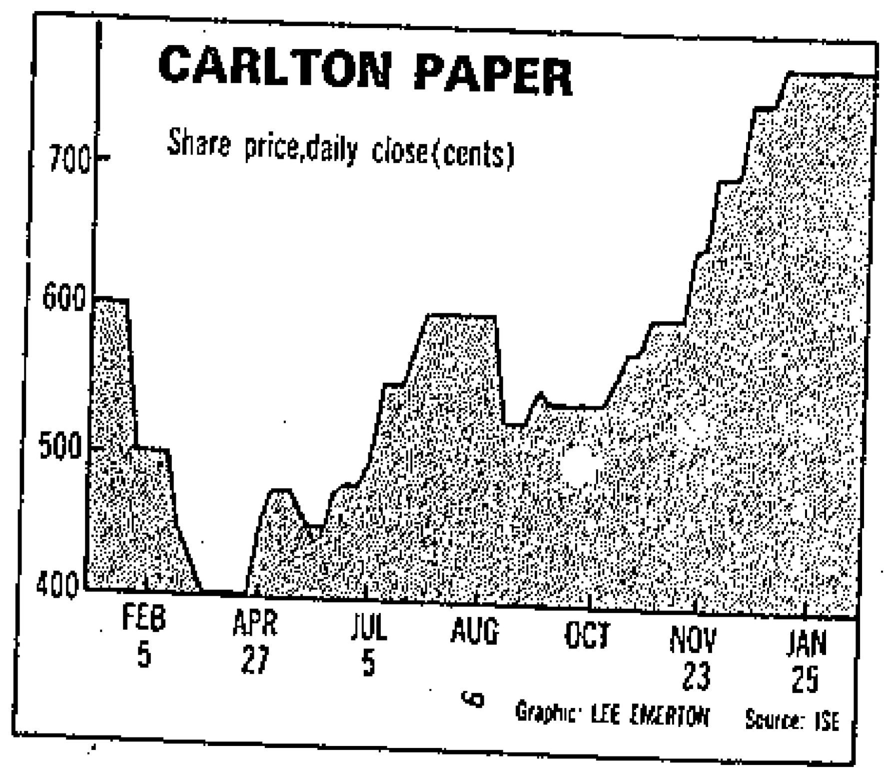
PARTRIDGE

In the year to December, earnings more than doubled to 95,1c a share compared with 45,1c for the comparable previous period.

A 28c final dividend has been declared which brings the total distribution to 52c, double the dividend declared the year before.

CE and MD Keith Partridge yesterday attributed the pleasing results to good management.

Real volume growth, controlled costs and better capacity utilisation were rewarded with a 75,4% improvement in operating profit to R31,8m (R18,1m). Carlton Paper's turnover rose 16,5% to R258m from R221,7m.



A 12,8% lower interest and a lower tax rate contributed to a 72% increase in attributable profit to R15m (R8,7m).

The more normal tax rate helped the debt:equity ratio decline sharply from 52,1% in 1987 to 24,9%.

Partridge said a strong cash flow combined with very little capital expenditure were reflected in the 23% decrease in long-term liabilities. He anticipated that more capital would be spent on new projects in the new year.

Growth

However, expected high interest rates meant management would continue to emphasise effective use of working capital.

In spite of expected higher interest rates and a slower economy, Partridge forecast further real growth in earnings in 1989.

Carlton Paper's major shareholders, Kimberley-Clark and Malbak, have approved a social responsibility programme to provide housing, education and community-related support for employees and their families.

METAL CLOSURES PACKAGE 35% EARNINGS JUMP

Star 24/2/89 ZILLA EFRAT (194)

THE Metal Closures Group has packaged a 35% increase in earnings in the year to December as a result of improved economic conditions, increased efficiencies, market share growth and greater use of production capacity.

The investment holding company, whose interests inculde packaging and the manufacture of plastic products, increased its earnings to R9,5m (R7m) or 367c (272,7c) a share.

A final dividend of 74c has been declared bringing the annual total to 122c (99c) a share, covered three times.

Directors say the results are most satisfactory when viewed in the light of severe competition, significantly higher costs and market resistance to price increases.

The interest bill shot up 360% to R392 000 (R70 000) affecting pre-taxed profits which rose 34% to R19m (R14,2m).

But directors say investment in capital equipment to protect and expand the product base and increased working capital requirements to support higher levels of activity resulted in the group being net borrowers of funds for most of the year, although at conservative levels.

Business Report

Wiggins Teape sells SA holding to Malbak

CAPE TIMES 14/2/89

194

By ROBERT GENTLE

LONDON. — Wiggins Teape UK, the Basingstoke-based paper products group, said yesterday it had reached an agreement to sell its 75% stake in Wiggins Teape SA to the Malbak group for an undisclosed cash sum.

All management and staff of Wiggins Teape SA will transfer with the company to Malbak, which will continue to distribute Wiggins Teape products in SA.

These include Conqueror and Idem business papers, and the Keays range of speciality papers.

A Wiggins Teape UK spokesperson said the move was not a political one, and had been motivated solely by commercial considerations.

"We have recently taken similar measures in our Far Eastern and Australian markets to enable us to continue our strategy of concentrating recources for growth in Europe," she said.

Wiggins Teape UK last year made a trading profit of £102m on turnover of £1,07billion.

It is a wholly owned subsidiary of the giant BAT (British American Tobacco) group, whose extensive SA interests include SA Eagle Insurance, United Tobacco and Willards Foods.

Business Report

Higher sales volumes, productivity

Consol boosts earnings by 30%

CAPE TIMES 14/2/89 (193) 194

JOHANNESBURG. — Consol Limited, the predominantly-packaging subsidiary of Anglovaal, has announced a 30% increase in earnings to R32,2m for the half-year ended December 31, 1988, as against R24,8m a year ago.

Earnings are equivalent to 504c (390c) a share.

Higher sales volumes were achieved by most divisions and turnover increased by 22% to R392,8m (R322,6m) and this, together with productivity improvements, contributed to an increase of 29% in operating profit to R61,1m (R47,5m).

Strong liquidity throughout the period resulted in increased income from money market investments and profit before tax improved by 33% to R62,3m (R46,7m). The effective tax rate was marginally higher and earnings increased by 30% to R32,2m.

Glass packaging division increased sales to all major market sectors, resulting in profit growth. Glass tableware also increased sales volume and profit.

Rigid plastics recorded volume growth with a commensurately improved profit. The consumer flexible operation increased sales and profit following the installation of additional sophisticated printing equipment.

The bags and sacks operation experienced highly competitive markets and this, coupled with disappointing orders for grain bags, resulted in a loss.

Industrial flexible plants were also adversely affected by intense competition which reduced margins and a loss was recorded. This led to the closure of the Atlantis plant in January 1989 and the transfer of its production to other divisional plants to achieve rationalisation benefits.

Increased demand for corrugated cartons, together with improved production performance and tight cost control, resulted in turnover and profit growth from the paper division. The folding carton operation in Natal was sold in December 1988 as it was considered too small to service target customers effectively.

Demand for the group's major products continues to grow, albeit at a slower rate than in the previous financial year. Investment income will reduce due to lower liquidity following large tax payments in December 1988. A profit improvement over last year is projected.

Consol achieves a 30% increase in its earnings

B/Day 14/2/89 (194)

ZILLA EFRAT

CONSOL, the packaging subsidiary of Anglovaal, has achieved a 30% increase in earnings for the six months to December, in spite of recording losses in two divisions.

Earnings improved 29% to 504c (390c) a share.

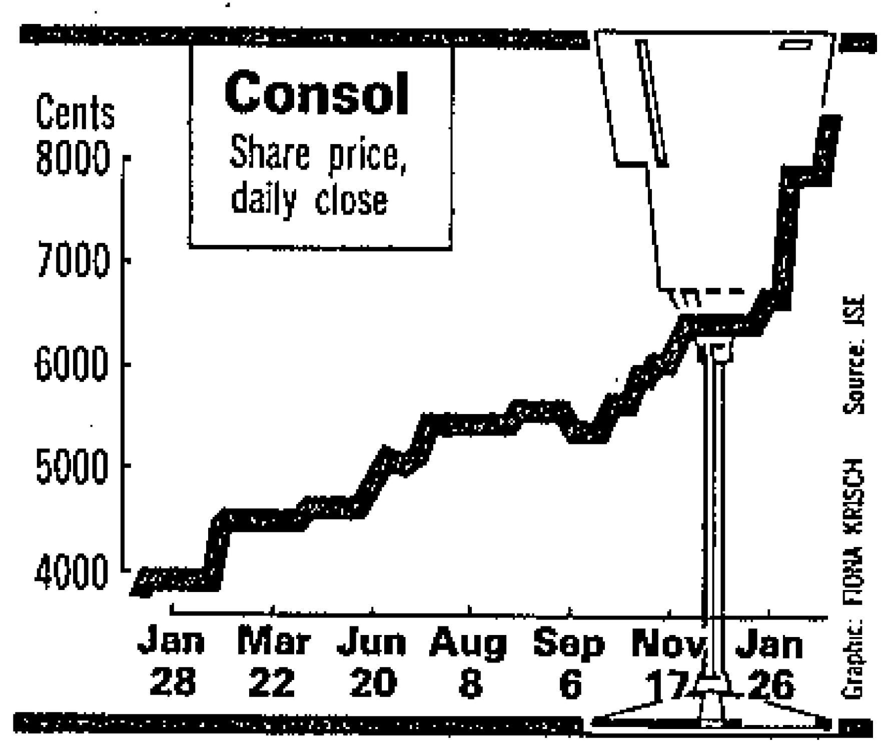
An interim dividend has not been declared in accordance with the group's policy.

The glass packaging, glass tableware, rigid plastics, consumer-flexible and paper divisions all achieved increases in sales and profits.

But the industrial-flexible plants and the bags and sacks operation were adversely affected by intense competition and recorded losses.

Higher sales volumes were achieved by most divisions, producing a 22% increase in turnover to R392,8m (322,6m). This, together with productivity improvements, contributed to an increase of 29% in operating profits to R61m (R47,5m).

Strong liquidity throughout the period resulted in increased income from money-market investments. Income from all investments grew 242% to R3,6m (R1m).



Pre-tax profits rose 33% to R62m (R46,7m). And with the effective tax rate marginally higher, attributable profit rose to R32m (R24,8m).

The folding carton operation in Natal which was considered too small to service target customers effectively was sold in December last year.

The Atlantis industrial-flexible plant was closed in January this year as a result of the poor performance in the industrial-flexible division. Its production was transferred to other divisional plants to achieve rationalisation benefits.

The net asset value rose 26% to 3 319c (2 638c) a share.

The group's capital expenditure for the six months of R12m was unchanged in comparison to the the previous comparable period.

Its commitment to further expenditure amounted to R23,9m (R10,96m).

Directors said demand for the group's major products continued to grow.

Investment income would decline due to lower liquidity after large tax payments in December last year.

Directors said a profit improvement over last year was projected.

Before the announcement of the results, the share was trading at 8500c on a p:e ratio of 10,4 against the paper and packaging sector ratio of 9,2.

B/Day 14/2/89

MALBAK BUYS WIGGINS TEAPE IN R15m DEAL

BRUCE ANDERSON

MALBAK, Gencor's industrial holding arm, has purchased paper merchant Wiggins Teape for R15,3m.

Malbak director Klaus Zirker said yesterday the acquisition from the UK Wiggins Teape group had left the company in a dominant position in the local paper-merchanting market.

"Through Wiggins Teape and another listed Malbak company, Haddons, Malbak's share of the market has risen to over 50%.

"The quality of the management at Wiggins Teape is superb — they will add a new dimension to our management," Zirker added.

He said Wiggins Teape UK decided in September last year to sell its small paper-merchanting operations in Australia, New Zealand, SA, Malaysia and Singapore.

"We were just lucky enough to initiate discussions with Wiggins Teape UK at the time they took the decision to sell."

The local operation's main focus is on paper merchanting. Wiggins Teape buys from paper mills and manufacturers and distributes to the printing trade.

(194)

Malbak's new acquisition will fit into its packaging and paper division, together with the three other listed companies in that division, Carlton Paper, Haddons and Kohler.

Last year the division contributed 21% to Malbak's earnings.

Natsel beats Indsel results for half-year

5/Day LIZ ROUSE 15/2/89

NATIONAL Selections (Natsel) achieved slightly better results on its investment portfolio than Industrial Selections (Indsel) in the six months to December.

Also, while Natsel directors predict satisfactory growth for the year to June 1989, Indsel directors expect moderate growth. Both companies will pay higher dividends.

Natsel's taxed profit rose to R18,6m in the six months from the 1987 half-year's R15,7m, equal to earnings of 8,08c a share (6,81c a share).

The interim dividend has been raised to 5,5c (4,2c). Directors forecast that the final dividend should not be less than the interim, which means that Natsel will pay out 11c against last year's 9c.

Natsel's dividend income growth to R18,4m (R15,5m) was not impressive but that is partly due to the irregular pattern of dividend declarations by private companies.

Sappi

194

However, net asset value at market value climbed by 49% to R502,6m (R337,6m), equal to 218c a share (147c a share). The transaction in which Natsel acquired 3,46-million Sappi ordinary shares in exchange for its interest in Saiccor and cash was finalised in the six months under review.

Indsel's interim taxed profit amounted to R18,6m (R18,2m), equal to earnings of 6,79c a share (6,65c). The interim has been raised to 4,5c (3,8c) and the year's total payment should not be less than 9c (8c).

Dividend income of R18,5m (R18,1m) showed little growth. However, Indsel's nat asset value, based on market value, rose by 51% to R554m (R366,8m), equal to 202c a share (134c a share).

Indsel acquired 4,79-million Sappi shares in exchange for its interest in Saiccor. In addition, 261 425 Fedvolks shares were taken up in terms of a rights issue and a sub-underwriting of the issue.

BDay 15/2/89

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Aries Packaging wraps up increased earnings

ZILLA EFRAT

ARIES Packaging increased its attributable earnings by 28% for the year to December with existing operations performing well, but an investment in a film dented profits.

The Cape-based packaging group, which moved from the DCM to the main board in October last year, improved its earnings by 29% to 15,2c (11,8c) a share.

A final dividend of 2,75c was declared, bringing the annual total to 4,5c (3,5c) a share and maintaining the dividend cover of 3,4 times.

Directors said further significant improvements were achieved during the financial year and the existing operations — corrugated containers, cores, tubes and screenprint — performed well.

Turnover increased by 37% to R16,2m (R11,8m) and pre-tax earnings before the deduction of a non-trading item were up by 45% to R2,9m (R2m).

The non-trading item, a R500 000 investment in the export potential of a South African-produced film, affected pre-tax profits, which rose only by 20% to R2,4m (R2m).

With the tax rate down slightly, attributable profits increased to R1,7m (R1,3m).

Directors wish to maintain the conservative dividend policy as they are convinced further acquisitions are needed to maintain the growth momentum of the company and they are looking for compatible operations in the company's sphere of activities.

Since the year-end a core and tubes factory had been opened in Germiston and all indications were that 1989 would be another milestone in the development of Aries, said CE Dieter Neckel.

BUSINESS

Wheels rolling in recycling business

RDay 16/2/89. (194)

ZILLA EFRAT

RECYCLING is big business and it is growing, says Packaging Council of SA executive director Owen Bruyns.

In 1988, the packaging industry produced 1,75-million tons of packaging. In total, 740 800 tons or 23% was recycled, a 20% improvement from the 617 500 tons recycled in 1987 and up 48% from 499 500 tons in 1986.

The major packaging companies all recycle their in-house production materials. Recycling helps contain the costs of packaging, says Bruyns.

There are 130 recycling plants in SA employing 6 506 people. This has grown from 120 plants in 1986.

The amount spent by the packaging industry in procuring and collecting waste has grown from R57m in 1986 to R104m in 1988.

Bruyns says more companies are investing in recycling and in equipment, but the industry growth will depend on market forces and the economy.

He says an end-use in the market must be created for recycled products, such as recycled paper used in stationery, garbage and supermarket disposal bags. And companies should identify the product as being recycled.

Bruyns can foresee the public sorting their garbage into dry and wet, to prevent contamination, and each type of garbage being collected at separate times. Co-operation with municipalities is very good. The municipalities of Johannesburg, Randburg and Pretoria have done pilot projects.

Based on these, Bruyns believes that recycling at municipal tip sites is the way to go. He says countries must dispose of their own waste in an efficient and environmentally sensitive way — and not to the detriment of future generations.

The trends for 1989 are improved and enhanced recycling with the emphasis on plastics. The technological improvements expected include producing wood substitutes from co-mingled plastics.

A bitter brew for TW Beckett shareholders

BDay 4/2/89 (194)

RICHARD BARTLETT

T W BECKETT'S earnings dropped by 20,5% in the six months to December as intense competition, increased product costs and reduced margins cut profits.

Interim results showed that earnings fell to 68c a share from 82c for the same period in 1987.

Beckett, an Anglovaal group company, packs and distributes tea, coffee and associated products to retail and food service outlets.

Taxed profits dropped by 20% to R4,1m (R4,9m) in spite of turnover rising by 4,7% to R105,1m (R100,2m).

The board is expecting demand to continue at current levels and believes second-half earnings will be similar to the interim figures.

The directors say in the period under review, sharp increases in product costs and the inability to pass these onto consumers due to intense competition depressed profit margins.

Although management enforced stringent cost controls, operating margins fell to 8,8% (10,3%).

Import surcharges were cited as the main reason for increased costs. Up to 50% of all tea and most coffee is imported.

MD Sholto Shirras said other factors included the increase in turnover not being close to the rate of inflation. Surcharges on coffee were dropped last week.

Net current assets rose by R0,6m to R30,7m and capital expenditure rose to R4,1m (R1,3m). Gearing for the period rose by 11,5% to 39,4% but is lower than 1986's 59,6%.

No end to woes at Beckett

Star 21/2/89

By Ann Crotty

Intense competition and increased product costs continue to undermine performance at Anglovaal's tea and coffee packer and distributor, TW Beckett.

Despite a marginal increase in turnover the company reported a drop in earnings for the six months to December.

The figures show that there has been little change in the hard times that have dogged the group in recent years.

Although sales volumes were lower (as a result of retailers reducing their inventory levels), turnover rose to R105 million (R100 million) because of slightly higher prices.

Import surcharges were the main factor behind the sharp increase in product costs and, according to the directors, "although the company enforced stringent cost control, it was unable to raise selling prices to cover the entire cost increases".

This resulted in a squeeze on margins from 10,3 percent to 8,7 percent which in turn resulted in a reduction in operating profit to R9,2 million (R10,3 million).

Margins in financial 1988 hit a low of 8,2 — a significant drop from the 12,5 percent reported for 1986.

Higher borrowings and higher interest rates lifted the interest bill and brought pre-tax profit down to R7,9 million (R9,4 million).

Earnings were down to R4,1 million from R4,9 million, equivalent to 68c (82c) a share.

The board expects that demand will continue at current levels and therefore the second half results should be about the same as those of the interim.

Capex in the review period surged to R4,1 million (R1,3 million) and outstanding commitments totalled R3,7 million (R2,3 million).

The directors say the expenditure was "to upgrade production capacity to serve existing markets".

Alex White hurt by changes

15/b4 27/2/84 (194)

ZILLA EFRAT

ALEX White Holdings, involved in flexible packaging, business-form stationery, printing and photolithography, has produced a drop of 5% in earnings a share for the six months to December because of higher interest rates and seasonal changes in the group's business.

Earnings fell to 3,9c (4,1c) a share. No interim dividend was declared in line with the group's policy to pay only one dividend a year.

The turnover figure, which jumped 44% to R17,9m (R12,4m), included the turnover of Multitape, which was acquired during the year for R1,1m in cash.

MD Terry Kane said the group budgeted for lower interest rates and its business season was "running late". Orders usually received in the first half of the year had been received in the second half.

This affected margins which fell to 6% (10%), resulting in an 18% decline in operating profits to R1m (R1,3m).

Current liabilities rose 90% to R9,6m (R5m) and interest paid was lower at R211 000 (R239 000). The group's liquidity was reduced, with the current ratio at 1,7:1 against 2,1:1 for the previous interim period.

Kane attributed this decline to the cash acquisition of Multitape, expenditure on capital items and dividend payments.

Pre-taxed earnings were down 19% to R831 000 (R1m). A lower tax rate of 28% (38%) — because of tax advantages through the acquisition of Multitape and capital expenditure — lead to earnings falling only 6% to R601 000 (R638 000).

An extraordinary item of R2,6m — the profits realised by the sale of the property and building in Marshalltown — was added to taxed earnings, boosting net income to R3,2m.

The balance sheet includes R423 000 in deposits for machinery which will be imported before the year-end and in the following financial year, says Kane.

Net tangible asset value rose 12% to 108,6c (96,9c) a share.

Wide range of products

BDay 3/7/89

194

KOHLER'S paper operations are growing far faster than its plastics side.

In the financial year ended August 1988, the turnover of the paper side of its business grew by 50% to R450m (R300m), while the plastics side rose by 34% to R302m (R226m).

At the same time, Kohler's capital employed for the paper side shot up 49% to R101m (R68m), while capital employed increased marginally to R82m from R80m.

Kohler also produces pulp-based products, mainly for the liquor industry and for fruit packaging.

CE Derrick Minnie says the main advantages of pulp are its cost-effectiveness and its rapid ability to adapt to market-identified demands.

Kohler produces many products from paper including corrugated packaging, cartons, paper sacks, cones, cores, tubes and angleboard.

The company also prints a variety of publications, including high quality brochures and company reports, and manufactures board games, Christmas decorations, greeting cards, serviettes and paper plates.

Written by ZILLA EFRAT

Recycling still flourishing

B Day 3/3/88

194

THE waste paper recycling industry has flourished and continues to do so, says Nampak Paper Recycling GM Deon Breedt.

Mill demand for waste paper is growing, and planned expansion in capacity give confidence in long term growth prospects for recyclers, says Breedt.

In 1988, the SA waste paper recycling industry provided more than 30% of local consumption of paper. This amounted to 500 000 tons of paper, of which 240 000 tons were cardboard, 237 000 tons were office and printed waste and the balance newsprint.

Breedt says Mondi is the largest paper recycler, followed by Nampak and Sappi. In 1988 Nampak Paper Recycling collected 140 000 tons of waste paper for recycling.

The industry as a whole currently incurs costs of about R130m a year and its capital expenditure — excluding lands and buildings — is around R70m, says Breedt.

Wood shortages and the high cost of wood pulp has led to waste paper being used as a raw material in most paper mills.

Breedt says recyclers collect waste paper, grade it, remove all non-recyclable items and then dispatch it to mills.

Waste paper is used by itself or with wood pulp as raw material to make new paper. In SA, the bulk of new paper manufactured from waste paper is linerboard, fluting, paperboard and tissue.

SA is unable to salvage all its paper as much is destroyed in the process of consumption, and some forms of paper, such as waxed paper or plastic lined paper, are not recyclable.

The bulk of paper waste lands up in municipal tip sites, and many do not permit salvaging for recyclable materials, says Breedt.

High transport costs mean recyclers can only collect waste paper generated in suitable quantities and within certain distances from the plants.

Recycling waste paper offers many benefits including employment, savings to ratepayers and import substitution.

The labour intensive industry employs between 3 000 and 4 000 people. This figure excludes many individual entrepreneurs who sell to recyclers supplies of waste paper that would otherwise go to the tip sites.

Breedt says the availability of certain grades of waste papers allow for substitution of imported wood pulp at about half the price.

In 1988 over 140 000 tons of Kraft paper alone was recovered from the PWV area without being handled by municipal refuse removal services. On the tip sites where salvaging is permitted, the recovery of waste paper helps prolong the life of these sites, says Breedt.

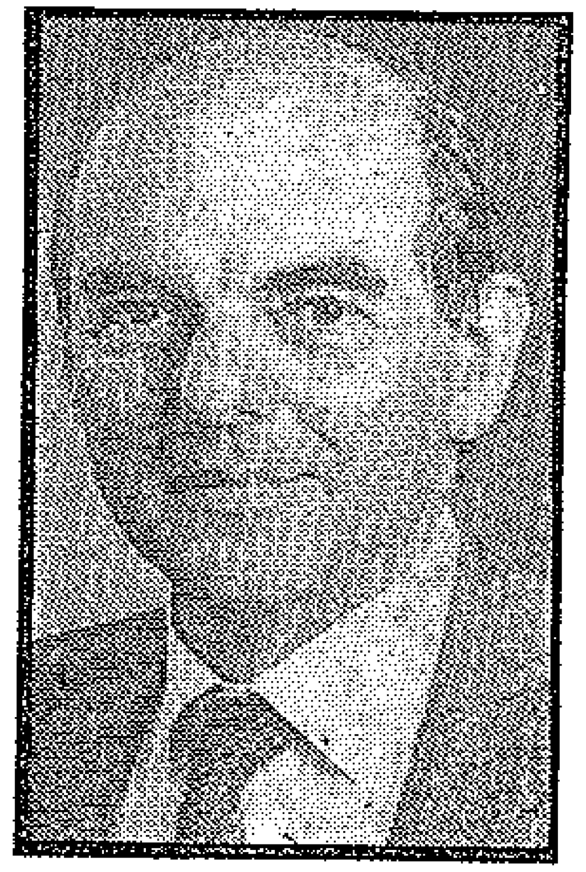
Industry makes big contribution

THE booming paper and pulp industry is under-rated in terms of its contribution to SA's economy and foreign exchange earnings.

Forest Owners Association director Mike Edwards said the turnover of SA's forest and forest products industry in 1987 was R5bn and its contribution to GDP was 3,5% (2% in 1985).

The forest products industry incorporates saw milling, mining timber, manufacturing, pole treatment and charcoal production, but its major player is the pulp and paper industry.

The forest industry's contribution to agricultural GDP was 4% in 1987 (2,6% in 1967). The forest products industry contributed 14,5% (10% in 1985) to manufacturing GDP.



☐ EUGENE VAN AS

Edwards said pulp and paper had shown a physical volume increase of almost 10% a year from 1985 to 1987, the highest increase within the manufacturing sector.

A report by Business and Marketing Intelligence in May 1988 states that physical volume of output for paper and paper products has increased an average of 6,3% a year from 1980 to 1987, while the total manufacturing sector has only increased by 0,8%.

Edwards said at the turn of the decade the industry was a net importer of wood and wood products but today through recent developments it was a net exporter.

At present, 2,3% of SA exports or 4,1% of SA's non-gold exports are derived from the industry. Exports amount to about R1bn a year.

Sappi said SA exported more than 1,2-million tons of pulp and paper in 1988. It is within the top 15 pulp and paper exporting countries in the world and its exports have grown consistently since 1985.

Edwards said given the industry's capability to produce products equal or better than world standards, at a competitive price and on a reliable basis, its importance as a foreign exchange earner could only increase.

The forest and forest products industry had become a major contributor to economic activity in SA and would, in the future, play a role of increasing importance.

Mondi CE Tony Trahar says the paper and pulp industry is under-rated in terms of its contribution to foreign exchange earnings and the domestic economy.

The forest products industry has undersold itself and kept too low a profile. He says it needs to be seen as a modern and growing industry that is technologically sophisticated and internationally competitive.

Sappi CE Eugene van As said the paper market experienced strong growth of about 6% on average in 1988.

Sappi says low prices in the mid 1980s lead to a reduction in investment in new pulp and paper capacity world wide. This resulted in a shortage of supply and substantially higher prices in all markets in 1987 and 1988.

The world prices for pulp and paper have increased sharply from a low base in 1985. The 1988 linerboard prices were about 80% to 90% higher than in 1985, while newsprint increased by 12%, but these are only about 30% to 40% higher than they were 10 years ago.

Local market prices of fine and Kraft packaging papers have increased about 14% a year on average during the past two years.

Van As says pulp prices have nearly doubled in dollar terms in the last three years because the demand for pulp has been greater than supply. The increase has been off a low base as the pulp market was depressed three years ago and pulp prices are only 30% higher than they were 10 years ago.

However, paper merchants Haddons MD Frits Waldeck says his prices from the mills have gone up about 11% a year on average during the last few years.

About 11% of SA's total consumption of paper and board is imported.

The two largest types of imports of paper into SA are liquid packaging grades and light weight coated paper for magazines. Van As says imports of other paper products are smaller and these types are not made in SA as production is not economically viable.

Edwards says significant achievements have been made by the paper and pulp industry in terms of efficiency.

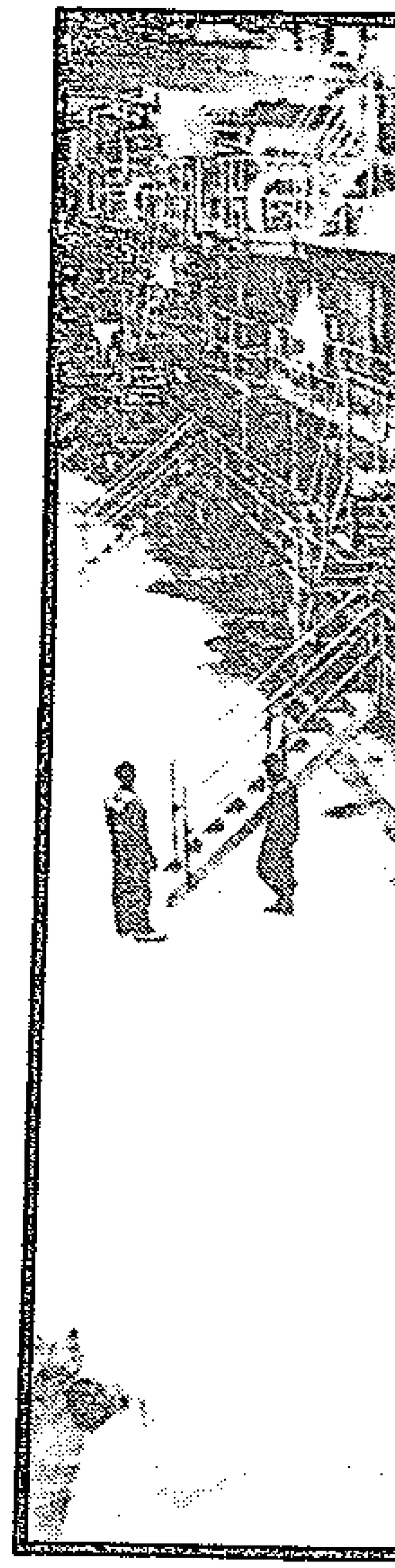
While the overall manufacturing industry sector has shown no improvements in output a worker since 1981, the output a worker in the paper and pulp industry has improved markedly, performing best within the manufacturing sector.

The industry faces a future shortage of timber and research into improving yields and increased planting is taking place on a large scale.

But Trahar says SA production — in common with other Southern Hemisphere nations — is likely to grow faster than in the Northern Hemisphere because of the favourable geographic and climatic conditions of the South promote faster tree growth.

And growth prospects for the industry look good.

SA's per capita consumption of paper and board is about five times less than that of developed countries. Sappi says as SA develops socially and economically, the per capita consumption will increase, providing substantial growth potential.



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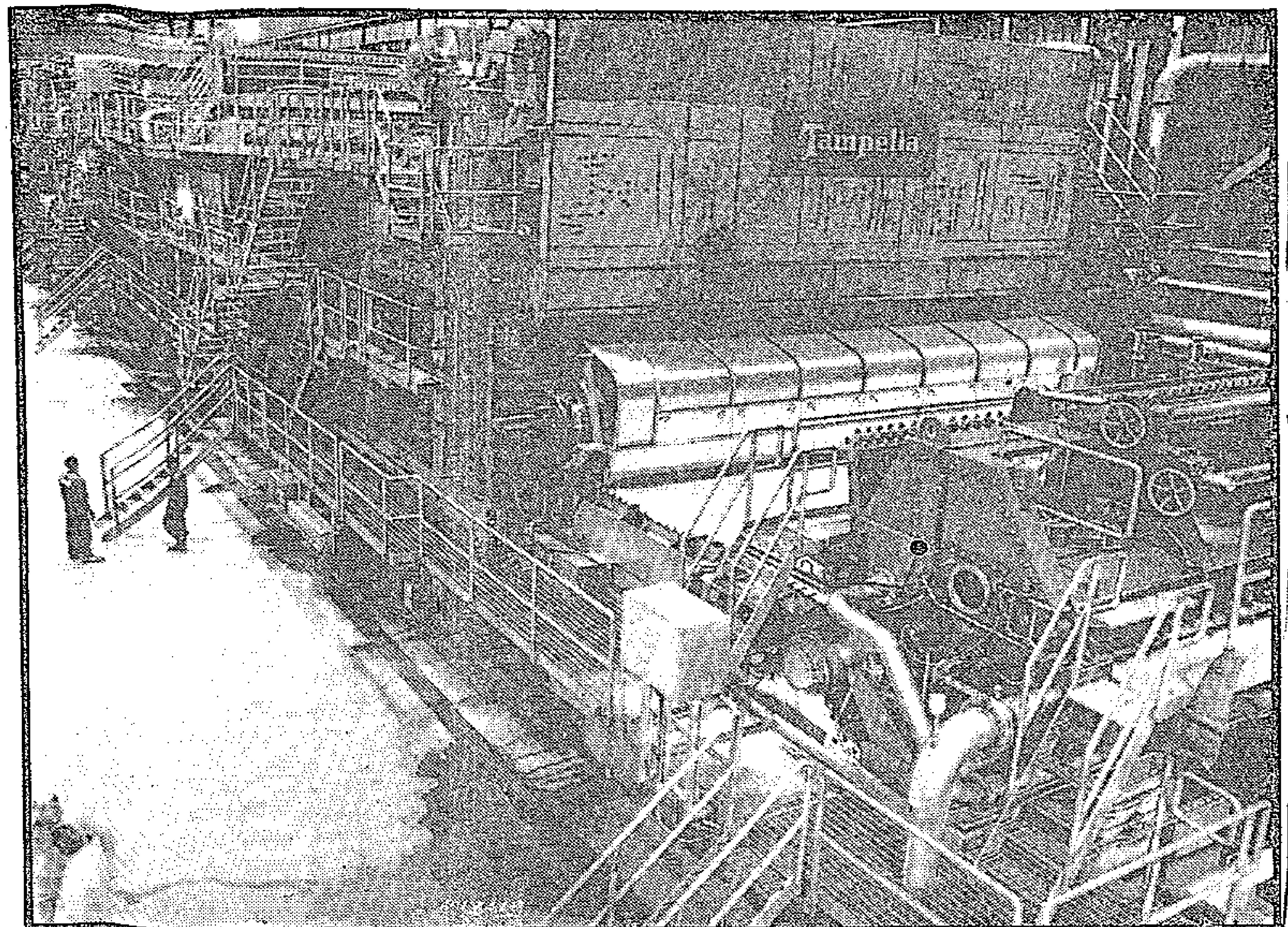


The wet end of the Kraft Linerboard machine at Sappi Kraft's Ngodwana Mill in the Eastern Transvaal

R1bn upgrading

BD 3/3/89

(194)

THE capital expenditure in excess of R1bn planned by the two major paper and pulp producers indicates their confidence in future growth of their markets.

Sappi CE Eugene van As says his group will spend R400m in 1989 on a vast number of projects, including a major new particle plant in White River, a de-bottlenecking exercise at the Ngodwana mill, upgrading the Tugela mill, expansion at the Stanger mill, and upgrading and de-bottlenecking Saiccor.

In February, Mondi Paper announced a R400m capital replacement and expansion programme, including a major rebuild of the first paper machine at its Merebank mill at a cost of R170m, and an increase of the production capacity of its Richards Bay paper mill at a cost of R50m.

Mondi will also spend R180m on normal capital replacements and various smaller projects to enhance production efficiencies, product quality and increase output.

Mondi is also investigating a R1bn project to install a second pulp line at its Richards Bay plant, which could generate R800m a year in foreign exchange, says CE Tony Trahar.

Van As says Sappi's capital expansion budget for 1990 is R500m, and a paper machine costing more than R300m is planned for commissioning by 1991.

In 1988, Sappi's capital expenditure was R200m.

Last year Mondi spent R170m on upgrading its board machine at Springs, and the expanded machine should start production in the third quarter of 1989.

SMALL CUSTOMERS

194

B/Day 3/3/89

THE business of Transvaal Paper — the Transpaco division which distributes wrapping and packaging products — is special in that it concentrates on the small man, while the big orders are left to its competitors which also tend to be its suppliers.

Transpaco chairman Sam Abelheim says the company calls on small shops and various industrial enterprises. Its customers cover all kinds of environments and businesses.

A representative will canvass a street shop by shop, selling paper bags to the cafe, wrapping materials to the butcher, cake cartons to the bakery and wrapping tissue to the jewellery shop.

Paper is sold by the kilogram and different grades and qualities have different prices. Consultants and experts are used to ensure the client gets the right grade of paper for his use at the best price.

Abelheim says the growing black market will stimulate growth in the wrapping market, while natural organic growth will come through economic growth. Increased tourism will stimulate growth in high-class wrapping and bags.

Demand for paper grows

(194) . B/Day 3/3/89

SA has a low consumption of tissue products, but this has not stopped the growth of Carlton Paper.

Carlton Paper MD Keith Partridge says the tissue paper market develops with the economy and consumer spending.

The company's turnover has jumped from R59m in 1979 to R258m in 1988 and earnings have risen from 28,2c a share in 1979 to 95,1c in 1988.

In 1986, the annual consumption of toilet paper was 10 rolls a person, against 23 rolls in Australia and 36 rolls in the US.

In the same year, SA consumed 1,3 boxes of tissues a person, against 5,2 in the UK and 7,9 in the US.

The market used to be predominantly white, but strong growth is coming from the black market. As black life styles change and, with the introduction of waterborne toilets, the use of toilet tissue has increased.

And toilet tissue is the largest part of Carlton's business.

Partridge says Carlton has launched a disposable nappy range, but SA's consumption is still low. In 1986, 21 disposable nappies were consumed an infant under 30 months in SA, while 1 713 were consumed in the US.

The launch of incontinent products last year had been successful.

Listed on the JSE, Carlton Paper is jointly held by Malbak and the US-based Kimberly-Clarke Corporation. The US group provides Carlton with technology and expertise and all its pulp and waste paper are bought from Sappi.

Carlton's commercial division manufactures hospital products and has developed industrial products such as substitutes for rags and cloth towels.

Partridge says his biggest problem at the moment is the cost of raw materials, especially pulp which is paid for in dollars.

Raw materials prices, which went up on average 40% in 1988, have affected production costs. As a result, the company has had to become more productive and cost effective.

Expanding quickly

FRAMEN Paper Products, the Transpaco division which manufactures paper cores and tubes, is gearing up to meet its expanding market.

Transpaco chairman Sam Abelheim said Framen was acquired by the Transpaco group in March last year and had nearly doubled its turnover in nine months.

The market was expanding at a rate of 25% a year and the company envisaged spending R1,5m a year for the next five years on equipment for its expansion programme.

The cores and tubes are made by winding and gluing Kraft liner paper to form a solid core. They are used to contain the paper, textiles, plastics, toilet paper and cellotape which are wrapped around them.

O/Bus 3/3/89

SERVICE IS THE GAME

(194)

SERVICE rather than product is the name of the game for local paper merchants who buy the same papers from the two major local producers.

Wiggins Teape Marketing director Vince Van der Bijl says his company buys most of its papers and board from Mondi and Sappi. These are predominantly the essential commodity products printers and converters could buy from any competitor.

Haddons MD Frits Waldeck says the majority of his group's paper sales are locally manufactured — bought from Sappi and Mondi.

"We are selling service, not products for locally made papers. Specialisation comes in with imported products where you sell the product rather than the service," says Waldeck.

Van der Bijl says that as product differentiation through volume local grade is impossible, other success factors become vitally important. Market niche development and quality of service and personnel are essential.

Speed and reliability of delivery and efficient and knowledgeable telesales service are vital, he says.

Waldeck says the three most important issues are price, service and client relationships.

Haddons has the largest branch network, both in range and being in every major town in SA.

Paper merchants' margins in the last two years have continued to drop to the level where returns are becoming unacceptable because of fierce competition, says Waldeck.

Both agree competitive prices have forced companies to improve internal operations' cost efficiency.

A 1988 survey found customers ranked reliability of delivery first, then speed of delivery, pricing policy and complaint handling.

Less newsprint

BD 17/1/89 (194)

SOUTH AFRICA's consumption of newsprint has been significantly affected by the introduction by TV, and consumption is presently below the 1978 level, says Sappi CE Eugene Van As.

He says SA produces about 400 000t of newsprint a year, of which 150 000t is consumed locally and the rest is exported.

Consumption has been affected by taxes on advertising, TV taking a bigger slice of advertising, the depressed economy and the closing of some newspapers, says Van As.

But the international demand for newsprint only started softening in the last quarter of 1988. World inventories have increased during the past few months, resulting in a weakening of newsprint prices.

SA a small player

B/Day 6/7/89 (194)

ZILLA EFRAT

MODERNISATION and new production facilities were the main avenues for capital expenditure in the forests products industry, said Sappi deputy executive MD Ken Lechmere-Oertel at the conference.

The industry, which consists of plantation forestry, pulp and paper manufacture, sawmilling, mining timber and flatboards, received R9,66bn in investment in 1987. However, SA's capital expenditure for the paper and pulp industry was very small player in world terms, said Lechmere-Oertel.

The paper and pulp industry, and the plantations supporting it, constituted more than 70% of this investment.

Lechmere-Oertel said the most important factors relating to future investment are the availability of raw materials and end use markets.

He said a minimum growth of 5% a year was forecast for SA pulp and paper manufacturing, which would require a doubling of existing capacity in 14 years at an estimated R7,5bn. Considerable scope for modernisation and improvement also existed at a minimum cost of R400m a year.

Growth of 4% was anticipated for sawmilling, requiring expenditure of R25m a year, and moderniation would lead to annual expenditure of R40m.

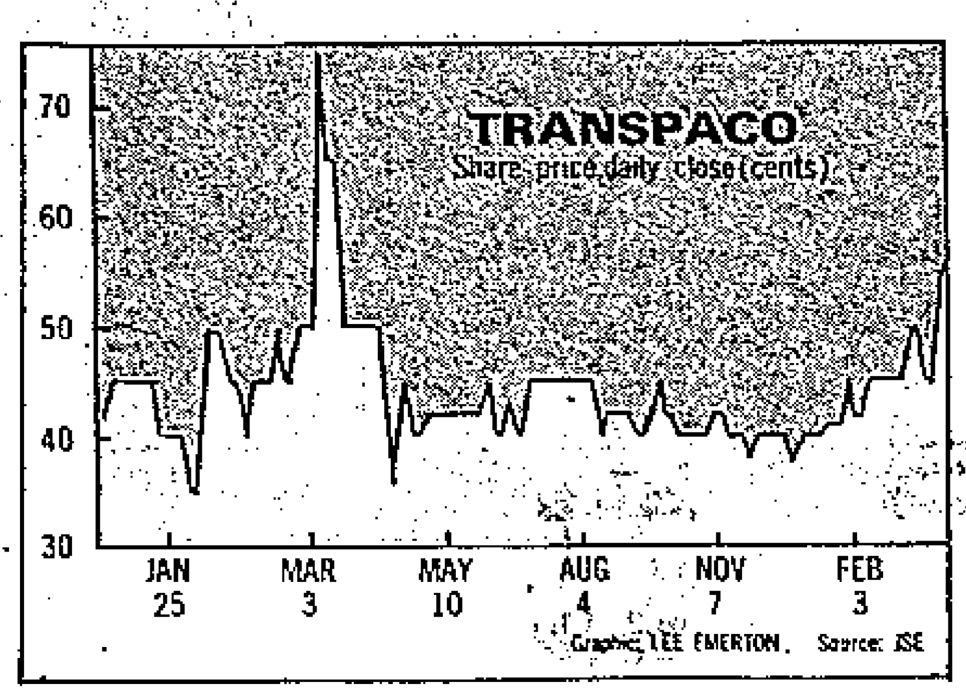
Lechmere-Oertel said very little capital expenditure was needed for the mining timber industry, which had a low growth forecast but which required some modernisation and updating.

COMPANIES

B/Day 6/3/89

Transpaco packs a solid rise in taxed profit

196



KAY TURVEY

PACKAGING group Transpaco recorded an excellent improvement in productivity in the year to end-December on a healthy sales performance. Taxed profit rose by a solid 64% to R1m.

This translates to a 30% climb in earnings a share to 9,9c on an enlarged share base. Dividend distribution — covered 2,5 times by earnings — amounted to a total of 4c (1c), after a final dividend of 2,4c.

On a 59% growth in turnover to R35m, operating profits soared 69% to R2,6m as operating margins strengthened from 6,9% to 7,4%.

A sharp rise in financing costs resulting from increased borrowing and higher interest rates curtailed the pre-tax rise to 58% to R2,1m.

The balance sheet shows sharp higher gearing with interest-bearing debt to shareholders funds escalating from 55% to 121%.

Joint MD Michael Ableheim says the group does not operate in a predominantly cash business and, therefore, borrowings traditionally peak in December and drop rapidly in the first two months of the financial year.

It is for this reason Transpaco is to change its year-end to March as Ableheim says reporting at this time will more accurately reflect performance.

Growth within the group was largely organic. The year under review saw the group's diversification into retailing and wholesaling of stationery through the formation of Transpaco Stationers in which Transpaco has a 51% stake.

BUSINESS DAY, Wednesday, March 8 1989

194

Nampak share account reduced

SUSAN RUSSELL

THE Rand Supreme Court yesterday granted an order confirming the reduction of Nampak's share premium account by R46 764 214.

Nampak applied for the order in terms of a special resolution passed at its AGM in January.

A Nampak director David Mcfadden said the company's share premium of R216 204 235 would be reduced to R169 440 021. The R46m is the excess of the cost incurred by Nampak in acquiring additional shares in subsidiary Metal Box SA, over the net book value of that company's assets.

Mcfadden said by writing off the R46m excess against Nampak's share premium the company would be giving effect to an accepted accounting policy it had adopted.

It would leave Nampak's assets intact and would not affect or prejudice the rights of its creditors.

B|Day 8/3/89

Court approves Lifegro deal

SUSAN RUSSELL

A SCHEME of arrangement between Lifegro and its ordinary shareholders, in terms of which the company will become a wholly-owned subsidiary of Momentum Life, was sanctioned by the Rand Supreme Court yesterday.

Lifegro MD R B Gouws said in an affidavit a meeting to consider the scheme was held on February 27. It was approved by the required majority.

Gouws said investigations had shown that, despite its excellent track record, changes in the competitive environment had made it necessary for Lifegro to reposition itself strategically.

It became clear to the board, he said, that the restructuring of the company on its own was not a viable prospect and Lifegro's activities should be rationalised with those of an efficient assurer.

Under the scheme Momentum will acquire Lifegro's entire issued share capital in exchange for new ordinary shares in Momentum.

Gouws said existing Momentum shares had been valued at R21 each and Lifegro at R2 each.

However, prior to implementation of the scheme Momentum shares would be split on a 10 for 1 basis. Hence 95 new Momentum shares would be issued for every 100 Lifegro shares held at the recorded date for the scheme.

CROWDS JEER

Thirty organisations launch campaign

Sapa.

pets, and livestock in some areas. — Sapa.

Coates shows an all-round improvement

BD 9/3/87 (194)

TANIA LEVY

COATES Brothers, the Cape-based printing ink supplier, has published its results for the year to December.

Earnings grew 35% to R5m (R3,7m) or 147,9c (109,2c) a share.

The group, which supplies the newspaper, printing and metal decorating and converting industries, has declared a 31c final dividend to bring the year's total to 42c (34c).

Improved margins resulted in a 37% increase in operating profits to R10m (R7,3m) after turnover rose 28% to R94,2m (R73,5m).

The increase in interest received helped offset interest charges and produced a 38% increase in pre-tax profits to R10,8m (R7,2m).

A 42% increase in tax reduced this slightly.

The ratio of current assets to current liabilities is 1,6:1.

Clegg reports 34,5% growth in turnover

B/Day 10/3/89 (194)

ZILLA EFRAT

PACKAGING and printing group Clegg Holdings produced a 5,6% growth in earnings for the six months to December as higher interest and lower margins bit into profits.

Earnings improved to R566 000 (R536 000) or 1,88c (1,78c) a share. No interim dividend was declared in line with group policy to pay only annual dividends.

Turnover improved 34,5% to R10,4m (R7,7m). But lower margins of 13% (15%) — resulting from intense market competition and increased costs — slowed the rise in operating profits of R537 000 (R296 000) to 18%.

Directors say turnover growth and the acquisition of a printing machine necessitated a higher level of average borrowing, which, together with firmer interest rates, resulted in substantially increased financing costs.

Clegg made headlines last year when a takeover bid by Consol was cancelled after the group failed to meet its earnings forecast for the year to June 1988 of 6,3c a share.

Earnings for the period were eventually restated at 2,5c a share.

Indecision

In the latest statement the historic figures have been revised again to 2,09c a share because of a change in the number of shares used in the calculation.

MD Gerd Egger says the group suffered months of indecision because of the intended takeover bid.

It has taken time to sort out the difficulties that arose, but Egger believes they are well ahead in solving major problems and helping the group to concentrate on strengthening its overall position.

In the period under review, the group strengthened its management base and extended its production capacity.

A computerised accounting system has been introduced and a R200 000 cooling/moisturising system is being installed at its Benrose packaging plant.

Egger says the group's improved internal efficiencies are already starting to show and Clegg is working towards gaining increased market share.

If trading and economic conditions do not deteriorate over the next six months, a marked improvement over the previous annual period should be achieved, say directors.

CAN-7145 10/3/89

Transpaco earnings notch 30% increase

194

TRANSPACO, the specialist manufacturers and distributors of paper and packaging products, has announced excellent results for the year ended December 31, 1988 with an increase in earnings per share, ahead of forecasts, by 30% to 9,9c.

Operating income rose by 68,7% to R2,6m on turnover growth of 58,8% to R35m.

Comments joint MD Phillip Abelheim "We are obviously very pleased to be able to report results that are ahead of forecast. The growth achieved was largely organic and must, in part, be attributed to improve productivity within our manufacturing operations as well as the commendable performance of our sales teams."

The year under review has also witnessed the group's diversification into the retailing and wholesailing of stationary through the formation of Transpaco Stationers, in which Transpaco owns 51%.

Utilising the customer base and branch network of the Transvaal Paper division, management anticipate turnover to be in the region of R4m to R5m.

Whilst interest bearing debt has increased, joint MD Michael Abelheim points out that the group, while following retail trends, does not operate a dominantly cash business, with borrowings traditionally reaching a peak in December and dropping rapidly in the first two months of the financial year.

He adds: "It is for this reason that we have changed the group's year end to March.

Referring to the group's prospects chairman Sam Abelheim points to a process of planned consolidation together with further organic growth.

In terms of the group's current year end, organic growth is expected to produce turnover in the region of R45m and profits of approximately R2,8m by the end December 1989.

He adds: "In addition to this we are constantly on the look out for acquisition opportuntities within our areas of operations."

The board has declared a final dividend of 2,4c. Together with the interim dividend of 1,6c this brings the total dividend to 4c for the year.

Great guns stay (194)

WALTONS managing directgor Frank Robarts denies reports in certain newspapers that he and right-hand man Len Chimes are to emigrate. S/Times 12/3/89

He telephoned me: "Our company is going great guns. We will produce good results again. We are negotiating no fewer than four acquisitions, some of them disinvestments. We have no assets offshore and leaving SA is the last thing on our minds.

"I can only infer that someone saw my son filling in applications for permanent residence in Australia. He is emigrating — I am not."

"See you at the Top Companies dinner, Davie Crockett."

Exports boost Sunpak growth

Cpt Times 8/3/89 (AU)

By AUDREY D'ANGELO
Financial Editor

ATLANTIS-based Sun Packaging (Sunpak) is increasing its capacity to cope with growing export and domestic orders, new CE and deputy chairman Ian Strachan said yesterday.

Export business has grown to such an extent that Foamtek MD Richard Ball is now dealing with it entirely and Strachan has come from Nampak to fill the new position of CE.

And the directors say the growth of the informal sector in SA "is being reflected in firm demand for our products".

But, because unforeseen political circumstances delayed the delivery of key capital equipment, the group is behind budget with earnings for the six months to February 28.

Executive chairman I H "Tubby" Gericke explains that the delay meant that the label and laminated food tray divisions did not expand production to make expected profits in the first half of the financial year. He has therefore revised his earnings forecast for the year as a whole to 20c from an earlier 25c a share.

Earnings in the first half rose to 7,4c (6,7c) a share. Net after-tax income was 10,4% higher at R2,9m (R2,6m).

Operating income rose to R4,2m (R4m) but the interest bill also rose to R268 000 (R84 000).

Gericke says that the operating income of the food tray division rose by 40% compared with the same period the previous year. "This increase was due mainly to improved production efficiencies and a growth in the national food tray market."

Export orders for Foamtek synthetic papers and labels now exceed the total production for the next 12 months. Plant for a second production line to double capacity is expected to be in use and contributing to earnings by next month.

Gericke says that earnings for the second six months are traditionally better than for the first half of the year. "Prospects for future growth are excellent with our new high-tech products being everything I expect.

"I am confident that the dependence on white food trays for earnings growth will be reduced substantially in future.

"Political developments, local and international, have reinforced both our decision to expand globally and our substantial local investment.

"The exciting and largely unrecorded growth of the informal economy is being reflected in firm demand for our products. Improved individual income generates a demand for superior packaging."

Offer to share technology

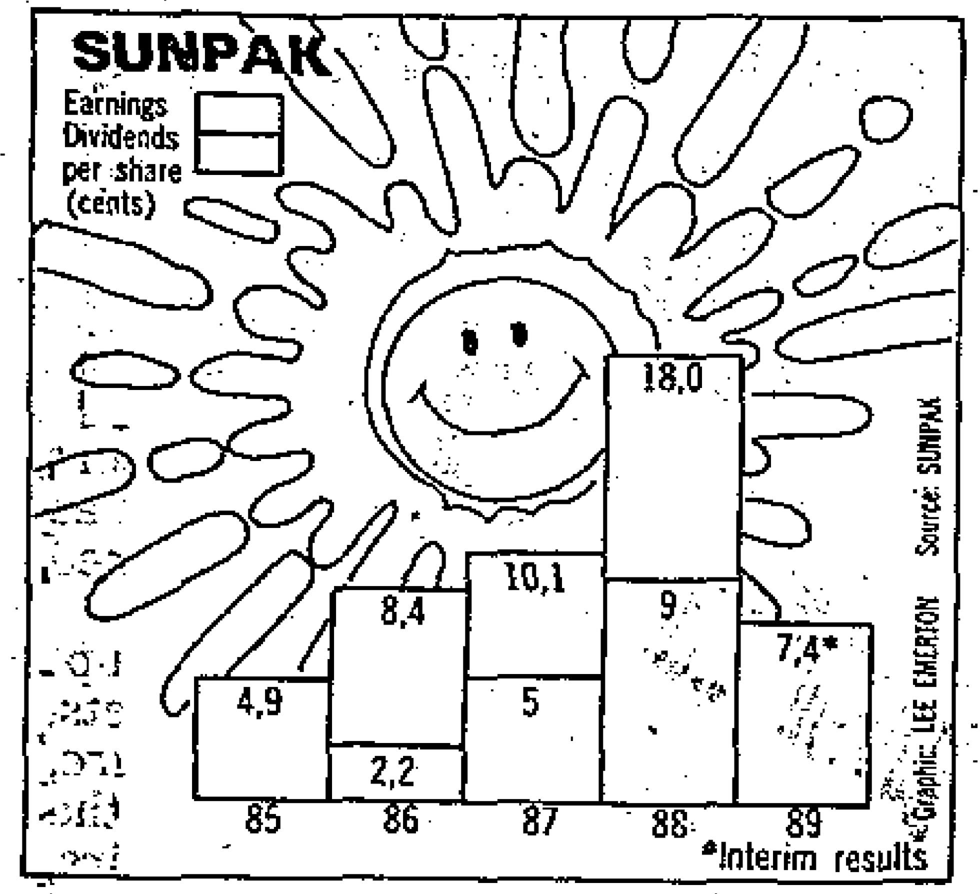
SUN PACKAGING has offered to share imported technology with competitors — provided they cease to use CFC gas, recognized as a threat to the ozone layer, as a blowing agent.

Sunpak executive chairman Tubby Gericke makes the offer in his interim report, in which he says that "government's response to the growing public awareness of the CFC threat has been tardy to date".

He says that two of the three Sunpak factories have already been converted to the use of blowing agents free of CFC. The conversion of the third is due to be completed by November this year.

B/Day 15/3/89 (194)

Political factors hit Sunpak's growth targets



ZILLA EFRAT

THE Sun Packaging group's 10% growth in earnings for the six months to February is behind budget, and forecasts for the year ending August have been revised.

Chairman Tubby Gericke says unforeseen political circumstances have delayed delivery of key capital equipment which, in turn, delayed profit contributions from the label and laminated food tray divisions.

As a result, the group did not achieve budgeted earnings for the six months and earnings forecasts for the year have been revised from 25c to 20c a share.

Earnings rose to 7,4c (6,7c) and taxed earnings were up to R2,96m (R2,68m). Turnover figures are not provided.

The group's interest bill increased 219% to R268 000 (R84 000), covered 16 (48) times. The group benefited from a decline in its tax rate to 26% (32%).

Operating income from the food tray division increased 40% because of improved production efficiencies and growth in the national market.

Technical innovation and superior quality from Foamtek Synthetic Papers and Labels' first production line resulted in growing international acceptance and increased exports, says Gericke.

The plant for the second production line, which will double capacity, is expected to be in full production by April.

"Secured export orders already exceed the total production for the next 12 months," says Gericke.

Gericke says earnings in the second half of the year are traditionally better than the first. He predicts this trend will be more pronounced because of the expected profit contributions of Foamtek Synthetic Papers and Labels and FPCO.

"Prospects for future growth are excellent with our new hi-tech products proving to be everything I expected.

"Political developments, locally and overseas, have reinforced our decision to expand globally and to increase our substantial local investment."

Harwill consolidates splendid turnaround

5/3/90 (194) ZILLA EFRAT

HARWILL Investments' 151% jump in earnings a share for the six months to December highlights the group's recovery after losses made in 1987 and the small profit of R280 000 made in the 1988 financial year.

The packaging and industrial component maker and medical equipment retailer's earnings before extraordinary items jumped to 8,8c (3,5c) a share.

The directors expect to pass a dividend for the year to June. No dividend was declared in in 1988.

Net profits increased by 31% to R1,4m (R1,1m). With reduced financing charges and the tax rate down to 33% (62%), taxed profits soared 140% to R918 000 (R383 000).

Outside shareholder's interest and an extraordinary item of R386 000 cut into net profits which amounted to R478 000, up 335% from R110 000.

Kohler overcomes hike in tax rate, EPS up 18%

B/Day 11/4/89 194

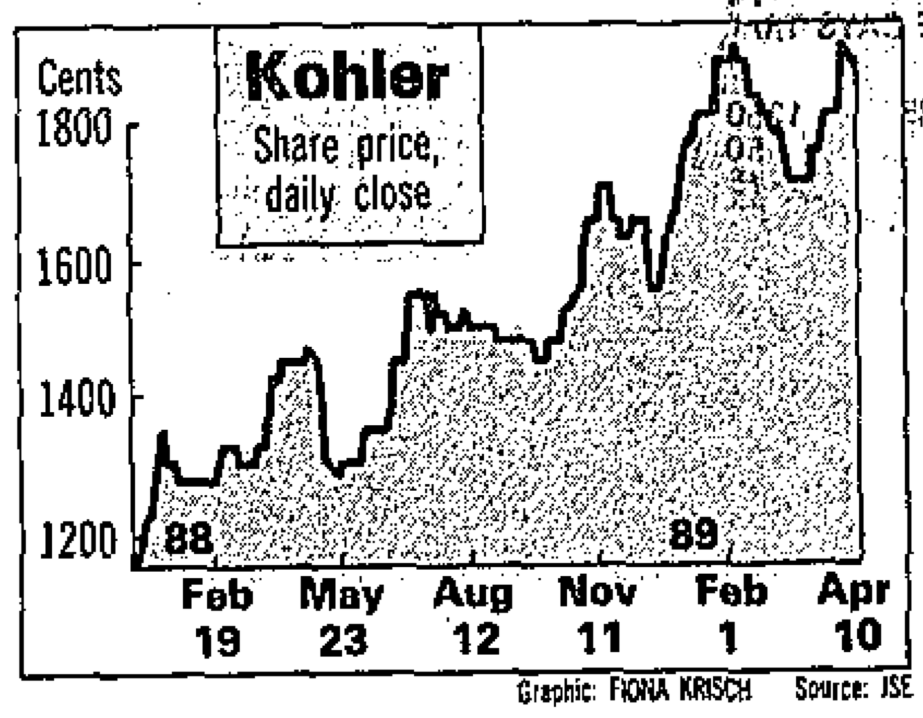
ZILLA EFRAT

KOHLER earnings improved 18% a share in the six months to February after buoyant economic conditions and good performances from acquisitions countered the expected leap in the group's effective tax rate.

The packaging and print products manufacturer's earnings rose to 136,1c (115,5c) a share. An interim dividend of 42c (35c) a share has been declared, 20% higher than the previous period and covered 3,2 (3,3) times.

Directors said buoyant conditions experienced towards the end of last year continued in the period under review. This, together with the favourable contributions posted by recent acquisitions, saw the group achieve real growth.

The recent acquisitions, Sylko and Intratex, smoothed the historic differential of Kohler's first and second-half profits and contributed to improved operating margins due to the seasonal nature of their business.



Graphic: FIONA KRISCH Source: JSE

The 26% rise in turnover to R446,9m (R370,7m) showed the group's success in capitalising on high level of consumer spending prior to December 1988, said directors.

Margins improved to 10% (7,7%).

Directors said the 71% rise in operation profits to R48,6m (R28,4m) largely offset the effect of the substantial increase in tax anticipated in the last annual report following the utilisation of the previous year's assessed losses.

The tax rate jumped 61% to 47% (29%) leading to a 169% jump in tax paid. Pre-taxed profits grew by 67% to R40,1m (R24m), while taxed profits were only up 25% to R21,3m (R17m).

Financing costs nearly doubled to R8,5m (R4,3m) with financing costs cover falling to 5,7 (6,6) times. The ratio of interest bearing debt to ordinary shareholders funds rose to 63% (53%).

Directors attributed the 35% jump in interest-bearing debt to R100,7m (R68m) to capex of R26,4m and the increase in working capital consistent with the turnover growth.

CE Derrick Minnie said: "Both financing costs cover and the debt:ratio remain within targeted limits."

Financing costs soar at Kohlers

STAR 11/4/84

194

Kohlers has reported an after-tax profit of R21,295 million for the six months to February 28, a 25 percent increase over the R17 million notched up during the same period last year.

After other deductions, shareholders earnings came to a total of R20,049 million (R16 million). This amounted to 136,1c a share (116,5c). A dividend of 42c (35c) has been declared.

The board says in its statement that although there was an increase in taxation of 169 percent to R18,84 million (R7 million), it was more than offset by the 71 percent increase in operating profit to R48,622 million (R28,359 million).

Group turnover was up by 26 percent to R467 million (R370,67 million).

Interest bearing debt jumped by 36 percent to R100,6 million (R68 million).

The directors said: "The higher debt levels and interest rates resulted in a 97 percent rise in financing costs. However, both the financing costs cover (5,7) and the debt ratio (53,9) remain within the group's targeted limits".

The group states the economic conditions later this year will be less favourable and that increased tax will test profitability, but it still expects to increase profits during the second half.— Sapa.

Sappi income soars

Cape Times 11/4/89

JOHANNESBURG. — Sappi has reported an after-tax income of R567m for the year to February 28. The figure for the year to December 31, 1987 was R265,6m.

In its statement, the board has said that the group changed its year-end to February and is reporting for a 14-month period. All percentages have been changed to reflect an annualized figure.

After other deductions, net income came to R496,7m, an increase of 97%. Earnings per share were 607c with a final dividend of 135c. This brings the total payout for the year to 190c.

Turnover increased to R2468,6m, an increase of 61%.

Operating income stood at R617,7m, reflecting an improvement of 89%.

The figures include Saicors's results from April 1988. However, Usutu's results are excluded pending the completion of negotiations with the Swaziland authorities. — Sapa

R240m.

Cape Times 11/4/89 1989 1994

Kohlers lifts profits

JOHANNESBURG. — Kohlers have reported an after-tax profit of R21,295m for the six months to February 28 this year.

This is a 25% increase over the R17m notched up in the same period last year.

After other deductions, shareholders earnings came to a total of R20,049m (R16m).

This amounted to 136,1c a share (116,5c). A dividend of 42c (35c) has been declared.

The board says in its statement that although there was an increase in taxation of 169% to R18,84m (R7m), was more than offset by the 71% increase in operating profit to R48,622m (R28,359m).

Group turnover was up by 26% to R467m (R370,67m). — Sapa

Sappi beats all forecasts

11/4/89

(194)

By Ann Crotty

A surge in turnover and a strong improvement in operating margins has, combined with changes in accounting policy, enabled Sappi to report 607c earnings per share for the 14 months to February.

A final dividend of 135c a share has been declared, bringing the total payment for the period to 190c.

On an annualised basis, this represents an increase of 25 percent on the 1988 dividend of 130c.

Because of a change in the giant pulp and paper manufacturer's year-end, a 14-month period is being covered in the latest figures and so direct comparison with financial 1987 figures is not valid.

But annualised percentage changes have been provided.

The performance recorded for the 14-month period reflects a sharp improvement on the advances reported at the June interim.

It is also ahead of most analysts' expectations when the Saiccor acquisition was announced last July.

Despite the additional 20,5 million shares issued to fund the Saiccor acquisition, Sappi managed to turn in a 57 percent (annualised) advance in earnings to 607c (331c).

Gearing, which was expected to be 80 percent at end-February, was down to 67 percent.

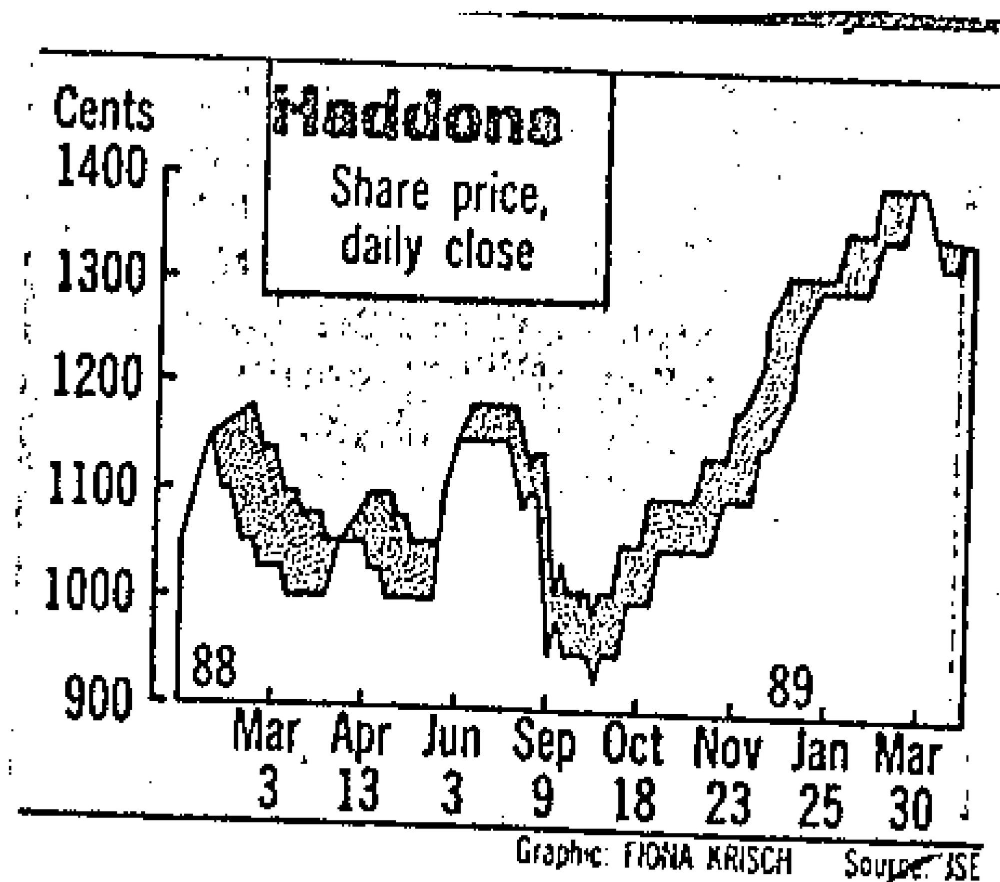
Ahead of the Saiccor deal, management had expected gearing to drop to 70 percent, but revised this to 80 percent as a result of the deal.

Turnover was up an annualised 61 percent to R2,5 billion (R1,3 billion), with operating income up an annualised 89 percent to R617,7 million (R280,8 million), reflecting a sharp improvement in margins from 21,4 percent to 25 percent and reflecting the benefits of the Saiccor acquisition. (According to management, figures for Saiccor are included with effect from April 1988, but Usutu's results are totally excluded pending completion of curent negotiations with the Swaziland authorities.)

A tax charge of R16 million relates to current tax and reflects the decision to discontinue the practice of deferring tax benefits flowing from certain timing differences. (At the interim there was a R58 million deduction for deferred tax).

Because of the significant on-going capex, management feels there is no need to defer these benefits.

Changes in the accounting policy relating to plantations boosted earnings by R25 million during the review period.



Haddons boosts its profits by 28%

B/Day 17/4/89

ZILLA EFRAT

HADDONS' 1987 restructuring has paid off with attributable profits increasing 28% for the six months to February.

The Malbak subsidiary which supplies paper, printing and packaging machinery, improved its attributable earnings to R6,4m (R5m). Earnings a share rose 21% to 128c (105,5c) on a 5% increase in the number of issued shares.

An interim dividend of 40c (33c) a share was declared, covered 3,2 times.

The group's corporate name will soon be changed to Graphtec Holdings to encompass its broader range of activities and to correctly reflect its mission.

Turnover improved 26% to R185m (R147,3m) because of inflation and satisfactory organic growth within each trading division. Operating profits jumped 42% to R16m (R11,5m).

Operating efficiencies contributed to improved operating margins of 8,8% (7,8%) despite continuous pressures on gross margins from the highly competitive nature of specific markets.

The interest bill rose 129% to R3,4m (R1,5m) and interest cover fell to 4,7 (7,6) times because of higher trading volumes and interest rate increases.

The recent acquisition of Press Supplies' stock contributed to higher stock levels, but also increased market share, says MD Frits Waldeck.

Almost 40% of the group's products are imported. Recent surcharges and the fall in the rand's exchange rate have placed pressures on the group's working capital.

Borrowing to permanent capital jumped

● To Page 2

Restructuring pays off for Haddons

B/Day 17/4/89

● From Page 1

to 80% (57%), but Waldeck says current stock reduction programmes will reduce gearing to below 60% by the year-end.

Taxed profits rose 30% to R6,6m (R5m) as assessed tax losses in acquired entities were almost fully utilised in the previous year.

The net asset value has increased 14% to 1486c (1308c) a share.

Management anticipates that, barring any unexpected economic major downtrend, trading results for the second half of the year will exceed those of the first.

Waldeck expects good performance from all companies and is hoping for a fractional improvement in margins in the second half of the year.

He is confident that paper and equipment sales in the second half will rise on the first and says the group and its markets are in good shape.

All in the bag at Nampak

Sharespot

LYNNE PEACH

194

Nampak, whose holding company is CG Smith and ultimate holding company is Barlows, was swept by a restructuring programme last year.

Businesses and properties were relocated, certain dormant companies were sold and two wholly owned subsidiaries were wound up (prompted by the recent introduction of minimum tax on companies).

More important was the R271 million Nampak spent on acquiring an additional 46 percent of Metal Box, now wholly owned.

The rationale behind the purchase was to create a unified packaging and paper group in order to derive synergistic, minor rationalisation, gearing and management benefits, and to expand without minority constraints.

Finance director Dave McFadden says the restructuring exercise is on target to be completed by the end of June. The changes in the current financial year are mainly cosmetic and include cleaning up 60 companies.

The programme, he says, will simplify the structure of the group and improve administrative efficiency, but will not make a significant financial impact on results.

Mr McFadden reminds shareholders that for every R400 000 profit improvement, earnings per share are not even raised by 1c.

Nampak has grown to be the largest and most diversified packaging group in SA.

The packaging divisions account for 75 percent of group business and can be sub-divided into two main areas.

Firstly, there is the business of primary packaging products, including beverage and food cans, plastic, liquid, glass and flexible packaging. The other area, secondary packaging, includes carton and print, corrugated containers, sack and polyfoil.

An addition is Scholle Packaging, a Cape Town manufacturer of laminated bags for wine and other drinks. This has allowed expansion of the bag-in-a-box area.

Although the amount paid is not disclosed, Mr McFadden says the acquisition is relatively small.

Nampak has interests in printing, paper manufacture, paper merchandising and tissue conversion. These account for the remaining 25 percent of group business.

Group expansion is likely to involve acquisitions and growth in exports. Mr McFadden says while exports continue to expand, they represent a small part of business.

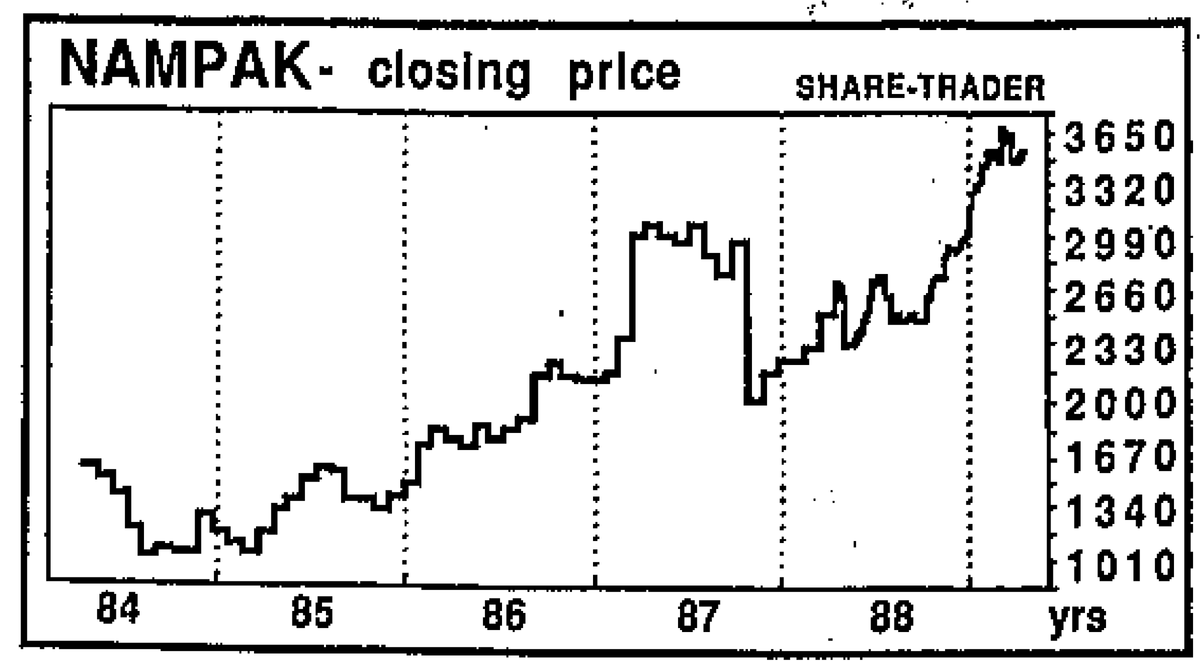
He says additional acquisitions will probably be of moderately sized companies because prospects of a large company being available for purchase is unlikely.

In the 1988 annual report, management forecast that earnings growth would exceed 20 percent in the current year, but was not expected to be as high as the 37 percent growth achieved in 1988.

If earnings grow 25 percent, from 358c to 447c, the forward P/E ratio (to September 1989), based on a price of R35, is 7,8.

If cover is maintained, the dividend could rise from 133c to 166c.

It appears Nampak is more or less fully priced for the time being.



The share price remains in a favourable trend and has risen nearly 17 percent to R35 since the start of 1989. The rate of increase, however, should start slowing, in line with uncertainty about the fundamental outlook.

...in connection with the lock out and the threat of dismissal. — *PEN*

Sappi strike continues

194

Smith 5-12/4/8?

PORT ELIZABETH. — Talks last weekend failed to end a two-week strike by about 400 Sappi workers at Adams Mill here.

The workers who are members of the Paper, Print, Wood and Allied Workers' Union (Ppwawu) are demanding overtime pay on Saturdays, paid public holidays and holiday bonuses.

A Ppwawu spokesperson said workers had dropped demands for housing and an education scheme.

Three conciliation board hearings have failed to resolve the dispute. — *PEN*

April 1989

Math Ash-Waltons merger nears finality

RINGO

LIZ ROUSE

A MERGER between Waltons Stationery and Mathieson & Ashley is in the final stages of negotiation and details are expected to be announced this week.

Math Ash chairman Winky Ringo said the two groups were in the midst of negotiations

There are synergystic benefits in a merger, with Waltons supplying stationery and office equipment and Math Ash providing office furniture and equipment.

Both groups have been looking for acquisitions. Speculation has been swirling around Waltons for some time and Math Ash has R10m cash as a result of merging Dashing Office Furniture with Afcol's Anglo Dutch.

Waltons shares were suspended at R14 on Friday, while Math Ash was suspended at 560c.

Interpak spots a gap in the market

B Day 28/4/89 (194)

INTERPAK strides into the 1990s armed with eight new-look divisions.

Group MD Tony Rudston says: "We recognise the industry is dominated by three major groups which, being vertically integrated, have created a somewhat closed-shop situation.

"We believe this presents a gap for an independent element of competitiveness. Going for this gap is the direction that will take Interpak with new impetus through the 1900s to make its impact on the SA packaging environment."

The Interpak litho, gravure, packaging systems and specialised products divisions are in Elandsfontein.

Interpak Natal and Interpak Books are in Maritzburg.

Interpak Plastics is in Durban and the Cape operation is in Observatory.

Interpak needs no introduction to the marketplace but developments within the packaging giant might raise eyebrows.

A rapidly increasing demand for metallised biaxially orientated polypropylene (Bopp) in the snack, biscuit and confectionary markets has seen Hoechst Films add a metallisable grade of Bopp film to its locally manufactured range.

Interpak's specialised products division will be metallising the film and specifications are now being drawn up to international standards.

This new product, Trespahan FND MET, will replace imported material and be marketed jointly by Hoechst and Interpak.

It will be available in 20 and 30-micron thickness.

Specialised products division GM George Adcock says: "The industry has acknowledged the need for an alternative to imported materials.

"We hope to see a level of support to warrant the ongoing investment necessary to develop such products."

Far-reaching changes have boosted the Cape Town and Maritzburg plants.

Additional equipment to the value of R10m has been commissioned for the two plants in the form a Man 5 colour press coupled to a Dalgren damping system for the Cape division.

Interpak Cape GM John Spence says: This will enable us to offer a significantly improved range of folding cartons and we believe this will increase our share of the consumerable goods packaging industry in the Cape."

In Maritzburg the business potential for its new Roland 800 size six, five-colour press has been bandied about the market.

Interpak Natal GM Trevor Wenham says: "This is state-of-the-art equipment to enable us to offer the very best quality paper and board packaging while improving capacity."

Rudston says: "This investment is the second phase of our expansion programme, following the R14,5m spend on our Transvaal gravure and Litho divisions in 1988."

The group has subsequently spent another R1m on the Transvaal gravure division with the installation of the first Blumer Atlas 110 cutting, punching and banding line to be imported.

Gravure divisional manager Ray Jones says the new equipment will be dedicated to finishing and shaping quality labels and has a capacity of about 850 000 labels an hour.

On the fate of Interpak's systems packaging division, there have been changes. Rudston notes that only two companies have successfully sold systems in SA — to Printpak and Interpak — and that, as far as machinery in the market is concerned, the systems are fairly similar.

He says there are many interpretations of how a systems department should be run but, as far as Interpak is concerned, the department has been slimmed down and made more professional.

Interpak has been heralding the changes, with these words from Rudston: "I love growth. I love buying businesses, building them up and getting into new products, but we are going to be able to do that only by going in the right direction and putting our house in order. In this respect we are well under way."

Early origins

INTERPAK'S origins are traced back to 1903, with the founding of the Electric Printing Works.

With amalgamation of SA Litho (Transvaal) and Electric Printing in May 1962, the name Interpak was established.

In November 1963, Lion Match acquired a major share of the new corporation and in 1967 became the sole shareholder. A year later the Durban-based company Brown Davis & Platt was added to the stable.

Three years later in 1971, Interpak Natal was established with the purchase of Keartlands (Natal). At the same time, Interpak Cape moved to the Lion Match premises in Observatory.

Allegheny International's disinvestment from SA presented SA Breweries with the opportunity to acquire Lion Match and its operating companies in 1987.

Success story

(194) 2/3/89

METAL Closures Group (MCG) is well past the half-way mark in its bid to equip every major beverage bottling plant with its Duet plastic twist-off closure.

Since its introduction in 1987, 24 soft-drink bottling plants have gone over to the closure — and MCG is expecting that another "dozen or so" will re-equip for Duet in the course of this year.

In addition, SA Breweries and SWA Breweries are using Duet on their two-litre PET draught packs.

"Duet has been a major success since we introduced it after a long series of intensive field trials," says MCG national sales manager Peter Heritage.

"It is proving equally successful on plastic and glass bottles."

There are about 50 soft-drink bottling plants in the country, 42 of them Coco-Cola lines.

So successful is the Duet that, Heritage says, MCG's Duet manufacturing plant in Cape Town is working around the clock to keep up with demand.

PAPER GROWING FASTER

B Day 28/4/89 (194)

MALBAK packaging subsidiary Kohler is maintaining a hefty capital spending programme after its lean years during the mid-80s.

Now, with profitability at much higher levels and tax payments low owing to previous losses, capital investment is running at an annual rate of about R55m, being the amount spent in the year to end-August 1988.

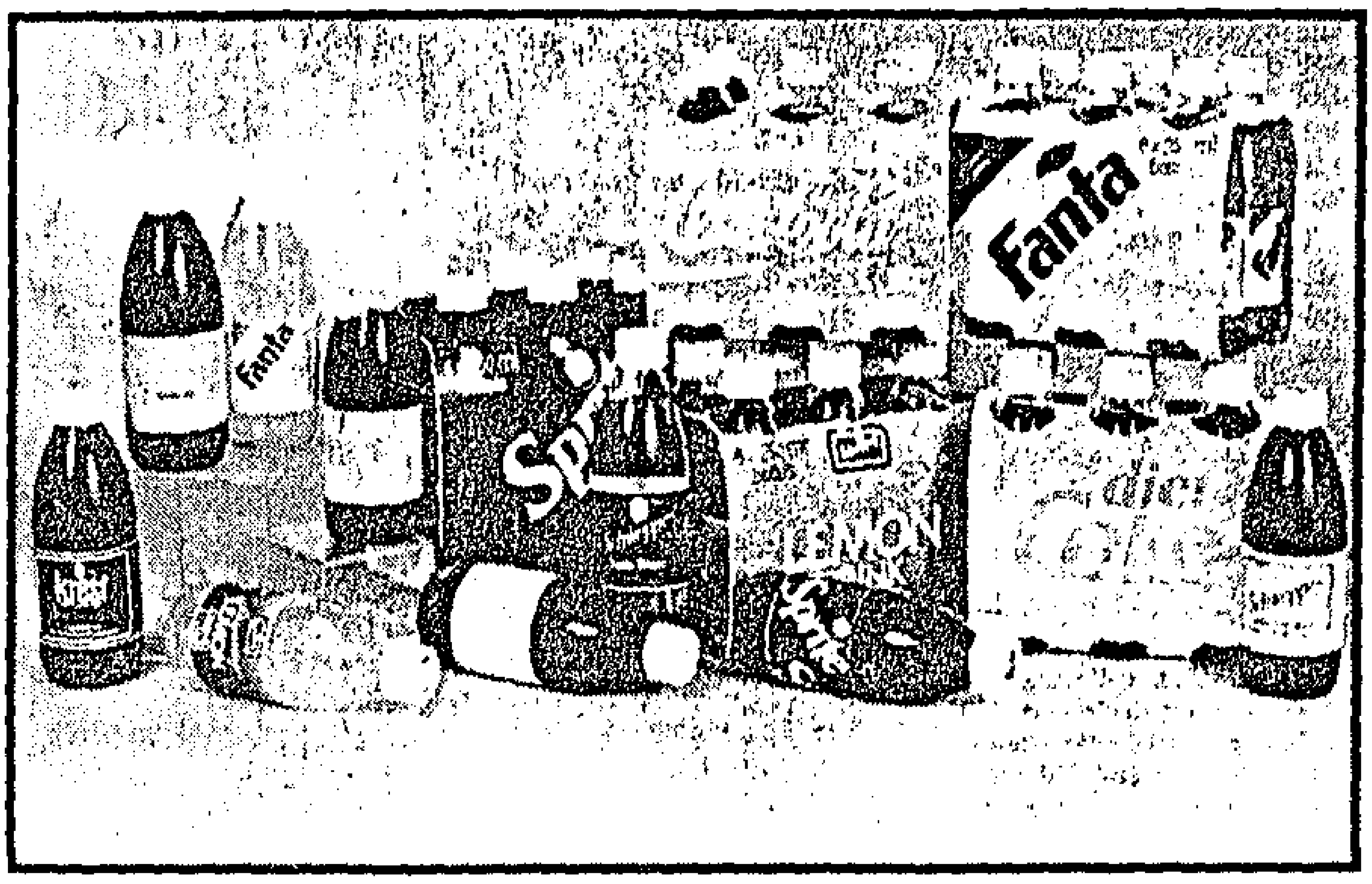
Kohler's paper operations are growing much faster than its plastics sector.

In the same financial year, paper's turnover grew 50% to R450m (R300m), while plastics rose 34% to R302m (R226m).

At the same time its capital employed for paper shot up 49% to R101m (R68m).

Kohler also produces pulp-based products, mainly for the liquor industry and for fruit packaging.

CE Derrick Minnie says the main advantages of pulp are its cost-effectiveness and its rapid ability to adapt to market identified demands.



☐ NEW SIZE . . . nine flavours presented in a 250ml bottle, are distributed by Amalgamated Beverage Industries

(194)

New soft drink bottle launched

BDay 28/4/89

A NEW size of pre-labelled bottle for the soft drink market has been launched by Consol's glass packaging division.

Nine flavours — five of which are also available in a six-pack — presented in the 250ml bottle, are being distributed by Amalgamated Beverage Industries in a Transvaal field test covering an area stretching from Hyde Park Corner to Brixton, Glenvista and Kelvin.

Consol Glass industry marketing manager Roy Moulton says: "Early indications already show that the 250ml has reached a 3,5% pack share of total literage sold by Amalgamated Beverage Industries.

"The new pack is aimed at regaining market share from the fruit juice market since the introduction of the 200/250ml Tetra Brik and Combibloc and also to fill the gap created by the withdrawal of the 300ml returnable bottle."

It is expected that the 250ml bottle will increase overall soft drink consumption, especially in the youth market. It is also an ideal companion for liquor mixing.

The new bottle is available from café outlets, supermarkets and on-consumption liquor outlets.

Once the results of the field trial have been published, it is expected that other major Coca-Cola franchise bottlers will launch the 250 ml package to the rest of the country.

Waltons keeps striding on

194

Sharespot

Star 10/5/89.

LYNNE PEACH

Stationery group Waltons has been writing up impressive results and looks set to contiñue doing so.

Earnings have grown at a five-year compound rate of more than 40 percent. Over ten years, the compound rate is 35 percent.

There is a consensus in the market that these performance levels will be repeated in the year to February 1989 (results to be published later this month).

MD Frank Robarts is confident the group will continue to stride ahead in financial 1990.

The secret of Waltons' success, says Mr Robarts, lies in the quality of its staff. He says group employees are specialists in their fields and, on all levels, staff are given the opportunity to own shares.

The main business is the supply of commercial stationery through a network of branches countrywide. The business of subsidiaries includes the manufacture and distribution of statonery, computer and typewriter ribbons and baby goods.

The latter comprises a 52,55 percent stake in Reggies, which has 82 retail outlets. Mr Robarts says another 11 stores will be opened this year.

Group subsidiaries also distribute price-marking and labelling machines, computer stationery and allied products.

Mr Roberts says that although current share of the computer stationery market is less than 20 percent, he believes there is tremendous growth potential.

Waltons intends to rationalise its computer companies —Datalink, Kolok, Multipro and Pelikan — to form a new company, Multipro Corporation.

This company, he says, is likely to be separately listed in the not too distant future.

Another potential listing is that of Ozalid, which was acquired at the start of financial 1989 for R44 million cash and is the largest drawing office equipment specialist in the country.

It owns Helios, the SA agent for Minolta photocopiers and fax machines.

Ozalid made a significant contribution to group results in the first half of the year to August 1988.

Group turnover increased by 86 percent and, without Ozalid's contribution, would have risen by only 40 percent. A negative effect, however, was that money had to be borrowed to finance the deal, with the result that gearing has risen somewhat from its 57 percent at the end of February 1989.

Mr Roberts is aware of the need to reduce borrowings, especially in view of the possibility that interest rates may rise further. A natural solution would be a rights issue.

This would facilitate further acquisitional expansion. Market talk has it that Waltons is currently looking at further purchases, one of which is said to be of a company even bigger than Ozalid.

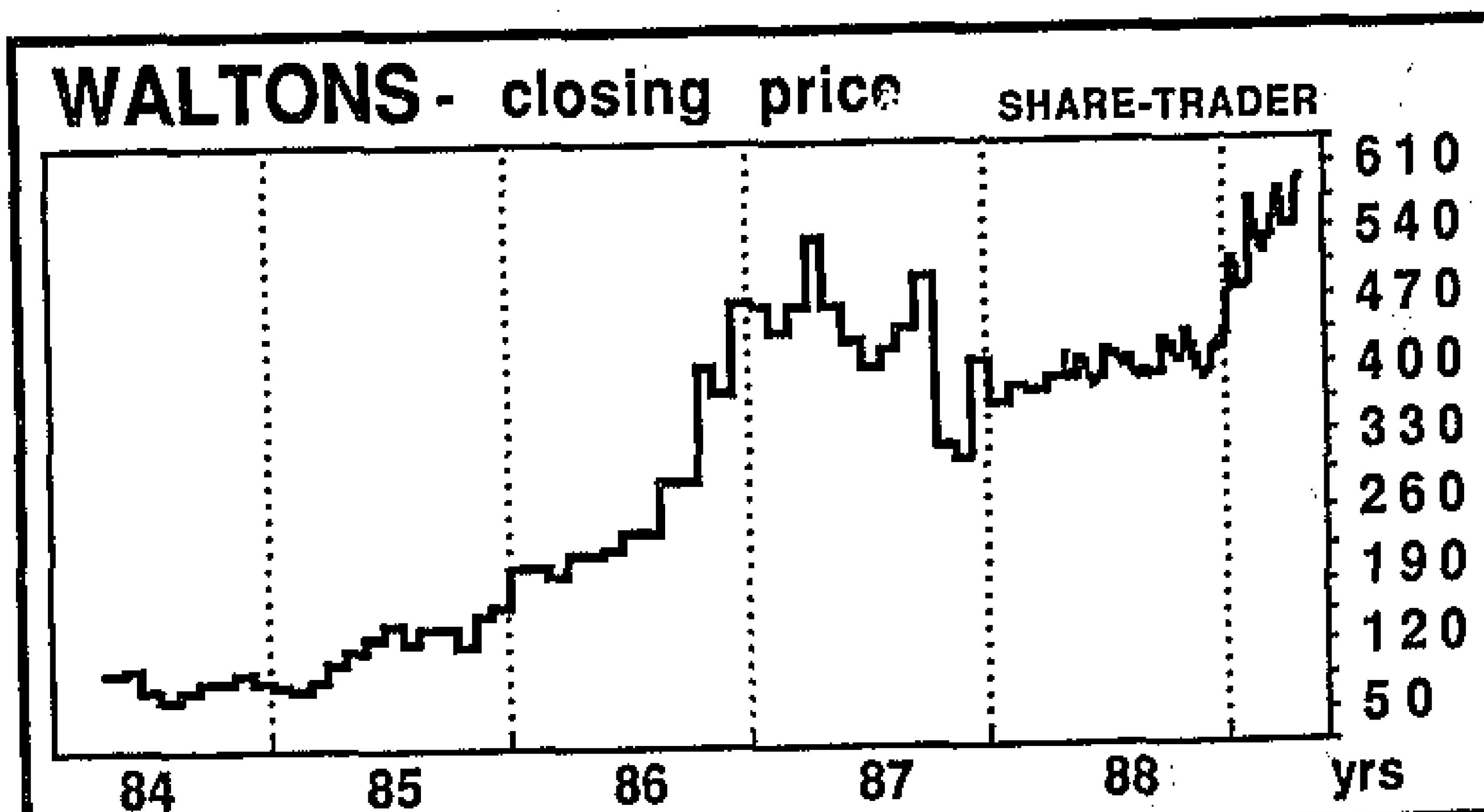
Waltons, priced at 610c, is trading on an historic P/E ratio of 13,4 and a dividend yield of 2,5 percent.

The group is expected to disclose bumper earnings of 55c to 60c a share later this month (39c for financial 1988).

In view of this, and a continued favourable outlook, accumulation of Waltons shares is recommended.

The holding company, Walhold, has 50,2 percent of the equity and should trade at around 96,4 percent of Waltons' share price.

Wal[illegible]d, priced at 605c, currently represents a relatively more expensive entry into the group.



Over the past five years Waltons' share price has performed exceptionally well. Although the price has already risen by 36 percent this year, the primary bull trend is intact and any price setback in the medium term is likely to be shortlived.

Nampak earnings show 30% growth

Fin Times 15/5/89

1914

Financial Staff

NAMPAK has completed the first half of the 1988/89 financial year on a strong note with 30% higher earnings.

Earnings reached 212c a share, while the interim dividend has been raised by 26%, to 68c.

Operating margins were maintained with a 23% rise in turnover at R1 483,1m, generating a 25% improvement in operating profits at R182,4m.

In 1988 chairman David Brown warned that the high earnings growth rate of that year — 37% — would not be repeated in the current year but that it would exceed 20% — a forecast that has been vindicated.

The two major operating segments — packaging and printing, and paper — contributed equally towards the growth in operating profit.

The achievement is more notable in that the difficulties against which David Brown warned — ongoing raw material shortages and cost increases, higher interest rates, rising inflation and intense competition — all came to pass.

On the other hand, "the buoyant business tempo experienced in 1988" continued into the half year and the "increased production levels more than compensated" for these factors.

The effective tax rate dropped to 37,3% from the previous year's 39,5% in line with the programmed capital expenditure for the full year.

A number of acquisitions and disposals were finalized in the six months.

GMS Transport and a 49% stake in Memix were both sold for strategic reasons, while the leading bag-in-box manufacturer Scholle Packaging was acquired and Nampak took a 51% stake in newly created Multi Security Technology. These transactions had minimal effect on the interim results.

Commenting on the second half of the year, the report states that "satisfactory positive growth in earnings is expected" with the group experiencing much the same level of sales and profitability in April as before.

Nampak shares are currently priced at about 3 950c at which level they yield 9,1% and 3,4% respectively on historical earnings and dividend.

These compare with Actuaries Index averages of 11,2% and 3,7% respectively for the paper and packaging sector.

For further information, please contact Mr.D.J.McFadden: Tel Office (011) 884 1418 or home (011) 7067335

Nampak benefits from Metal Box

Star 15/5/89

194

Finance Staff

The benefits of the acquisition of 100 percent of Metal Box filtered through to Nampak's bottom line in the six months to March, with attributable earnings rising by 30 percent.

Earnings per share reached 212c.

The interim dividend has been raised by 26 percent to 68c.

Operating margins were maintained, with the 23 percent higher turnover at R1,48 billion generating a 25 percent improvement in operating profits at R182,4 million.

The achievement is more notable in that the difficulties against which chairman David Brown warned in his chairman's statement last year — ongoing raw material shortages and cost increases, higher interest rates, rising inflation and intense competition — all came to pass.

TEMPO

On the other hand, "the buoyant business tempo experienced in 1988" continued into the half-year and increased production levels more than compensated for these factors.

The effective tax rate dropped to 37,3 percent from the previous 39,5 percent, in line with the programmed capital expenditure for the full year.

A number of acquisitions and disposals were finalised in the six months.

GMS Transport and a 49 percent interest in Memix were both sold for strategic reasons.

The leading bag-in-box manufacturer, Scholle Packaging, was acquired and Nampak took a 51 percent stake in newly created Multi Security Technology, a specialised security system supplier.

These transactions had minimal effect on interim results.

Nampak's strong relationship with the food and beverage industries renders the company less exposed to the cyclical climate affecting most other sectors.

Nampak keeps wrapping up earnings growth

ZILLA EFRAT

NAMPAK continued its strong pattern of earnings growth by packaging a 30% increase in earnings a share in the six months to March.

Earnings rose to 212c (163c) a share on an increased number of issued shares. A dividend of 68c (54c) a share has been declared.

MD Don McCartan said the poor summer affected the beverage division's performance, but a good agricultural season had a positive affect. Exports increased substantially.

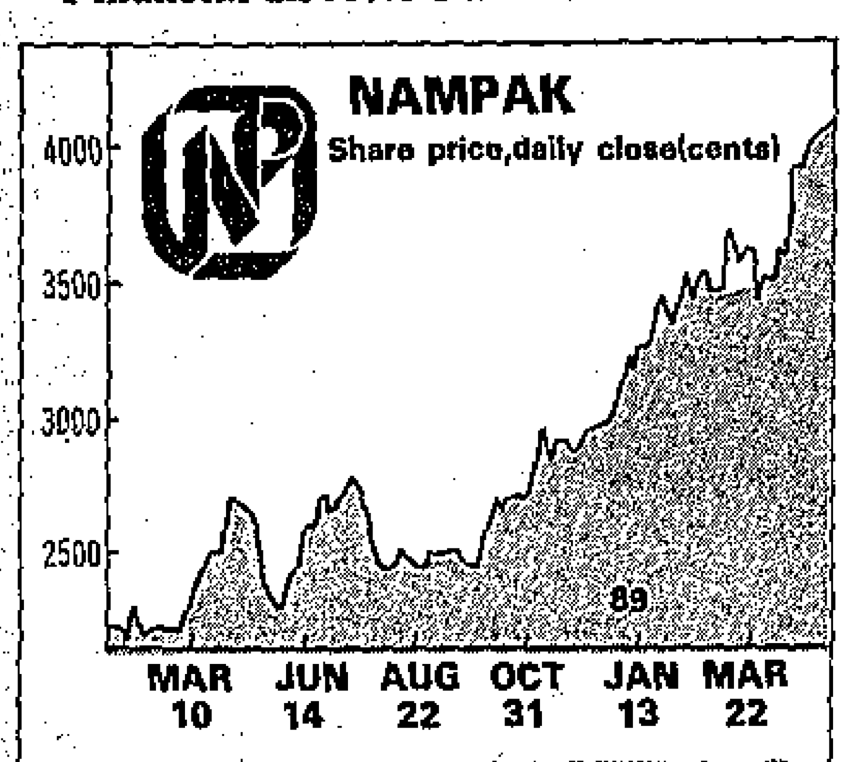
Finance charges, outside shareholders' interests and attributable earnings for the period are not comparable with those of 1988 because of major changes in the group structure, including the Metal Box acquisition effective from August.

Chairman Dave Brown said the high costs of raw materials could not be passed on and affected margins which remained the same. Operating profits rose 25% to R182m (R145,5m) on a 23% increase in turnover to R1,5bn (R1,2bn).

The interest bill, still affected by the Metal Box acquisition and higher interest rates, jumped to R24m (R7m) and the current ratio increased to 1,4:1 (1,3:1).

The tax rate dropped slightly in line with the programmed capital expenditure for the full year resulting in an 18% rise in taxed profits to R103m (R87m).

Financial director Dave McFadden said



gearing increased to 52% (38%) as a result of seasonal raw material stock piling before April price increases and high tax provisions for March, but he expected borrowings to drop from April onwards.

During the period, GMS Transport and 49% of Memix were disposed of for strategic reasons while Scholle Packaging and a 51% stake in Multi Security Technology were acquired. These deals are expected to have a minimal impact on earnings.

Brown said the next six months would be a period of organic growth and no acquisitions were anticipated.

Sales and profitability for April continued at satisfactory levels.

CG Smith: good pointer for Barlows

B/Day 18/5/89 (194) (480) (581)

BRUCE ANDERSON

ALL major divisions of the C G Smith group contributed to a strong set of interim results for the six months to March with a 28% rise in earnings to 368,9c (287,7c) a share.

A 35% rise in operating profit to R556,7m (R411,6m) came on a 25% increase in turnover to R6bn (R4,7bn).

Attributable profit rose 28% to R172m (R134m). An interim dividend of 102c (81,5c) a share has been declared.

The results augur well for parent Barlow Rand, which is due to report on Tuesday.

All three major divisions contributed toward the improvement in earnings:

- Food and pharmaceuticals increased its contribution to attributable earnings by 28% to R95,2m (R74,6m).
- Packaging and paper accounted for R63m (R49m), up 30%; and
- Carpets and textiles R13m (R11m), a rise of 23%.

C G Smith chairman Warren Clewlow expects the rate of growth over the next six months to be satisfactory.

Increased trading activities, combined with a high level of capital expenditure, have given rise to higher borrowings which, together with a marked increase in interest rates, has resulted in higher interest costs, said directors.

With the increase in total borrowings, gearing has deteriorated slightly.

Despite pressure on margins, through increases in raw material prices and fierce competition, packaging and paper company Nampak showed strong growth and achieved a good increase in profits.

A change in policy at Nampak

BDM 15/8 1984

COMPANY car policies in many instances have undergone changes since the Margo Commission recommendation that there should be annual adjustments in perks tax.

The shift at Nampak may well be indicative of the kind of re-positioning taking place around the country. The company, like others in the Barlows group, is constantly re-assessing the fleet situation.

Prior to Margo, says Peter Maxwell, office services manager at Nampak headquarters, Nampak had only company cars. Now it has both.

When perks tax began increasing, people who had cars were given the choice of switching to car allowances. Most of the 85 head office staff entitled to cars made the change.

"The few who stayed with company cars were probably doing only 7 000 or 8 000km annually."

A careful evaluation of the particular situation of head office staff, though, persuaded management that car allowances were a better bet, particularly in view of tax implications. Eligible new employees joining the company go on car allowances.

Nampak does not say an employee must take a particular kind of car. If he qualifies for and would prefer a BMW '5' series to a Mercedes 230, he can have what he wants.

He can buy "up" by one grade only — "provided he's prepared to pay in the extra".

He can also buy "down" — say to a Toyota Cressida. He will still get the monthly allowance for a more expensive car and can pocket the difference of around R800, on which he will be taxed.

"Some people have done this, and bought retirement annuities with what they saved."

A factor that sometimes influences choice is availability. Staff are not always prudent enough to book a year in advance. Rather than wait 10 months, they take an alternative vehicle.

At the end of the finance period, the car becomes the individual's property — with no sales tax implication.

Sappi moves to alkaline-sized paper

(194)

8 I Day 19/5/94

ZILLA EFRAT

SAPPI Fine Papers is to be the first SA paper company to convert to alkaline sizing (related to additives used in early production stages) from acid sizing.

Sappi is following the world trend where more than 50% of Western European and a large portion of US paper is produced in the alkaline medium today.

Sappi Fine Papers MD Kim Jokipii says the Enstra mill will be totally converted by September.

A capital expenditure programme to effect the conversion is already underway.

The benefits of the change to printers and converters of Sappi's uncoated fine paper products include improved paper strength, faster ink drying and opportunities for more "whiteness".

Alkaline-sized papers withstand intrinsic and environmental degradation better than acid-sized papers.

Longevity improves to the benefit of those requiring paper for long-term applications.

Waltons beats previous records

CAPE TIMES 24/5/89 (289) 19(4)

Financial Editor

WALTONS STATIONERY has again achieved record results, lifting earnings for the year to February by 41%, to 55c (39c) a share and the dividend by 38,5% to 18c (13c).

This was achieved on a 66,2% rise in turnover to R547,9m (R329,6m), due partly to acquisitions made in the year.

Finance costs were higher at R17,8m (R2,2m).

Operating income before tax was R67,7m (R53,4m) and net attributable income before an extraordinary item R35,8m (R24,4m).

The extraordinary item, an additional R887 000 representing excess goodwill written off the previous year in line with a previous policy when acquisitions were made, lifted attributable income to R36,6m.

MD Frank Robarts says he is "extremely satisfied" with the group's performance, particularly in view of the already high earnings base and the increased gearing.

"It is important to note that in spite of these factors the compounded growth in earnings for the group since its listing 11 years ago is an impressive 35,4%."

Robarts says present indications are that Waltons will again report improved earnings for the current year.

It is still on the lookout for investment opportunities which would complement the activities of the group.

"But in view of recent speculation concerning a possible merger, shareholders are advised to be wary of speculation by others and to rely only on official announcements made by the directors."

Financial director Mark Davis says there has been a decline in the gearing ratio since the acquisition of Ozalid. Steps are being taken to reduce gearing even further by the end of the current year.

● Pyramid company Waltons Consolidated Investment Holdings (Walhold), which owns 52% of Waltons, has declared a dividend of 18c (13c) a share.

Earnings were 52,8c (37,8c) a share and the operating income R6,3m (R4,5m).

Alfa chairman says control talks under way

BDay 23/5/87 (194)

BRUCE ANDERSON

AN ANNOUNCEMENT concerning change of control in JSE-listed Alfa Manufacturing (Alfa) is expected next week.

Alfa chairman Christo Bierman said yesterday negotiations were under way which would probably lead to change of control of the packaging company. He would not elaborate.

Bierman said a provisional order of liquidation against Alfa — issued two weeks ago — was withdrawn last week.

The order was granted by the Rand Supreme Court after an application by Jowin, sellers of a company, Liberty Box, which had been bought by Alfa.

Alfa's shares have been suspended since the provisional order of liquidation was issued. Bierman said he hoped trading in the shares could resume next week.

Consol split

194

5/7 [handwritten: date illegible] 14/5/89

CONSOL shares, which hit R100 apiece on April 27 and have not traded since, are to be split 10 for one.

The Anglovaal maker of glass and other packaging products has been one of the top performers on the JSE, but has been hampered by the lack of tradeability of the shares.

There are fewer than 6,4-million shares in issue, and the average monthly trade is fewer than 6 000 in deals worth R400 000.

The share price has risen from R47 in June last year to R100 on small volume.

Consol directors say they recognise that there is only a limited number of shares freely available for trading on the JSE. The aim of the proposed sub-division is to increase the number of shares tradeable and to make them available to a wider spread of investors.

Anglovaal's industrial interests are being reorganised, and five of its least tradeable companies will be delisted. Shareholders will be issued with AVI shares in lieu.

Kimberley-Clark is still here

S Times 28/1989 194

KEITH Partridge, managing director of Carlton Paper, has drawn attention to an incorrect statement in the Business Times report (May 2) about Gencor's purchase of Mobil SA.

The paragraph in question reads:

"Gencor has a hard-nosed approach to business. When Carlton Paper of the US withdrew two years ago, Gencor subsidiary Malbak cut back sharply on staff and social responsibility programmes."

Mr Partridge points out that Carlton Paper Corporation is a company owned jointly by Malbak and Kimberley-Clark Corporation, United States of America.

Kimberley-Clark Corporation has not withdrawn its shareholding from the company and has no plans to do so in the foreseeable future.

194 Fmail 9/6/89.

SAPPI

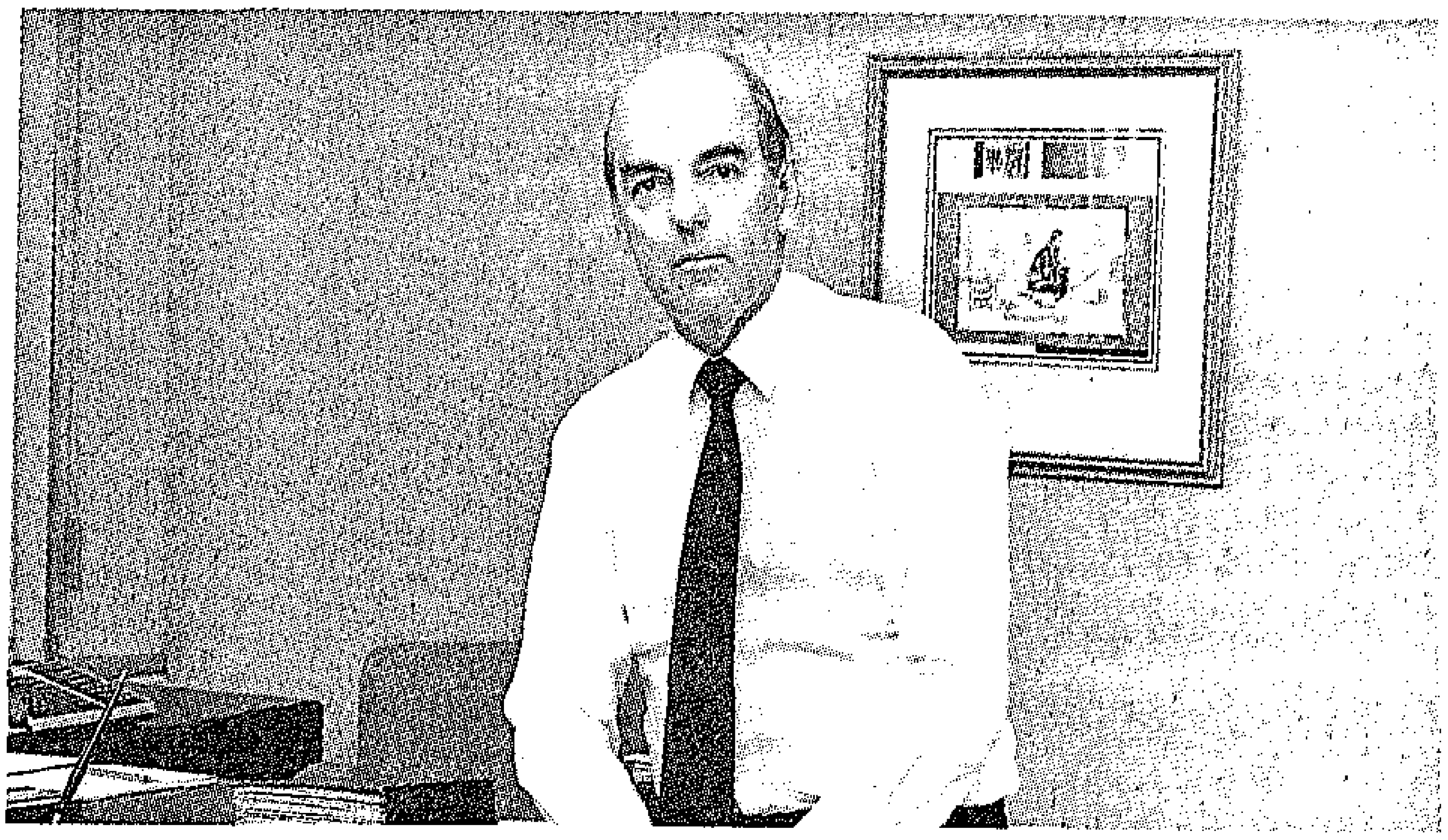
Expansion continues

Activities: *One of the world's major pulp and paper manufacturers, producing about half of SA's total paper requirements.*
Control: *Gencor owns 61% of the equity.*
Chairman: *T L de Beer; managing director: E van As.*
Capital structure: *86,4m ords of R1 each and 16,6m conv irred cum part prefs of 40c each. Market capitalisation: R3,56bn.*
Share market: *Price: 4 125c. Yields: 4,0% on dividend; 12,6% on earnings; PE ratio, 7,9; cover, 3,2. 12-month high, 4 425c; low, 2 575c. Trading volume last quarter, 894 440 shares.*
Financial: *Year to February 28.*

	'85	'86	'87	*'88
Debt:				
Short-term (Rm) ..	180,4	199,1	220,2	303,0
Long-term (Rm) ...	975,1	671,2	519,6	957,4
Debt:equity ratio	1,37	0,90	0,77	0,67
Interest cover	1,4	2,7	9,7	8,1

Performance:	'85	'86	'87	*'88
Return on cap (%) ..	5,9	6,7	10,6	11,5†
Turnover (Rm)	846,1	1100,9	1312,3	2468,6
Pre-int profit (Rm) ...	135,9	164,7	280,8	617,7
Pre-int margin (%) ..	16,1	15,0	21,4	25,0
Taxed profit (Rm)	56,0	107,7	265,6	567,0
Earnings (c)	64	133	331	520+
Dividends (c)	57	40	130	162,9†
Net worth (c)	1 555	1 643	1 839	2 398

* 14-month period. † Annualised.



Sappi's Van As ... prices kept rising

While the boom in international product prices that helped fuel Sappi's lift-off since 1986 may be losing steam, the group still has much in its favour. Capacities and efficiencies are being increased at various plants, rand depreciation continues to drive export earnings, and much of the benefits from last year's Saiccor-Usutu deal lie ahead.

A less favourable development is the investments being made by other producers in new capacity. Chairman Tom de Beer notes that in the next few years a number of new facilities will come on stream in several countries to meet the growing demand for pulp and newsprint.

He says it's likely the newsprint facilities will come on too rapidly to avoid surplus capacity and newsprint prices are likely to remain under pressure for the next two years. The plants coming on stream appear unlikely to depress pulp prices if the international market continues to grow at the rate of the last few years, but these prices could level off at current levels or possibly show small declines.

In the 1989 first quarter, says CE Eugene van As, the US dollar price for Southern pine pulp stood at US$810, up 19% on the year-ago level. Prices for dissolving pulp were 22% higher, the US dollar prices for fine and packaging papers rose by about 10% in the year, while that for newsprint is about the same as a year ago.

These contributed to Sappi's annualised 61% turnover increase to R2,47bn. The domestic market for all products was strong, with average local price increases in line with inflation and customer activity significantly increased in virtually all sectors.

Saiccor has become a major profit contributor, and the group has benefited from its relationship with Speciality Pulp Trading, which has international trading links and markets Saiccor's dissolving pulp. Saiccor, the world's lowest-cost producer, helped improve the overall trading margin. Saiccor was brought to account only for the 11 months since April 1 1988, the effective date of the acquisition; this year it will contribute for the full period.

Approval for the takeover of Usutu Pulp is still awaited from the Swazi government. Meanwhile, Sappi is managing the company.

Most of the major divisions are busy with expansions. Sappi Forests has assumed responsibility for Saiccor's 82 000 ha of timberland, of which about 65 000 ha are planted with hardwoods. This brings the total area managed by Sappi Forests to over 260 000 ha and the group's timber resources have risen to about 45% of total requirements. Several new afforestation projects are being negotiated in Transkei, KwaZulu and Mozambique.

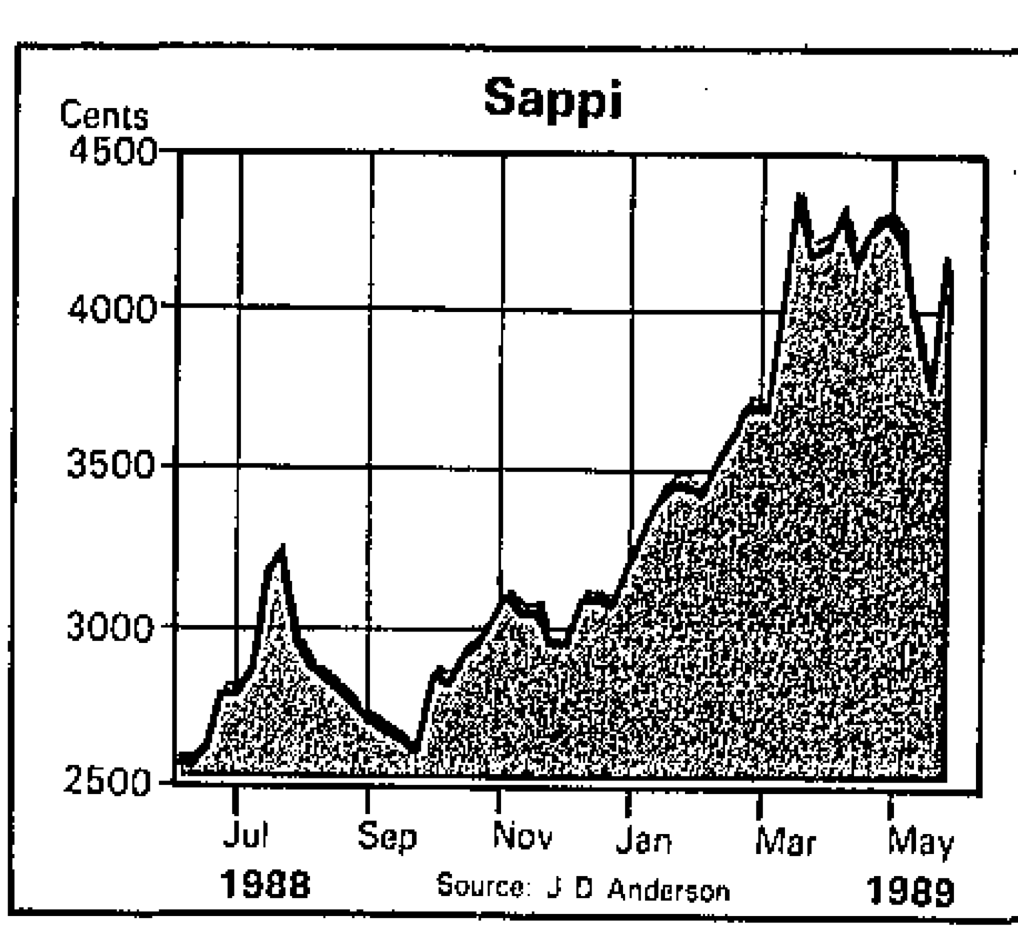
At Sappi Fine Papers, production records were broken at all mills. With the strong local demand for the division's products, particularly for tissue, scholastic papers and coated paper grades which benefited from some import substitution, the division's turnover rose by an annualised 35% to R882m.

With demand strong locally and overseas, Sappi Kraft's major task was to maximise output. Its 14-month turnover of R1,3bn reflected an annualised increase of 91% over the previous year.

At Ngodwana capex of R45m is planned for 1990, largely to debottleneck the plant and achieve higher production rates from existing equipment. A plan to modernise Tugela mill has been prepared, focusing initially on the woodyard and increased output from No 2 machine; R49m will be spent this financial year. A rebuild of the Cape Kraft mill paper machine, nearly complete, will raise capacity by 20%.

Sappi Saiccor has secured a long-term supply agreement with Courtaulds group for nearly half its total output; the balance is sold in Europe and the Far East. International demand remains strong, and with three new viscose plants starting up in the next 18 months, the market is expected to grow. Since February 1989, output has increased by about 20% over the average of the previous 24 months. Spending of R47m is planned for this year.

The timber industries division saw strong market growth, and turnover rose R95m to R232m in the 14 months, up by an annualised 45%. The R80m expansion of Novoboard's White River plant is for completion



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in the third quarter of 1989. In addition to more than doubling output of particleboard, the plant is designed to make medium-density fibreboard and thin particleboards, particularly for the furniture industry.

The group is capital-intensive and volume-sensitive, but its flexibility is much greater than in the past. Interest cover is high, tax payments will remain modest — last year's rate was less than 3% — the pre-interest margin is at the targeted 25% and the return on total assets is targeted to rise from 15% in 1990 to 20% in the next few years.

As an indication of the enhanced potential, Van As says net income for the six months to end-February was R255m, equivalent to a fully diluted 295c per share. This suggests that earnings growth of 20% or more is attainable for this year, and a dividend increase of about 22% to 200c is possible. This would place the share on a prospective yield of 4,9%, and suggests there could be further capital appreciation.

Andrew McNulty

AMAPROP

Defensive play

Activities: *Property development and management.*
Control: *Anglo American has a controlling interest.*
Chairman: *G G L Leissner.*
Capital structure: *45m ords of R2. Market capitalisation: R225m.*
Share market: *Price: 500c Yields: 7,0% on dividend; 11,0% on earnings; PE ratio, 9,1; cover, 1,6. 12-month high, 560c low 385c. Trading volume last quarter, 248 000 shares.*
Financial: *Year to March 31.*

	'86	'87	'88	'89
Debt:				
Short-term (Rm) ..	—	—	4,4	9,1
Long-term (Rm) ...	195,5	230,2	228,0	223,4
Debt:equity ratio	0,46	0,36	0,49	0,46
Shareholders' interest	0,63	0,59	0,62	0,62
Int & leasing cover .	2,46	2,10	2,21	2,47

Performance:

	'81	'82	'83	'84
Return on cap (%) ..	6,0	7,0	7,1	8,1
Turnover (Rm)	95	103	125	162
Pre-int profit (Rm) ...	52,5	49,0	53,8	64,9
Pre-int margin (%) ..	53,1	47,5	42,8	40,1
Taxed profit (Rm)	22,0	17,2	19,9	24,7
Earnings (c)	43,2	32,1	46,3	54,8
Dividends (c)	29	29	30	35
Net worth (c)	777	781	906	918

At the end of last week the JSE's All Market index was more or less 50% higher than a year ago. Amaprop's share price was 500c, just 20c higher than a year ago. This past week, while most market indicators have been slithering in response to gold's weakness, Amaprop has been holding steady. So is the moral to the story that Amaprop is a sound defensive stock? Or is it simply that few investors are interested in the share?

LONG-TERM BASE (Rm)

	1988	1989	1988	1989
Long-term property	86,8	98,3	23,5	25,4
Carlton	23,8	29,3	(2,3)	(1,4)
Estates development	14,8	34,2	(1,3)	0,6

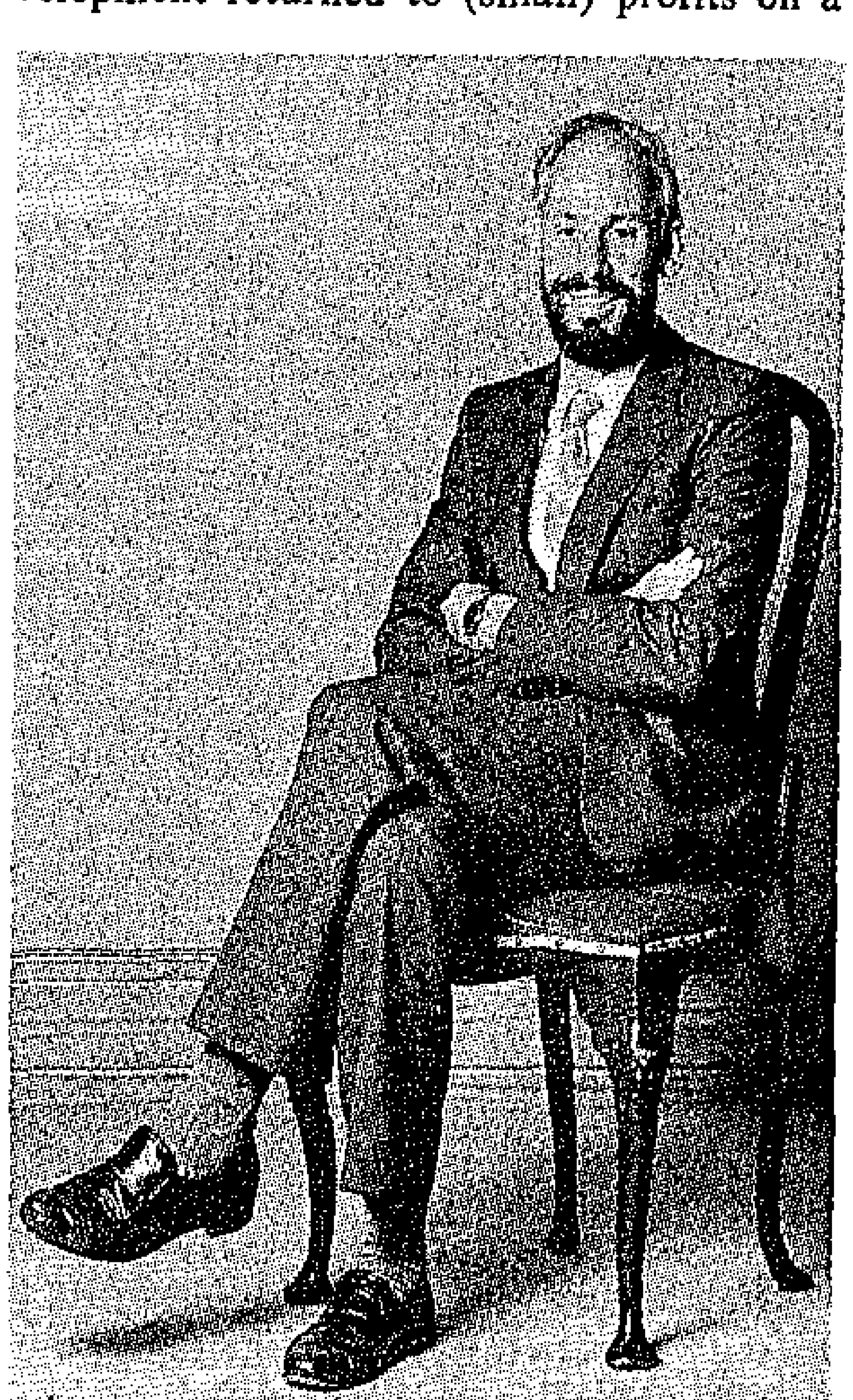
From a couple of points of view Amaprop's defensive attractions are plain. The property portfolio was last revalued over a year ago and is well-nigh irreplaceable. In today's terms the share price probably discounts net worth by 50% or more. In addition, the portfolio is financed by cheap long-term debt protected from short-term interest rate advances.

Of course the portfolio's replacement cost is a hypothetical valuation yardstick — the true value should be calculated on the returns it generates, income plus capital growth.

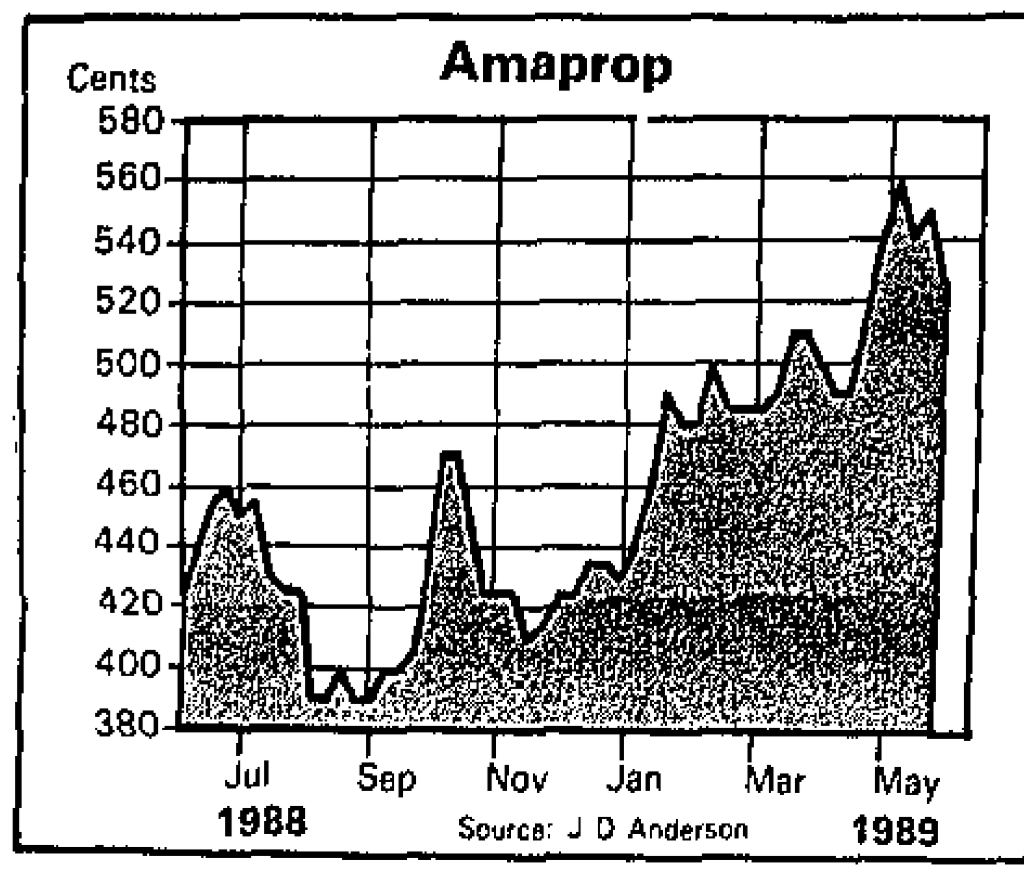
This past year resulted in higher turnovers, reductions in the losses of two divisions and a drop in the pre-interest margin. Let's dispose of the least important interests first. Amaprop's share of the Carlton Hotel's losses was cut to R1,38m from the previous year's R2,31m. But it seems strange that the Carlton should be operating only two-thirds of its 600 rooms when competitors are reporting sound increases in room occupancy rates and profits.

Chairman Gerald Leissner is non-committal on the Carlton's prospects. Management is paying attention to operating costs and the profit/loss improvement is expected to continue, Leissner says, but he is not specific on the prospects for a return to profits. Meantime the hotel is assessing plans to upgrade plant and equipment. The immediate outlook is not encouraging and at best the Carlton's near-term contribution is likely to be neutral.

Residential and commercial township development returned to (small) profits on a



Amaprop's Leissner ... an inflation hedge



large percentage increase in sales, but by the start of calendar 1989 sales were under pressure from higher interest rates. There is a time lag in reporting profits from township sales as they are only taken into account when debtors' provisions are converted into cash. The implication is that profits will continue to be registered during the early part of this financial year though sales turnover is tumbling. Again the division's profit contribution is likely at best to be neutral.

In contrast to his non-committal views on hotel and township contributions, Leissner's forecasts for portfolio income are distinctly up-beat. CBD office rentals have improved and new leases on decentralised office space have been designed around fixed escalation clauses. In general, tenants have agreed to cost escalation clauses in the 15%-18% range, implying that Amaprop's margins will come under pressure if actual cost rises exceed the escalation rates.

Leissner believes earnings and dividends will continue to grow and he believes the fixed property portfolio is a hedge against inflation. The CBD offices are, to all intents and purposes, fully let and the same goes for new out-of-town developments such as Bruma. This should underpin revenues even though the economy as a whole is slowing. Whether defensive considerations outweigh the share's likely stodgy price performance is another matter.

Jim Jones

GLODINA

Incentive costs

Glodina is one of the companies whose attempts to take advantage of decentralisation incentives have encountered a number of problems.

Part of the group's manufacturing facilities were moved to QwaQwa, which MD Emanuel Luiz says is likely to produce significant decentralisation benefits but "created more serious difficulties than were originally anticipated, particularly in respect of production efficiencies." Margins were hammered, dropping from 18,9% to 14,2% and return on capital collapsed from 21,2% to 13,4%. Turnover climbed 23% in the 1988 calendar year but pre-interest profit was down from R9,6m to R8,9m and it was only thanks to tax savings that EPS improved by 11,4%.

Consol buys Goodyear for R178-m

Star 7/6/89

By Sven Lünsche

In the latest US disinvestment move, Anglovaal's packaging subsidiary Consol has bought the entire share capital of leading tyre manufacturer Goodyear Tire and Rubber, it was announced today.

The deal is expected to be settled by a cash payment of about R178 million, but is still subject to the final determination of Goodyear's earnings for the first half of this year.

Apart from being one of South Africa's leading tyre manufacturer, Goodyear also makes conveyor belting, PVC food packaging and other films, and a variety of other products at its plant in Uitenhage. The head office of the group is in Port Elisabeth.

Explaining the rationale for the acquisition Consol directors said today that acquisition opportunities in packaging were restricted.

"Consol has for some time sought opportunities to enhance its earnings and returns and spread its investment risk by diversification into non-packaging businesses," they said.

"This growth will be confined to industrial manufacturing operations that make non- or semi-durable mass-produced quality products.

"Goodyear meets this criterion and the acquisition is expected to enhance Consol's earnings and returns over time," they add.

Further details of the deal will be announced shortly.

★ Supplement to Weeke

SILVER JUBILEE

Price of paper products set to soar

W/r Mku 24/6/89

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From CLAIRE GEBHARDT

JOHANNESBURG. — Huge price increases in paper and packaging products are on the cards as a result of paper giant Sappi's policy of charging South African manufacturers in dollar terms for raw pulp.

Hitting out at "this highly inflationary" practice of import-parity pricing, exacerbated by the plunging rand, supermarket chiefs say the consumer is once more being held to ransom.

Pick 'n Pay chief Raymond Ackerman says South African manufacturers have no alternative but to pay the world dollar price charged in rands on a day-to-day basis.

"The pricing strategy is cleverly kept just about on a par with the price of imported paper plus freight, duties, clearing and landing costs.

"The result is that the consumer is once more being taken for a ride and will face further price increases in toilet rolls, tissues, roller towels and packaging."

Checker's managing director Clive Weil finds the concept "unbelievable, taking into account that Sappi is producing on the basis of a South African cost structure and enjoys a number of tax breaks, concessions and decentralisation benefits ... I cannot help but feel that this is a rip-off.

"The impact on the consumer is dramatic and explains why many of the paper products have increased so drastically over the last couple of years. How long will it be before everyone else jumps on to the bandwagon ?"

Don McCartan, managing director of Nampak is worried that some paper products are being priced out of the market. Corrugated boxes, sacks of dog food and basically anything with plastic in it are affected, he says.

The problem, he explains, is that domestic prices are not related to paper mills' own cost structures but to world prices published in an international journal, giving a certain price at a certain date.

Sappi's pricing method was introduced only a few years ago, say manufacturers, about the time when the rand started falling. But the weak rand is also boosting export revenues. Sappi investors who bought shares three years ago have seen the price increase to more than six times their original value.

Economists, while confirming the highly inflationary impact of Sappi's policy, point to the increasing monopolisation of South African industry as a major contributory factor to economic woes.

In many cases the local market is too small for economies of scale, and companies such as Sappi try to overcome this by exporting a major proportion of their product. But in so doing their whole operational strategy must be geared to the international market.

Sappi managing director Eugene van As comments: "Sappi establishes its product prices in the local market on the basis of local cost structures and the competition from imported products of a similar nature. These prices are normally established twice a year and are usually fixed for that period. While we take cognisance of imported prices we do not price at import parity.

"This is evidenced by the fact that when Sappi last negotiated price increases the exchange rate was below R2,30 to the dollar, it is R2,80 today.

"Current pulp prices are based on long-term contracts and in the first half of this year were significantly below the imported prices."

country, giving a ...

Sunpack to double capacity

Star 21/6/89

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By Lynne Peach

Sunpak, the Cape-based foam packaging company, is to double its capacity with the installation of a third line for producing synthetic papers. Chairman Tubby Gericke says that the rationale for the expansion is simply a full order book.

In the May quarterly report, Mr Gericke discloses that the second generation production line for producing foamtek synthetic papers has been commissioned and is operating efficiently. He says that in spite of this doubling capacity, demand has necessitated the ordering of a third line which will double the capacity of the two existing lines.

Commissioning is due for mid-1990 in buildings which will have to be extended to accommodate the new line.

Sunpak has overcome its production difficulties arising from delays of imported plant, according to Mr Gericke. Consequently, he believes that his revised earnings forcast of 20 cents per share for the year to August will be comfortably achieved.

About capital expenditure, Mr Gericke says that the board has considered various ways of conserving existing capital and raising additional funds and in this regard has elected two options.

Shareholders will be given the choice of receiving bonus shares in lieu of the 1989 cash dividend, and there will be a rights issue to raise approximately R17 million, details of which will follow shortly.

Mondi spends R110-m on timber expansion

(194)

Finance Staff

Anglo American's unlisted subsidiary, Mondi Paper Company, is embarking on a R110 million afforestation programme to meet South Africa's timber demand, which is expected to rise by over 60 percent over the next 20 years.

The project centres around the development of 60 000 hectares of land in the Eastern Cape, near the Transkei border, and could create 1 500 jobs for the region.

Mondi's parent companies, Anglo American and De Beers, are financing the project, which also includes an extensive environmental impact study, preceeding the afforestation.

After having established the development area, Mondi hopes that it can convince farmers in surrounding areas to grow timber and will offer an extensive range of technical and financial assistance scheme to promote this second phase of the project.

While the long-term outlook for the domestic paper markets remains strong, the local markets are this year showing the effect of the recent interest rate hikes and there was a tendency to reduce inventories, which has reduced demand in the past two months, Mr Tom de Beer, chairman of Sappi, Mondi's major competitor, said yesterday.

However, export markets in general remain buoyant although the prices of newsprint have dropped and are expected to remain under pressure for the next two years, Mr De Beer told shareholders at the annual general meeting.

"On the international market the stocks of bleached pulps remain low and demand should remain strong through till 1991 when a considerable new capacity will come onto the market.

"However, the current strength of the dollar against all other currencies is likely to depress dollar prices, although prices of pulp as measured against a basket of currencies could rise modestly."

Mr De Beer told shareholders that all Sappi's mills were operating well and Saiccor had increased its output significantly compared to that attained in the past 24 months.

On the acquisition of the shares in the Usutu Pulp Company, Mr De Beer reported that discussions with the Swaziland Government were again held during may, and Sappi expects the final decision of the Swaziland Government on this transaction in in the near future.

Mondi in R110m timber expansion

BIDay 4/7/89. (194)

ZILLA EFRAT

MONDI Paper Company is embarking on a R110m afforestation project to develop 60 000ha of timber in the eastern Cape.

The programme will be implemented over the next seven years and reflects Mondi's commitment to help meet SA's timber demand, which is expected to rise by almost 60% over the next 20 years, the company says.

The long-term project will be financed by the Anglo American Corporation and De Beers Consolidated Mines.

The area concerned is in the Ugie, Maclear and Elliot districts — close to the Transkei border and north-east of Queenstown. The project is expected to create about 1 500 new jobs and substantially increase spending power in the local communities.

Mondi executive chairman Tony Trahar says company policy is to support local suppliers of goods and services.

Having established a substantial base for the first phase of forestry development, Mondi will seek opportunities for further expansion in association with the local farming communities, says Trahar.

Mondi's policy is to promote timber growing among farming neighbours, to whom it offers a comprehensive range of technical and financial assistance schemes.

Potential also exists for these co-operation schemes to be extended to Transkei.

Trahar says Mondi adopts a comprehensive environmental protection plan when undertaking afforestation projects.

A wide-ranging environmental impact study will be conducted in the area to identify ecosystems, biological communities and individual species that need to be safeguarded.

It will seek opportunities to register these with the National Heritage Programme.

DIAGONAL STREET by

Staple staples underpin Afcom

194

S/Times 16/7/89

MORE than 60 years ago Sidney Harrisberg came by a new-fangled gadget his father-in-law brought from America.

It was a stapler, and Sidney set about selling it. He left free samples at offices which insisted pins were good enough. Needless to say, the stapler became indispensible.

From those humble beginnings arose Afcom, whose turnover in the year to February 1989 was nearly R95-million. Profits were R8,3-million.

The late Mr Harrisberg's son Ronnie is chairman today.

He joined the company in 1948 and took the helm when his father died four years later. He sought other agencies in the stapling and packaging field, and it was not until the 1960s that a decision was taken to make staples in association with the Markwell company.

DIVERSE

From being an importer and distributor, Mr Harrisberg now aims to export Afcom's products.

Afcom occupies premises at City Deep, Johannesburg, and has branches in nine centres. It makes all sorts of packaging and securing items.

They include plastic straps, tapes, staples, nails, fasteners and insulation materials, and self-adhesive, plastic and metal labels.

The users are even more diverse. "Everybody can be our customers," says Mr Harrisberg, and he is not kidding.

The paltry staple is indispensible in the manufacture of everything from the cradle to the grave — pram and pushchair upholstery is stapled on, and so are coffin linings attached.

Staples are used to seal frozen-chicken wrappers, make furniture, car doors and aeroplane seats, television sets, footwear and much more.

The straps are used to seal boxes, cartons and pallets. Afcom imports and distributes the equipment which applies the straps. It used to distribute the straps too.

But there was a price war between suppliers and the quality of the products dropped. Afcom decided to make its own straps and installed the machinery to do it. Quality control is important because the machines jam if the width of the strap varies.

"We used to have a lot of complaints until we started to make our own. Now the customers are satisfied," says Mr Harrisberg.

Since listing after an offer of shares at 100c each in 1986 Afcom has made three acquisitions.

The first was IST, which makes woven polyester tapes used in binding and electrical insulation. Afcom distributed the tapes on behalf of IST, and it made sense to pull the businesses together. IST founder Cyril Biddlecombe joined the board of Afpac — Afcom's 69%-owned operating company.

The second was a manufacturer and distributor of pneumatic nailing systems such as used in wood-to-wood applications as well as housing and construction.

MERGED

The third was 70% of listed Pactape, from which Afpac was born when the businesses of Afcom's African Commerce Developing and Pactape's Buffalo Tapes were merged. Afcom owns 70% of Afpac as its sole investment.

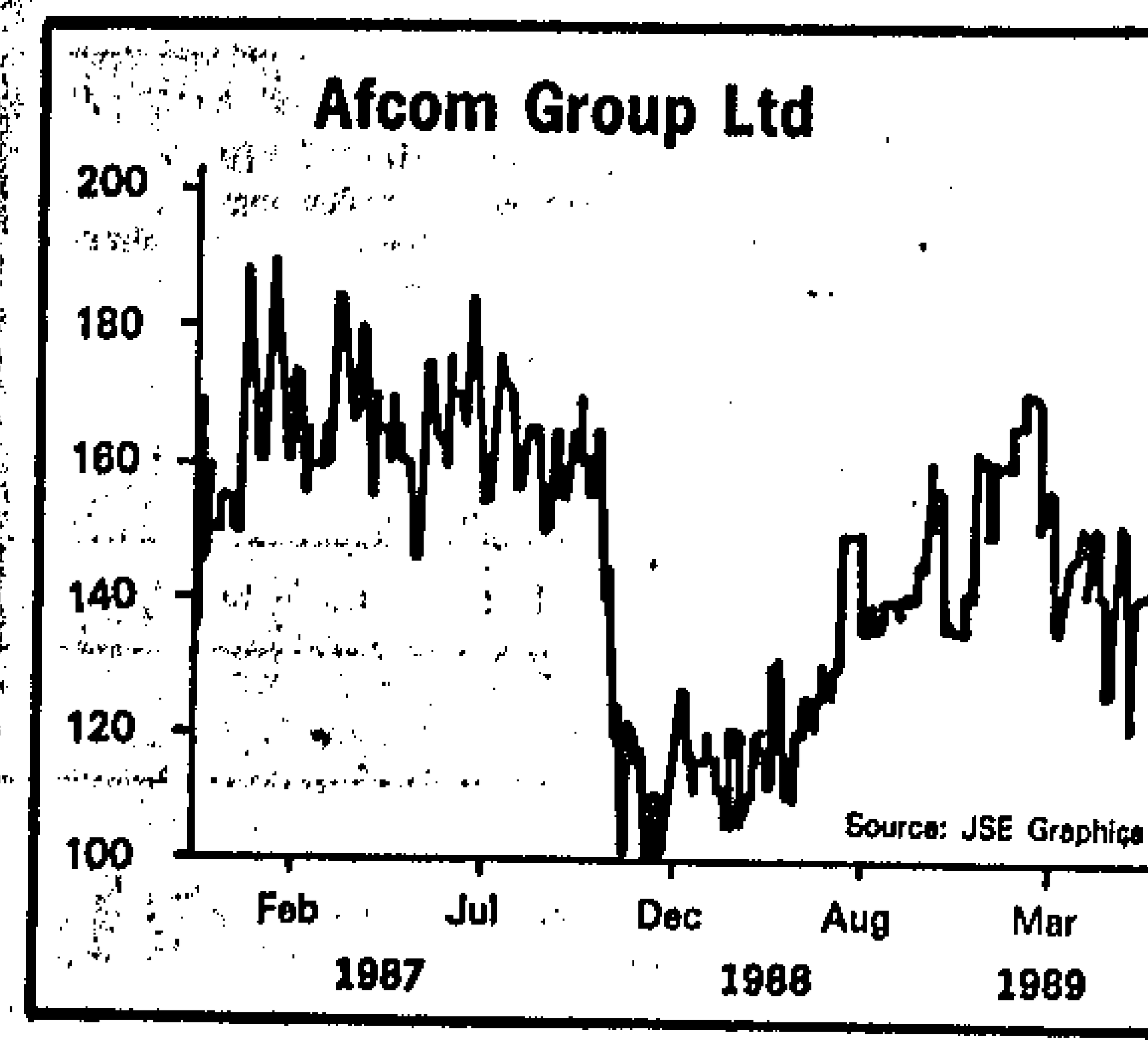
Buffalo did not achieve the profits its vendors forecast, partly due to intense competition. It makes Sellotape and tapes used in packaging, electrics and graphics. IST and Buffalo's businesses have been merged because they complement each other.

Afcom is expanding into additional premises across the road from the City Deep block, and intends to open a branch near Ladysmith. There is a small label factory in Bloemfontein.

Afcom's balance sheet looks sound, the shares are reasonably tradeable and about 18% is in the hands of institutions. It forecasts an increase in turnover of about 20% to R115-million for the current year, with profits to rise by about the same margin.

This could mean earnings a share of 29c, and the current price of 140c is less than five times forecast earnings.

I favour companies which actually make things instead of merely providing services, even though their profitability is traditionally lower than the profits made by distributors. Afcom looks solid and I like the shares.



Another for Lancl

S/Times

I HOPE that Lanchem — formerly the holding company of the doomed Triomf fertiliser company — will not inherit too many relics of the equally doomed Turf Holdings.

Last week it bought Monument Hardware, which belonged to Turf-associated Super National Corporation, for R200 000.

The seller was House of Investments, which owns 51% of Lanchem. One of its directors, Nic Deetlefs, was a board member at Turf.

Lanchem comprises the Garage Distributor group, which builds garages and does allied work, and the Henderson group, which makes sliding doors and security equipment.

Lanchem bought 26% of Industrial Investment Holdings (IIH) for R1-million, set-

Waltons bids run aground

(2093) (194)

S/Times 16/7/89

By Ian Smith

TOP company Waltons Stationery has hit a rough patch on its acquisition road.

A planned merger with Winky Ringo's Mathieson & Ashley group came to naught, a R36-million deal for the stationery operations of CTP Holdings has been stalled by a Competition Board investigation and protracted negotiations to buy the SA interests of the American 3M group have run into a brick wall.

Thoughts

The Minnesota-based company, No 34 in Fortune's 500 largest US industrial companies, is having second thoughts about disinvestment, according to US sources. Waltons managiong director Frank Robarts refuses to comment on the 3M talks.

The Competition Board's inquiry has led Waltons to withdraw its offer for CTP's stationery manufacturing interests, but it is going ahead with the purchase of stock and debtors of CTP's retailers.

Mr Robarts is confident that the company has a good case to put to the Competition Board.

"CTP came to us because their stationery side was losing R4-million to R5-million a year. If a deal had not been struck they would have been facing closure.

"Now their three factories are still operating and retailers have as much choice of supply as they ever had."

But if the factories are closed their choice will narrow.

Mr Robarts says the group's manufacturers deal even-handedly with independent retailers and the group's own retail outlets have no special buying advantage.

The terms of reference of the board investigation have been left wide so that other aspects of the stationery trade can be examined.

CIT- Times 17/7/87

(194)

Nampak, Metal Box open R80m plant

JOHANNESBURG. — The largest liquid packaging manufacturing plant in the southern hemisphere, the R80m Nampak/Metal Box Liquid Packaging operation at Isithebe was opened on Friday by KwaZulu's Chief Minister Mangosuthu Buthelezi.

The factory covers an area of 20 000 m² and can produce 1,5bn cartons a year.

The raw material, polyethylene-coated liquid packaging fibreboard, is currently all imported, but the company is working closely with SA paper manufacturers to obtain local supplies.

"We employ 300 local people and have delibertely opted for a labour intensive, as opposed to an automated plant to provide more employment in the area.

"We have also invested R600 000 in homes for our employees who live in Sundumbili," says Nampak deputy MD Peter Campbell. — Sapa

Waltons plans acquisitions

CAPE TIMES 25/7/89

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By BRUCE WILLAN.

IN spite of the slowing down of the economy, Waltons, the stationery giants are expecting a good year.

However, shareholders cannot expect an increase in earnings similar to the mammoth increase recorded in the last year.

The company is operating off an extrememly high base with turnover in the last financial year topping the R550m mark and according to MD Frank Robarts this figure is expected to be in the region of R650m for the current year.

At the annual general meeting yesterday chairman Maurice Parrington indicated there were possibilities of further acquisitions.

In an interview later he said that growth was expected to continue with a possibility of a better than average increase in the core business of stationery as the business world becomes more efficiency orientated with continuing computerization and more recording keeping.

In the past, doubts have been expressed about the ability of the Walton group to continue to improve its performance.

But it has consistently managed to do this each year with excellent results.

Robarts says that in the current year there should be an increase of about 25% in earnings after interest and tax, depending on the rate of interest and tax.

He added that he felt very positive that the group would be able to achieve good results.

In an effort to attain a better gearing Robarts said that a restructuring of Waltons would take place but declined to reveal any further details.

At present the group is trading ahead of budget and there is no reason to doubt that there will be another excellent return for investors in this company.

Aries group profits up marginally

(194)

ZILLA EFRAT

ARIES Packaging has achieved 11% growth in earnings for the six months to June with its volumes and margins coming under extreme pressure.

The Cape-based group achieved attributable profits of R674 000 (R605 000) and earnings of 6,1c (5,5c) a share.

An interim dividend of 2c (1,75c) a share was declared, with the dividend cover of 3,1 times being maintained.

MD Dieter Neckel says profit growth has come from improved productivity and strict control over expenses.

He says the prevailing team spirit enabled Aries to provide its customers with the most cost-effective solutions to their packaging requirements.

In January, the group made its foray out of Cape Town with the installation of a paper core and tubes plant in Germiston.

Neckel says various acquisition possibilities have been investigated, but the group is waiting for the right one to come along.

He says the second half of the year has traditionally shown an improvement over the first half.

In the light of a rapidly declining economy, directors do not foresee major improvements on the group's present profitability.

They are confident, however, that the trend shown during the first half of the year will be maintained and that the group will continue to show a moderate but steady improvement.

BDay 26/7/87

Afcom buys Jonrod for R4,5m

CHARLOTTE MATHEWS

RAPIDLY growing packaging group Afcom is increasing its family with today's announcement of the R4,5m purchase of Jonrod Manufacturing, a stationery supplies manufacturer.

Afcom, which was listed in 1986, is the holding company of Afpak, a manufacturer and supplier of packaging, stapling, fastening, insulation and adhesive tapes.

Jonrod runs a factory in Ezakheni, KwaZulu, where it makes rubber bands, punches, stamp pads, inks, adhesives, erasers and wood and metal products.

Its turnover for the year to June was R10m, with profits before tax of R1,5m, which are being guaranteed in terms of the agreement. Turnover of R13m for the current year is forecast.

Afcom and Pactape merged business interests in 1988 to form Afpak. This is the third Afcom acquisition since listing.

Afcom chairman Ronnie Harrisberg says: "The (Jonrod) acquisition will open new doors to the group in manufacturing and marketing. We will be able to rationalise part of our joint manufacturing operations on the Reef and in KwaZulu, and concentrate on new product development to facilitate import replacement."

The acquisition would not have a significant effect on the net asset value of Afcom or Afpak ordinary shares. Afcom was trading at 140c yesterday, having picked up from a 12-month low of 120c in June.

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COMPANIES

B/Day 26/7/89 (194)

Consol to carry goodwill in balance sheet

ZILLA EFRAT

CONSOL is to amend its accounting policy to take into account goodwill from its acquisition of Goodyear Tyres.

MD Piet Neethling says the group previously did not carry goodwill in its balance sheet, but wrote acquisitions off below the line as extraordinary items.

Consol says had the acquisition been in effect by December, goodwill would be computed at R76m.

If the goodwill were offset, the acquisition would have reduced the net tangible asset value of a Consol ordinary share at December by 36%.

Neethling says the net asset value was lower than the purchase price of R176m.

Goodyear's strong earnings, its trademarks and Consol's technical arrangements with its US parent justify retaining goodwill as an asset on the balance sheet for the year to June 1990, he says. The policy will be re-examined next year.

Consol intends to fund the acquisition through a R50m issue of redeemable preferences shares. The balance will come from internal cash resources.

The acquisition is expected to significantly enhance Consol's future earnings.

Had the acquisition been in effect by December, and taking into the account the April share split, Consol's earnings would have increased by about 21% from 92,5c to 111,9c a share.

After a circular showing Goodyear's distributable earnings history has been sent to shareholders in August, Consol will release a detailed analysis on the effects of the acquisition on the group.

Good paper flow boosts cash flow

ST Thurs 13/8/89

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OFFICE automation is not the only area in which new technology is playing a key role.

Franking, folding, inserting and shredding are using increasingly sophisticated equipment to cope with the explosion of paper generated by the modern office — notwithstanding predictions about the paperless office.

South Africa's franking business is put at R6-million a year. The three main players are Roneo, Hasler and Mathieson & Ashley.

It is a static market, but according to Math Ash, its new Francotype range is set to change that with a 35% to 40% share of all new machines.

Following up on this success, Math Ash has launched the heavy-duty electronic model.

Opportunities

A R5,5-million market niche, franking and inserting is also divided among three main players. They are Mailing & Mechanisation, Roneo and Math Ash. Volumes are low, but the unit price high at R30 000 to R200 000 each.

Math Ash re-entered the market in 1983, having identified a gap for products in the low to medium price range and general application sector.

According to the company, the new-generation Okafold products have opened upmarket opportunities for Math Ash, primarily in the public sector and among mailing houses and institutions, both leaders in the trends to direct response marketing.

Math Ash projects Okafold sales of R700 000 in 1989 and market penetration of 20%.

The R8-million-a-year market for shredders is split into two sectors — commercial and government.

The commercial market, estimated at R5-million a year, is said to be dominated by Math Ash, which claims a 25% share with its Eba shredders. Government and other sales take up the balance. Overall market growth is projected at 20% in 1989. Market growth is projected at 20% for 1989.

A small market sector is binders, scales and cheque signers. The Hall-Welter continuous-form cheque signer is an innovation for Math Ash, opening up market opportunites.

Math Ash is making a push in all these market areas, and hopes for growth of 80% in its paper management division in 1989.

Johannesburg sales manager Rolf Albrecht says: "We intend to provide total solutions. Customers are not interested in the products as such, but in how they will contribute to the overall performance of their business.

"We stress the fact that good paper flow enhances cash flow."

Paper use doubles every seven years

S/Times 13/8/87 (194)

LYNN WATNEY

OFFICE automation has vastly increased the efficiency of many businesses, but other problems have become apparent, among them the burgeoning amount of paper generated.

The amount of paper used in an average office doubles every seven years, although it is estimated that about 70% of it is never looked at again.

Because of the need for more information, staff complements often increase. But in real terms, producitivity is decreasing and administrative costs are soaring by up to 15% a year.

Pioneer

This is the view of of Lynn Watney, chief executive of Contract Interiors, a pioneer in office planning and design.

She says that although the computer has been an everyday part of office life for well over a decade, many people still fear high technology because their traditional environment seems threatened.

The automated office could cause more problems than it solves unless companies recognise the importance of redesigning the office to "make space" and to "humanise" surroundings.

"Office automation may drastically change people's jobs, but it must not be allowed to strip away their natural needs in the workplace, such as a certain amount of privacy, acceptable levels of noise and a pleasant temperature.

Contented

"The importance of providing a feeling of space and quality of life must not be underrated. Many workers spend a great part of their lives in the office and care must be taken to ensure that the environment is conducive to their working contentedly.

"It is essential, too, to get the design right the first time. Otherwise the office lay-out may have to be redesigned before the full benefits of automation can be obtained."

Ergonomics — the science of bringing together people and technology — can have a crucial effect on the efficiency of an office system.

Selection of the right sort of office furniture is important. Seating for secretaries, clerks and management must be chosen correctly. Desks and storage facilities must meet each user's needs.

Progress

"An analysis of office tasks and processes has to be undertaken before any real progress can be made in automating the office.

"Office automation can only work properly if the existing information flows have been carefully studied. The new systems should assist where help is most needed and where better or faster information will best benefit the organisation.

"The office must be designed with flexibility in mind to respond to change. The most crucial element is to bring about the maximum flow of communication and information."

Miss Watney says the change from the old, inefficient paper system to the sophisticated electronc signal has had a dramatic effect on speeding information storage, retrieval and transmission.

Inefficient

"However, companies should understand that an office must be designed to aid the accurate flow of information created by a complex interaction of people in order that the right business decision can be made.

"The aim of a design team is to assist management to attain its goals. Design must aid workflow, encourage communication, enhance the client experience of the company and control overhead costs by maximising the use of rented space.

"The goals of office automation and design are identical — to reduce costs and increase revenue and for maximum effect must focus on communication.

"Design and office automation must work hand in had and not be mutually exclusive."

The Star
Finance

Star 4/9/89

High-cost investments affect Waltons' results

Bottom Line
194
MICHAEL MENOF

Although the Competition Board's action in blocking Waltons agreement to buy the stationery interests of Caxton CTP Holdings might have alerted investors about what Waltons was up to, the latest annual report is more revealing.

Directors control 35 percent of the group and I wonder what the remaining shareholders feel about the investment decisions featured in the 1989 annual report.

The Ozalid deal cost a cool R46 million, which included goodwill of R19,73 million and trade marks worth R4,5 million.

Management then realised its previous accounting policy of writing off goodwill would have made a dent in the 1989 income statement.

So the accounting policy was reversed — goodwill was not written off, making 1989's bottom line look more impressive.

Holding company

Debt has risen an alarming 250 percent to R158,2 million (1988: R45,5 million).

Chairman JM Parrington says this is only temporary and shareholders should be not concerned.

Interest-bearing debt to equity is now 134 percent (52 percent).

In addition, guarantees by the holding company have shot up to R99,1 million (R18,43 million), along with contingent liabilities R24,03 million (R1,75 million).

Next, there is a major investment in producing feature films that are marketed overseas. Why is a stationery group making movies?

The investments were written off in full in 1989 because of the uncertainty of the timing of the receipt of income.

The movie loss of R13,12 million, along with another tax gimmick — Contributions to Lessor Trusts — of R1,21 million, was buried with the tax charge of R24,09 million (R22,29 million).

Subsidiary, Reggies Toys, reported disappointing results — poor working capital management, particularly stock control and low performance of some manufaacturing divisions acquired during the year are the reasons given.

The 30,4 percent investment in listed Lithosaver Systems costing R9,53 million failed to meet expectations.

Year-end stocks have almost doubled to R148 million (R78,65 million) — the increased volume of turnover had a detrimental effect on stock management.

Speculation by others

A lower stock turnover ratio, stockpiling imported lines and the weak rand are further reasons.

With all the above, it is not surprising that Waltons has been the subject of frequent financial press speculation regarding its various mergers and acquisitions.

Yet Mr Parrington advises shareholders to be wary of speculation by others.

I agree, but shareholders should also question management's acquisitions.

With high interest rates, debt of more than R150 million and high year-end stock, imagine the future effect on the bottom line.

Sales rose to R547,93 million (R329,65 million), with pre-interest operating income at R85,57 million (R55,69 million).

Interest was sharply higher at R17,84 million (R2,25 million).

Operating income as a percentage of sales declined to 12,4 percent (16,2 percent).

After tax, insignificant income from an associate, outside shareholders' share of profit, net income totalled R35,81 million (R24,44 million).

With no goodwill written off, the extraordinary item was a R887 000 gain (R2,32 million loss), giving a bottom line of R36,7 million (R22,12 million).

Earnings per share were 55c (39c). The annual dividend was increased to 18c (13c).

Exactly who receives the consulting fees of R1,82 million (R92 000) and tax-free restraint-of-trade payments of R2,03 million is not disclosed. No divisional results are shown.

The stationery division increased market share (by how much, one wonders?) and traded well ahead of budgets.

Why Reggies' salient features deserved a quarter of the chairman's report is unclear.

The strange film-making losses didn't even warrant a comment.

It would have been interesting to know the titles of these films and where in the world they were shown.

Fancy footwork

Surely they earned some foreign exchange, otherwise why were millions spent on them and suddenly written off?.

It was nothing more than fancy footwork the way the write-off was buried with the tax charge and the goodwill accounting policy changed.

Total shareholders' interest increased to R113,5 million (R78,9 million) at end-February 1989.

This was helped by writing off the intangibles — goodwill and trade marks totalling R24,9 million.

Debt is disturbingly high and although working capital improved to R130,6 million (R66,3 million), it includes substantial stocks of R148 million (R78,7 million).

With sales exceeding the half-billion mark, management warns that increases of the past will be difficult to achieve. A further improvement in 1990 is expected.

With a net asset value of only 138c per share, a low dividend yield and current JSE price of more than 600c, the market is rating Waltons highly.

But it's worth remembering that directors control 35 percent of the group.

Management is riding high and hopefuly has its finger on the pulse in a declining economy.

Waltons may have monopolistic tendencies, but it has nowhere near the cement cartel's power which, strangely, has Competition Board backing.

COMPANIES

Kohler has it wrapped up as share price beats 2 000c

ANALYSIS
STEPHEN RICHTER

KOHLER has been an extremely strong performer within the paper and packaging sector. The continuous buying pressure finally pushed the share price above its 1987 peak of 2 000c last week.

Kohler has recovered smartly since experiencing difficulties during 1985 which caused earnings to slip into the red. At that time, borrowings as a percentage of permanent capital stood at 107%, which translated into prohibitive financing costs of R24,2m, compared to operating profit of only R11m. But in the following year, financing costs declined by more than 50% to R11m and this factor helped Kohler to again generate respectable bottom-line profits.


● WILLIS

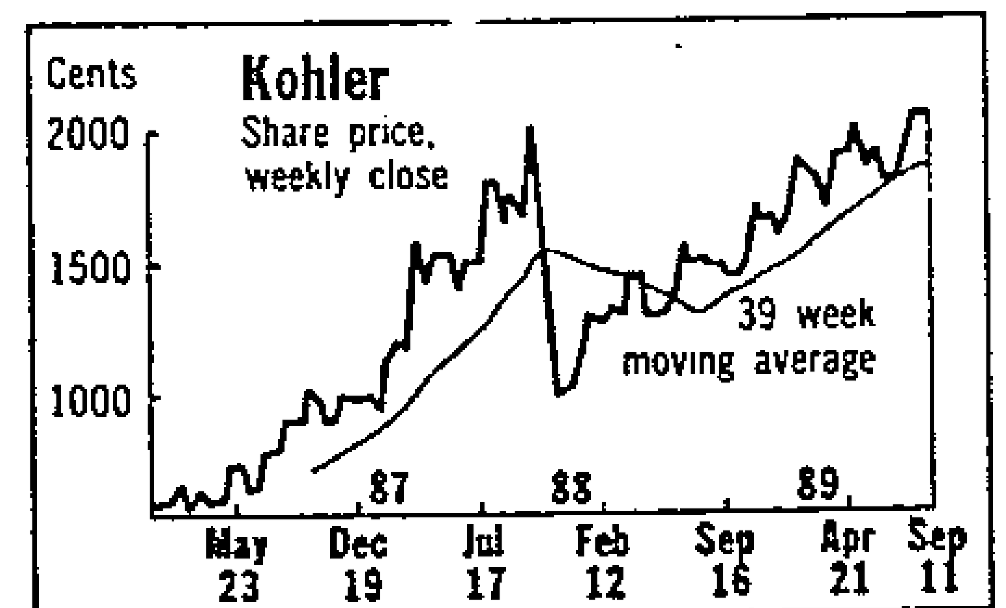
Kohler is divided into seven major divisions — corrugated cardboard, flexible packaging, carton and print, rigid plastics, general packaging, multiwall sacks, and styrene and pulp. Most have performed satisfactorily during the past few years with the exception of rigid plastics.

The rigid plastics activity has been plagued by periodic shortages of raw materials. In addition, margins have narrowed significantly over the past few years as Kohler has been unable to raise prices to keep in step with the upward pressure on raw material costs.

Acquisition

Kohler began to correct this situation by breaking down the large factories into smaller, more focused units. But management indicates that complications related to the relocation of old equipment have continued to plague this division's performance during financial 1989. Although these difficulties have finally been resolved, the rigid plastics activity will only contribute to Kohler's profitability during financial 1990.

One of the wise steps Kohler took in early 1987 was its acquisition of Bakke. Bakke falls under the styrene and pulp division and has shown superior growth, to become Kohler's strongest performer. Bakke is a major beneficiary of the consumer's increasing preference for fast foods and provides a vast array of polystyrene containers for this purpose. In addition, Bakke supplies these containers for the packaging of chicken, meat and eggs and has grabbed a major market share in this area.



Graphic: FIONA KIRSCH Source: JSE

There is some market speculation that Kohler and Malbak's recent acquisition, MY Holdings, will be involved in some form of tie-up. At present, Kohler's chairman Ian Willis is overseas and has assumed the position of MY Holdings' MD in a temporary capacity.

But MY is a considerably smaller operation than Kohler and consequently it is highly unlikely that there will be a marriage between the two groups. Kohler has well established overseas sources supplying the group with the latest technological developments, and therefore MY would add little to Kohler's knowledge with regard to this specific area.

Kohler's latest interim report, covering the six months ended February 1989, indicates that operating margins advanced to 10,4% from only 7,7% at the end of financial 1988. This momentum should continue as margins are expected to widen further when results covering the 12 months to end-August are finally released.

At the interim stage, it appeared that Kohler was on target to earn 300c for financial 1989. But tough economic conditions due to abnormally high interest rates may cause Kohler's results to fall a shade short of this target.

Prospects

Nevertheless, Kohler should earn at least 290c, and with dividend cover expected to be approximately 2,75 times earnings, a total payout of 105c seems within reason. Based on Kohler's latest price of 2 050c, this would rate the share on a forward earnings and dividend yield of 14,1% and 5,1% respectively.

In spite of yesterday's weak market, Kohler is holding up relatively well as investors continue to rerate the share. Because of its widening margins and exciting growth prospects, Kohler appears to continue to offer value at current levels.

COMPANIES

Sunpak well positioned to see future growth

B/Day 14/9/89.

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ANALYSIS
STEPHEN RICHTER

SUN Packaging (Sunpak) has been under-performing the JSE industrial index since the beginning of the year due to disappointing interim results. But Sunpak is well positioned to take advantage of future growth prospects, which should restore investor confidence in the share.

Sunpak is due to release results shortly for the year ended August. During financial 1988, earnings a share jumped by 78% to 18,0c, compared with 10,1c for the previous financial year. Dividends advanced by a similar percentage to 9c from 5c.

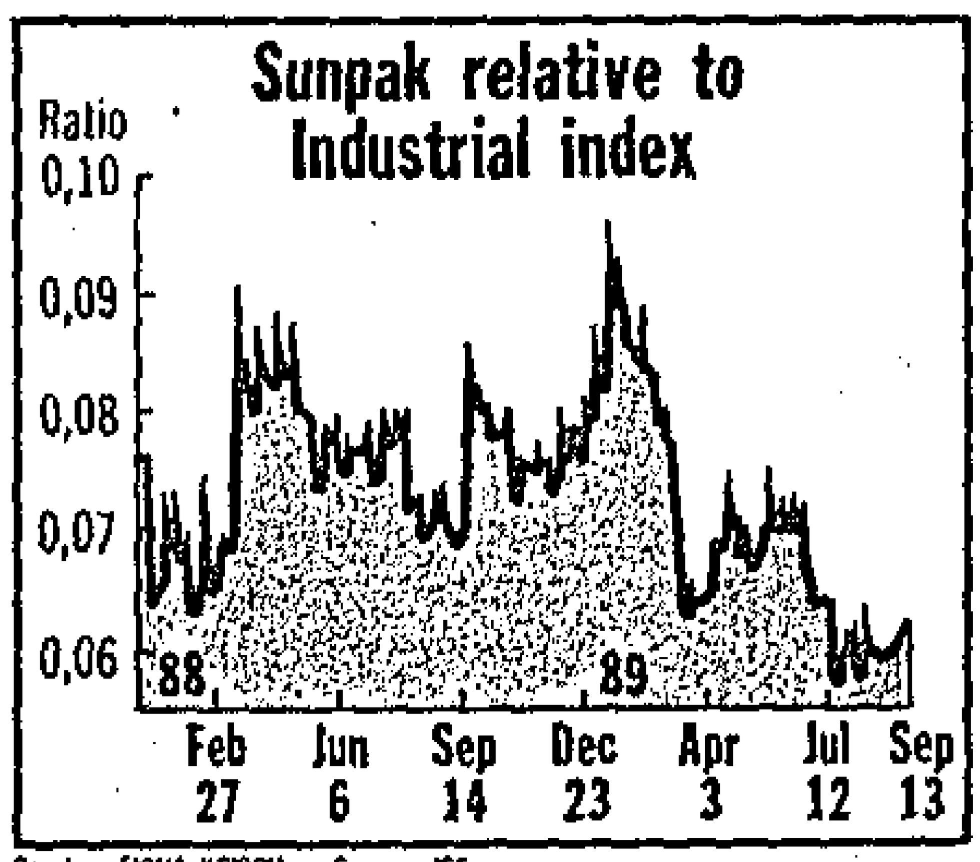
When financial 1988 results were published, shareholders were told that earnings could reach 25c for the year to end-August of this year. But the directors quickly changed their mind at the interim stage and reduced their financial 1989 forecast by 5c to 20c a share.

Their decision was prompted by a sharply reduced interim after-tax increase of only 10% to R3m from R2,7m. This translated into earnings per share of 7,4c (6,7c). Operating income within the food tray division increased by 40%.

But Sunpak blamed unforeseen political circumstances for delaying delivery of key capital equipment. This had a major impact on profitability within the label and laminated food tray operations.

Judging by the action of the relative strength ratio, which has reached its lowest level for at least the past 21 months, Sunpak would appear to be in serious trouble. However, by taking a closer look at future prospects, *Sunpak is involved in exciting areas of operation which deserve a closer look.*

Sunpak *is conscious of the negative effect*



Graphic: FIONA KRISCH Source: JSE

chlorofluorocarbons (CFC) are having on the earth's ozone layer. Consequently, the group is converting its production lines to manufacture products made from CFC-free blowing agents, with this project due for completion by November.

The food tray division is expected to continue to produce excellent growth as the use of this product is gaining momentum among consumers. The group's FOAMTEK Synthetic Papers and Labels operation is producing technologically advanced items that have proved so successful a second production line was needed to cope with demand.

A *new decorative display* and colourful merchandising packaging system known as FPCO was licensed. FPCO has proved extremely successful overseas and this appears to be the case in SA as well. But the problems with the delivery of equipment have delayed the full impact of both the FOAMTEK and *FPCO operations on Sunpak's bottom line to financial 1990.*

To provide the necessary funds to finance this expansion, Sunpak recently raised R16m through a rights issue which also put downward pressure on the share price. But the fact that a significant portion of Sunpak's production is labelled for the the export market should be an encouraging sign for investors.

Genuine bargain

Management has set a goal of achieving average annual earnings growth far in excess of inflation, which was almost impossible to reach during financial *1989*, because of the various problems which arose in that year. But now that most of these difficulties seem to be behind the group, earnings should again *grow at a respectable rate.*

Therefore, once investors begin to focus on Sunpak's future growth potential, yesterday's closing price of 170c should turn out to be a genuine bargain.

Growth limited to 14% at Sunpack

ZILLA EFRAT

194

START-UP costs of new plant and high raw material prices limited Sun Packaging Holdings' growth in earnings to 14% in the year to August.

Attributable earnings rose to R8,2m (R7,2m). Earnings of 20,5c (18c) a share were slightly up on the forecast of 20c at the interim stage.

A dividend of 10c (9c) a share has been declared. B/Day 15/9/87

While no turnover figures have been provided, operating profits increased a mere 3% to R11,3m (R11).

Chairman Tubby Gericke says margins remained under pressure because of high raw material costs, but expects prices to ease in the second half of 1988.

While the interest bill almost doubled to R609 000 (R316 000), the tax rate fell to 22,8% (31,9%) after benefiting from export and plant allowances.

Start up expenses of new plants were high and their installation was delayed.

Gericke says product development and improvement has been expensive.

The group made large royalty payments, including a lump sum and a percentage of future sales, for the use of Japanese technology.

Large amounts were spent on developing international markets. Exports have grown significantly and should continue to do so.

The group's current liabilities include R2,5m in plant purchases which will be financed by long term debt when paid.

Its interest bearing debt to equity rose to 44% (15,8%). However, the recent rights issue, which raised R16m, will reduce this to 21%, says Gericke.

He says the infrastructure for future growth has been laid and sales and profitability is expected to rise without an increase in overheads.

Gericke forecasts an increase in earnings of 50% for the current year resulting in earnings of 23c a share, based on the increased share capital.

Steady improvement seen in second half

Sappi shows 49% earnings growth

CMC Times 19/9/89 194

Own Correspondent

JOHANNESBURG. — Paper and pulp giant Sappi has achieved a 49% growth in net earnings in the six months to August, and a steady improvement is expected in the second half of this financial year.

The interim results follow the annualised 97% increase in net earnings in the 14 months ended August 1989.

The group, which grew significantly last year through the acquisition of Saiccor, has increased its earnings by 33% to 315c (237c) a share on an increased number of shares in issue.

Dividend

An interim dividend of 80c (55c) has been declared, up 45% and covered 3,9 times.

MD Eugene van As says demand has remained strong in world markets for Sappi's products, except for newsprint.

In the domestic market, demand for fine papers was poor as merchants adjusted stocks downwards, but there was a return to normal levels of trading in August and September.

In the commodity products, demand has held up well in spite of the dampening economic measures taken by government, says Van As.

Looking ahead, he expects Sappi's earnings to show a steady improvement in the second half of the current year.

The final rectification work to mend the damage done by the explosion at the Ngodwana mill over a year ago was completed in the first half.

The dollar should be strong in the second half and this means the average realisation in third currencies could still be significantly better than last year.

Van As says the international dollar prices for most Sappi products should stabilise. However, a small decline can be expected in pulp prices which have probably passed their peak.

In the longer term, the world economies represent a major factor in Sappi's export business and the instability of currencies makes it difficult to predict earnings.

However, Van As is confident that demand for pulp and paper products will grow and that the excess supply in newsprint will be mopped up within the next year.

He says Sappi is a low cost producer and is, therefore, in a strong position to compete in all the markets in which it operates.

As Sappi changed its year-end from December to February, the company has provided pro forma figures for the six months to August 1988 making comparison more meaningfull.

On a turnover growth of 34% to R1,4bn (R1bn), operating profits jumped 44% to R383m (R267m). This gives the group an operating margin of 28%, up from the pro forma 26% for the comparable period.

Finance costs

Net finance costs increased significantly to R88,4m (R46,7m).

If dividend payment on preference shares in wholly-owned subsidiaries are included, the net finance costs rose by 60% over the pro froma figure.

Van As says this is because of significantly higher interest rates, the redemption of prefs in Sappi and a general tendency for customers to forego prompt payment discounts in favour of of longer credit terms.

The groups tax rate remains low because of assessed losses brought forward and the continuing high level of capital expenditure. This resulted in Sappi's net income soaring to R292,7m (R196,2m).

Ruhold fights its way back to be a key player

B/Day 25/9/89

EDWARD WEST

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RUBENSTEIN Holdings chairman Jeff Rubenstein has been back in business for three years, fighting to regain lost market share after selling the first packaging business to a main competitor eight years ago — and he is winning.

In the years before Ruhold's relaunch into the R150m plastic packaging industry, the market was dominated by one player, Nampak, the company Rubenstein was to regret selling his previous business.

Now, three years after its relaunch, the plasticsdivision can boast major inroads into its competitors markets.

In the R150m market, Ruhold achieved a turnover of about R60m last year, Rubenstein told a Press conference last week. It had now thrust itself into the highly competitive retail plastic packaging market.

Two plants

It supplies 50% of Pick & Pay's plastic bags, 65% of OK's bags, 45% of Checkers' bags, 35% of Woolworths bags, a large percentage of the wholesale market that distributes bags and a percentage of the industrial plastic market.

The supply contracts are renewable annually. Situated in KwaNdebele, Ruhold has two plants in its plastic division, Transpoly and Recyco. Transpoly manufactures plastic bags, producing around 1 200 tons of plastic a month. Recyco recycles old plastic bags, providing raw material for Transpoly.

The group was expecting earnings growth of not less than 20% this year, Rubenstein said. More plant equipment was on its way to increase production in the plastics division.

Ruhold intended listing both the plastics and the finance divisions in the long term. However, the group needed recapitalisation and a rights issue to the value of around R20m might be in the pipeline, he said. Either a rights issue or new partner with sound financial backing would be included in the company, he said.

The group's shares are presently trading at a premium at 135c a share.

Kohler achieves growth in earnings despite odds

B/Day 4/10/89. (194)

ZILLA EFRAT

PACKAGING group Kohler achieved a 21% growth in earnings in the year to August in spite of an easing of consumer spending and de-stocking in the manufacturing and retail sectors.

And as part of the regrouping of Malbak's paper and packaging interests, Graphtec, Carlcor and Wiggens Teape will become subsidiaries of Kohler, which will be renamed Holdains.

Kohler's profits rose to R48m (R40m). A dividend of 100c (90c) a share has been declared, up 11% and covered 3,3 times.

Directors say all the group's divisions, except Plastics which was affected by restructuring, produced higher volumes resulting in an overall real growth of 5%.

Turnover rose 27% to R982,7m (R774,6m) with acquisitions contributing 5%. With operating margins improving to 9% (7,7%), operating profits increased 48% to R88,6m (R59,7m).

Directors say this growth, attributable to higher volumes, acquisitions and other income earned, was partly offset by start-up costs of the Springs corrugated plant and rationalisation costs in the plastics division.

Higher borrowing levels and increased interest rates pushed the interest bill up 108% to R21,3m (R10,2m).

As Kohler changed its basis for accounting for deferred tax from the comprehensive method to the partial method, the tax rate fell by R13m (R4,6m).

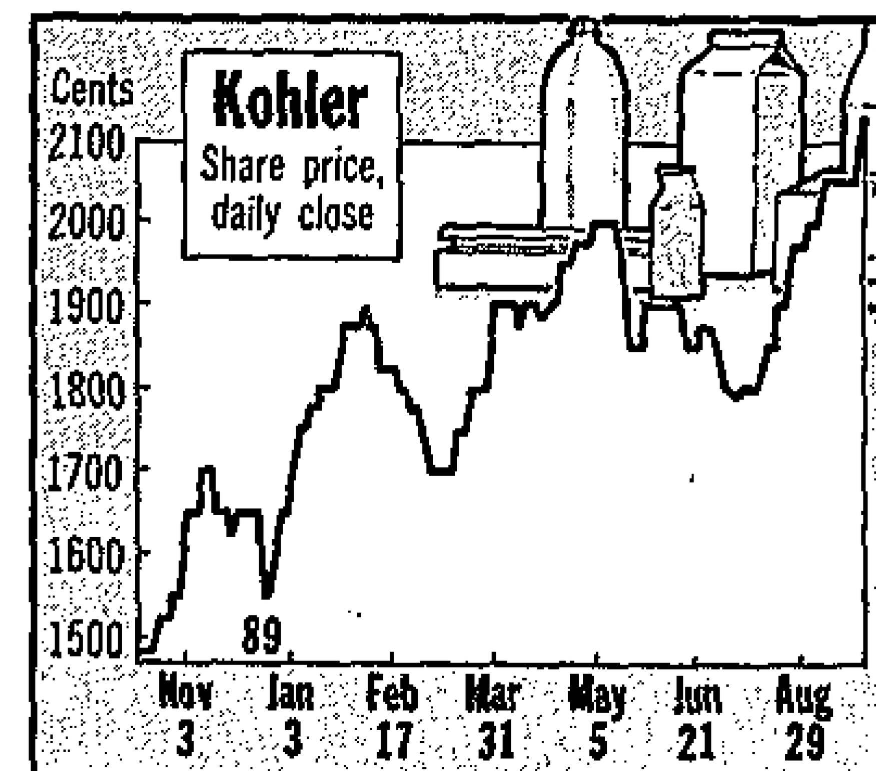
However, because the amount of R6,5m is considered to be of a non-recurring nature, it has been transferred to reserves.

Earnings of 325c (283,1c) a share were reported after this transfer. Directors believe they represent the sustainable earnings level of the company for the year.

Interest bearing debt was 32% higher at R96,9m (R73,6m) to finance growth in working capital, acquisitions and expenditure on plant and equipment of R56,7m.

Kohler's acquisitions during the year — Smith Directory Investments, Photoflex Packaging and Printing and Spinelli Corpak — all contributed to its growth.

In line with Kohler's policy to concentrate on its core businesses with significant market share, it sold its Drums operations and some of Safepak/Versapak's strategic business units.



Graphic: FIONA KRISCH Source: JSE

Directors say economic uncertainty lies ahead because of the need to curb inflation and expect interest rates to remain high for at least the next year.

As a result, increased competition will affect margins while the weak rand will increase the cost of imported raw materials and equipment. However, directors say investment in modern plant and equipment will enable the group to grow further.

Companies report good results ahead of merger

STAR 4/10/89 (1989)

Finance Staff

Both Kohler and Graphtec reported good results in their financial years to end-August, ahead of the restructuring of Malbak's paper and packaging interests announced yesterday.

Kohler's attributable earnings of R48 million were 21 percent ahead of last year and translated to earnings per share of 325c (283,1c).

A total dividend of 100c (90c) was declared.

The group's turnover rose by 27 percent to R983 million (R775 million) and operating income by 48 percent to R88,6 million (R59,7 million), after profit margins improved from 7,7 to nine percent.

The group has changed the basis of accounting for deferred taxation from the comprehensive method to the partial method in accordance with a decision taken by Malbak.

Taxation was R10,31 million (R7,77 million)

The new deferred tax reduced payments by R13 million. The directors consider, however, that R6,5 million of this is of a non-recurring nature and has accordingly been transferred to non-distributable reserves.

Earnings per share fairly represent the sustainable earnings level of the group for the 1989 financial year, the directors state and had the fully comprehensive basis of providing for deferred tax been applied, earnings per share would have increased by 12 percent to 280,7c.

Commenting on the results, chief executive Derrick Minnie said that growth in turnover had shown a five percent increase in real terms. He said that all operating divisions, with the exception of plastics, which had undergone a comprehensive restructuring during the year, had recorded increased volumes.

Graphtec's turnover was up by 24,8 percent to R395,4 million (R317,2 million) for the year, resulting in a 25,3 percent increase in attributable income to R14,2 million (R11,3 million).

Earnings per share were accordingly higher at 288c (239c), while the total dividend for the year was raised by 17,9 percent to 92c (78c).

This was achieved despite a 125,6 percent increase in interest charges to R8,9 million (R3,9 million) and a higher tax bill of R12,1 million (R10,8 million).

4/10/89

STAR

194

The Star
Finance

Kohler forms R2-bn packaging group

By Ann Crotty

Kohler is to become the holding company for the paper and packaging interests of Malbak. The giant so created will have annual sales of R1,8 billion and a market capitalisation of almost R500 million. It is to be named Holdains.

The deal will bring together all of Malbak's paper and packaging interests, which are 74,5 percent of Kohler, 70,9 percent of Graphtec (formerly Haddons), 100 percent of Wiggins Teape and a 41,8 percent stake in Carlton Paper.

Malbak executive chairman Grant Thomas said yesterday the merger had two objectives: "to realise the full synergistic potential inherent in these closely related businesses and to advance Malbak's aim of sharpening its focus by consolidating all its interests together in strong, cohesive and clearly defined listed entities".

He said the enlarged entity would offer the market a more attractive investment opportunity than any of its constituent parts.

This was chiefly because Holdains would have a wide spread of activities within the paper and packaging industry, unlike, for example, Kohler, which was heavily exposed to plastics packaging.

The cut-throat nature of the plastics sector is reflected in the market's comparatively low rating of Kohler. Ahead of the results released today it was on an historic P/E rating of 7,8 times. On the basis of financial 1989, the share is on a P/E of 6,3.

By contrast, Nampak, which has a much wider spread of interests in the same industry, enjoys a P/E of 10 times.

Another factor which should help to lift the rating of Holdains is that Malbak will reduce its initial 77,6 percent stake to 68,6 percent. This involves placing 2 million shares with institutions and other investors.

The added benefit of the sale is that it generates income for Malbak, which is currently on a fairly active acquisition trail.

Kohler/Holdains will issue shares to pay for the acquisition of the other three companies.

It will issue 2,3 million shares in exchange for the 6,6 million Carlcor shares held by Malbak. Carlcor's current market price is 750c — it is on a P/E of 7,8 times. The 6,6 million Carlcor shares are valued at R49,5 million (R48,3 million for 2,3 million Kohler/Holdains at R21).

Wiggins will be acquired in exchange for the issue of 0,85 million Kohler/Holdain shares.

The exchange of Kohler/Holdain shares for Graphtec was effected on the basis of the relative earnings performances of the two companies. Some 87 Kohler/Holdain shares will be exchanged for every 100 Graphtec shares.

At yesterday's prices, 100 Graphtec were valued at R1 550 and 87 Kohler/Holdains at R1 827.

Figures for financial 1989 show Graphtec earnings at 288c, compared with Kohler's 325c.

After these transactions, the number of Kohler/Holdains shares in issue will rise from 14,8 million to 22,5 million.

Assuming the Graphtec minorities agree to the scheme, the new giant will comprise 100 percent of Kohler, 100 percent of Graphtec, 100 percent of Wiggins and 41,8 percent of Carlcor.

Based on the consolidated 1989 results, the new group would have produced earnings of about R72 million and would have paid a dividend of 106c.

The earnings figures is equivalent to 320c a share on the much larger share base. This is 5c lower than that actually achieved by Kohler and reflects the impact of the acquisition of Carlcor on a P/E of 7,8 times.

If the market is persuaded of the attractions of the enlarged group and pushes the rating of Kohler/ Holdains to around 10 times (historic), there is scope for the share to move well above its current R21.

Malbak move creates a R1,8bn paper giant

BD 4/10/89 (194)

BRENT MELVILLE

MALBAK is merging its paper and packaging interests under one banner, creating a company with a market value of R500m and listing it second in size only to Nampak.

The new company — Holdains — will be worth R1,8bn in sales.

Executive chairman Grant Thomas said the move, announced yesterday, was designed to make Malbak's stake in the "paper chase" a more attractive proposition to institutional investors.

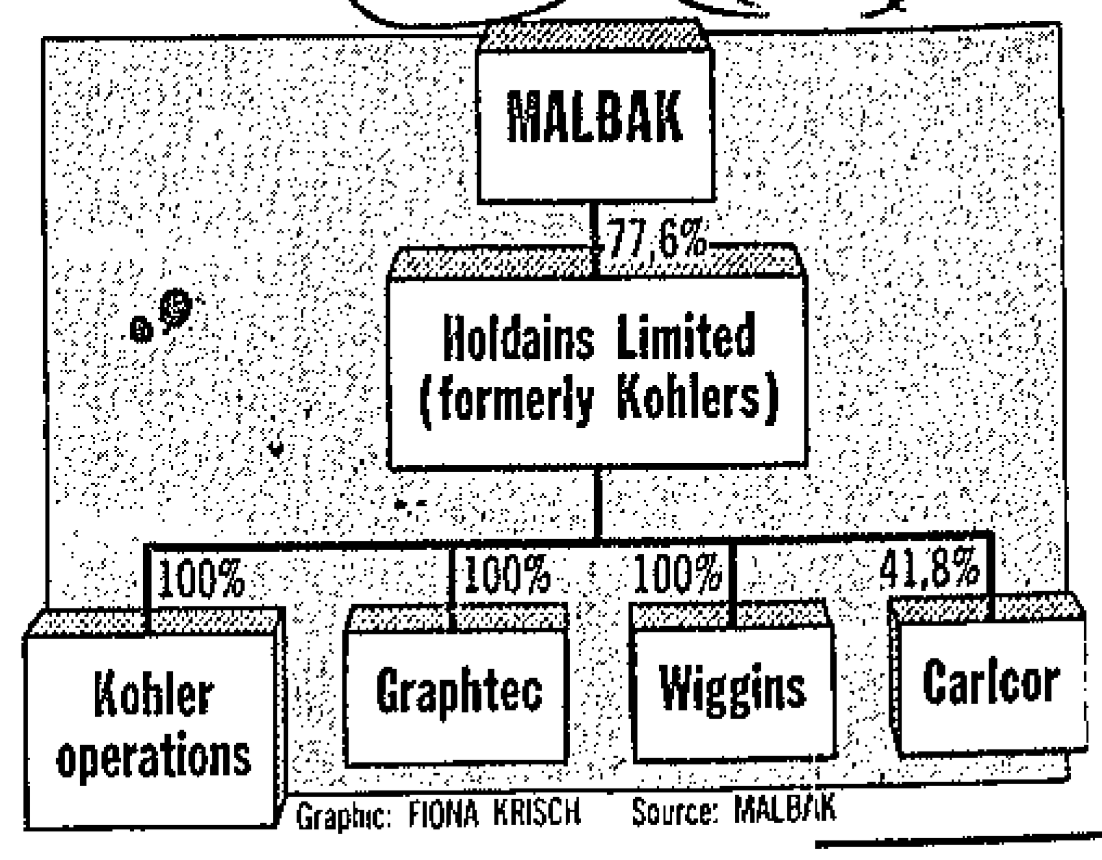
Malbak's interests in the sector include 74,5% of paper and plastic packaging group Kohler, 70,9% of paper merchant Graphtec, 41,8% of tissue manufacturer Carlcor and 100% of non-listed paper merchant Wiggins Teape.

The reorganisation, which effectively moves Graphtec, Carlcor and Wiggins into Kohler — to be renamed Holdains — will result in a 77,6% holding by Malbak.

Directors plan to reduce this stake to 68,6% by making 2-million shares available.

In terms of the arrangement Holdains is to acquire Malbak's interest in Graphtec at a ratio of 87 Kohler shares for every 100 of Graphtecs. Graphtec will be delisted following the successful implementation of the scheme.

☐ To Page 2



Graphic: FIONA KRISCH Source: MALBAK

Paper giant

BD 4/10/89 (194)

☐ From Page 1

Kohler closed yesterday at R21,25 and Graphtec at R15,50 — translating into an offer to Graphtec minority shareholders 300c above the prevailing market value.

If the reorganisation had been in effect for the year ended August, Kohler's sustainable earnings of 325c a share would have decreased slightly to 318c, with a trade-off in dividends which would have increased to 106c (100c).

Graphtec's weighted earnings would have dropped to 277c (288c) a share with no change in the total dividend of 92c.

The new Kohler shares will rank pari passu with the existing ordinary shares, although holders will not be entitled to the final dividend declared by Kohler of 58c. They are, however, entitled to the 52c final dividend announced by Graphtec.

Holdains will acquire Malbak's 100% holding in Wiggins for 850 000 new shares and its interest in Carlcor for 2,5-million shares.

● See Page 10

Graphtec, Carlcor, Wiggins move into Kohler

Malbak forms new giant

Cape Times 4/10/89

Own Correspondent

JOHANNESBURG. — Malbak is to group together its paper and packaging interests under one banner, creating an entity worth R1,8bn in sales and market valued at R500m.

The move, announced yesterday, is designed to make Malbak's stake in the paper chase a more attractive proposition to institutional investors, said executive chairman Grant Thomas.

Malbak's interests in the sector include 74,5% of paper and plastic packaging group Kohler, 70,9% of paper merchant Graphtec, 41,8% of tissue manufacturers Carlcor and 100% of non-listed paper merchant Wiggins Teape.

The re-organisation, which effectively moves Graphtec, Carlcor and Wiggins into Kohler — to be renamed Holdains — will result in a 77,6% holding by Malbak.

Directors plan to reduce this stake to 68,6% through the release of 2m shares onto the JSE.

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Holdains will acquire Malbak's 100% holding in Wiggins for 850 000 new shares and its interest in Carlcor for 2,5m shares.

US-based Kimberly-Clark will retain its 38,7% holding in Carlcor — which will remain listed.

Thomas said Malbak's relationship with Kimberly-Clark remained strong and said there were no plans by the US group to disinvest.

The manoeuvre is in line with Malbak's intention to consolidate its complementary businesses.

"The merger essentially has two objectives: we want to realise the full synergistic potential of the closely related businesses, and sharpen our focus together in one strong, cohesive and clearly defined listed entity," he said.

Kohler shows 21% earnings growth

Cape Times 4/10/89

Own Correspondent

JOHANNESBURG. — Packaging group Kohler achieved a 21% growth in earnings in the year to August in spite of an easing of consumer spending and de-stocking in the manufacturing and retail sectors.

And as part of the regrouping of Malbak's paper and packaging interests, Graphtec, Carlcor and Wiggens Teape will become subsidiaries of Kohler, which will be renamed Holdains.

Kohler's profits rose to R48m (R40m). A dividend of 100c (90c) a share has been declared, up 11% and covered 3,3 times.

Directors say all the group's divisions, except plastics which was affected by restructuring, produced higher volumes resulting in an overall real growth of 5%.

Turnover rose 27% to R982,7m (R774,6m) with acquisitions contributing 5%. With operating margins improving to 9% (7,7%), operating profits increased 48% to R88,6m (R59,7m).

Directors say this growth, attributable to higher volumes, acquisitions and other income earned, was partly offset by start up costs of the Springs corrugated plant and rationalisation costs in the plastics division.

Higher borrowing levels and increased interest rates pushed the interest bill up 108% to R21,3m (R10,2m).

As Kohler changed its basis for accounting for deferred tax from the comprehensive method to the partial method, the tax rate fell by R13m (R4,6m).

However, because the amount of R6,5m is considered to be of a non-recurring nature, it has been transferred to reserves.

Earnings of 325c (283,1c) a share were reported after this transfer.

Directors believe they represent the sustainable earnings level of the company for the year.

Interest bearing debt was 32% higher at R96,9m (R73,6m) to finance growth in working capital, acquisitions and expenditure on plant and equipment of R56,7m.

Kohler's acquisitions during the year — Smith Directory Investments, Photoflex Packaging and Printing and Spinelli Corpak — all contributed to its growth.

In line with Kohler's policy to concentrate on its core businesses with significant market share, it sold its drums operations and some of Safepak/Versapak's strategic business unit.

STAR 7/11/91

Effluent far above acceptable toxicity

Sappi has killed Mandini River, say local residents

(194)

Own Correspondent

DURBAN — The Mandini River in Zululand is dead, and residents say Sappi killed it.

They say the damage to the rivers in the Eastern Transvaal, where tons of fish died, is mild in comparison with what has been done to the Mandini River.

An investigation last week found that residents were critical of Sappi's "lack of responsibility to the environment" but that many kept quiet because of Sappi's huge influence as the major employer in the area.

The water below the Sappi outlet pipe was tested and found to register 37,3 deg C, too hot for any river life. The thick, brown, vile-smelling effluent was robbing the river of life-giving oxygen as it decomposed on its way to the Tugela.

When fish last swam in the river, Mandini was just a railway siding with a trading store. Then came Sappi, bringing employment and development to the area. But it also brought devastating water pollution and a terrible smell.

There is a high turnover of residents in the town, colloquially known as "The Smell" because of the pervading stink. Many people have left, believing that the incessant smoke from the Sappi factory is the cause of a high incidence of respiratory disease.

For the Tiede family, who used to live on the river bank, the odour was so unbearable that they moved to Zinkwazi and now commute to Mandini every day.

Mrs Patricia Tiede said: "The smell rises from the river in the late afternoon and gets into your house and doesn't get out until the next morning. It gets into everything — the furniture and your clothes all stink. People say you get used to it. But I don't know how anybody can."

She said her children were much healthier since they had left.

Quality of life

Another mother, who asked not to be identified because her husband works for the mill, said: "Sappi has been very good to us. I don't want to say anything bad about it. But it has destroyed our quality of life."

A local vet, Dr Margaret Hiza, said she and her two daughters suffered from allergic rhinitis which she believed was caused by the smoke.

Her husband, local farmer Dr Peter Ardington, said: "There have been no studies to prove the health risks. But if it makes your eyes smart, what is it doing to the lining of your lungs?"

Dr Ardington said there had been a spirit of friendly co-operation between the pollution control committee of the Mandini Town Board and Sappi but that this was in jeopardy as the company had failed to meet its two-year deadline for improving conditions.

He said there had not been an outcry when Sappi originally started "killing the river" because the residents of Mandini at that stage were mainly Sappi employees who feared being fired.

But this had changed with the growth of border industries at Isithebe and more than half the residents were now not employed by Sappi and did not owe any loyalty to it.

"The factory was started in non-environmentally conscious days. It had a permit to discharge effluent, using the limited technology that was available then," said Dr Ardington.

"It appears that the river was written off as an industrial sewer right from the start."

Survey results

Sappi is not the only industry polluting the area. The local sewage works and industries at Isithebe add their share of pollution to the river, but tests carried out by the town board show that Sappi is the major polluter.

Town clerk Mr Mike Press provided the latest survey results.

Above the outlet pipe, the amount of oxygen absorbed by pollution is 11,4 units. In the river below the pipe, the figure is 99. The maximum allowed by law is 10.

The chemical oxygen demand (the amount of oxygen consumed in digesting the organic material in the effluent) is 65 units. Below the pipe the reading is 429,8. The maximum allowed is 75.

Dr Allan Connell, marine biologist with the CSIR, said the best environmental solution was to treat the effluent until it would not do damage.

Now paper company is planning to dump waste in the Tugela

STAR 7/10/89 (194)

Own Correspondent

DURBAN — Sappi has planned a multimillion-rand pipeline to pump its waste away from the Mandini River — and dump it directly into the Tugela River instead.

The pulp and paper giant, the income of which after tax last year was R567 million, has decided against purifying its effluent to acceptable standards before discharging it.

A spokesman for Sappi, Mr Brian Stockton, said the mill had "clarified" effluent water for many years. This was monitored by Sappi and the Department of Water Affairs.

However, the department's deputy director of water quality, Mr Gottfried Grobbelaar, said the quality of the effluent was "shocking".

He said Sappi was exempt from the Water Act, which lays down standards for effluent.

"It is not right that a company should be allowed to continue polluting a river like this. And I don't think the Mandini River should be violated like it is. However, the effluent from a paper mill is one of the most problematic."

LACK OF ACCOUNTABILITY

He said Sappi had decided to build a pipeline to take the polluted water away from Mandini. "It's not environmentally desirable."

Mr Stockton said the pipeline was being installed at a cost of R6,5 million and was due to be finished by next September.

"Sappi has also commissioned the CSIR to carry out a R200 000 waste-load allocation study on the Tugela River."

Sappi declined to counter criticism that it was being environmentally irresponsible.

A spokesman for the local community, who asked not to be named because of his links with the mill, said: "Sappi has a history of fobbing off and showing a lack of accountability.

"It likes people to think it is environmentally conscious, by bringing out the 'Sappi Collection' of nature photographs and fancy publicity, but it is not prepared to clean up its own backyard."

"Sappi likes people to think it is one of the good guys, but it is guilty of hypocrisy because it keeps discharging waste into the water courses and air," said a community spokesman.

He said that in many European countries, factories had to pump effluent upstream, above the point where they drew water, to encourage them to keep their own water clean. He suggested that this be made law in South Africa.

The Star Friday December 1 1989 17

Nampak expands

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Nampak has announced that it is to establish a R43 million glass factory in Durban.

In his annual statement to shareholders, chairman David Brown, also said he believed that members of the company will be satisfied with the result.

On the outlook for the coming year Mr Brown said the packaging industry is less sensitive to economic trends than other sectors because of its strong links with the food and drink industries.

He stated over the past year the group had invested R201 million in capital expenditure and capex for the current year is budgeted at R260 million, which includes the new R43 million glass factory. — Sapa

(194) B/Day 1/12/89

Nampak predicts growth despite slowdown

ZILLA EFRAT

NAMPAK expects to achieve real growth in the current financial year in spite of the "further slowdown in activity which will inevitably be felt in the year ahead".

In his annual review, chairman David Brown says the packaging group experienced a slowdown in activity in the last quarter of the year to September.

However, the packaging industry is less sensitive to economic trends than many other sectors in the economy because of its strong links to the food and beverage industry.

Past capital expenditure programmes and the focus on product and process innovations highlight the prospects for continuing real growth in 1990, says Brown.

In the past year, the group has invested R201m in the replacement and upgrading of plant and expansion projects which will enable it to increase its volumes.

The group has budgeted for expenditure of R260m in the current year, including a R43m glass plant in Durban.

In the year to September, Nampak achieved a 28% growth in attributable earnings to R214,6m with turnover rising 22% to pass the R3bn mark.

A dividend of 166c (133c) a share has been declared, up 25% and covered 2,8 (2,7) times.

With some raw material prices increasing, many of Nampak's divisions were unable to raise their selling prices accordingly because of customer resistance.

Brown says the implied requirement that the converting industry should absorb a greater protion of continuously rising costs obviously cannot continue and will have to be addressed in the year ahead.

Borrowings to shareholders was 43% (38%), well within the group's target of 50%.

The return on shareholders' funds, after tax and minority interests, improved to 31% (28%), while the return on gross assets rose to 24% (23%) falling just short of the 25% target.

Net asset value increased 24% to 1 626c (1 312c) a share.

At yesterday's price of R37, the share is on a historical dividend yield of 4,5% and a price/earnings ratio of 8,1:1, compared to the corresponding 4,8% and 6,8:1 of the paper and packaging sector.

Star 7/12/87

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Major new player emerges in plastics packaging industry

Finance Staff

A new force in the plastics packaging industry, with a turnover of more than R100 million, has been formed through the restructuring of the plastics manufacturing interests of Rubenstein Holdings (Ruhold), Lenco Holdings and Alfa Manufacturing Industries.

The deal, which involves R100 million in a series of transactions, leaves Lenco as a major player in plastics packaging and allows Ruhold to continue its expansion in the industry.

Ruhold and Lenco will jointly control Alfa, which Lenco rescued from provisional liquidation in May.

The revamped Alfa whose shares were suspended on May 11, will comprise Ruhold's flexible plastics operation, Ruplas, based in KwaNdebele, and Lenco's rigid plastics business, Elvinco, which has its factory at Atlantis in the Cape.

Alfa, whose shares are expected to be relisted shortly, is acquiring Ruplas for R27,2 million through the issue of 38,8 million shares at 70,2c each, and Elvinco for R16,2 million through the issue of 23,1 million shares at 70,2c each.

The deal will boost Alfa's pro forma earnings a share for the year ended December 1988, to 9,9c from a loss of 441c.

Ruhold's pro forma earnings would have increased to 17,3c from 16,4c for the year to end-June, while Lenco's pro forma earnings would have risen to 36,7c (35,6c) for the year to end-June.

Alfa's board will be reconstituted, with Lenco's chief executive, Douglas de Jager, becoming non-executive chairman, and Ruhold's executive chairman, Jeff Rubenstein, becoming executive deputy chairman.

The creation of the new packaging group follows the acquisition by Lenco of R36,7 million claims against Alfa — R28,7 million from Alfa's bankers, to be paid, free of interest in July, 1993, and R8 million from trade creditors for R6,7 million in cash.

Alfa's restructure involves the consolidation in share capital on a one for 10 basis and the sale of its packaging operations, including its properties, but excluding its flexible packaging business, to a company jointly owned by Lenco and Rand Merchant Bank, for R20 million in cash.

Jeff Rubenstein says Ruhold intends to issue R15 million redeemable preference shares, R10 million being used to retire existing Ruplas debt and the rest to finance Ruhold's fast expanding financial services division, Rubenstein Finance Company.

Alfa will be held 40 percent by Lenco and 38,8 percent by Ruhold, while twenty percent of Alfa's shares will be placed with institutions.

C.T. Times 19/12/89

Sit-in at Sappi

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Labour Reporter

ABOUT 60 workers at Sappi Cape Kraft in Montagu Gardens have staged a sit-in strike in support of wage demands since Saturday, a Paper, Printing, Wood and Allied Workers Union (PPWAWU) spokesman said yesterday.

Workers were demanding a R1,30 and R1,20 across-the-board hourly increases for lower and higher paid employees, respectively.

According to the PPWAWU spokesman, the company implemented a lockout on Saturday afternoon.

Provided the strike was ended by today, the company would implement its final offer on January 1 next year.

Service and shift allowances are also at dispute.

Bibby will benefit from single European market

B/Day 20/12/89 (194)

LIZ ROUSE

THE measures Barlows' international arm — J Bibby & Sons PLC — had taken over the past two years to improve existing operations and divest itself of underperforming assets should lead to real benefits in future.

Chairman Richard Mansell-Jones said in his annual review the creation of a single European market in 1992 would provide particular growth opportunities for Bibby, which already had well-established operations in European countries.

The group had the resources — cash totalled more than £15,3m and the debt/equity ratio was only 13,2% — to make the right acquisitions and the management skills to ensure that these performed, Mansell-Jones said.

The group's sales declined by 6,1% to £515,3m while attributable profits dropped 9,7% to £18,9m in the year to September because of the underperformance of the paper and converted products division. Although earnings were down to 16,61p from 18,40p a share, the dividend was maintained at 8,5p.

Net interest paid was slightly lower than last year, with substantially higher interest rates, particularly in the UK, being offset by lower borrowings of £18,9m.

During the past year the group spent £23,9m on calital expenditure and £10m on acquisitions.

Net asset value of the group increased to £143m from £127m, after writing off net goodwill of £3,1m arising on acquisitions and after incorporating a surplus of £10,4m arising from the revaluation of property.

The materials handling and science products divisions performed strongly while the agricultural division performed reasonably well in an unfavourable environment.

Mansell-Jones said much attention was given to the underperformance of the paper and converted products division. The Disley paper mill was sold for £2,3m and Walker Paper Reclamation was acquired, while new equipment had been installed at the Devon Valley plant. Total costs of projects amounted to more than £8m.

Acquisitions were also made in the science division. The majority of the remaining direct farming interests, which are subject to fluctuations, were sold in July for £3,9m.

Bibby is an international group of manufacturing and distributing companies operating in the UK, Europe, North America and the Far East.

Paper and packaging growth slowing

ZILLA EFRAT

194

B/Day 21/12/89

THE share index of the paper and packaging sector has declined sharply against the overall industrial index since September largely because of negative market perceptions of Sappi, and expected lower earnings growth from packaging companies.

The fall in the relative strength ratio of this sector was particularly strong in November.

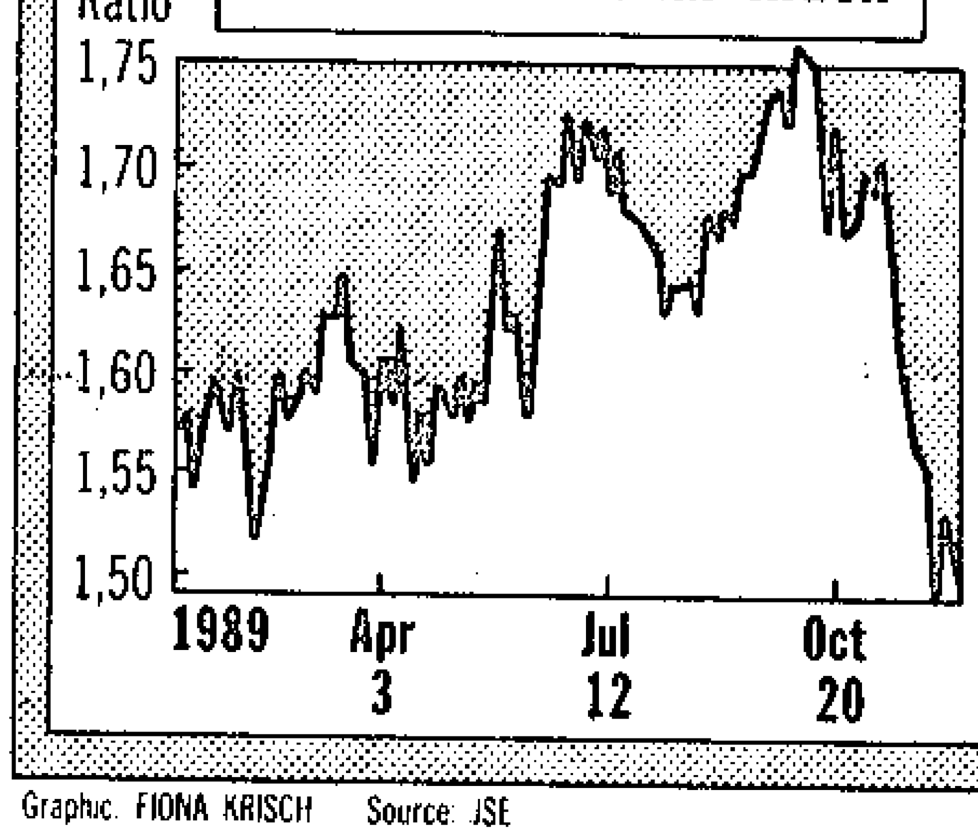
Irish & Co analyst Heidi Vollmer said the performance of the paper and packaging sector had been good since the October 1987 crash and especially since February 1988.

Sappi, which had the most influence in the sector, has shown a 10 year annual compound growth of 40%. While it is expected to produce sound earnings for the year to February 1990, it is not expected to achieve double digit growth the following year, says Vollmer.

A commodity producer with about 50% of its turnover generated from exports, Sappi is expected to be affected by a softening in both consumption and prices in the international paper and pulp market.

With the rand's depreciation against the dollar not expected to fall at the same rate as it has over the last two years, Sappi's rand/hedge advantage could slow down.

Paper & packaging index versus industrial index



Graphic: FIONA KRISCH Source: JSE

In addition, Sappi's tax rate is expected to rise in the 1991 financial year in spite of projected high capex figures, says Vollmer.

The packaging sector, with Nampak, Consol and Kohler as its major players, manages to retain its earnings growth because of its wide involvement with the growing food and beverage industry.

The food and beverage industry, considered to be relatively non-cylical, accounts for more than 60% of the sector's turnover.

Vollmer says even in an economic downswing, packaging maintains a volume growth above the GDP.

She says Consol, generally perceived as a blue chip of the sector with its shares hard to come by, is forecast to show good earnings growth in the year up to June in spite of the strike.

It is expected to outperform Nampak over the next two years.

Nampak is forecast to produce sound and steady earnings growth in the year to September.

It is the steadiest of all packaging shares because its markets are spread more widely across the full spectrum of SA industry, says Vollmer.

Holdains — to hold Malbak's paper and packaging interests — Kohler, Graphtec, Wiggins Teape and Carlton Paper are not expected by Vollmer to show earnings growth as strong as Nampak's until the year to August 1992.

Summing up, she says the packaging companies should show satisfactory growth in earnings, but at a lower level.

MANUFACTURING - PRINTING

1990

JAN - MAY

Malbak looks overstretched

Star 8/11/90

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Bottom Line

MICHAEL MENOF

Malbak, the company controlling Gencor's industrial interests, is growing fast.

Management, with Gencor's might behind it, is certainly on an acquisition trail, but it seems big is not necessarily beautiful. Perhaps they should rather aim to be the best.

In the annual report, management's strategy is unclear. In the year to August 1989 further consolidation and rationalisation took place as Malbak structured itself into seven divisions — packaging and paper, engineering and mining supplies, branded consumer products, food, construction supplies, development and international. I think it's an unwieldy conglomerate.

The first three divisions produced 55 percent of sales and almost 70 percent of earnings, whereas the last two were disappointing, with sales of around R2 billion, but only R26 million in earnings. A single-minded management has some real headaches.

Abercom disposed of its SA interests — Abertech Industries — to Standard Engineering to enable it to buy UK paper interests, paying a massive goodwill (R60 million), and is now saddled with mammoth debt (R133 million) and mounting losses.

Increasing the interest from 29,1 percent to 40,7 percent in Quality Tyres has ended in embarrassment, with Malbak having to bail it out of liquidation with concurrent creditors being offered only 31c in the rand.

The attempt to sell Protea Chemicals to Sentrachem also failed. Subsequent to year-end Malbak bought Pat Hinde Motors, making its motor division the second-largest Toyota dealer group in SA.

The health care industry is seen as an exciting growth area. Schwarzkopf hair care products, MPS Labs and 80 percent of Wyeth Ayerst — infant nutritional products and ethical drugs — were acquired.

All this has been costly and debt had risen 60 percent to R916 million (1988: R573 million) by end-August.

To minimise the increase, management has deducted cash resources of R161 million (1988: R106 million) from debt, but can't escape the fact that interest expense has more than doubled to R171 million (1988: R83 million).

While earnings increased 36 percent in 1989 — 21 percent organic and 15 percent by acquisition — one should not lose sight of the new role played by Kanhym where Malbak increased its 37 percent interest in 1988 to 84 percent, so making it a subsidiary. It produced 11,2 percent of total earnings.

A lower tax rate of 30,1 percent helped increase earnings by R20 million for comparison purposes.

Chairman Grant Thomas produced his usual bullish statement that everything was fine — clearly Gencor's caretakers for its industrial interests could face problems in this decade unless they first get their arms around the various businesses before branching out.

Already management is thin, having sent Kohler's Ian Willis to England to try to sort out Abercom's mess.

Sales increased to R7,33 billion (1988: R5,23 billion), yielding pre-tax profits of R512 million (1988: R417 million). These profits declined to 6,98 percent of sales (1988: 7,97 percent).

After deducting tax and outside shareholders' interest, attributable earnings were R251 million (1988: R184 million).

Extraordinary items below the line of R75 million (1988: R66 million — mainly goodwill written off — left a bottom line of R176 million (1988: R118 million).

Earning per share were 136,1c (1988: 107c). With a very conservative 4,5 times dividend cover, dividends were raised marginally to 30,5c (1988: 25c).

The group has modified its accounting policy for deferred tax, which lifted earnings by 5,7c (1988: restated 2,7c).

The packaging and paper division, now listed under Holdains, increased sales to R1,6 billion, with earnings of R53 million.

Engineering and mining supplies had sales of R1,2 billion and R58 million in earnings.

Branded consumer products — Tedelex, Ellerines, Malbak Motors and Malcomess Tractors — lifted sales to R1,32 billion, with R64 million in earnings.

D&H's construction supplies, assisted by Blue Circle, contributed R36 million in earnings.

The development section — Protea Pharmaceutical, Electronics, Protea Chemicals and the Berden group — had sales exceeding R1 billion, but virtually no contributuon, reporting income of only R3 million.

The international division had high sales and poor earnings. Clearly Abercoms' losses were the culprit, leaving Protea's export steel and Eagle Freight as the main contributors.

Ordinary shareholders' funds increased to R1,13 billion (1988: R956 million) at end-August 1989.

Working capital declined to R627 million (1988: R678 million).

Although R200 million in tax losses are available, the future effective tax rate will increase as Tedelex, Kanhym and D&H absorb their remaining tax losses.

The historic cost net asset value per share has increased to R6,11 (1988: R5,35).

The current JSE price is showing weakness at R7,65, probably compounded by the low dividend yield, bad publicity relating to Quality Tyres and chairman Grant Thomas's "significantly more daunting" outlook for 1990.

Earnings for the forthcoming year will be of a similar order — whatever this means.

While some divisions are predicting increases, others are silent. Does this mean no increase is expected or that the increase will only equal the inflation rate?

Clearly management is finding it tough going, even with Gencor behind it.

Wouldn't it be better to concentrate on the three or four best divisions and leave the others to someone else because management could end up masters of none.

Lockout 'pre-empts' strike

Cpt Times 10/1/90

Labour Reporter

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A LOCKOUT at the Waltons Stationery Company's Observatory warehouse pre-empted a strike by about 90 workers on Monday, who accepted the employer's final wage offer, a company spokesman said yesterday.

According to a Paper, Printing, Wood and Allied Workers' Union spokesman, workers had been given notices immediately terminating their services last Friday.

Acceptance of the final wage offer — varying between R35 and R44 a week — was the sole condition for re-employment, the union spokesman said. The union, charging that a Conciliation Board had been appointed, but had never sat before the expiry of the 30-day dispute period, was taking legal advice, he added.

Mill workers strike for better hourly rate

Argus 10/1/90 194

The Argus Correspondent

JOHANNESBURG. — About 800 workers at several Mondi Board Mills plants are on strike over wages in the first major labour dispute of the year.

Mr Sakhele Buhlungu of Cosatu's Paper, Printing, Wood and Allied Workers' Union, said workers were on a legal wage strike at plants in Bellville, Springs, Felixton and Piet Retief.

The dispute centres on union demands for a 26 percent rise in the hourly minimum rate of R4,29.

Mondi said yesterday its 16 percent offer would bring the minimum labourers' pay to R970 a month.

The union also wants the award backdated to January 1, with Mondi offering to implement it only from the date of agreement.

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Nampak fears bigger tax bill

ZILLA EFRAT

THE proposed change in the tax treatment of depreciation could knock 21c a share off Nampak's earnings in the current year, said chairman David Brown at yesterday's AGM in Johannesburg.

Brown announced a R100m tissue wadding mill was to be built at Klip River, near Johannnesburg, and would be commissioned towards the end of 1991.

In addition, he said Nampak experienced a disappointing rate of improvement in its trading results in the first quarter of the current year, but should nevertheless report "better operating results" in the first half.

Brown attributed "disappointing" growth to customer destocking, competition, pricing and industrial action at both Nampak's and customers' operations.

Nampak is the first listed company to publicly quantify the effects of the proposed tax depreciation system.

In sharp criticism of the authorities for moving the tax goalposts without adequate warning and proposing changes from the 50:30:20 formula to a 20% straight-line basis, Brown said its adoption "will have an adverse effect on the 1990 and subsequent results". BDay 11/1/90

It could add R10m to Nampak's tax charge this year based on the 1990 group capital-expenditure budget of R260m, reducing earnings by 21c a share.

Brown said the proposals put Nampak, as well as many other companies, in a

☐ To Page 2

Nampak tax fears

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☐ From Page 1

worse position than the 25% straight-line allowance in force prior to the current 50:30:20 basis. He emphasised the damaging implications that such arbitary changes held for foreward investment planning.

Brown believed the new Klip River wadding mill and Metal Box glass factory in Natal might escape the proposed system on at least a portion of their capital costs as the contracts were finalised before the changes were announced. However, until the legislation was promulgated he could not be sure of the situation.

BDay 11/1/90

In the year ended September 1989, Nampak's earnings rose 28% to 458c a share. In the annual report, Brown said 1990 held "prospects for continuing real growth" but warned that the growth rate could slow compared with the previous year.

Disappointing progress by Nampak group

Star 9/1/90 (194)

Finance Staff

The Nampak group has experienced a disappointing rate of improvement in its trading results in the December quarter, the first quarter of the current financial year.

Despite this, chairman David Brown, said at the annual meeting of shareholders yesterday, that the group should report better results in the first half of the current financial year which ends September 1990.

But he warned that the revision in the treatment of depreciation proposed by the government could see 21 cents a share knocked off the group's 1990 financial year's earnings.

Mr Brown also announced the establishment of a new R100 million tissue wadding mill at Kliprivier, due for commissioning in late 1991.

Commenting on trading in the current year to date, he said that growth was disappointing in the first quarter compared with the outstanding performance at the equivalent stage a year ago.

The factors involved included customers destocking, competition and pricing and industrial action at both group and customer's operations. These developments were in line with analysts' expectations but they seem to have knocked group performance earlier than expected.

Criticising the authorities for moving what he described as the the tax goal posts without adequate warning bychanging the depreciation allowance from the 50:30:20 formula to a 20 percent straight line basis, Mr Brown said that its adoption would have an adverse effect on the 1990 and subsequent group results.

"It could add R10 million to the tax charge this year, based on the 1990 group budget, reducing earnings by some 21 cents."

CLEGG HOLDINGS FM 12/1/90

Targets missed (194)

Activities: *Packaging (cardboard cartons) and lithographic/flexographic printing.*
Control: *The directors own 70% of the equity.*
Chairman: *H R Clegg; managing director: G A Egger.*
Capital structure: *30,1m ords of 1c. Market capitalisation: R12,0m.*
Share market: *Price: 40c. Yield: 7,6% on earnings; PE ratio, 13,2. 12-month high, 50c; low, 25c. Trading volume last quarter, 51 000 shares.*
Financial: *Year to June 30.*

	'86	'87	'88	'89
Debt:				
Short-term (Rm) ..	2,0	1,9	1,3	3,3
Long-term (Rm) ...	3,2	3,2	5,6	5,0
Debt:equity ratio	2,50	1,55	0,88	1,01
Shareholders' interest	0,21	0,28	0,41	0,43
Int & leasing cover .	0,6	2,5	3,1	1,7
Debt cover	0,02	0,29	0,24	0,24

Performance:

	'86	'87	'88	'89
Return on cap (%) ..	4,3	15,3	9,4	12,3
Turnover (Rm)	10,0	15,4	16,6	20,6
Pre-int profit (Rm) ...	0,4	1,8	1,7	2,3
Pre-int margin (%) ..	4,2	11,4	9,9	11,4
Taxed profit (Rm)	(0,3)	1,0	1,1	1,0
Earnings (c)	—	4,2	4,1	3,4
Dividends (c)	—	—	1	—
Net worth (c)	9	13	22	27

A retroactive change in policy relating to deferred tax (from comprehensive to partial basis) has pushed comparative 1988 earnings up from a then-reported 3,5c a share (later downgraded to 2,5c), but even the adjusted figure is well short of the 1987 prospectus forecast of 6,3c. And, in spite of less rigorous accounting policies, that target remains out of reach: pressure on margins held back growth in operating profit last year and surging finance costs (up from R512 000 to R1,3m) led to further declines at the net level. No dividend was paid.

Chairman Harry Clegg excuses this by saying last year's main objective was to increase market share. He is confident that the group is well placed to increase market share yet further. Management has apparently been "restructured" and, in spite of adverse economic conditions, he looks forward to "an improved position" this year.

The group spent R1,5m on fixed assets last year, under its policy of updating plant and equipment to the highest possible standard.

The tax charge was virtually eliminated by the change in accounting policy. Surprisingly, in spite of a pre-tax profit of R1,1m, gross tax losses of subsidiaries carried forward rose from R1,6m to R1,7m.

The increase in operating profit for the whole of last year was actually less than at the halfway stage. This hardly suggests that previous disappointments are close to being overcome. The share has never seen its prelisting placing price of 60c. It is difficult to justify a current price within 20% of the top of the 12-month trading range — and 50% above reported net worth. *Michael Coulson*

Poor disclosure at M&A

Bottom Line

MICHAEL MENOF

Mathieson & Ashley Holdings (M&A) increased sales by 155 percent in 1989, which includes the Anglo Dutch office furniture operation consolidated for the first time after the merger of SA Breweries' office furniture interests into Afcol.

The merger in June 1988 of M&A and Afcol's furniture interests was channeled through Afcol's subsidiary, Kallenbach & Hendler (K&H), and was obviously designed to use K&H's massive tax losses, while bailing out Afcol from significant losses.

For 50 percent of K&H, M&A paid only R30 000, but received back R10 million in cash, preferential rights to unspecified percentages of K&H's earnings for 1989, 1990, 1991, the use of the R26 million tax loss and assumed responsibility for a massive interest-free loan. What a deal!

SAB's Afcol must have been desperate and in an insolvent position, kept alive only by shareholder loans.

In 1989 the preferential rights produced R1,5 million of M&A's earnings. But I am afraid the merger goes much farther.

Balance sheet

The disclosure in the balance sheet was misleading, with the amount "outside shareholders R13,3 million" being shown with total shareholders' funds of R35,77 million.

But note five shows this amount comprises outside shareholders' loans repayable R26,51 million less the negative net share of equity in subsidiaries R12,98 million.

Furthermore, the outside shareholders' loans are unsecured, interest-free and have no fixed terms of repayment. In addition, a R26,35 million loan is subordinated to the extent of the outside shareholders' share of the deficit in a subsidiary and the annexure "interest in subsidiaries" shows that M&A owed K&H R26,64 million at end-June 1989 (1988: R26,62 million).

The proper disclosure at June 30 1989 that should have been insisted upon by the external auditors is as follows:

- Ordinary shareholders' funds shown R22,12 million (1988: R17,86 million), less the deficit in subsidiaries (presumably K&H) R12,98 million (1988: R15,38 million), giving a revised balance of R9,14 million (1988: R2,48 million).
- Debt R8,76 million (1988: R3,34 million) shown plus the outside shareholders' loans R26,51 million (1988: R26,65 million), giving a revised balance of R35,27 million (1988: R29,99 million) — gearing of 400 percent.

The massive tax losses in K&H are benefiting M&A to such an extent that for the year to June 1989 the effective tax rate was only 1,76 percent (1988: 50 percent) and, in fact, much lower because R110 000 of the current year's R219 000 tax relates to prior years.

If full tax was payable on 1989's income, attributable earnings would have declined by 50 percent.

The tax losses of R23 million in 1988 declined to R16,5 million at end-June 1989, so M&A's low tax rate will continue for a while.

Star 15\1\90

Now why has interest jumped to R2,28 million (1988: R214 000) if the R26,5 million outside shareholders' loans are interest-free? Debt is shown as R8,76 million (1988: R3,34 million). Where is the interest received on the cash resources of R10,32 million (1988: R13,1 million)?

Turnover increased to R99,4 million (1988: R39,02 million), but operating income less than doubled to R14,69 million (1988: R7,88 million).

Interest expense was R2,28 million (1988: R214 000). Tax was only R219 000 (1988: R3,87 million) and outside shareholders' profit share R4,36 million (1988: nil).

Attributable earnings were R7,83 million (1988: R3,79 million), which at first glance looks impressive. But below-the-line extraordinary expenses of R1,28 million (1988: R8,09 million gain) left the net income at R6,55 million (1988: R11,88 million).

With earnings per share calculated before extraordinary items, it increased to 273,2c (1988: 135,2c), with dividends upped to 80c (1988: 50c).

During the year "the cost of bedding down Afcol's Anglo Dutch operations had a detrimental impact on operating profit", says chairman Winky Ringo.

Its management team has been strengthened, slow-moving products have been rationalised, operating procedures streamlined and production methods improved — which confirms that Afcol's Anglo Dutch was a can of worms.

K&H acquired 51 percent of the Brimart group (Fineseat) for R500 000, leaving management with its minority stake according to percentages given.

Office furniture sales were R87,37 million (1988: R32,66 million) and contribution to pre-tax profits R11,08 million (1988: R7,55 million).

Office equipment sales were R12,03 million (1988: R6,36 million) and contribution to pre-tax profits R214 000 (1988: R146 000).

Administration produced R1,2 million (1988: loss R30 700) of the profits. Presumably this includes the R1,5 million in preferential income from K&H.

With office furniture sales nearly 90 percent, why isn't M&A listed under "Furniture and Household" instead of "Printing and Publishing"?

Capex cost R5,6 million in 1989, with the major portion for Anglo Dutch of R3,4 million and R1 million in leasehold obligations. Future capex includes building a new factory for Anglo Dutch where land costing R2,1 million has been acquired. Construction is budgetted at an R6,5 million, beginning in 1990.

The balance sheet shows ordinary shareholders' funds increasing — restated to R9,14 million (1988: R2,48 million). Working capital increased to R32,04 million (1988: R27,15 million) and includes cash resources of R10,32 million (1988: R13,01 million) earmarked for suitable acquisitions.

M&A is controlled by listed Vestacor which, in turn, is controlled by Ringo Family Investments (Pty).

Net asset value

Directors control 54,8 percent of the ordinary shares. The net asset value at end-June 1989 was R7,72, compared with the current JSE price of R18,50. The four-for-one split is still outstanding.

Winky Ringo, believes M&A will increase earnings in 1990 in excess of the inflation rate. There are no working directors from the subsidiaries (not a good way of motivating people). Four members of the board of eight are non-executive.

I notice Dr Bill Venter resigned suddenly during the year without comment.

Afcol certainly paid dearly to rid itself of problems which M&A must now overcome in a difficult and uncertain economy.

Some fancy footwork went into producing the 1989 annual report and shareholders should have been given the full details of the office furniture merger with Afcol, including when the R26,5 million outside shareholders' loans will be repaid.

The annual report cleverly tries to conceal the facts.

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Salvage of Abercom's UK packaging group begins in earnest

BRENT MELVILLE

THE salvage of Abercom's sole operating asset, labouring UK-based packaging group M Y Holdings, has begun in earnest.

In a major step towards putting the British operation back on the road to recovery, Kohler CE and acting MD of M Y Ian Willis, has undertaken to rid the group of its ailing consumer goods division, to be sold to Studley Holdings for R3,2m.

However, the purchase consideration also includes the writing off of non-interest bearing group balances worth R10,5m and the proviso that M Y continues to provide a small amount of letter of credit facilities to Studley for a limited period.

The sale would reduce group turnover by R33,8m and should reduce borrowings by R27,4m, improving the gearing ratio to about 60%, Willis said.

Abercom's year-end results to end-August were disastrous. Net losses from the UK subsidiary amounted to R9,3m, helping Abercom to a bottom-line loss of R4,5m. In addition the group wrote-off extraordinary losses of R9,7m.

The losses were attributed by directors to steps taken to consolidate the cotton activities into a single site in Coventry and the sports and games activities in Birmingham, both of which were proving more costly than anticipated.

The balance sheet disclosed borrowings of R133,6m (11,6m) with net borrowings/permanent capital at 206%. The current ratio declined to 75% (302%).

Terminating the sports and games activities should serve to reduce interest charges and free management time and effort for the group's core packaging businesses, Willis said. Interest charges slashed R10,3m off income last year.

He said the step would allow the company to concentrate on exploiting the "many opportunities" available in the UK and Europe in the packaging industry.

The core business of M Y — corrugated packaging, printed cartons, cushion packaging and thermoforming — should complement the established disciplines within Holdains, Malbak's newly formed paper and packaging arm, Willis said.

"Since year-end we have continued the corrective actions to improve productivity in all the packaging operations," he said.

While demand within the packaging sector had been reasonable to date, the general economic downturn was expected to have an adverse impact on profitability in the first six months of the current financial year.

Abercom closed on Friday at 120c — down 31% from the 175c it was quoted when its results were published in November — and a hefty 74% drop off its 12-month high of 470c.

formed a broadly based, conservative political force through the merger of their once-hostile parties.

CAPE TIMES 23/1/90 (194)

Mondi strike talks

JOHANNESBURG. — Representatives of management and the Paper Printing Wood and Allied Workers' Union (PPWAWU) meet tomorrow to resolve a strike the union claims has halted production at four Mondi board mills.

SUNPAK/SUNVEST F/M 26/1/90

Over-expanding? (194)

Activities: *Polystyrene packaging and allied products.*
Control: *Sunvest holds 50% of Sunpak.*
Chairman: *I H Gericke; managing director: I Strachan.*
Capital structure: *53,8m ords. Market capitalisation: R86,1m.*
Share market: *Price: 160c. Yields: 6,3% on dividend; 12,8% on earnings; PE ratio, 7,8; cover, 2,1. 12-month high, 200c; low, 130c. Trading volume last quarter, 909 000 shares.*

Year to Aug 31	'86	'87	'88	'89
ST debt (Rm)	0,5	0,4	0,5	0,9
LT debt (Rm)	1,2	0,8	2,0	7,5
Debt:equity ratio	0,49	0,04	0,02	0,32
Shareholders' interest	0,45	0,57	0,56	0,42
Int & leasing cover	7,2	11,6	15,1	12,3
Return on cap (%)	45,2	42,7	47,5	28,4
Pre-int profit (Rm)	3,4	6,9	10,9	11,3
Earnings (c)	8,4	19,1	18,0	20,5
Dividends (c)	2,2	5	9	10
Net worth (c)	11	23	32	43

At Sunpak's present stage of development, management attention seems to be focused almost exclusively on expansion of operations, especially in the fields of synthetic paper and laminated food trays. This is clear from the annual report where financial results — which were materially off the original target — receive only passing mention. They are not mentioned in chairman Tubby Gericke's review, while the report of the CE devotes four lines to this subject.

Given that EPS, at 20,5c, were 18% below the forecast in the 1988 annual report and hardly kept pace with inflation, coupled with a forecast for 1990 which indicates even slower growth, shareholders, especially minorities, could be forgiven for asking if there is not excessive emphasis on expansion now and too little on profitability.

It's not an easy question to answer. For

F/M 26/1/90 (194)

one thing, except in relation to past performance, no one can seriously criticise the returns now being achieved — 28,4% gross on a much-expanded total asset base, and 48,2% on equity. For another, the new activities represent state-of-the-art applications of polystyrene blow-moulding technology — there is not much doubt that Sunpak has a leading edge here, and if it does not actively exploit these new markets someone else will.

This being so, perhaps shareholders must be patient while these new developments get off the ground and hope Gericke is correct when he talks about a "new growth phase during the following three to five years."

Substantial activity is reflected in the growth in total assets from R23m in 1988 to almost R40m, which necessitated an increase in borrowings and resulted in a gearing ratio of 0,32 (0,02). The group was restored to a net cash position just after year-end when it raised about R16m in fresh capital, most of which is expected to be absorbed by the investment in additional manufacturing facilities.

The rights issue is the main reason for this year's slow growth forecast, with earnings expected to amount to only 23c against 1989's 20,5c. The group will have to service an issued capital of 53,8m shares in place of 40m previously and to achieve the above-mentioned earnings, attributable profits will have to increase by more than 50%.

Another effect of the rights issue has been to substantially increase net worth. Issued at 135c against a year-end net worth of 43c, *pro forma* NAV has risen to 64c and, if the earnings forecast is met and dividend cover remains unchanged, is likely to reach 76c by the end of the year. This will result in a further marked decline in return on equity, probably to around 30% compared with an average of over 50% for the past two years.

Last year's results were hampered by production delays, occasioned by political activity which resulted in late deliveries of plant, and pressure on margins caused by high rate materials costs. Regrettably, the group no longer discloses turnover (not even percentage change), so there is no way of gauging

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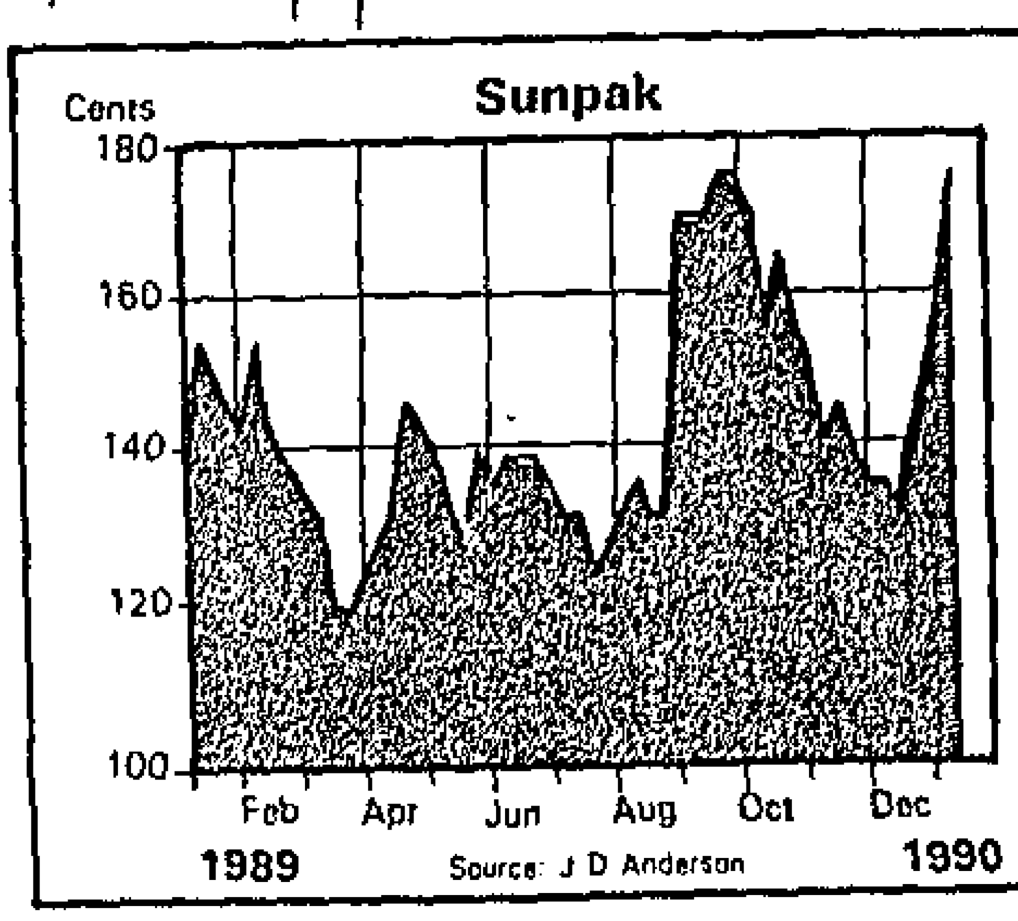
F/M 26/1/90 (194)



the relative importance of these two factors. However, assuming these wrinkles have been ironed out, the attributable profit target — based even on the existing asset base — should not be difficult to achieve. One then hopes that similar progress will continue in 1991 and beyond which, barring a further increase in capital, should reflect in substantially higher earnings.

For the moment, it looks as if both Sunpak and pyramid Sunvest will pay 11c for 1990 (up 1c), giving forward yields of 6,9% for Sunpak (160c) and 7,5% for the illogically cheaper (146c) Sunvest. *Brian Thompson*

Arban settles into Malbak

JACQUES MAGLIOLO 194

ARBAN'S interim results for the 12 months to end-September reflect the financial position that the group has left for new owners Malbak, which bought 49,6% of the group's business with effect from October 1.

Though turnover fell by over 16% to R20,5m (September 1988: R24,3m), operating margins rose to 9,8% (6,7%) and operating income by 23% to R2m (R1,6m). Taxed profits rose a more pedestrian 6% to R743 000 (R699 000).

The directors say that the sale of two operating subsidiaries caused the fall in turnover. The 1989 results include a non-recurring reduction in operating income, which was caused by a change of accounting policy because of Malbak's acquisition.

Had the accounting policy not been changed, the EPS would have been 5,4c, instead of 4,6c.

In addition to the business of Arban, all its operating assets and liabilities go to Malbak, which obtains the Arban name. In turn, Arban will become a cash shell and its listing will be suspended. BDay 26/1/90

The offer, settled by the issue of one Malbak share for every 24 Arban shares, places a value of R2,9m on the transaction. At this price, Arban seems to be selling at a slight discount in relation to Malbak.

The directors of Arban say that it is their intention to retain the listing of the company and that they are investigating acquisition opportunities. They have only six months to achieve this before the listing is terminated.

For Malbak the purchase will have no material effect on earnings or net asset value.

yesterday Cape Times 31/1/90

Union, Mondi to meet

JOHANNESBURG. — Mondi Board Mills management and representatives of the Paper Print Wood and Allied Workers' Union have agreed to meet tomorrow to discuss ways of resolving their wage dispute.

New Van Leer plant expands operations

LEADING international packaging company Van Leer (SA) has turned out the first finished products from its new R20m factory at Ezakheni, in Kwazulu, only 10 months after signing the design and construction agreements.

The new complex consists of a 7 650m² factory and a 700m² office block. The factory has been designed to facilitate future developments.

Director in charge of manufacturing Martin Rawlins says: "We needed to expand our operations to meet the growing demand for moulded fibre egg cartons.

"In keeping with trends worldwide, the company is also diversifying its range of rigid plastic products.

"The new, top quality 20/25*l* Valerex containers will soon be introduced on the SA market.

"They will meet the growing demand for rigid plastic containers and will provide a viable and high-quality alternative to the range of steel and plastic containers currently available.

Capacity constraints called for upgrading

CONSOL's paper division has just completed an upgrading exercise at its Kuils River corrugated operation.

The dry-end of its 2 450 Agnati corrugator, which was imported from Italy when the factory started in 1983, was upgraded.

This is in line with the company's philosophy of only spending on new equipment when there are capacity constraints or where technology has been overtaken.

Western Cape regional manager Johan Steenkamp says: "We were running into capacity constraints and the old, manually operated dry-end was becoming cost-ineffective."

The new technology enables quick order changes at speed. It also eliminates warped board caused by "baking" of the corrugated board when the machine had to stop for order changing.

With the new automated dry-end overall speed increased and waste is reduced.

Steenkamp says competition in the form of a consortium of co-operatives which has built its own plant makes it essential that Consol keeps production costs low through technological and other improvements.

Consumer appeal part of marketing

PACKAGING plays a critical role in consumer appeal and is an integral part of marketing a product.

Consol Plastic's blown containers divisional manager Tony Jansen says the visual impact of a product on a supermarket shelf cannot be underestimated.

He says the blown containers division has assisted many companies in producing custom-designed packaging which has helped them establish brand leader status.

Distinctive shapes associated with particular products are crucial in the marketing process. To maintain this image, certain fabric softener producers have moved to having their bottles "in-mold labelled".

This process incorporates the label into the structure of the bottle during the manufacturing process.

Jansen says: "The biggest merchandising advantage of in-mold labelling is the permanent visual image that is attained, as the label will not peel or curl off from the pack.

"All the edges remain flush with the container. This is particularly important in the food industry, where improper handling, moisture and unsuitable adhesives can disfigure the labels."

Eliminate

Clients who receive completely labelled containers can eliminate the labelling process from their production lines. As the label is an integral part of the pack and reinforces it, the wall thickness can be reduced resulting in further cost savings.

It is also possible to combine the advantages of both blown and injection technology in the final product to assist customers in their quest for more successful marketing, says Jansen.

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SA A LEADER IN THE ON-GOING BATTLE AGAINST THE DESTRUCTIVE CFCS

THE depletion of the ozone layer in the upper atmosphere has become a rallying call of envronmentalists throughout the world.

The enemy is a group of incompressible gases, the Chlorofluorocarbons — CFCs.

These gases have found wide applications in industry, being used in refrigeration, air conditioning and as propellants in aerosols.

It is this last group that has come in for the most flak as many people believe aerosols are completely to blame for the destruction of the ozone layer. This is incorrect.

In SA, the aerosol industry is responsible for less than 15% of total CFC usage and currently between 60% and 65% of all aerosols in the marketplace are ozone-friendly — they contain no CFCs.

By the end of 1990 this figure will have risen to 90%.

Although not a member of the Montreal Protocol — an action plan set up by the United Nations environmental protection agency — the SA aerosol industry has committed itself to the objectives of the protocol and has mounted a campaign which has moved quicker and more effectively than the protocol.

The CFC propellants were initially ideal for aerosols. They were stable, non-toxic and the first commercially available.

For more than 20 years they were considered safe. It was only in the mid-'70s that warning bells began to ring. Scientists became aware of an ozone depletion and it was evident that an accumulation of CFC's could be the cause. Aerosol manufacturers decided a reduction in the use of CFCs was a wise move.

However, defining and evaluating new propellants takes time. Manufacturing plants have to be modified. One SA manufacturer even built a new plant rather than modify its existing one.

Marketing director of Divpac, a division of Nampak/Metal Box, John Lombard says: "The SA aerosol industry has acted responsibly and the Aerosol Manufacturers Association is co-ordinating controlled change."

His company is one of the largest suppliers of aerosol cans in southern Africa.

"This revolutionary packaging concept has become an integral part of our lives. Aerosols are convenient, hygienic, easy to use, economical and have a long shelf-life. In the medical field they are indispensable.

Interp... to bo... new ...

INTERPAK, a subsidiary of Lion Match, has undergone a major turnaround since it was acquired by SA Breweries in 1987.

Interpak Group MD Tony Rudston says Lion Match was held by US company Allagheny International which disinvested in 1986. Allagheny, however, did not make any investments in the SA company.

As a result, the machinery was antiquated and motivation was not what it should have been, says Rudston.

Lion Match was acquired by the Swedish Match company, which then sold it to SAB when its SA ties became sensitive.

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Interpak is set to boom with new systems

TONY RUDSTON

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Lion Match was acquired by the Swedish Match company, which then sold it to SAB when its SA ties became sensitive.

In the last two years over R25m has been spent on upgrading Interpak's operations. State-of-the-art equipment has been installed which has led to productivity improvements of over 20% a year.

Rudston says the turnabout has been achieved through getting the right people into the right slots, changing attitudes and the corporate culture, introducing the new machinery and taking advantage of the latest technology.

Tripled

All this has led to substantial increases in market share, which is expected to increase into the '90s.

Interpak tripled its earnings last year and is expected to show 140% growth in earnings in the current year, says Rudston.

Interpak's major products are labels and folding cartons, but it is also involved in books, metallisation and merchanting. Details of an expansion of its product range will be announced shortly.

In addition, two new agreements have been signed which are expected to make important contributions to Interpak's profits.

The first was finalised with US-based Multicolor for technology to manufacture in-mold label paper in SA.

Rudston says manufacturing in-mold label paper has been tried before in SA, but never successfully and the product has had to be imported.

Production, which will start in April, will be for both Interpak's operations and for the supply to other printers and blow moulders.

While the market for the product is still small, Rudston says it has vast growth potential and demand is expected double next year.

Designing

In addition, Interpak, which assists SA companies in designing their packaging systems, has acquired the Kliklok licence to complement its Sprinter agency. This will enable the company to supply any machine to suit the packaging needs of local companies, says Rudston.

Many of the criticisms are unfounded, misinformed

ENVIRONMENTALISTS and the public worldwide often accuse the packaging industry of over-packaging.

But SA Packaging Council president Peter Campbell says many of the criticisms levelled at the industry are uninformed and unfounded.

The council endeavours to get the real story of packaging across.

Campbell says while people feel good about using degradable products, the packaging industry has some concerns about this.

If a product is allowed to lie around in the sun or blow around in the wind it will degrade to an extent in due course. But if it gets buried in a dump or landfill site it will not degrade.

If it gets into a plastic recycling stream it will, in due course, contaminate whatever products are being made from the recycled plastic.

Australia's equivalent of SA's CSIR found that users of photo-degradable products may unwittingly be adding to the Greenhouse effect by discouraging recycling, encouraging littering and adding to the pressure on forests.

Grocery

This body showed that if the two-billion plastic grocery packets used in Australia each year were totally photo-degradable, 30 000 tons of carbon dioxide would be added to the atmosphere.

Campbell says: "We share that concern in SA and believe the real solution is to ensure the product does not litter in the first place. To do that requires education. The Australians are conducting programmes and so are we."

He also believes it is important for SA packaging manufacturers to stand up and say what they are doing in terms of recycling.

"At Nampak, for example, we recycle huge quantities of paper every year, producing 124 000t of paper from recycled waste.

"Our Collect-A-Can operation has plants in Johannesburg, Pretoria and Durban, with agents in smaller centres and at National Parks Board resorts.

"This year, we expect to collect 220-million tin cans for recycling. The cans put back some 10 000t of steel into the manufacturing process. Direct recycling through other scrap metal dealers will remove another 55-million cans from the rubbish heap.

"In addition, all tinplate scrap from our plants is recovered, the tin removed for scrap and the steel scrap sold to steel-makers. In this way, we recover approximately 16% of the tinplate used.

"Our glass division, in conjunction with Consol, runs a Glass Recycling Association which by the end of June last year had collected 70 000t of glass, 15% more than the previous year.

Breakthrough

"Last year also marked a breakthrough in plastics recycling with the introduction by Nampak of SA's first mixed plastics recycling plant in Cape Town.

"The R3,5m plant converts all forms of plastic waste into a cost-effective timber substitute called Polywood which, in time, will play a role in conserving SA's timber resources."

Changing markets call for a change in tactics

THE packaging industry is feeling the impact of the current economic downturn, but Kohler CE Derrick Minnie is optimistic about its prospects and those of his company.

He believes the industry will outperform GDP growth and show a real growth of about 2% above GDP this year.

Because of the downswing, Minnie has seen some changes in the market. Volumes are declining while competition is increasing. Buyers, who have become more professional, are buying less more often. The just-in-time concept has affected buying habits.

"The market is changing and we will also have to change," says Minnie, who does not expect major consumers to revert to their old ways too quickly.

In the last half of 1989 a great deal of destocking took place and this means there is not much stock in the trade, which creates opportunities for operations which are fast to react.

Optimism

His optimism for the packaging industry's future stems from the change in disposable income and buying habits in SA. However, a major concern to the industry is the pricing of raw materials.

World paper and plastic prices have recently softened, resulting in stabalised imported prices and Minnie hopes SA manufacturers of raw materials will follow suit.

Over the last few years the packaging industry has not fully recovered the increased costs from suppliers and this has placed pressures on its margins.

The SA market does not have the volumes found in other countries. As a result, to introduce sophisticated equipment companies must be most selective, especially as present market conditions are "eratic".

Minnie says the size of the SA market can limit innovation, but the industry is forever trying new products. While innovation can also be limited by consumers' fear of change, it will be boosted by a rise in environmental concern.

In the first half of its current year, Minnie does not expect Kohler to show the same earnings growth as it has in the past, but he says growth will still be positive.

Over the past 18 months, Kohler has been restructured on a more strategic business unit basis to enable it to concentrate on its core business.

Following its acquistion trail on desireable businesses, it has disposed of some operations to enable appropriate focus, says Minnie.

Changes

Its corrugated division has undergone many technical changes, especially on the printing side. The explosion of graphics has led to its products becoming an important marketing tool.

Corrugated packaging is no longer just used for convenience and protection, but as a powerful point-of-sale marketing product. This trend, both internationally and in SA, has led to heavy investment in the corrugated division.

Kohler is concentrating on the higher added value market for its corrugated products. It will install a R5m varigraphics printing and die-cutting machine shortly, the first of its kind in SA, which will put it into the process colour market.

In addition, Kohler's Pinetown operation has spent close to R20m in expanding capacity on its corrugated side.

Minnie says: "Kohler's flexible division is trying to become more specialised and to get away from being everything to everyone."

Changing living habits have an impact on the packaging industry. The microwave, which has not yet made its mark on SA's way of life — but soon will — has changed lifestyles in other countries, resulting in a growth in barrier packaging.

As a result, Kohler is con-

Becker is looking at Far East

BECKER Glass Containers has acquired Nivim Glass Industries, making it the largest wholesaler of pharmaceutical and cosmetic containers in SA.

Nivim specialises in the printing, decorating and supply of cosmetics bottles.

Following the deal, signed this month, group GM Dave Saltz and MD Mervyn Becker left for the Far East to tie up new agencies for cosmetic containers.

They will also be looking for new ideas and expanding their range.

Saltz says Becker, which will supply the major cosmetics companies in SA, can supply custom-mould bottles and will do specials depending on quantities.

While the company specialises in glass, some plastic containers and a printing service will be available.

Colourful cans are their own billboards

THE beverage can industry currently produces some 2-billion cans a year.

This means South Africans drink approximately 5,5-million cans of beverages a day, says Bevcan sales and marketing director John Moyes.

Dominating

"The 450ml and 340ml cans have nearly 20% of the beverage market, with the 340ml pack dominating. Recent national promotions in the soft drink industry achieved more than 40% growth for cans," he says.

The can is successful because it is a very convenient one-way pack with exceptional promotional abilities.

"The pinpoint reproduction which is a feature of tinplate printing ensures that cans have eye-catching decorative appeal. They become their own billboards, standing out on shelves and counters.

"Cans are also ideal for in-store displays, as borne out by a world record display at the Norwood Pick 'n Pay Hypermarket last year.

"It consisted of 25 000 cases, which breaks down to 600 000 individual cans."

Moyes says in the liquor market, ever more bottlestore, bar lounge and tavern owners recognise the importance of promoting a pack that is profitable.

"The profit is realised in many ways, most notably through lower storage costs, better use of shelf space and lower handling costs.

Cans also chill quicker, cutting down on refrigeration costs."

' Cans also offer transport savings. The can's efficient use of space means more litres can be carried per truck load.

Moyes cites overseas statistics to support the can's popularity. In the US, cans account for 62% of the packaged beer market. In the US and and European Community nations, research has shown cans are the least costly, and therefore most profitable, packs.

Mirrored

"We believe these factors will be mirrored here, particularly as beer and soft drink consumption increases. "There is more competition in the retail trade, which gives consumers a wider choice of outlets.

"To remain competitive, retailers will have to improve their businesses. Stocking up with cans will help them do that," says Moyes.

Corporate i[...] a job for the

HAVE you had your company
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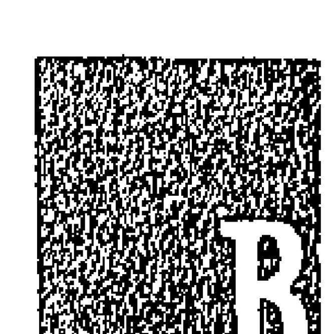

Fighting for the ozone

194 — Whole page exclude adverts

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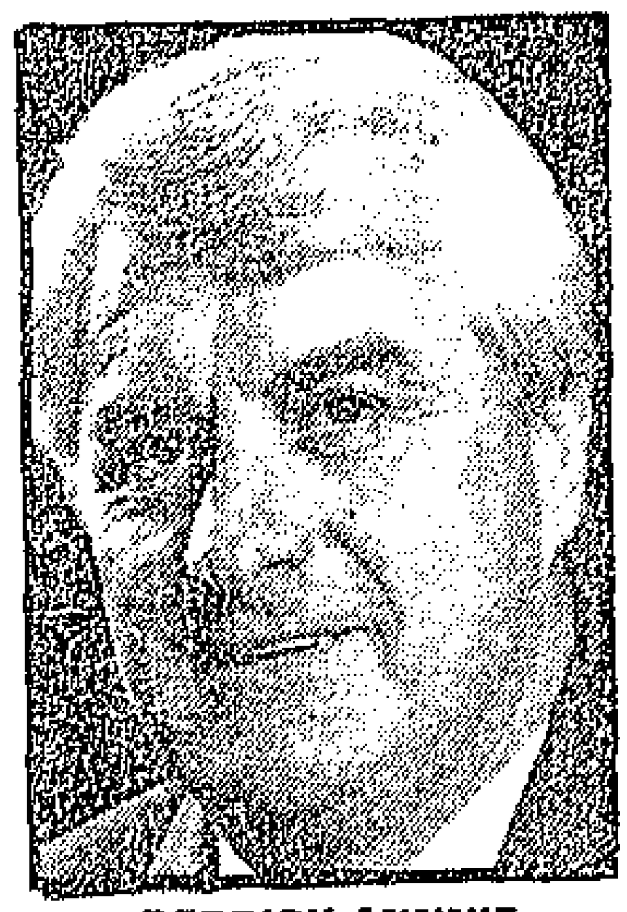
As a result, Kohler is concentrating on this niche market, as well as other growth markets in the food industry on the flexible packaging side.



DERRICK MINNIE

Large growth is also seen in extended polystyrene products. Kohler has spent R5m to make extended polystyrene products environmentally friendly and R5m to expand its production capacity for the fast food market.

Large expansions have been made in the carton and printing business, always a good contributor to profits. Over the last 18 months Kohler has invested R20m in this division to cater for its growing markets.

Minnie says: "What we do well, we would like to do better."

...l cans are ...n billboards

...become their own ...rds, standing out on ...s and counters.

...ns are also ideal for ...e displays, as borne ... a world record dis... ...t the Norwood Pick ...y Hypermarket last ...

...consisted of 25 000 ...which breaks down ...000 individual cans." ...es says in the liquor ...t, ever more bottles... ...ar lounge and tavern ...s recognise the im... ...nce of promoting a ...hat is profitable.

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"To remain competitive, retailers will have to improve their businesses. Stocking up with cans will help them do that," says Moyes.

Corporate image is a job for the experts

HAVE you had your company properly packaged?

Cape Town-based Janice Ashby Design Partnership (JADP) MD Eswé Nolte says creating the right corporate image for staff and the outside world is vital and should be done by experts.

Most important is how a corporate identity programme is put together. It should always project the philosophy and objectives of the company.

"The secret is it must be consistent and applied across as many items as possible," says Nolte.

Developing a corporate identity starts with logo design and extends to a company's stationery, uniforms, buildings and so on.

Of the more successful corporate image programmes in SA, Nolte says Trust Bank has managed to consolidate its image and improve it, while Volkskas has succeeded in projecting a more progressive and contemporary image.

He says multinational BP, which follows a stringent corporate image throughout the world, has a corporate manual which outlines how offices should be decorated, what uniforms to wear, how products should be treated and so on. The result is that BP looks the same all over the world.

...or the ozone ...

Fighting for the ozone

BAKKE Packaging, which supplies packaging to the food industry, will invest R4m in the fight against the depletion of the ozone layer.

This figure represents the cost of modifications required to eliminate chloro fluorocarbon gases (CFCs) — considered one of the main agents responsible for the depletion of the ozone layer — from Bakke's production of blown polystyrene packaging material.

The planning and design phase of Bakke's conversion programme has been completed and the start of changeover is scheduled for June this year.

Bakke, a division of Kohler, was the first SA company to manufacture blown polystyrene more than 20 years ago when hydrocarbons were used as blowing agents.

CFCs, developed in the '30s as safe refrigerants, replaced hydrocarbons at the end of the '60s. They were more stable, non-toxic, non-flammable and entirely safe in human use.

However, since research has shown they can be dangerous to the ozone layer, worldwide efforts are being made to find efficient "ozone friendly" alternative agents. An agreement on measures to control the use of CFCs was signed at Montreal.

Bakke MD Ernst Snoek says the company is committed to the requirements of the Montreal Protocol and the ultimate elimination of CFCs in its manufacturing process.

In 1986, it began researching alternatives to CFCs. It is also involved in development programmes with AECI and has tied up with a European company which successfully converted its plant to an ozone-friendly blowing agent.

Boxpak factory is upgraded

CAPE-BASED paper packaging manufacturer Aries Packaging took over the business of Germiston-based Boxpak, a small corrugated carton manufacturer, in October last year.

Since then this factory has been upgraded, technically and administratively, and modernised. It is now able to manufacture and supply the whole range of corrugated containers.

Last year, Aries Cores and Tubes started in Germiston, manufacturing spirally-wound paper cores and tubes for a wide variety of industrial users.

Aries CE Dieter Neckel says fast and effective service has been the reason for the successful development of the Cape operation and Aries Corrugated Containers in Transvaal will certainly follow the same path.

"We are coming to the Transvaal to give the small-to-medium industrial concern personal attention, direct contact and fast reaction time.

"We see ourselves not as a challenger but rather as an additional service between the small-volume sheet plant and the high volume converter."

With Aries' financial year ended December, the acquisition of Boxpak has not materially influenced the 1989 results, but will certainly make a difference to 1990 trading.

don't expect a stam- bankers and reduce its foreign non-racial democratic future."

Carlton's earnings rise by 38-pc

STAR 5/2/90 Finance Staff

Higher volume sales and factory throughput boosted Carlton Paper's earnings per share by 37,6 percent to 130,9c (95,1c) in financial 1989. (194)

The total dividend for the year was raised by 8c to 60c a share.

The directors comment that the improvement in turnover, which rose by 22,9 percent to R317,3 million (R258,2 million), followed on the rebuild and modernisation of production equipment in the first quarter of the year.

The effective tax rate fell from 48,1 percent in 1988 to 35,7 percent last year as a result of the change to the partial method of providing for deferred taxation as well as from the investment in new equipment for production of non-woven materials.

Net income for the year rose by 59,2 percent to R23,9 million.

Commenting on the outlook for this year, the directors state that further profits are forecast for 1990, "based on continued productivity improvements and real growth in the company's major markets."

BDay 5/2/90

Positive forecast of Carlton Paper earnings justified

CHARLOTTE MATHEWS 194

CARLTON PAPER's management forecasts of improved earnings in the second half of the year have been more than justified as a result of the upgrading of production equipment and a lower tax bill.

The group showed a 37,6% improvement in earnings a share to 130,9c (95,1c) for the year to December compared to virtually no change in June over the previous interim period.

A dividend of 60c (52c) a share has been declared on a slightly raised dividend cover to 2,2 times from 1,8 times. Turnover rose 22,9% to R317m (R258m) and operating income grew 17,8% to R37,8m (R32m).

Attributable profits rose significantly to R23,9m from R15m the previous year.

The tax rate fell to 36% from 48% because of a change to the partial method of providing for deferred taxation and investment in new equipment.

The deferred tax provision, totalling R21m, was transferred to non-distributable reserves. R18m was attributed to 1988 and the remaining R3m together with retained income raised ordinary shareholders' funds for 1989 to R89m.

Profits were also buoyed up by a R3,2m extraordinary item representing the gain on the disposal of land and factory buildings.

The Carlton Paper group, which is 41,8% held by Malbak, manufactures, sells and distributes disposable tissue and fibre-based products.

For 1990 they forecast further earnings growth based on continued productivity improvements and real growth in the company's major markets. At December the group's capital commitments were R8,1m compared to R1,2m for 1988.

Carlton shares rose 25c to 800c on Friday when they offered a historical earnings yield (EY) of 11,8% and a dividend yield (DY) of 6,5%.

Today's announcement brings the current EY to 16,4% and the DY to 7,5% on a price of 800c. This compares to a sector average of 14,4% and 5,8% respectively.

BDay 9/2/90

I & J profit stunted and squeezed

LINDA ENSOR

AN escalation in operating costs stunted the interim profit growth of frozen food producer, Irvin & Johnson (I & J), which was simultaneously squeezed by the stranglehold which the stagnating economy placed on disposable incomes.

Earnings inched up 2,5% to 94,9c a share (92,6c) on a 17,5% growth in turnover to R607,7m (R516,9m).

And the scenario for the second six months looks equally tough, with hopes settling on merely matching last year's earnings as restrictive governmental measures to restrain the economy and control inflation take their toll.

"Current levels of restrained consumer spending, depressed selling prices, and high interest rates are expected to persist throughout the remainder of the financial year," the directors state in the profit announcement.

They say the prices of I & J's major products remained at last year's levels "and in some cases prices were lower than a year ago. The firmer rand reduced export realisations".

Another worrying factor is the uncertainty over the continued operation of SA companies in Namibian waters.

The rise in unit costs due to wage increases and hikes in fuel and packaging prices resulted in a fall in the operating margin from 8,3% to 7,3%, generating a 3,6% rise in operating profit to R44,2m (R42,7m).

The total allowable catch in SA waters was reduced by 2,5% but vegetable harvests and production of frozen vegetables were much improved.

Investment income fell 13,8% due to the investment of less cash and to exchange rate fluctuations.

High interest rates produced a shock 19% increase in the interest bill so that pre-tax profit nudged up 0,8% to R44,1m (R43,8m).

The situation was relieved to some extent by the lower tax rate of 39% (40,2%), but I & J derived less income from associated companies.

The balance sheet remains relatively unchanged except for a R6,7m reduction in short-term borrowings which has brought debt:equity to 18,6% (24,6%).

Transun to exploit further Wild Coast Sun's potential

BDay 9/2/90

LIZ ROUSE

TRANSUN, announcing satisfactory interim results today, has ambitious plans to expand and glamorise the Wild Coast Sun.

A master plan to exploit fully the potential of the Wild Coast Sun casino/hotel complex was presented at Transun's board meeting yesterday, MD Alberto Chiaranda said in an interview.

Transun reports a 13% increase in turnover to R80,2m (R71,05m) in the six months to December on which a 13% increase in operating profit to R34,9m (R30,8m) and a 16% rise in attributable earnings to R24,7m (R21,3m) were achieved.

The interim dividend has been raised to 13c (11,5c), keeping the group's dividend growth record intact.

Directors say in the interim report that the interim results are satisfactory considering the fact that no major developments have taken place since September 1987.

They say notwithstanding continuing difficult trading conditions, the board believes that earnings in the second half should be satisfactory.

Transun's bottom line was affected positively by net interest earned.

The group's healthy gearing of 37% opens the door for expansion. The Wild Coast Sun achieved an average room occupancy of 80% for the six month period — 4% higher than room occupancies in SA's hotel industry.

This is a better occupancy rate than the hotel achieved in the previous year and an indication that the casino/hotel complex can attract a bigger tourist traffic if facilities are pepped up.

The gaming rights position is also now more clear for Transun to go ahead with expansions.

Revenues

An agreement, which has been made an order of the Transkei Supreme Court but which is still subject to confirmation by the passing of the necessary legislation, has been reached with the Transkei government.

Transkei has been divided into three sections (northern, southern and central) for the purpose of gaming licences.

In addition, gaming levies have been increased with immediate effect to 7,5% of gaming revenues for the next three years, increasing thereafter to 10% of gaming revenues for the next three years.

Transun will be entitled to its exclusivity in the northern division until July 31 1998 and no other party can be granted a gaming licence in this division before that date.

The group's five stand-alone slot operations, trading as Transgames, will be phased out over time. The Idutywa and Mount Frere outlets will close on or before January 31 1991 and the Butterworth and two Umtata outlets will cease trading on July 31, 1998 or one year after the opening of any casino hotel in the southern division in the case of Butterworth and in the central division in the case of Umtata.

Transun will therefore continue to enjoy exclusive gaming rights in the northern division until 1998. The remaining divisions are available to applicants, including Transun, for the granting of gaming licences dependent on the declaration of a tourist development area and the development of a casino hotel in the relevant division.

Transun shares firmed 5c to 370c yesterday ahead of results. The counter shot up to 425c on January 26 when the beverage and leisure sector was buoyant.

Metal Closures earnings crash in adversity

194

BDay 9/2/90

ZILLA EFRAT

POOR weather conditions, industrial action, intense market competition and lower sales in some markets contributed to Metal Closures's 21% drop in earnings in the year to December.

The group produced earnings of 289,9c (367c) a share. The total dividend for the year of 140c (122c) a share, is up 14,8% and covered 2,1 (3) times.

Turnover rose 8% to R133,3m (R123,4m), but operating income fell 17% to R16m (R19,4m) as margins dropped to 12% (15,7%).

The interest bill soared to R1,5m (R392 000) with interest cover falling 10,6 (49,4) times, resulting in pre-tax profits dropping 23% to R14,6m (R19m).

On a drop in the tax rate to 48,3% (49,7%), attributable profits fell to R7,5m (R9,5m).

Directors say the low level of real growth, negative in the case of the rigid moulding business, when compared to extremely buoyant levels enjoyed in 1988 stems from various factors.

These include poor weather conditions in the first quarter, conversion by customers to the plastic Duet closure where existing aluminium stocks were run down, illegal work stoppages and industrial action.

The reduced level of activity has impacted adversely on the recovery of overheads which have sharply increased, thus eroding margins.

Directors say the group has invested substantially over the last two years to expand and improve its manufacturing facilities and is confident that it is well placed for growth.

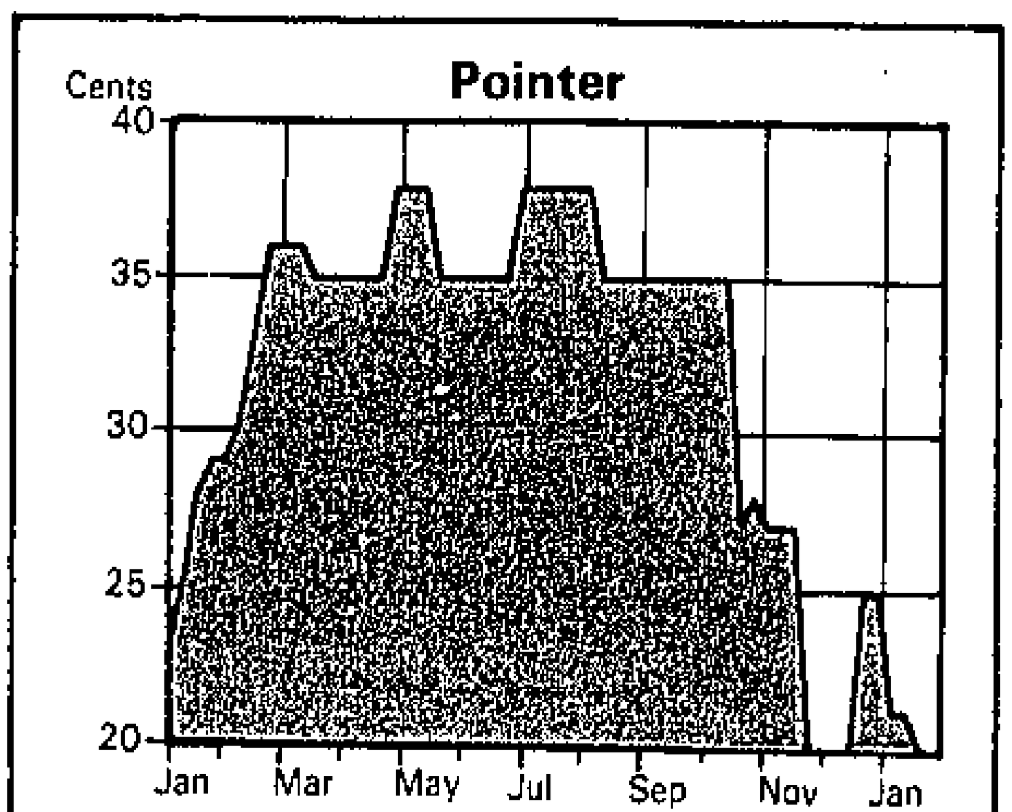
POINTER FM 9/2/90 194

Import squeeze

Activities: *Manufactures leatherwear and accessories.*
Control: *Directors control 37%.*
Chairman: *S Turok; MD: J Stein.*
Capital structure: *8,0m ords; 2m var rate debs of 50c. Market capitalisation: R1,6m.*
Share market: *Price: 20c. Yields: 15,0% on dividend; 32,0% on earnings; PE ratio, 3,1 ; cover, 2,1. 12-month high, 38c; low, 20c. Trading volume last quarter, 27 000 shares.*

Year to Jun 30	'86	'87	'88	'89
ST debt (Rm)	0,89	1,59	1,42	1,80
LT debt (Rm)	—	0,05	0,09	0,26
Debt:equity ratio	0,80	1,27	0,67	0,35
Shareholders' interest	0,38	0,18	0,46	0,46
Int & leasing cover	3,6	5,0	4,8	2,8
Return on cap (%)	13,8	20,3	24,3	24,5
Turnover (Rm)	5,3	7,6	9,1	13,7
Pre-int profit (Rm)	0,40	0,89	1,31	1,46
Pre-int margin (%)	1,6	11,7	14,4	10,6
Earnings (c)	2,3	4,8	6,6	6,4
Dividends (c)	1,25	2,45	3,0	3,0
Net worth (c)	13,8	15,5	18,4	21,8

While prices of leather and other raw materials used by Pointer have been rising appreciably, the share price has been sliding. The drop from a high of 35c three months ago to the present level of 20c is not hard to understand.



Source: J D Anderson

PTO.

FM 9/2/90 194

During the past year, turnover increased by half but pre-tax profit dropped. What went wrong? Chairman Solly Turok says profits were squeezed three ways: imports of inexpensive competitive garments from Turkey and handbags from the Far East meant that local price and overhead increases could not be recouped through higher selling prices; interest payments included the first-time cost of servicing the convertible debentures issued last year; and higher interest rates on increased borrowings helped boost interest paid by 91%.

In 1988, no capex of note was incurred but Turok says in the 1989 year new plant and equipment was acquired and the production layout modernised. While this expenditure has little effect on the overall asset picture, the outstanding feature in the balance sheet structure is the R1,75m (64%) increase in accounts receivable, a result of the increase in sales.

Turok says trading during the first six months of this financial year has been acceptable and that trading in the second half is generally better. He believes "earnings will be substantially increased during the current financial year." Clearly, if this happens, asset management will have to be stressed.

Gerald Hirshon

Metal Closures earnings crash in adversity

ZILLA EFRAT

194

POOR weather conditions, industrial action, intense market competition and lower sales in some markets contributed to Metal Closures's 21% drop in earnings in the year to December.

The group produced earnings of 289,9c (367c) a share. The total dividend for the year of 140c (122c) a share, is up 14,8% and covered 2,1 (3) times.

Turnover rose 8% to R133,3m (R123,4m), but operating income fell 17% to R16m (R19,4m) as margins dropped to 12% (15,7%).

The interest bill soared to R1,5m (R392 000) with interest cover falling 10,6 (49,4) times, resulting in pre-tax profits dropping 23% to R14,6m (R19m).

On a drop in the tax rate to 48,3% (49,7%), attributable profits fell to R7,5m (R9,5m).

Directors say the low level of real growth, negative in the case of the rigid moulding business, when compared to extremely buoyant levels enjoyed in 1988 stems from various factors.

These include poor weather conditions in the first quarter, conversion by customers to the plastic Duet closure where existing aluminium stocks were run down, illegal work stoppages and industrial action.

The reduced level of activity has impacted adversely on the recovery of overheads which have sharply increased, thus eroding margins.

Directors say the group has invested substantially over the last two years to expand and improve its manufacturing facilities and is confident, that it is well placed for growth.

Sappi's Enstra mill workers down tools

STAR 14/2/90 By Drew Forrest (194)

An undisclosed number of workers at Sappi's Enstra mill on the East Rand downed tools over pay yesterday, as labour unrest in paper and wood industries continued to mount.

Last week, about 500 workers launched a legal pay strike at Sappi's Ngodwana mill and more than 400 are reportedly on strike at one of the group's Port Elizabeth plants.

In the Mondi group, workers have been on strike at three board mills for five weeks. Wage strikes also erupted at two Mondi sawmills last week.

The Paper, Wood and Allied Workers' Union, involved in most of the disputes, could not be contacted yesterday.

But the general manager of Sappi's Enstra mill, Mr Ralph Clay, said the union was demanding 26,7 percent for lower grades. Sappi had offered 15,5 percent, bringing the monthly minimum wage to about R1 120.

The strike followed the failure of conciliation board talks and a strike ballot, he said.

Mr Clay said the mill was expected to maintain production at slightly reduced levels.

Consol feels the pinch with slim earnings rise

BDay 14/2/90 (194)

CONSOL's earnings rose 12% in the six months to December following a slowdown in packaging sales, industrial action at Tycon, formerly Goodyear Tyres, and a leap in finance costs.

It showed attributable profits of R36m (R32m) and earnings of 56,3c (50,4c) a share.

Turnover rose 61% to R631,7m (R392,8m) because of the Tycon acquisition of Tycon, effective from July 1989.

Operating profit, which rose 43% to R87,5m (R61,1m), was adversely affected as sales volumes in most of the group's packaging markets either remained static or declined marginally.

In addition, an 11-week strike and a two-week go-slow at Tycon — because of union demands related to the disinvestment of the US company — left their mark.

Net financing costs soared to R10,8m, from an interest-earned position of R1,2m, because of increased borrowings to finance the installation of a new furnace at the Clayville Glass Factory.

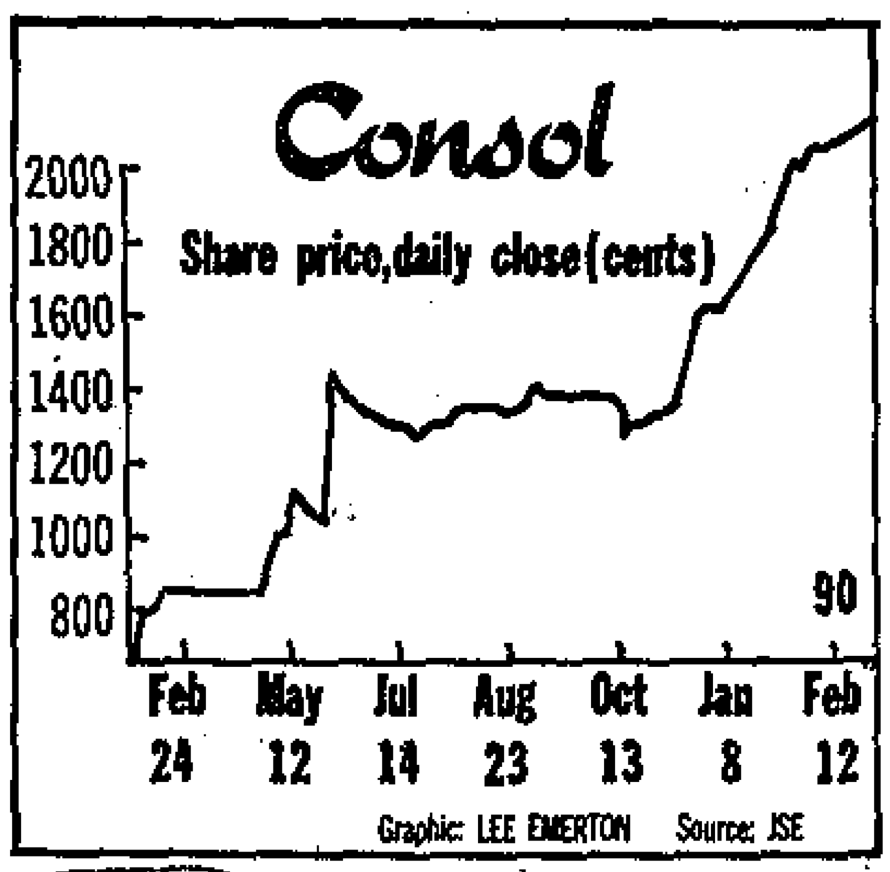
Interest earned previously on surplus cash dropped as it was used, together with the proceeds of the issue of R50m preference shares, to buy Tycon.

ZILLA EFRAT

With the tax rate slightly up, taxed profits improved 22% to R39,3m (R32,2m). In all, R3,3m was paid in preference dividends. The current asset ratio fell to 1,6:1 (2,1:1), while borrowings rose to R152,6m (R29,9m).

Group MD Piet Neethling says the glass division showed profit growth in spite of sales being affected by generally weak demand and start-up costs related to the Clayville glass furnace.

Rigid plastics achieved a marginal profit improvement in a soft market. However, flexible plastics showed increased losses because of high competition in a weak market. Consol has since sold its industrial flexibles operation.



The paper division, with its corrugated investments, produced meaningful profit growth in spite of a small decline in its market and loss of market share to a new entrant in the Western Cape.

Neethling says in spite of the industrial action at Tycon, it made a small operating profit. However, the merger between Tycon and Tredcor, effective from January, is not expected to increase the group's profit in the current year. But in the longer term, the deal will show better earnings growth.

Most of the capital expenditure of R42,8m (R12m) was spent on the expansion at Clayville glass plant. Further commitments amount to R52,5m. These include a R21m capacity expansion at Tycon's manufacturing plant and R4m on the corrugator in the western Cape.

Neethling says the rate of earnings growth in the second half of the financial year is expected to exceed that of the first half. Contributions from the new Clayville furnace and from a normalised post-strike Tycon should enhance profit for the rest of the year.

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also being offered as an alternative to cash dividends.

Afex is presently still in the process of negotiating for a listing on the Luxembourg stock exchange.

New R43m Nampak plant

BIPam 14/2/90 ZILLA EFRAT 194

NAMPAK will invest R43m in a new Durban plant for subsidiary MB Glass to produce dumpy and quart bottles for SA Breweries' Prospecton plant.

The plant, set to come on stream early next year, will act as a satellite of the MB Glass operation in Roodekop, Germiston.

MB Glass MD John Crawley says it will have a capacity of 30 000 tons a year and be equipped with the most modern glass forming and packaging machinery available.

The furnace will be designed and supplied by German company Sorg, and most of the production equipment will be supplied by US company Emhart.

Initial staffing at the plant will be limited and machine maintainance and repair will be handled by the parent plant, adds Crawley.

Interdict restrains strikers at Sappi

Argus 15/2/90

The Argus Correspondent

PRETORIA. — Striking Sappi workers in Springs have been prohibited in terms of an interim interdict obtained in the Pretoria Supreme Court from intimidating or threatening persons leaving or entering the factory's premises.

Sappi Fine Papers (Pty) Ltd, Geduld Road, Springs, was granted the temporary interdict against the Paper Printing Wood and Allied Workers Union and Sappi's striking employees, following an urgent application heard by Mr Acting Justice Roos.

The judge ordered the second respondents, 1 081 employees, to show by February 27 why they should not be finally interdicted.

In his affidavit Mr R W F Clay, general manager of Sappi Fine Papers, said the workforce, which embarked on a strike on Tuesday at 6am, "invaded the Sappi premises" and refused to leave.

He said that while on the premises they engaged in acts which endangered the safety of other workers and seriously impeded Sappi's business activities.

Mr Clay said he did not have any problems with Sappi workers engaging in a strike, but submitted that the conduct of the strikers was illegal and unlawful.

3 500 go on strike at paper and wood firms

STAR 15/2/90 (194)

By Drew Forrest

More than 3 500 workers are on pay strikes at paper and timber factories countrywide, following the eruption of strike action at Sappi's Enstra mill in Springs.

A thousand workers have downed tools at Enstra, and strikes have hit Sappi Novobord in Port Elizabeth and the group's giant Ngodwana plant in the eastern Transvaal. About 1 500 workers are also on strike at three board mills, a paper mill and two sawmills in the Mondi group.

The strikes follow annual company pay talks, which, in line with the practice of the defunct paper industrial council, mostly start late in the year.

Union demands average about 30 percent, while employers have consolidated their offers at about the inflation rate.

The Paper, Printing, Wood and Allied Workers Union, involved in most of the disputes, describes the sector as one of the worst payers in industry, despite being highly profitable.

Sappi chief executive Mr Eugene van As said the industry had been willing to share its good fortunes in recent years by giving generous increases.

"This year we do not see the same rate of growth. Our offers are fair in the current economic climate."

● The Pretoria Supreme Court yesterday granted Sappi an interim order prohibiting workers at Enstra from intimidating or threatening people leaving or entering the factory.

Refocusing Consol

Diversification was once the centrepiece of corporate strategies. But focus is the watchword now as companies get back to their core business. Packaging company Consol is now following that route. (194)

The Germiston-based company has sold off its Industrial Flexibles Division, which it bought from AECI nearly five years ago. The company previously traded as Gundle Plastics and the landmark Gundle Plastics blimp near Jan Smuts Airport will change its name yet again.

Consol sold its flexible consumer and industrial packaging lines to M&R Plastics. The sale will mean layoffs but neither Consol or M&R is saying how many.

The core of the old Gundle business — its construction and agricultural sheeting interests — were offloaded to Plastall. Consol will now concentrate on rigid packaging products, but will continue to operate three manufacturing plants on the flexible plastics side.

"We would have needed to invest a considerable sum of money and re-focus the product range if we were to keep the ex-Gundle business," says Consol Plastics MD Dave Spindler.

Consol has good reason to concentrate on its strength — rigid packaging. It's the only domestic manufacturer of plastic bottles that are labelled as they're moulded and it holds a dominant position in the child-resistant packaging market for the pharmaceutical industry. The company plans to invest in its 2 *l* PET bottle production and is now developing a 1,5 *l* returnable PET bottle for the soft-drink industry.

194

Paper workers locked out

Cape Times 16/7/90 Labour Reporter

WORKERS at the Bruply Sawmill ~~in Stellenbosch~~ who had been on strike since last week — were locked out on Wednesday.

Paper and Printing Wood and Allied Workers' Union (PPWAWU) shop stewards said that when the 289 workers arrived for work on Wednesday they found the gates locked.

More than 2 000 PPWAWU members are on strike countrywide for beter wages and working conditions.

Workers at Bruply's Elgin plant were also on strike, shop stewards said.

● Sapa reports that more than 500 striking workers at Sappi's Enstra mill, near Springs, had, up until Wednesday night refused to leave the factory premises despite a court interdict ordering them to do so.

Govt probe into paper industry

B/Day 11/2/90

194

ZILLA EFRAT

THE Competition Board is to investigate whether restrictive practices exist in the paper and paper products industry.

Administration and Privatisation Minister Wim de Villiers requested the investigation, notice of which appears in today's Government Gazette.

The investigation will determine whether any restrictive practises exist in firms which make paper or paper products, including packaging materials, the gazette states.

A board circular says the directive will probably require an investigation into the extent, pattern and implications of price increases, as well as international prices and the relationship, if any, between the two.

Competition Board chairman Pierre Brooks this week said the entire chain from timber processing to the end product market would be examined to determine if any restrictive practices exist.

The investigation would begin immediately after the notice was gazetted as the Minister was anxious that the board moved fast, said Brooks.

When initially contacted, none of the major players in the paper and packaging industries had been informed about the investigation.

However, Sappi CE Eugene van As said: "We compete with all the large companies around the world and have no concern about an investigation."

And Mondi CE Tony Trahar said his company would make a submission to the Competition Board in due course.

However, Nampak MD Don McCartan said the move was not unexpected but had come late in the day as there had been a change in the trends for paper pricing.

He said excessive demand worldwide for paper had pushed prices up and there had been a tendency for local producers to price at parity.

He said over the last few years, local paper prices had been just below import prices. On average, paper as a raw material accounted for over 60% of the final price of paper packaging to the end user.

Interpak group MD Tony Rudston said in the last few years the local board and paper suppliers had taken advantage of the weak rand and there had been a greater increase in the price of board than in the CPI or inflation rate.

In many cases, these increases had to be absorbed by convertors, placing pressure on their margins.

Holdains deputy chairman Klaus Zirker and Consol group MD Piet Neethling were unsure at to whether their groups were included in the investigation, but said they would co-operate if they were.

BDay 16/2/90 (194)

Aries profits trimmed by leap in tax

ZILLA EFRAT

ARIES Packaging showed a meagre 1,4% growth in earnings in the year to December after experiencing a leap in its effective tax rate.

The Cape-based packaging group, which has been moving into the Transvaal, produced an 11% rise in interim earning.

It showed attributable profits of R1,69m (R1,67m) and earnings of 15,4c (15,1c) a share for the full year. A dividend of 5c (4,5c) a share has been declared, up 11% and covered 3,1 (3,4) times.

Turnover rose 11% to R18m (R16m). Margins remained unchanged resulting in net income before tax of R3,2m (R2,9m). The tax rate rose to 47% (30%).

Directors say local operations performed well.

They say two operations started in the Transvaal, Core & Tubes and Corrugated, are expected to lead to future growth and will enhance turnover and profits.

Directors are confident that Aries will show further improvement and growth in the current year.

The share closed at 70c on the JSE yesterday, after a low of 55c in January and a high of 70c in March last year.

Kohler to come on line

8\04\142\90 ZILLA EFRAT (194)

PACKAGING giant Kohler has signed a major agreement for computerised online network services with corporate information organisation KreditInform.

The introduction of 35 Kohler operations nationwide to KreditInform's online system is the biggest contract signed in SA to link users to a private online credit network, says Kohler MIS MD Ian McLuckie.

In recent months, KreditInform has extended its services to provide an integrated range covering credit information and credit insurance, complete sales and marketing management systems and financial management support and business information.

Wednesday.

The six who were released on

Strikers stab 2 Sappi employees

Star 16/2/90 (124)

Strikers at a Sappi lumber plant at Ngodwana in the Eastern Transvaal stabbed and seriously wounded two employees this week before barricading a road with a hijacked truck, police said.

Strikers stabbed Mr D Swanepoel and Mr M Singane, seriously wounding them. Crime Reporter.

Afpac feeling the pinch as earnings a share fall 24%

BDay 20/2/90

194

ZILLA EFRAT

AFCOM Packaging and Industrial Corporation (Afpac), a manufacturer of packaging equipment and materials, showed a 24% drop in earnings a share, on an annualised basis, in the 10 months to December.

Bidcorp chairman Brian Joffee says the results are largely a reflection of the economic downturn and pressure on margins. However, increased borrowings, a higher interest bill and a rise in the weighted number of shares in issue also affected earnings a share.

Joffee says the results do not reflect the measures his group has taken since acquiring control of Afpac.

"These are aimed at improving asset management, curtailing operating costs, streamlining operations and creating a climate for growth," he says.

Afpac's financial year-end has been changed to correspond with Bidcorp's year to June. Thus the results are not strictly comparable with those of the previous period as they account for 10 months trading.

The group produced turnover of R88m and operating profits of R13m.

However, borrowings rose to R12m and the interest bill to R2,5m, representing a 60% increase on an annualised basis.

Earnings were 15,6c a share with the weighted number of shares in issue rising to 36-million from 34-million.

Afpac's policy of declaring a single annual dividend has also been changed to a bi-annual payout, the same as Bidcorp. And an interim dividend of 3,25c a share has been declared.

Adjustments

Non-recurring items, net of tax, of R1,3m include costs of rationalising certain group activities and adjustments relating to the carrying values of certain assets conforming with the holding company's policies.

Afpac is 70% owned by Afcom, in which Bidvest has a 51% interest. Bidvest, formerly Curries, is the investment arm of Bidcorp.

Afcom produced earnings of 13,4c a share and declared a dividend of 3c a share in the 10 months to December.

Bidvest reported attributable earnings of R2,9m, equivalent to 121,3c a share, and declared a dividend of 45c a share in the six months to December.

Bidvest, previously a motor dealer and property owning company, converted these interests into cash of which R20m was used to buy into Afcom.

Joffee says no comparative figures have been provided for the period because of the changed nature of Bidvest's business.

Bidvest still has R25m for investment in other strategic business areas.

Joffee says:"Our priority is to improve the returns from Afpac. We expect the measures we have taken in this regard to become evident within the next six month."

He says Bidvest's returns will continue to improve in line with an improvement in Afpac and the resumption of its investment programme.

"While our emphasis will be on Afpac in the short-term, we will be well placed to take advantage of any attractive investment opportunities should they arise."

Star 20/3/90 (194) (88)

Tighter environmental legislation urged

'Nominal' fine on Sappi angers conservationists

By Helen Grange

Environmental bodies have expressed disgust over the "nominal" fine of R6 000 imposed last week on Sappi Kraft paper mill at Ngodwana, which was found guilty by a Nelspruit magistrate of contravening the Water Act.

Hundreds of thousands of litres of effluent spilt from the mill into the Ngodwana River last year, polluting 36 km of water and killing many fish. The effluent flowed intro the internal stormwater drainage system then entered the Ngodwana River and the Elands and Crocodile Rivers.

Earthlife Africa called the fine a "mockery of all the Government's claims of environmental awareness". In many overseas countries, extremely severe fines were imposed on environmental offenders, it said.

A company called Autex in the US last year paid a $6 million (about R15,6 million) fine for dumping waste in a river. Eight months later, the offence was repeated and the company was fined $20 million (R52 million) and closed down.

Incorrect site

Also last year, a large pharmaceutical company in the US was fined $20 million for having a few barrels of waste on an incorrect site within its dumping area.

"The amount of R6 000, rather than being a punishment and a deterrent, can be seen as a nominal fee for the killing of part of our natural heritage," an Earthlife Africa statement said.

The organisation called on the Government to tighten environmental legislation, making offences such as this one less likely to occur, and to impose punishments which acted as a deterrent for any offences which may be committed.

Mr Colin Slater, founder of the Ecology Party, said: "How sad for SA children that an ecological disaster of this magnitude attracts virtually no penalty. We encourage the public to demonstrate their disgust by telephoning the managing director of Sappi and telling him what they think."

Employers, union to meet

STAR 22/2/90 Labour Reporter

Unionists and managers are to meet tomorrow in a fresh attempt to break the seven-week strike impasse at three Mondi board mills.

The Paper Printing Wood and Allied Workers Union said that although it had cut its pay demand from R2 an hour to 72c for the lowest grades, Mondi was still refusing to shift from its offer of 64c.

At a meeting at the weekend, management had agreed to the demand of no work, no pay and no disciplinary action during March 21 and June 16 stayaways.

The union said Cosatu would attend tomorrow's talks.

Strikes at Mondi board mills in Springs, Felixton and Piet Retief are part of a wave involving more than 4 000 wood and paper workers.

This week, Sappi management agreed to mediation in an attempt to settle the pay strike at its Enstra mill.

Swazi PM warns on crime

MBABANE — Swaziland was in the grip of a frightening crime wave, Swazi Prime Minister Mr Obed Dlamimi told delegates at the opening of a two-day crime symposium at a top hotel near Mbabane yesterday. Star 22/2/90

He said a trail of murders, armed robberies, housebreakings and the brazen theft of motor vehicles in daylight had become a daily routine.

As a result there was a growing feeling of public insecurity. Costs of security and insurance were escalating.

Mr Dlamini said new investors were less likely to be attracted to Swaziland because of the crime situation and, as a result, revenues from company tax would be proportionately reduced.

He said revenues were badly needed for the construction of essential infrastructure, including roads, houses, hospitals and schools.

Mr Dlamini said any slowing down in the economy would cause a further scarcity in job opportunities, resulting in more people resorting to crime. — Sapa.

Sappi striker killed, 11 injured

Star 24/3/90 (194)

JOVIAL RANTAO

THE six-week strike by about 500 workers at Sappi Enstra Mill, outside Springs took another turn yesterday when a worker was killed and 11 injured after police dispersed workers who had staged a demonstration outside the company's premises.

According to Mr S Khubheka, general secretary of Paper, Printing and Allied Workers Union (PPAWU) which represents the workers, police to some extent used live ammunition to disperse the workers.

He accused Sappi management of not being prepared to meet the workers' demands. A police spokesman, Colonel J H Labuschagne, denied that live ammunition was used.

Coates pushes up earnings despite rivals

BDay 28/2/90 (194)

ZILLA EFRAT

COATES Brothers achieved a 16% growth in earnings after facing a highly competitive market in the year to December.

The manufacturer of printing inks, resins, can coatings and sealing compounds produced attributable profits of R5,8m (R5m), equivalent to earnings of 170,9c (147,9c) a share.

A dividend of 49c (42c) a share has been declared, up 17% and covered 3,5 times.

MD Fred Williams says margins declined during the year because of the higher costs of imported and locally produced raw materials, as well as increased overheads.

The resins division showed an encouraging improvement in sales.

Other divisions performed well, but not at the same level.

Turnover

However, Williams says Coates Chemie Compounds, which manufactures compounds for the packaging industry, did not develop at expected levels.

The group, held by UK company Coates Plc, improved its turnover by 29% to R122m (R94,3m).

Operating margins fell to 9,9% (10,6%), resulting in a 21% rise in operating profit to R12,1m (R10m).

After earning no investment income, a 46% fall in interest received to R75 000, and a 344% leap in the interest bill to R1m, pre-tax profits were 11% up at R11,2m (R10m).

A lower tax rate of 48% (50%) led to a 16% rise in taxed profits.

Williams says an improvement in earnings in the current year is expected, but this will be in line with the lower rate of growth generally forecast for the economy as a whole.

Eight-week strike at Mondi plants ends

Labour Reporter CAPE TIMES 28/2/90

AN eight-week strike by members of the Paper Printing Wood and Allied Workers' Union (Ppwawu) at Mondi Board Mills plants across the country has ended after the union and management reached a settlement.

A Ppwawu spokesman said a settlement agreement which would apply to all five Mondi mills had been signed last Friday between the union and Mondi.

The spokesman said management had "shifted significantly" on the demands and had also agreed to drop its demand for plant level negotiations.

The agreement will be backdated to January 1 and among the agreed demands were a 45-hour working week, a 72c an hour increase (up from 62c), minimum bonus of R870 (up from R639) and May 1 to be a paid holiday.

194

Star 2/3/90

Sappi buys stake in Swazi company

Finance Staff

A major South African industrial giant is to help in the development of Swaziland.

Paper producer Sappi has bought a 49 percent stake in the Usutu Pulp Company of Swaziland for R135 million and is to launch a R40-million expansion programme of the Usutu mill.

This was announced yesterday by Sappi's managing director, Mr Eugene van As. He said a further expansion programme, which could bring the new investment by Usutu to between R150 million and R200 million in the next year or so, was under consideration.

Diversified Consol treads growth path

S/Times 4/3/90 (194)

AFTER acquiring Goodyear (now Tycon) in July 1989, Consol has merged the tyre manufacturer with Tredcor.

Consol now owns 61% of the new group.

Consol is thus diversified with interests in both packaging and tyres. It also promises to become a cash-strong, high-growth group.

Consol had to give up a portion of Tycon's earnings to June 1990 to facilitate the Tredcor deal. Although the long-term strategic benefits of the merger are considerable, the deal is expected to reduce earnings growth to June 1990.

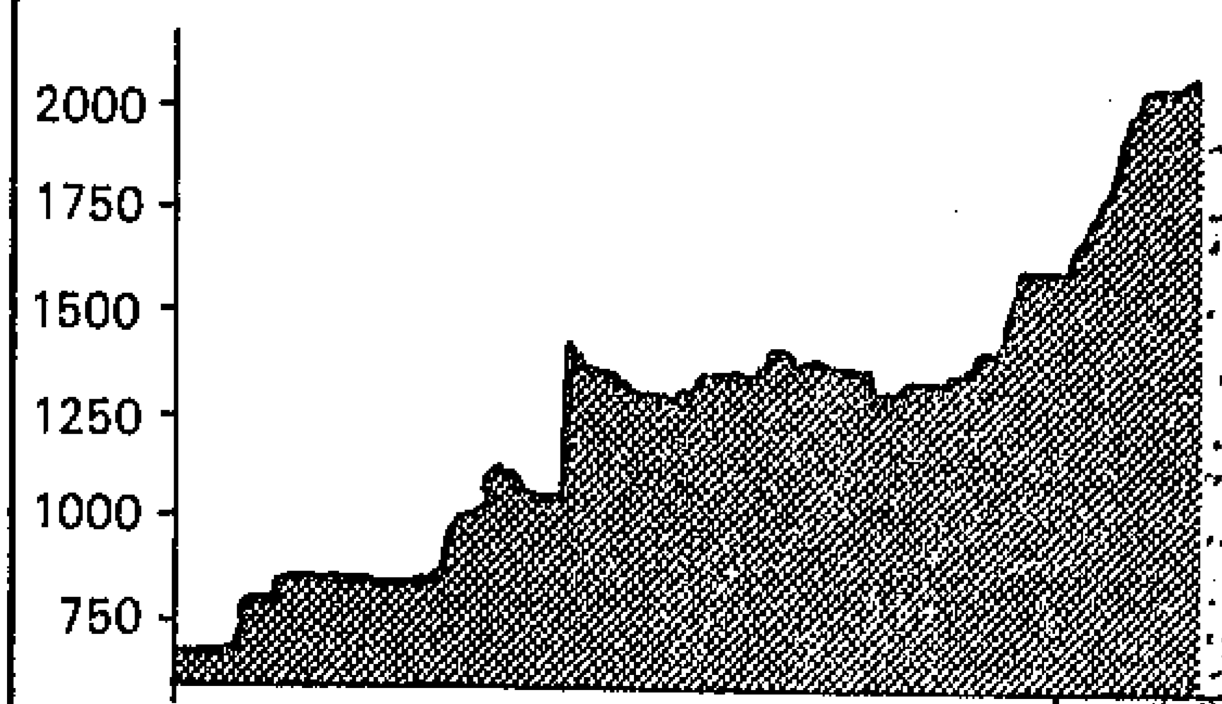
Tycon makes tyres for cars, light and heavy trucks, tractors and earthmovers under the Goodyear name. It also makes conveyor belting, PVC food packaging and other films.

Tredcor, through its Mastertreads and Trentyre outlets, is the largest distributor of all makes of SA-manufactured and selected imported new and retreaded tyres.

Retreads and new tyres account for about half of turnover each. Imports account for a minor share of new-tyre sales.

The transaction resulted in the merging of SA's largest tyre manufacturer and national tyre distributor.

Details of the Tredcor deal will be circulated in March and it will then be possible to quantify the effects of the merger on Consol.



Source: Irish & Co

INTEGRATION

The acquisition is of considerable strategic benefit to Consol in the long term, representing forward integration for the group from tyre manufacture to distribution.

Tycon and Tredcor form a group with a turnover of about R1-billion. Tycon is expected to contribute slightly more than half of turnover. However, management warns that Tycon's share of profit contribution will be larger than this, implying considerably lower margins from Tredcor.

Estimated profit contributions by division to Consol's post-interest, pre-tax earnings for the year to June 1991 are:

Packaging	56%
Tyre manufacture	29%
Tyre distribution	15%

Tycon's contribution to interim earnings in the 1990 year was marginal because of an 11-week strike and a two-week go-slow.

The tyre market is expected to remain strong for at least the next year, largely because of supply constraints. However, several manufacturers are increasing capacity.

As new capacity comes on stream, Consol should be able to increase its proportional supplies to Tredcor and export the surplus, ensuring continued strong earnings.

Management reports that the packaging side of Consol's business was weak in the first half of the current year, particularly in the last quarter.

The glass bottle division's price increase only comes through in the second half of the current year. In addition, the SA Breweries strike resulted in poor volume throughput.

Start-up costs related to the commissioning of the glass furnace at Clayville also dampened the performance of this divison.

The corrugated packaging division experienced a decline in volumes, largely because a corrugated plant was built by an agricultural co-operative at Worcester.

Glass tableware is also underperforming because of the economic slowdown.

Rigid plastics has shown a marginal improvement in a weak market.

The industrial flexible plastics operation has been sold. The rest of the flexible plastics division suffers from strong competition in a weak market.

Contributions from the new Clayville glass furnace should enhance earnings in the second half of the year to June 1990.

FLUSH

It is feasible that, having formed a mini-conglomerate, Consol may have still more acquisition plans. The group shows every sign of being cash flush in 1991-92.

In spite of its above-average historic earnings performance and its rating as a blue chip in the packaging sector, the market seems to have overreacted to the acquisition of Tycon and the merger with Tredcor.

Consol at 2 075 appears to be very expensive on a historic P:E ratio of 20,3x and a forward P:E ratio (excluding the Tredcor deal) of 16,0x — having run up almost 800c in the last 4 months.

Although the market has overestimated Consol's short-term earnings potential, the share remains a group with balanced interests and strong long-term growth potential.

Market debut for top packaging group (194)

ZILLA EFRAT

COMBINED Packaging (CP), SA's fourth largest packaging manufacturer with an expected annual turnover in excess of R100m, enters the JSE today through the Alfa Manufacturing Industries listing.

The new company comprises the plastic packaging interests of Lenco and Rubenstein Holdings (Ruhold).

Alfa, suspended from the JSE in May last year, was rescued from provisional liquidation by Lenco.

Ruhold's Ruplas division, which manufactures plastic bags for the retail market, and Lenco's Elvinco, which produces plastic bottles, will be injected into Alfa.

Alfa's flexible plastics manufacturing business will be incorporated into Ruplas.

15/08/90

Ruhold chairman and CP executive deputy chairman Jeff Rubenstein say with its low gearing CP is currently examining a large acquisition in the plastics field.

There will not be much rationalisation but administration and head offices will be merged. Benefits are expected from economies of scale and increased purchasing power. As both operations service the food industry they are protected from economic downturns, adds Rubinstein.

According to the transmuted listing statement, CP will not be in a tax-paying situation for the next three years because of the availability of assessed losses.

350 strikers yield to Sappi

STAR 6/3/90

About 350 workers at Sappi Novobord in Port Elizabeth have accepted defeat in a month-long strike; by taking the company's 16 percent wage offer. The company has not shifted on the size of the package offered, although it has been "restructured". — Labour Reporter.

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CAPT 7/1/3/5/6/3/90

Mondi strikers return

ABOUT 300 Paper Printing Wood and Allied Workers' Union (Ppwawu) members returned to work at Mondi's Richards Bay pulp mill when their two-month wage strike was settled after mediation, management and the union confirmed.

Healthy Nampak appeals to investors during hard times

8|09 7|3|90 (194)

ANALYSIS: STEPHEN RICHTER

DURING times of economic uncertainty, investors prefer to look at shares offering stable earnings-growth prospects, and Nampak is a prime example.

Although the paper and packaging index has fallen significantly from its October high of 4 804, Nampak continues to hold up well as the share is trading marginally below its February 6 peak of 4 900c.

A major reason for the decline in this index is the extreme weakness in Sappi's share price. A significant amount of Sappi's turnover is generated in the export market, and it appears that investors are fearful that paper and pulp consumption on international markets is weakening.

But Nampak derives a much greater portion of its turnover and profits from the domestic market.

In addition, the group is primarily involved in the packaging industry which is considered to be non-cyclical.

For the year ended September 1989, packaging activities accounted for slightly more than 75% of group turnover, while a similar percentage of operating profits were generated from this source.

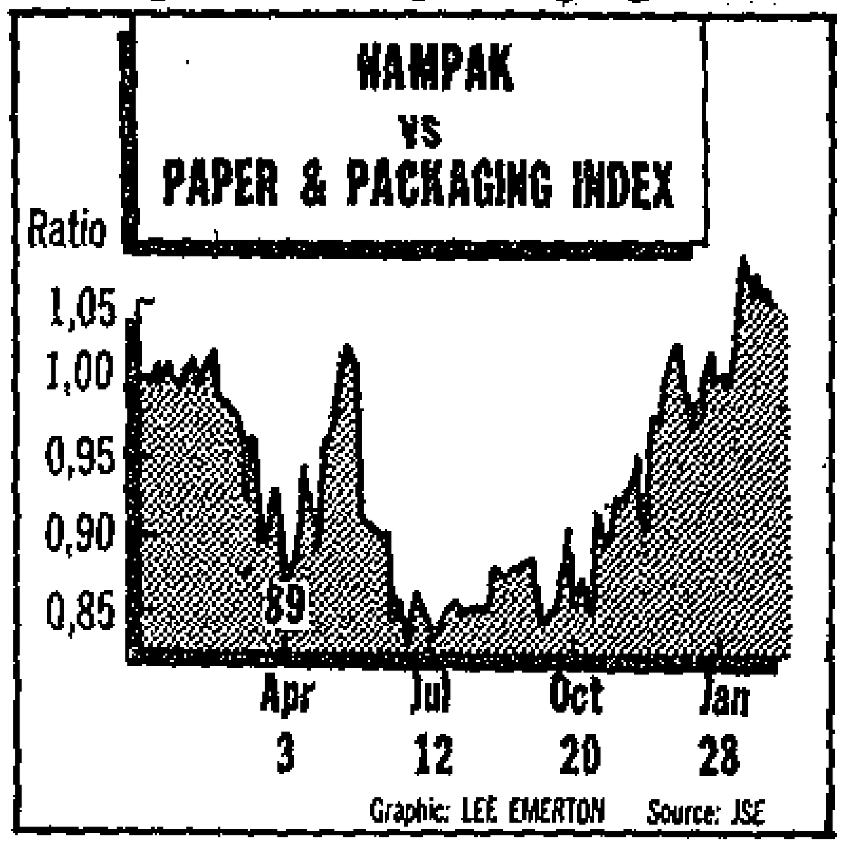
Because the food and beverage industry is a major consumer of packaging products, a packaging company with significant market share such as Nampak should weather most economic storms quite comfortably.

During the past four years, Nampak's turnover and earnings have shown steady growth.

Turnover has more than doubled to R3,1bn during the latest year compared with R1,4bn in 1985, while pretax profits have more than tripled during the same period to R342m, compared with R110m.

In addition, the group's balance sheet has been extremely healthy as the gearing ratio at end-September 1989 was 0,43, within the group's objective of 0,50.

Nampak's operations stretch throughout the packaging sector.



Various activities appear to offer above-average growth potential. The plastics division is benefiting from increasing demand for a wide range of plastic containers and this activity should produce above average growth in future years.

Good growth also appears possible within the glass, corrugated container and beverage-container divisions.

Demand for Nampak's paper products is expected to be satisfactory during financial 1990.

Regarding Nampak's long-term prospects, the group is spending a considerable amount of funds on the replacement and upgrading of plant and equipment in many areas of operation. This factor, in addition to the significant expansionary projects within many of the group's divisions, should enable Nampak to remain highly competitive in all markets in which it serves.

Although the share price is having difficulty moving above the 4 900c peak, its relative strength in performance against the paper and packaging index since July 1989 has been impressive.

The accompanying chart clearly shows that the relative strength ratio has now broken above significant resistance at 1,02, which indicates that investors are expecting impressive interim results from the group.

... and their spouses to attend the November 12 coronation of Emperor Akihito, the first such ceremony in more than 60 years.

CAPE Times 7/3/90

Sappi strikers back to work

A MONTH-LONG strike by several hundred workers at a Sappi plant in Port Elizabeth ended yesterday with management granting members of the Paper, Printing, Wood and Allied Workers Union a 16% wage hike.

Japan's oldest dies at 109

Paper giant Sappi tries to stop strike

Star 13/3/90 Labour Reporter (194)

Cosatu's paper affiliate has attacked paper giant Sappi for using a controversial labour law provision to stop a strike at one of its plants.

Last Thursday, 164 workers at Sappi Novobord in Nelspruit downed tools over demands for a 25 percent increase on the lowest minimum rates.

Sappi applied for an Industrial Court interdict on the grounds that it was a "repeat strike". In terms of the 1988 Labour Relations Act amendment, strikes on the same issue within 12 months are an unfair labour practice.

The application will be heard today, it said.

Sappi denied a union claim that it had applied for a court order evicting workers from company housing, but confirmed obtaining an interdict removing strikers from the factory.

Star 19/3/90 (194) (...)

Mill responsible for six other leaks

Sappi boss fined for Lowveld effluent spill

By Clyde Johnson, Lowveld Bureau

NELSPRUIT — The general *manager of Sappi Kraft's paper mill at Ngodwana* — from which hundreds of thousands of litres of effluent spilt into the Ngodwana River, polluting 36 km of water and killing large numbers of fish — was yesterday fined R6 000.

Regional Court magistrate Mr W J Wilken found Barry Charles Melrose, as a representative of the mill, guilty of contravening the Water Act by negligently polluting the river in such a way as to render it unsuitable for the propagation of fish and other aquatic life.

Melrose, in his capacity as representative of the mill, pleaded guilty.

A summary of facts handed to the court stated that on September 23 1989 at approximately 12.30 am, an estimated 700 000 litres of a substance called "weak black liquor" and "soap skimmings" overflowed from a storage tank.

The effluent found its way to the internal stormwater drainage system from where it entered the Ngodwana River and flowed into the Eland's and Crocodile rivers.

Depletion

As a result of the toxicity of the spilled material and the oxygen depletion caused by it, all fish in the river died within a distance of 36 km downstream.

Apart from the fish killed, the spillage also had a deleterious effect on large numbers of organisms from various levels of the aquatic food chain.

Passing sentence, Mr Wilken said that although the mill had no proven previous convictions, its history of six spillage incidents during the period February 3 1985 to September 23 1989 indicated that things were going from bad to worse.

He agreed that paper mills, like the one at Ngodwana, were necessary to produce much-needed paper.

"But this does not give them the right to adversely affect the environment," he said.

The Lowveld, he pointed out, was well known for its picturesque surroundings, abundant wildlife and unpolluted air and water.

After the spillage tremendous public concern had been expressed that Sappi restore the rivers to their natural state.

"I hope this sentence will help to keep the country alert and on its toes, to ensure the incident is not repeated," Mr Wilken said.

Compak 'is on acquisition trail'

BIDay 19/3/90

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BRENT MELVILLE

MARKET speculation is that Combined Packaging (Compak) is about to wrap up negotiations regarding the acquisition of another major packaging player.

Industry sources late last week said Compak, formed through the merger of the plastic packaging interests of Lenco and Rubenstein Holdings, was looking at an acquisition of about R40m.

BDay

19/3/90

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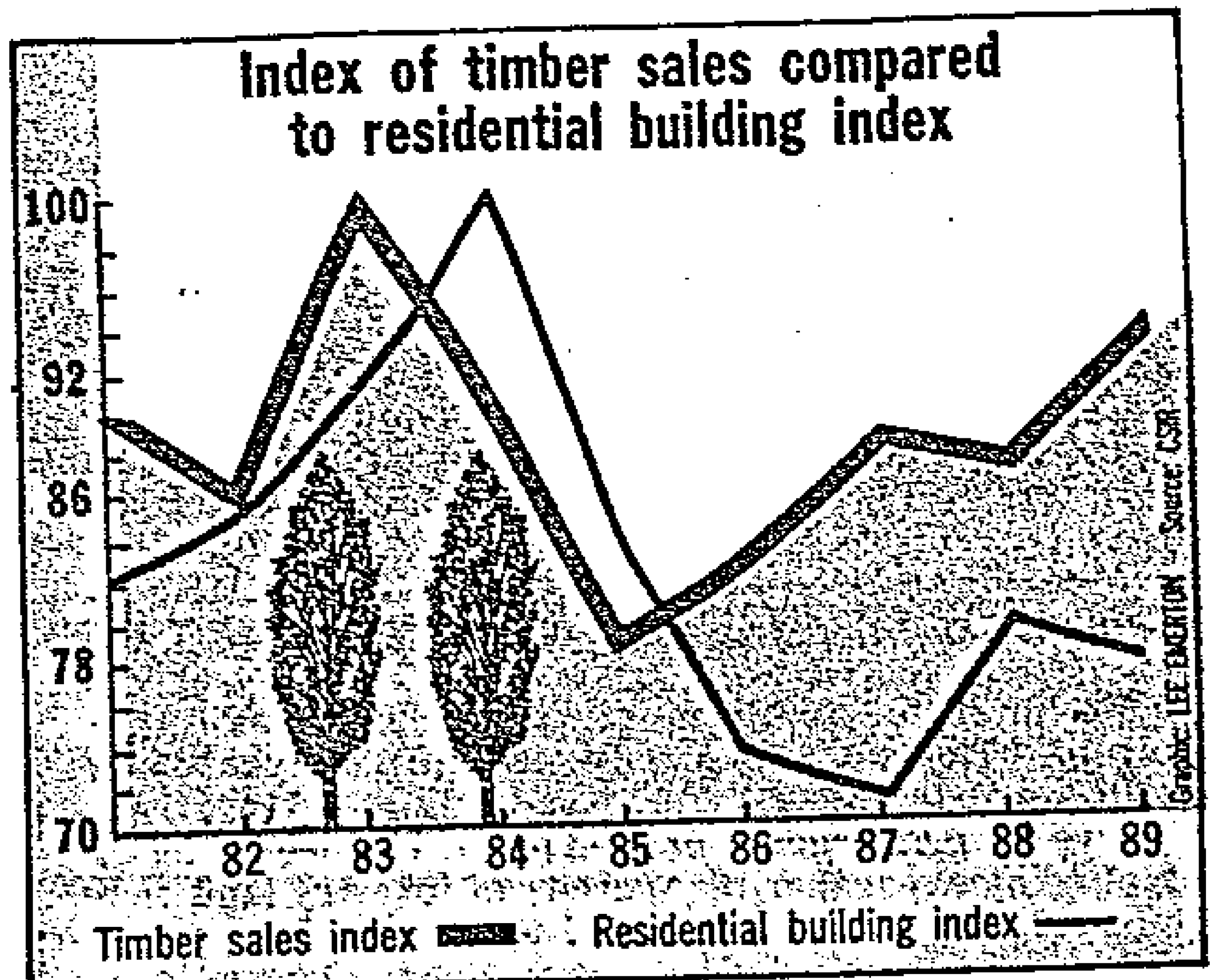
Pulp, paper & timber

Long-term prospects better



Until the mid-80s, timber sales were tied firmly to the residential building index. But an export drive by lumber millers has seen exports as a percentage of sales of sawn timber grow from 1,5% in 1984 to 13,3% in 1989.

SA's pulp and paper industry has entered a cyclical downturn and is set to face softer markets this year, but its long-term prospects look good.

Mondi executive chairman Tony Trahar says the local market is still reasonably firm, but some customers are feeling the effects of a downswing.

Sappi CE Eugene van As says the domestic market should show a modest growth of about 2% above GDP in the immediate future.

However, he expects growth in the fine paper market may be stronger because of the large amount of destocking that took place last year.

He also expects the use of paper in packaging to grow by between 1% and 2% above GDP because of the bouyancy currently experienced in the beverage and food markets, especially in the fruit export businesses.

Newsprint is also expected to show a small growth because of the rise in circulation experienced over the last few months in spite of a drop in adspend.

On the international front, Trahar says the world pulp and paper market could be in for a two-year cyclical downturn, but after this it should resume its long term growth pattern.

SA paper and pulp exporters are affected by the current strength of the SA rand.

On the international front, Van As expects pulp prices, which have come down by between 10% and 12% since the middle of last year, to remain soft.

He says newsprint prices, which fell last year, are beginning to strengthen and liner board prices are expected to remain stable against a basket of currencies.

Demand for dissolving pulp, the raw material used to make rayon, should remain reasonably strong in terms of volumes.

There will, however, be a fair amount of downward pressure because of the closing of some viscose plants in Eastern Europe resulting in more raw material being available.

On the whole, Van As expects very little growth for the pulp and paper market next year, with the industry experiencing a squeeze in margins.

But he expects the industry to experience very strong growth in three years' time.

SA's per capita paper consumption is low in comparison to other countries. South Africans consume about 50kg of paper a person a year, compared to the annual per capita consumption of between 150kg and 200kg in Europe and 300kg in the US.

Van As says as disposable income and education levels improve, paper consumption will rise.

Sunpak shines with rise in taxed profits

ACHMED KARIEM

CAPE-based foam-packaging company Sun Packaging Holdings (Sunpak) has increased half-year taxed profits 54% to R4,57m (R2,97m) on the back of continually growing demand locally and abroad for its diverse products. B|Day 22|3|90

These include synthetic paper labels, which are making inroads into export markets, as well as white polystyrene food trays, colourful laminated trays and decorated packaging.

The strong demand was largely manageable, thanks to increased production capacity flowing from major capital investment during the accounting period.

In spite of the 54% surge in taxed profits, earnings per share for the six months ending February rose only 15% to 8,5c (7,4c), chiefly the result of a hefty 34% increase in the number of shares in issue.

Chairman Tubby Gericke said although the earnings of 8,5c a share represented a dilution of earnings, shareholders had expected this. (194)

The company remained on target to meet its earnings forecast of 23c share for the year to end August, Gericke said.

Operating income increased 58% to R6,7m from R4,28m. The interest bill increased by 89,6% owing to an increase in long-term loans in the second half of the last financial year.

Gericke said all Sunpak factories had been converted to ozone friendly methods.

Sunpak's new product development programme was expected to produce "a few innovations in the coming six months" leading to exciting growth, he said.

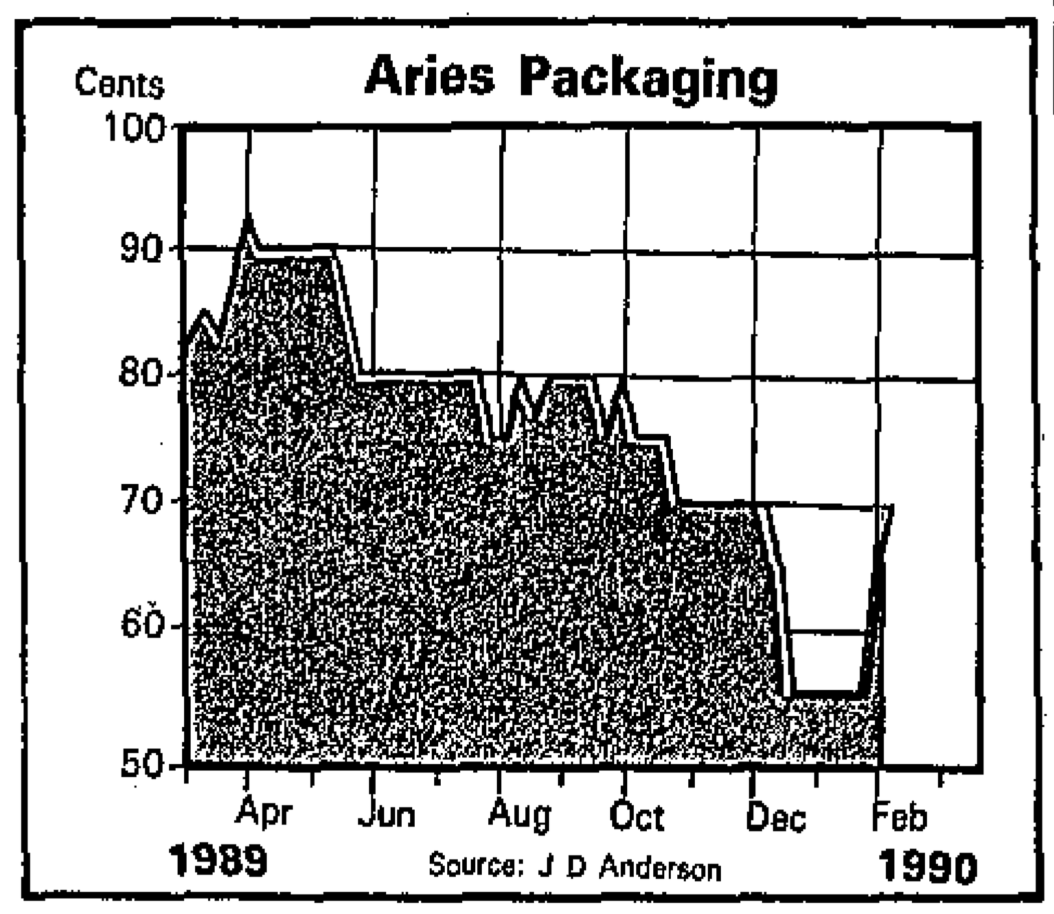
ARIES PACKAGING F|M 23/3/90

To the hinterland (194)

Activities: *Screenprinters and manufacturers of packaging, paper cores and tubes.*
Control: *Directors 71%.*
Chairman: *G E Kohler; MD: D Neckel.*
Capital structure: *11m ords. Market capitalisation: R6,6m.*
Share market: *Price: 60c. Yields: 8,3% on dividend; 25,6% on earnings; PE ratio, 3,9; cover, 3,1. 12-month high, 93c; low, 55c. Trading volume last quarter, 13 100 shares.*

Year to Dec 31	'87	'88	'89
ST debt (Rm)	0,07	—	0,5
LT debt (Rm)	0,03	—	0,27
Debt:equity ratio	n/a	n/a	n/a
Shareholders' interest	0,62	0,75	0,68
Int & leasing cover	n/a	n/a	n/a
Return on cap (%)	43	43	35
Turnover (Rm)	11,8	16,2	17,9
Pre-int profit (Rm)	2,0	2,8*	3,1
Pre-int margin (%)	17,1	14,4	17,2
Earnings (c)	11,8	15,2	15,4
Dividends (c)	3,5	4,5	5,0
Net worth (c)	26,3	40	54,9

* Before non-trading item R0,5m.



F|M 23/3/90 (194)

Profitable niches are hard to find in the highly competitive packaging market. Aries's management thought it had found one when it acquired Core Manufacturing for R2m in June 1987, just before the listing on the DCM that year. The acquisition slotted in well with the objective of diversifying within the packaging industry.

Until early last year the group's EPS showed encouraging growth and it seemed the decision to buy Core was good. Core was, however, a major supplier of specialist core and tube packaging to the military and, with cutbacks in defence spending, this business has fallen away.

This is one reason why EPS grew by just 1,3% last year. MD Dieter Neckel says the only way management is going to be able to increase earnings significantly is by expanding the business, formerly based only in the Cape, into the hinterland.

Aries's basic business of corrugated carton manufacturing has, according to Neckel, reached a mature phase. The company is operating at near full capacity with little scope for growth without investing in plant or acquisitions. Early last year production of cores and tubes started in Germiston when the market was in decline. In October a

F|M 23/3/90 (194)

small corrugated carton manufacturer, Boxpak, also in Germiston, was bought as the start of an expansion into cartons.

Pre-tax income rose 11,1% but the tax bill more than doubled to R1,5m. The group has no debt to speak of and the policy is to use internal funding rather than borrowings.

Neckel expects the Transvaal operations

F|M 23/3/90 (194)

to make a significant contribution to group profits in future but the targeted EPS increase this year, 18%, is barely enough for any real growth.

In the past few months there has been little trade in the share. With limited earnings prospects it is unlikely that larger volumes will be traded soon. *Gerald Hirshon*

Sunpak chairman Tubby Gericke at the company's R3-million environmentally friendly plant

Now ozone-friendly Sunpak invests R3m

By Robyn Chalmers

SELF-CONFESSED crayfish poacher of yore, and today chairman of hot-performing Sun Packaging, Tubby Gericke, is making a R3-million investment in the environment.

Sunpak, which announced first-half earnings of R4,6-million this week, is to switch its polystyrene packaging plants from ozone-damaging chloro-fluorocarbons (CFCs) to environmentally-friendly butane. ST Times 25/3/90

"International and local environmentalists have criticised polystyrene manufacturers for the damage they do to the ozone layer. We believed this was something important which had to be addressed.

"We've eliminated the use of 1 000-tons of CFCs a year by our decision. We've also started a 24-month countdown for all Sunpak foam to be bio-degradable by December 1991."

Mr Gericke has been a legend in deep sea diving ever since funding his BA (Archaeology), MSc (nuclear physics) and MBA at the University of Cape Town by catching 1 200 crayfish a day. He made his first fortune salvaging silver from six ancient wrecks off the Cape coast. (194)

He is proud to have been the only director's personal assistant to be fired from Anglo American Corp before doing his MBA and making Sun Packaging one of the best performing new listings in the spate of such in 1986 and 1987.

The sole asset of his first company was a boat which had been converted into a refrigerated stern trawler.

Listed on the JSE in June 1988, Sunpak has steadily expanded its market. It now claims more than 40% of the polystyrene foam packaging market — and plans to ensure a technological lead in the local industry.

Those amazing smart cards

Thirty-two A4 pages of information — this is the present capacity of a microchip embedded in today's "smart" plastic cards. Find out more about the technology involved in producing plastic cards and their applications in the Business Times feature on pages 5, 6 and 7.

Paper merchants focus on quality of service

(194)

THE low differentiation in the supply of locally produced paper has resulted in service becoming the name of the game for SA's paper merchants.

Star Paper MD Vince van der Bijl says between 70% and 80% of the products sold by merchants are produced by Sappi and Mondi. BDay 27/3/90

As a result there is little product differentiation and local paper merchants are focusing on service as the major difference between companies.

So merchants are giving attention to producing more effective and quicker response times through Management Information Systems and are improving their reliability and speed of delivery.

Star Paper, for example, is niche marketing orientated.

In line with this niche marketing strategy, Star Paper, which is part of the Graphtec group, offers a wide range of imported coated papers in order to provide printers with a choice and to compliment the local coated range they can choose from.

Van der Bijl says: "It is the merchant's role to ensure that clients are fully aware of the different properties and grades of paper so they can make the right decisions."

Van der Bijl says increased expenditure on black education will boost book printing and stationery conversion. Later this will lead to a rise in the number of magazines and books servicing the black populations, thus increasing fine paper demand.

R100m investment nothing to sneeze at

EXPECTING strong growth in tissue demand, Nampak Paper is investing R100m in a tissue manufacturing facility at its Kliprivier mill south of Johannesburg. BDM 27/3/90.

The plant, supplied by Escher-Wyss, is scheduled to come on stream in September 1991 and will use waste paper as its sole source of raw material.

The waste paper, which is collected nation-wide by Nampak Paper Recycling, is sorted, baled and shipped to Nampak Paper's three paper mills.

Nampak Paper CE Bert Ibertson says the waste paper recycling processes at the paper mills are as advanced as any in the world.

The new plant at Kliprivier will screen, wash, de-ink and bleach the recycled waste paper to a quality level suitable for high quality toilet tissue manufacture. (194)

Ibertson says: "The new Kliprivier facility will enable us to take advantage of the bouyant market for disposable tissue products and to export substantial amounts of tissue from our Bellville mill."

Nampak Paper currently collects 160 000 tons of waste paper a year and uses recycled material for 90% of its production.

Ibertson says the waste paper collection processes used by SA industry compete well with any in the world. At present, about 32% of apparent consumption of paper in SA is recycled, compared with 26% in the UK and 57% in the Netherlands.

"Internationally, the trend is towards improved waste paper treatment technology to manufacture a brighter, stronger paper suitable for a greater number of uses."

Survival of the fittest in battle against costs

B/Day 27/3/90

LOCAL paper merchants, feeling the pinch of the economic downturn, have in recent years been battling escalating operating costs.

But Graphtec CE Frits Waldeck is optimistic about the long term prospects of the paper market.

However, Waldeck does not foresee real growth in paper merchants' sales in the current year. The economic slowdown has resulted in a short term drop in paper consumption in all printing grades except packaging.

"Clients are not using more than they did last year and in some sectors, such as stationery, business forms and quality printing, they are buying less," he says.

The biggest problem merchants have had to face in recent years is the escalation of costs because of the devaluing rand, higher inflation and soaring interest rates.

In addition, price cutting is rife in the weak market, further negatively affecting operating margins.

As a result, Graphtec, which is part of the Malbak group, is giving increased attention to improving productivity of each employee and reducing costs in absolute terms.

Waldeck says until the economy picks up — and this is not expected to happen before the second half of next year — it will be a game of survival of the fittest for paper merchants.

He says if paper merchants cannot make an adequate return on investment over a longer period, a further rationalisation could be imposed by the three big groups — Malbak, AMIC and Nampak — to ensure a better throughput for each merchant.

However, Waldeck is optimistic about the long-term prospects for paper merchants, especially because of recent developments in SA.

He expects that once a reasonable stability settles in the country, black school children will return to school. There are currently 15m black children between one and 20 years old and this number is forecast to jump to 19m by the year 2000.

"If people are to get educated, and especially if they go for higher education, there will be substantial growth in paper consumption."

Waldeck says the industry is looking at between 5% to 6% real annual compound growth in the Nineties.

(194)

Carton industry gets new impetus with brighter, tougher designs

B/Day 27/3/90

194

THE importance of marketing goods in bright, colourful and eye-catching cartons has given impetus to the local production of new ranges of board products for the SA packaging industry.

Acting GM of Mondi Paper Company's Richards Bay division Ian Halliday says: "Appearance and presentation are important factors in raising consumer awareness of branded products.

"To this end, we have developed a white top linerboard, Baywhite, which comprises a bottom ply of unbleached (brown) board and a top ply of fully bleached (white) board."

Baywhite is extensively used by the agricultural industry internationally, particularly the citrus and deciduous fruit sectors where there is a growing trend to marketing in cartons.

"The white carton is much more attractive than its brown counterpart and the fibre used in the top ply provides a superior printing surface so that the overall appearance of the cartoned goods is enhanced."

Another market where Baywhite is being used for cartons is the wine and spirit industry.

A wet-strength alternative has been developed for cold-storage products and an aluminium-lined version for liquid products.

B/Day 27/3/90

Alex White profits dented by interest bill

ANDREW GILL 194

AN interest bill of R1,1m dented packaging company Alex White Holding's (AWH) interim profits of R1,3m for the six months ended December 1989, resulting in net profits of only R212 000, well down on 1988's R601 000.

The loss of profit was despite a 17% increase in turnover from R17,8m to R20,9m. Earnings fell to 1,3c a share (1988: 3,9c).

In line with group policy, no interim dividend has been declared.

AWH financial director Patrick Kane said the lower profits were a result of high interest rates incurred through expansion. Interest costs increased from R211 000 to R1,1m.

The higher costs, he said, were the result of the acquisition of two major machines for its Cape division. Newly acquired Form-Mate was relocated from Durban to Johannesburg in December.

Kane said the group generally performed better in the second half of the year.

"This and expected productivity increases due to the new machines and Form-Mate's relocation should see year-end profits and EPS in line with, if not better than, last year's."

Correction to Assmang report

BUSINESS Day incorrectly reported on Friday that the Associated Manganese Mines of SA (Assmang) was an Anglovaal subsidiary.

Anglovaal holds approximtely 48% of Assmang, while approximately 45% is held by Associated Ore and Metals. Business Day regrets the error.

(2,5c) a share was declared.

MD Bruce Coquelle said the group's sus-

yesterday. At this level the share offers a dividend yield of 10,8% and an earnings yield of 26%.

Clegg hampered by staff overtime ban

NEIL YORKE SMITH

PACKAGING and printing group Clegg Holdings reduced attributable earnings for the six months to December 31 to R0,7m from R0,8m for the corresponding period last year. BDay 29/3/90

This was despite a 10% increase in turnover, which reached R11,3m (R10,4m).

MD Gerd Egger said yesterday the group had been hampered by a staff overtime ban between September and December. (194)

"This had an adverse impact on invoice sales.

"Problems have now been solved and we are actually operating ahead of budget at the moment," he said.

Operating income of R1,4m (R1,3m) was reduced by higher interest charges of R0,6m (R0,5m).

This resulted in the per share earnings falling to 2,57c, compared with 2,75c for the corresponding period last year.

"We are still confident we will increase earnings for the full financial year," Egger said.

board from the chain's Transvaal operations.

Gerald Hirshon

MATHIESON & ASHLEY (194)

More for managers

Mathieson & Ashley's (M&A) results for the six months to end-December continue to reflect benefits of the restructuring of the

FM 30/3/90

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FM 30/3/90 (194)

M&A's Ringo . . . tax shield running out

FM 30/3/90 (194)

office furniture business. But attributable income was eroded by a substantial hike in claims of outside shareholders and preference dividends.

Turnover rose 52%, attributed largely to the office furniture division housed in Kallenbach-Hendler (K&H) and owned jointly with Afcol. Operating income of K&H — which accounts for 90% of turnover — rose 68%. Chairman Winky Ringo says K&H is well positioned to take advantage of changes in the office furniture industry, particularly the rapidly growing market for computer applications in financial institutions.

Office equipment subsidiary M&A (Pty), which provides 10% of turnover, faced difficult market conditions and lost R400 000 against a R300 000 profit a year ago. Ringo says a new strategy has been adopted and that M&A operated profitably from January to March. For the 1990 year he expects it to break even or show a small profit.

The 77% increase in M&A's after-tax income reflects benefits from assessed tax losses in K&H. The effective rate for the half-year was 8,2%. However, the tax loss is rapidly diminishing and stands at R8m (R16,6m at year-end); Ringo says considerable resources are being deployed to compensate for the loss of the tax shelter. Export possibilities are being investigated.

The sharp rise in income attributable to outside shareholders and preference dividends to R2,2m (R600 000) relates to participation of managers in the equity of their companies and the terms of M&H's deal with SA Breweries. Key managers in some subsidiaries can now acquire a share in the equity of their company.

Ringo believes the ability to share in profits is a major motivational force and would like to streamline this by listing K&H. Certain technical difficulties will have to be overcome first. Payment of a preference dividend to M&A from K&H, equal to 12% of K&H's consolidated profits, also contributed to the rise because of the improved results.

The increase in long-term liabilities to R17,2m (R8,8m) reflects M&H's acquisition of Brown & Neethling in October for R10,5m cash. This was financed by loans from M&H's holding company Vestacor and SAB. Both loans carry interest at prime and will add further to the interest bill.

Ringo is confident about prospects for the second half, generally the better part of the year. He expects the present growth in turnover to be maintained, reaching R145m (R99m) for the year. Full earnings are expected to be from 85c-90c (68c) and dividends 26c-27c (20,0c). In addition to a possible listing, Ringo says the group has the cash and the desire to take advantage of any strategic possibility. At 650c, the prospective earnings yield is 13,5% and the dividend yield 4%.

Pam Baskind

Improved efficiency boosts Bowler Metcalf

Sowetan 30/3/90

SYLVIA DU PLESSIS

IMPROVED efficiency at JSE-listed plastic packager Bowler Metcalf saw earnings rise 27% to 5,6c (4,4c) in the year to December.

194

The company, a manufacturer of plastic packaging for essential commodities such as household and personal toiletries, pharmaceuticals, printing and decorating, achieved this on turnover which rose by 15% to R12,3m from R10,6m. Taxed profits were R1,4m.

Dividends of 2,25c (2c), covered 2,5 times, have been declared.

EXECUTIVE SUITE

By William W

SUN PACKAGING FM 30/3/90 (194)

Tray chic

Shareholders in Sunpak, the plastic tray and boxmaker, might have their patience rewarded — next year. This year, though, is likely to be the second in a row of comparatively weak earnings growth.

Interim results for the six months to end-February indicate that chairman Tubby Gericke's forecast that total earnings will rise to 23c from last year's 20,5c will be matched fairly precisely.

The half-year's trading figures were good. Operating income advanced by 58% and, even after a 90% rise in the interest bill and a 60% increase in the tax rate, net income increased from R2,96m to R4,58m. But because the number of shares in issue increased from 40m to 53,8m, largely because of the R16,2m rights issue last September, EPS grew only 14,5%.

The rights issue financed the major capex programmes of the past two years. Production capacity for the company's basic product, extruded white food trays, needed to be doubled. The expansion was completed by the end of the year. The synthetic paper plant was expanded to four times the size that it was at the beginning of 1989. It has now been in full production since February. And the new full-colour laminated food tray production line is making an initial contribution to group profits.

FM 30/3/90 (194)

Second-half earnings are generally better than the first half's, which means 14,5c a share has to be added to the first half's 8,5c if Gericke's 23c forecast is to be met. This translates into an after-tax income of about R7,8m, 70% ahead of the figure realised in the first half but only 48% ahead of the figure for the second half last year. Since the interim results already show that growth in excess of 50% is being attained this year, this goal is easily within grasp.

With full order books for Sunpak's technologically advanced, CFC-free products and an apparent stabilisation in raw material prices, there is every reason to be encouraged about the company's potential to generate real earnings growth in the longer term. At its current 140c and assuming dividends remain twice covered, the share is rated on a forward yield of 8,2%. It seems reasonably priced.

Gerald Hirshon

CAPE TIMES 3/4/90

Sappi improves income by 42%

JOHANNESBURG. — In spite of softer markets, Sappi has reported a 42% improvement in net income for the year to February 28.

Earnings per share jumped from 607c in the 1989 financial year, to 650c.

A final dividend of 120c a share has been declared, bringing the total for the year to 200c.

Income attributable to shareholders was R51,5m (R43,7m), while turnover was up by 28,9% at R2,726bn (R2,468bn).

Operating income was up by 38% at R730,6m (R617,7m).

On an annualised basis, Sappi's financing costs at R205m were 214,3% higher than 1989 because of high interest rates, the expiry of some of the group's favourably-priced fixed interest financing and an increased level of general financing required.

The board expects that while paper and pulp prices declined in the second half of the year, they are now expected to remain relatively stable on international markets.

However, Sappi points out that if current exchange rate levels are maintained, current earnings are unlikely to be maintained. — Sapa rightist rebels should begin on April 16.

Cape Times 6/4/90

Stikers back at work

JOHANNESBURG. — Sappi strikers returned to work yesterday ending a seven-week strike, according to a statement issued by Sappi.

Kohler disposes of troubled rigid plastics division

STAR 6/4/90 (194)

By Jabulani Sikhakhane

Kohler Packaging has disposed of its troubled rigid plastics division to Lenco's packaging group, Combined Packaging for an undisclosed amount.

Kohler MD, Derreck Minnie said yesterday the division did not fit the group's culture and skills and had adversely impacted on Kohler's overall perfomance for some time.

Even after a R2,8 million rationalisation programme introduced in 1987, by the end of the last financial year it had not managed to show improved perfomance.

Mr Minnie wrote in the 1989 annual report that the rationalisation programme took longer than expected to settle and the situation was exercabated by the economic slow-down.

"The division has potential but we accept that a company like Combined Packaging is better equipped to maximise that potential. They have the marketing infrastructure in place and perhaps more important, the technical skills required for the highly specialised Extrusion Blown Process," he said.

Mr Douglas Jager, chairman of Combined Packaging says the acquisition will cement Combined Packaging's position as a dominant player in box flexible and rigid plastics.

"Combined Packaging has sufficient skills and know-how to re-establish the credibility that Rigid Plastics, including former Xactics, enjoyed historically."

Mr Jager is confident that the acquisition will have a material effect on the earnings per share of Combined Packaging, Lenco and Ruhold.

Combined Packaging buys into Kohler outfit

BDay 9/4/90 (194)

CAPE TOWN — Combined Packaging, the R100m-a-year plastics packaging giant created by Lenco Holdings and Rubenstein Holdings (Ruhold) in December, has acquired a majority stake in the rigid plastics division of Kohler Packaging for an undisclosed amount.

The acquisition is in line with the policy of fast-growing Cape-based parent Lenco, in which the Rembrandt group recently bought a strategic interest.

According to Kohler MD Derrick Minnie, Kohler had been looking for a suitable buyer for some time because the division did not fit its culture and skills and had had an adverse impact on group profits.

But the sale had been conditional on the new owner accepting the current employment conditions of the 1 300 management and staff in the division's three factories in Durban, Cape Town and on the West Rand.

Minnie said Combined Packaging

LESLEY LAMBERT

was better equipped to maximise the division's potential. The Lenco subsidiary had the technical skills required for the highly specialised extrusion-blown process as well as the necessary marketing infrastructure.

Aquisition

Combined Packaging chairman Douglas de Jager said the acquisition would cement the company's position as a dominant player in both flexible and rigid plastics. In December, Lenco and Rubenstein Holdings (Ruhold) announced the formation of Combined Packaging out of Alfa Manufacturing Industries.

Lenco was listed in 1987 when Elvinko and Atlantis Non-woven Textiles were reversed into Romanda Investment Holdings, which was renamed Lenco. Since then, it has been on the acquisition trail.

De Jager said he was confident the acquisition would have a material effect on the earnings per share of Combined Packaging, Lenco and Ruhold.

Minnie said the performance of Kohler, a Malbak subsidiary, was expected to improve in the current financial year as a result of the sale, but that the major benefits would only be felt fully in the next financial year.

In the year to end-August 1989, Kohler's turnover was R982,7m (R774,6m) with the paper division contributing R594,3m (R457m) and the plastics division R388,4m (R317,6m). The capital employed by the two divisions at year-end was R162,4m and R143,7m respectively.

The plastics division includes the rigid plastics, and the flexible and Bakke operations. The annual report for last year stated that the results of the rigid plastics division were adversely affected by the major restructuring and relocation which took place.

The restructuring was initially estimated to cost R2,8m and was undertaken because of the poor trading results in the 1988 year.

Sappi settles pay dispute with union

Star 10/4/90 (194)

A wage dispute at Sappi's Ngodwana Mill ended yesterday with an agreement between management and representatives of the Paper, Printing, Wood and Allied Workers' Union.

In a joint statement, they said they had reached agreement on wages and conditions of service for 1990. — Sapa.

(194)

BUSINESS DAY, Thursday, April 12 1990

Bevcan pumps R250m into Springs

BEVCAN, a division of the Nampak-Metalbox packaging group, is to invest about R250m in a can-manufacturing plant in Springs to meet the needs of the growing beer and beverage industries.

It has acquired more than 7ha of industrial land from the Springs Town Council for this purpose.

Bevcan has been increasing its capacity around the country and will undertake further expansion in both Cape Town and Botswana in the next two years.

Bevcan CE Alastair Lang says forecast growth in the beer and beverage industries necessitates a big new plant in the Johannesburg area.

ZILLA EFRAT

The Springs plant should be able to supply in the needs of Transvaal and the surrounding areas for at least the next 10 years.

Development of the new Springs facility should take place in three phases and cost about R250m.

Lang says Bevcan's decision to site its plant in Springs follows Amalgamated Beverage Canners decision to build a softdrinks canning facility in Springs. However, the Springs plant is well placed to service SA Breweries, Sparletta and other major customers in the Transvaal.

Mondi efforts to boost waste-paper recycling

B Day 19/4/90

(194)

ZILLA EFRAT

MONDI Paper has embarked on a national waste-paper collection exercise which will boost the national annual recycling of waste paper by 15% and conserve millions of trees a year.

Through its Paperwaste company, Mondi already collects and recycles about 250 000 tons of waste paper a year.

Paperwaste divisional manager John Lay says old newspapers and magazines will be collected from thousands of households by Paper Pick-Up, a free service operating in residential areas with the co-operation of the municipalities concerned.

For the past 15 years, Paper Pick-Up has operated in parts of the East Rand, Verwoerdburg and Pretoria and these areas will be expanded.

With an initial R5m investment in new collection trucks, Mondi will extend the service to the West Rand, Randburg, Sandton and Midrand, the greater Durban area and Cape Town and its suburbs. Further expansion is planned for full national coverage of all major metropolitan areas.

Lay says 600 000 tons of waste paper will be recycled this year — enough to fill Ellis Park Stadium to the top 21 times.

This is equivalent to about 33% of SA's overall annual paper consumption and significantly conserves timber raw resources, saving 23-million trees a year.

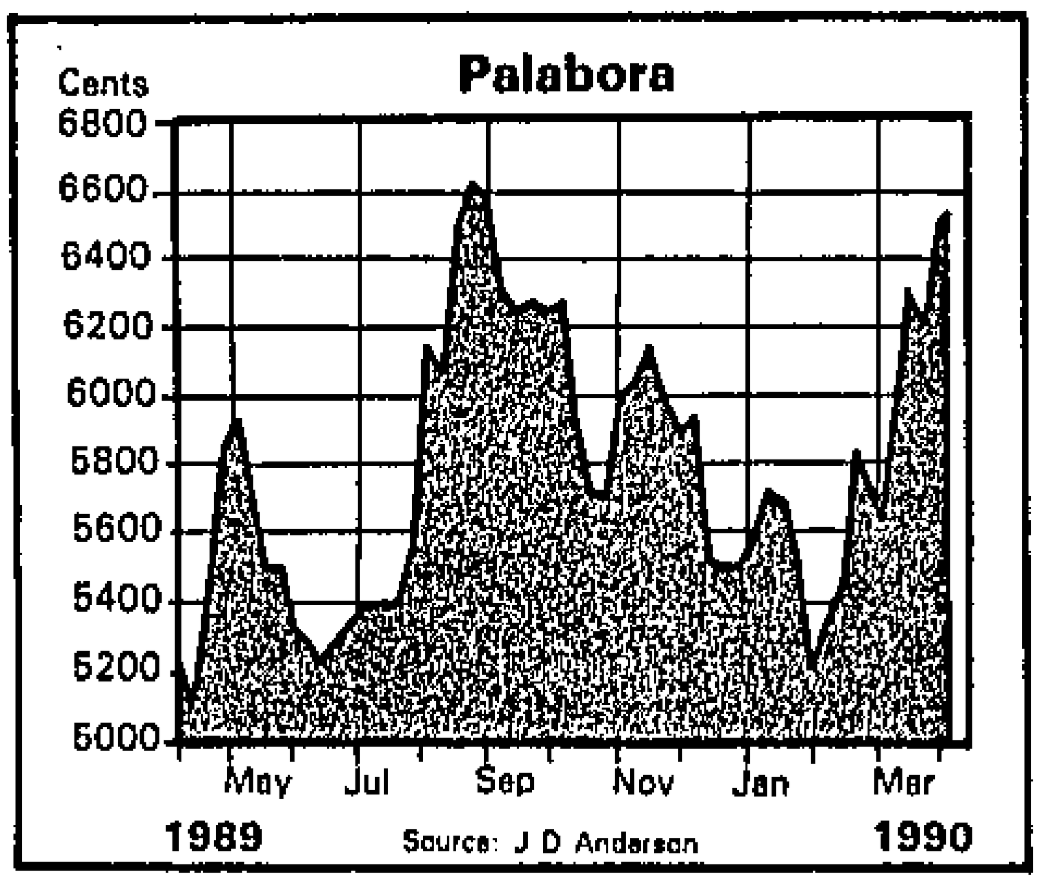
While SA is ahead of countries such as Australia and the US in paper recycling, it lags behind Western European countries which on average recycle 50% of their paper consumption, Lay says.

By participating in the scheme, residents will be contributing to charities, as Paper Pick-Up will donate between R15 and R20 for every ton of waste paper collected to the mayor's office for distribution to local charities.

Lay says paper is bulky and by keeping it out of the municipal waste dump, the working life of the dump is lengthened, with the obvious economic advantages passing on to ratepayers.

The collection vehicle calls at homes in the areas serviced once every two weeks. Householders are advised of the collection date two days in advance via leaflets asking them to leave unwanted papers in bundles or old grocery bags at their front gates.

FM 20/4/90



out of the 12 expected to be taken out of service. This does mean, though, that greater savings lie ahead.

MD Al Leroy says the latest figure for ore production transported on the conveyor system is 85%-90%. The group has said a saving of 10% in mining costs can be expected when it is fully operational, so we can look to additional savings of around R15m in 1990. This year management will be emphasising "further containment of operating costs" and, judging by past performance, it is likely to be successful.

Renewed weakness in the copper price would of course place greater pressures on the group. But, despite management's caveat, Palamin should at least maintain its 1989 performance in 1990. At R66, close to the all-time peak of R66,75, Palamin offers an historical yield of 13,3% and a forward yield probably the same. That must rate it as one of the better buys on the market, particularly as dividend income is no longer taxable.

Gillian Findlay

CARLTON PAPER FM 20/4/90

More wadding

194

Tissue sales are holding up, partly because of rapid urbanisation. More important, Carlton Paper (Carlcor)'s production capacity for the raw wadding product is close to domestic sales and any surplus is easily exported.

FM. 20/4/90 (194)

Activities: *Manufactures disposable tissue products.*
Control: *Malbak and Kimberly-Clark Corp have joint control.*
Chairman: *K Zirker; MD: K J Partridge.*
Capital structure: *15,8m ords. Market capitalisation: R141m.*
Share market: *Price: 890c. Yields: 6,7% on dividend; 14,7% on earnings; PE ratio, 6,8; cover, 2,2. 12-month high, 925c; low, 650c. Trading volume last quarter, 25 000 shares.*

Year to Dec 31	'86	'87	'88*	'89*
ST debt (Rm)	11,4	12,2	3,7	9,5
LT debt (Rm)	20,6	16,8	12,9	19,9
Debt:equity ratio	0,57	0,52	0,19	0,21
Shareholders' interest	0,35	0,38	0,50	0,49
Int & leasing cover	3,5	5,4	10	6,6
Return on cap (%)	15,3	13,7	21,7	20,7
Turnover (Rm)	199	222	258	317
Pre-int profit (Rm)	19,6	18,2	32,1	37,9
Pre-int margin (%)	9,8	8,2	12,4	11,9
Earnings (c)	53,3	45,1	95,1	130,9
Dividends (c)	30	25	52	60
Net worth (c)	285	316	472	564

* Based on partial basis of deferred tax.

Chairman Klaus Zirker expects a stable market for wadding and further growth in tissue product sales this year. Raw material prices, which rose steeply for a few years until early 1989, have stabilised.

Carlcor last year embarked on a capital programme and spent R16,5m (R5m), mainly on modernisation. In 1990, capex will be similar, with the cost of a R10m plant to produce wipes, used by motor mechanics and in nappy linings, brought to account. Over the next four years, about R40m will be spent to raise Carlcor's wadding capacity from 60 000 t to 75 000 t.

Gearing rose slightly last year. With the strong trend in earnings and increased retentions, shareholders' funds should go well over R100m this year, providing capacity for additional borrowing while keeping gearing below 50%.

The change to partial deferred tax contributed 22c of the 35,8c increase in earnings

FM 20/4/90 (194)

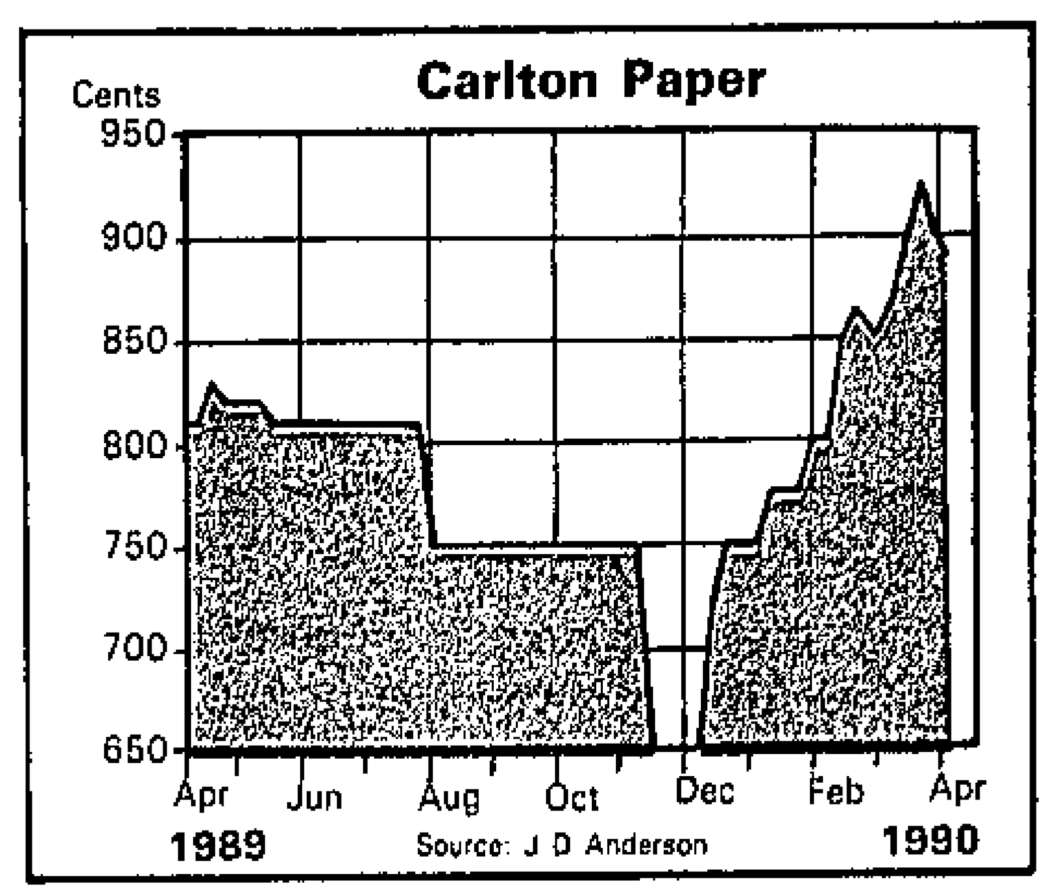
— an effect expected to remain fairly constant this year. Without that adjustment, earnings would have risen 15%. Dividend cover has been raised to 2,2, equivalent to the 1,8 before the change in deferred tax calculation. No contribution was made to the pension fund, against R1m the previous year.

With the modernisation programme completed — and the accompanying disruption ended — second-half earnings were almost double the interim figures. Previously, income accrued fairly evenly through the year. The earnings flow should thus be stronger from the start this year, boosted also by the wipes plant, which was commissioned in March. The plant incorporates latest techno-

FM 20/4/90 (194)

logy from the US partner.

Zirker, who became chairman three years ago, believes the fluctuating profit pattern has ended. The injection of Malbak's 41,8% interest in Carlcor into its paper and packaging umbrella, Holdains, will not affect performance.



The share is tightly held — Malbak and Kimberley-Clark hold 80,5% between them and institutions most of the rest. Trade in the share is dismally low and unlikely to improve, though it seems to have potential.

Teigue Payne

Fine earnings run comes to an end

STEPHEN RICHTER

METAL Closures' excellent earnings growth record since 1985 came to an end last year. But directors are confident earnings will improve during the current financial year, as gross domestic product is expected to edge higher.

In its latest annual report, the directors blame a number of factors for the decline in 1989 earnings. They include the poor weather conditions during the first quarter, illegal work stoppages and the conversion by customers to the plastic Duet closure, where existing aluminium stocks were run down.

The closure division was adversely affected by the poor weather conditions which had a negative impact on sales to the carbonated beverage industry. Volume growth within this division was severely eroded by substantially increased costs, especially for raw materials and labour. B Day 23/4/90

The factory at Montague Gardens was again expanded and additional capacity installed for the manufacture of the Duet plastic closure for the carbonated soft drink industry.

Sales within the plastics and tubes division declined due primarily to lower crate sales to all sectors of the beverage industry during the first half of the year. Non-beverage crate sales showed growth while furniture volumes were satisfactory.

A plastic tube facility was installed last year complementing the laminated and aluminium tubes being produced.

The contribution by packaging products such as metal and plastic closures to group net income before taxation and interest attributable to the various divisions declined to R15,4m during 1989, compared with R17,1m in the previous financial year. The contribution made by the manufacture of custom-moulded plastic wares brought in a further R657 000 (R2,2m).

With government putting in place strict financial controls to protect the balance of payments as well as reduce the inflation rate, the directors feel the recent budget has created a more optimistic outlook. (194)

Subsequent to the year end, the group's UK based holding company, Metal Closures Group plc, was taken over by Wassall plc, resulting in a change in the ultimate control of the group.

Holdains' maidens show group likely to meet objectives

B/Day 24/4/90

194

BRENT MELVILLE

THE maiden results of Malbak's fledgling paper and packaging arm Holdains for the first six months to February show a group well en route to achieving forecast performance objectives.

Holdains, comprising 100% of Kohler, Graphtec, Wiggins Teape and Malbak's 41,8% interest in Carlton, recorded sales of R906,7m with attributable earnings at R34,3m and earnings at 151,6c a share. A dividend of 47c was declared.

Chairman Grant Thomas said the comprehensive nature of the September restructuring made any comparison meaningless. Assuming, however, that Holdains had existed during the comparable period last year, earnings reflected a 12% improvement over pro forma 135,1c a share.

Gearing

He said Holdains had managed to shrug off constraints imposed by the tough economic climate and increasing labour unrest. "Each of the companies put an intensive effort into achieving greater operational efficiency while at the same time intensifying the focus on its core activities," said Thomas.

The result was operating profit of R74,9m, though margins dipped somewhat to 8,3% (8,8% on pro forma for the previous 12 month period).

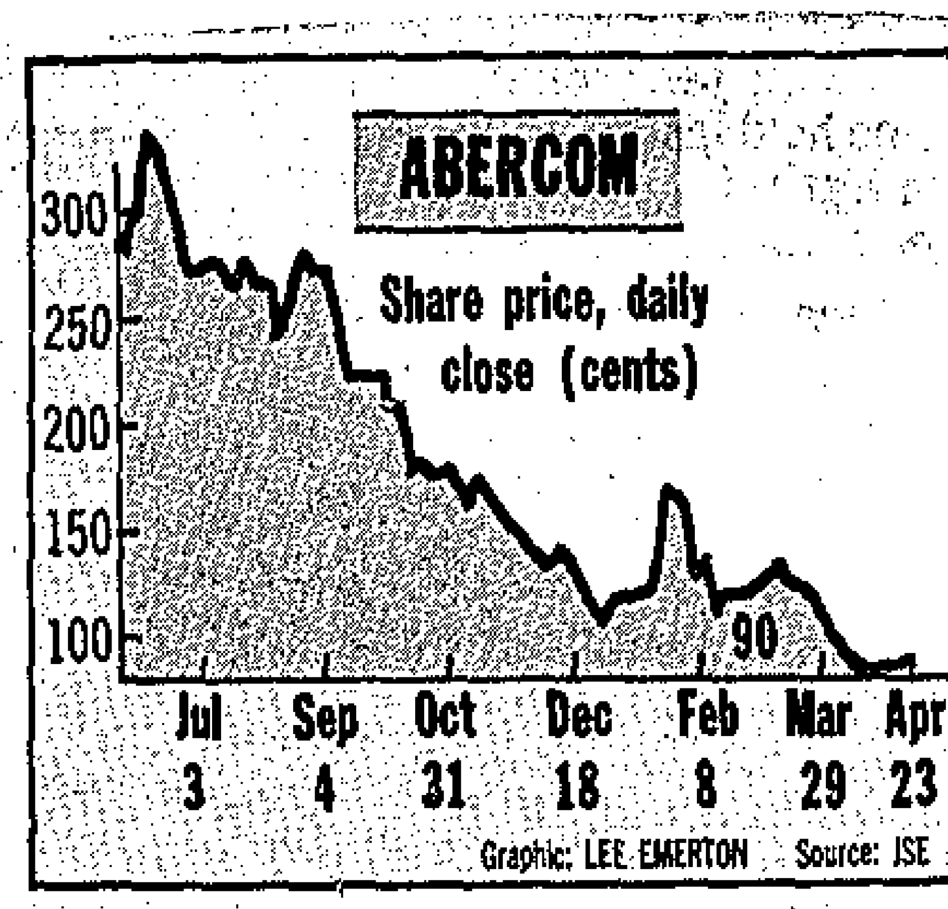
Financing costs, on an increase in borrowings to R187,9m (R150,9m), slashed off R19,8m and an effective tax rate of 35,2% (33,1%) accounted for a further R19,4m.

On the balance sheet the increase in borrowings upped gearing to 54% (46%), which Thomas said was satisfactory in light of the Allgraphics acquisition and its merging with Graphtec subsidiary Photra, and the seasonal nature of the gearing level. "One must bear in mind that this year's fruit crop is still to be picked and packaged," he added.

In terms of the group's operating companies, Kohler sold its rigid plastics division in March, the proceeds of which will be used to expand core activities. Carlton increased its earnings from a base of real market growth, particularly in the tissue market, said Thomas.

"I think when we are compared with packaging groups of similar size such as Consol or Nampak, our results will prove creditable," said Thomas.

Notwithstanding the cooling of the economy, Thomas forecast further growth in earnings based on how the group has traditionally performed in the second half of the year.



Malbak in R50m rescue operation

(194)

BRENT MELVILLE

MALBAK has been forced to inject R50m into struggling UK-based packaging asset M Y Holdings in an effort to keep its head above water, Malbak directors announced yesterday. BDay 24/4/90

The R50m interest-free loan will be made to M Y's holding company, JSE-listed Abercom, and passed on to Tawneydown, M Y's UK parent, to ease its interest burden. The disclosure comes in tandem with the announcement of Abercom's half-year results to February.

At the bottom line, Abercom recorded a loss of R10,6m (+R3,2m) on sales of R114,0m (R88m), translating into earnings of -36,8c (12,9c). Interest charges lopped R10,6m (R4,1m) off the operating loss of R925 000 (+R7,4m).

The results come in the wake of assurances made last year by directors that

☐ To Page 2

Rescue

BDay 24/4/90 (194)

☐ From Page 1

Abercom would be back in the black by the end of this year. With borrowings now sitting at a hefty R135,2m (R97,3m) and gearing up at 264% (142%), chairman Peter Benningfield now only says the losses will be "less substantial".

Benningfield said that while the performance was "disappointing", the board viewed it as a temporary setback.

"Management attention has concentrated on the problem areas and sound progress has been made at Trondex, Sharp Interpark and the corrugated division, while trading losses in the Carlton division have been progressively reduced," said Benningfield.

He said that M Y's focus was being structured solely into its packaging interests. "There is no desire however to insert M Y into Malbak's packaging interests — in Holdains — because we are looking at M Y as the first of what will be a number of overseas investments. For that reason we are still supporting the long-hold attitude," he said.

Malbak chairman Grant Thomas said the group could do one of two things: either taking out the minority interests, or initiating a rights issue. "However this would only cloud the issue for minorities," he said.

"We want to be at the point where minority shareholders can judge where the group is, and only then will we announce some sort of capital restructure," Thomas said.

Benningfield said that the group has found another buyer for Dawes Cycles, which was originally to be sold to Studley Holdings, but which fell through in February. "Assuming negotiations are successful, the disposal, together with the £3,1m sale of Dawes Cycles, would eliminate £6,6m of debt as well as ongoing losses from M Y Sports and Games."

SAVING ABERCOM

FM 27/4/90 (194)

Shareholders can justifiably be peeved at Abercom's interim plunge into still deeper losses. But the R50m interest-free lifeboat loan from Malbak is probably the best deal they could have hoped for.

For the record, in the half-year to February 28, the UK packaging interests pushed the company into an R11,5m interim pre-tax loss against a R3,3m interim profit last year and an R8,2m loss in the second half of fiscal 1989.

And Ian Willis, sent from Kohler to sort out the problems at UK packaging subsidiary MY Holdings, is close to setting things right.

Grant Thomas, executive chairman of controlling company Malbak, makes the best of a bad job. Malbak had three choices: take out Abercom's minorities and risk being accused of buying at the bottom; re-finance Abercom with a rights issue at a time when minorities would be in the dark about future prospects; or provide an interest-free loan. Borrowing in Britain was not a choice. Debt there costs 16,75% and MY had no earnings either to pay the interest or to gain tax advantages.

The loan will be redeemed from the proceeds of a rights issue within two years when recovery is complete. And as the loan is being transferred to England through the financial rands — about £8m reached MY — it can be repaid through the financial rand. *Jim Jones*

... Association (Saboa) on May 17. Transport Minister George Bartlett will address the meeting.

... subsidy rose from about R150-million in 1980 to R540-million last year, but in real terms declined to about R127-million.

tween 20% and 25%, many operators believe they will be forced to the wall.

They dare not increase fares above the consumer

R100m plant for Nampak

NAMPAK Paper is going ahead with a R100-million manufacturing plant at Klip River to meet the estimated 100 000-ton-a-year demand for disposable tissue products. (194)

The factory, due to come on stream in September 1991, will produce toilet tissue and towelling from waste paper recovered from printers, office blocks and municipal dumps by Nampak Paper Recycling's nationwide network of agencies. S Times 6/5/90

Nampak Paper chief executive Bert Ibertson says: "The operation will be the most sophisticated recycling and tissue manufacturing plant in the country. It will proudce a better-quality product than that normally associated with recycled raw material."

The project will increase Nampak Paper Recycling's supply of waste to more than 180 000 tons a year and increase paper recycling from its present 540 000 tons, or 32% of apparent total paper consumption.

The plant will also enable Nampak Paper to make inroads in the European market by freeing the Bellville mill, which serves the Transvaal, to export a large part of its output. It will also save the company about R2-million a year in transport costs.

Waltons gets over the fall

(194)

S Times 13/5/90

By David Carte

WALTONS Stationery has regained its footing after stumbling in the first half of the year, and hopes are high it will resume its long-term run.

The two-time winner of Business Times top company of the year has reported sales for the year to February up by 18% to R648-million and earnings ahead by 18% to a few rands short of R50-million.

Bothered

At the interim, Waltons reported poor performances in new acquisitions Ozalid and Lithosaver and an earnings gain of only 14%. That was a big disappointment to a stock market used to gains of 40% a year for the previous five years.

The latest result means taxed profit in the second half gained 21% and earnings a share 16%.

A profit retention of R28,4-million, together with a drive to reduce stocks and debtors, has helped the company to bring down the high debt:equity ratio that has bothered shareholders and contributed to a slump in the share price from a year's high of 490c to the present 360c.

After writing R7-million off the value of recent acquisitions, Waltons reckons debt:equity has fallen from 134% last year to 119% at the half-year to 79%.

But for the purpose of its calculation, it takes into account goodwill of R23,2-million. Without goodwill, shareholders' funds fall to R130,8-million instead of the published R154-million and the debt ratio rises accordingly. It cannot be calculated, as Waltons has published only an abridged balance sheet.

The improvement in the debt ratio came too late in the year to affect the interest bill, which soared by 56% because of higher rates as well as debt.

The directors are confident that action taken, including management

● To Page 3

Waltons

S Times 13/5/90

● From Page 1 (194)

changes, at Redgwoods and Ozalid will be effective.

Pyramid company Waltons Consolidated Investment Holdings (Walhold), with 50,1%, has performed directly in line. It has declared earnings of 61c a share and has raised its dividend by 17% to 21c.

Waltons share price is 5,6 times earnings and the dividend yield is 5,8%, the highest for some time. Lower debt and the prospect of lower interest rates should give it a boost soon.

APPLICATION FOR GRADUATE STUDY IN THE UNITED STATES
AND FOR A FELLOWSHIP, SCHOLARSHIP, ASSISTANTSHIP OR OTHER EDUCATIONAL GRANT

CONFIDENTIAL LETTER OF REFERENCE

This letter of reference must be written by a teacher under whom the applicant has studied or pursued research in the proposed field of study or by someone who has supervised the applicant in work related to the proposed field of study. This letter should be typewritten and in English, if possible. If not in English, an accurate translation must be attached.

NAME OF APPLICANT ____________ COUNTRY ____________

NAME OF REFEREE ____________

I. HOW LONG HAVE YOU KNOWN THE APPLICANT?

II. IN WHAT CAPACITY HAVE YOU KNOWN THE APPLICANT? Teacher or Professor ☐ Employer or Job Supervisor ☐ Research Adviser ☐ Other (please specify) ____________

III. PLEASE PROVIDE A CANDID EVALUATION OF THE APPLICANT'S PAST PERFORMANCE AND ABILITY TO PURSUE AND SUCCESSFULLY COMPLETE A PROGRAM OF U.S. GRADUATE STUDY IN THE PROPOSED FIELD. Your statement will be given considerable importance by the American universities reviewing this student's application, and should, therefore, be as complete and detailed as possible. Your comments should be continued on the reverse side if more space is needed.

THE REVERSE

Business Report

Waltons lifts share earnings

CAPE TIMES 14/5/90 (194)

JOHANNESBURG. — Waltons has reported that a reduction in gearing helped it achieve a 15,6% gain in earnings per share for the year to February.

Earnings were 63,6c a share and the annual dividend is up by 16,7% to 21c a share.

Borrowings which reached 134% of equity at the February 1989 year-end but the directors expressed their determination at that stage to reduce debt and, by the half year stage, had cut it to 119% of equity.

The February 1990 year-end sees it down to 79% in spite of a R7,2m write-down of assets, R5m of which came off one subsidiary — Lithosaver.

Indifferent performances by two of the subsidiaries — Redgwoods and Ozalid — and associate company Lithosaver, affected an otherwise good performance in which Waltons itself again improved profitability.

Group turnover rose by 18,3% to R648,1m on which a 27,4% higher operating profit of R109m was achieved.

The reduction in borrowings — mostly in long term debt — was largely effected in the second half, having little benefit on interest for the year which rose by 56% but was still comfortably covered 3,9 times.

The acquisition of CTP's stationery trading arm in the year through a 3m share issue by Waltons, boosted the weighted average number of shares in issue and reduced the growth in earnings per share to 15,6%.

Looking to the year ahead, the directors are confident that the action taken to restore profitability at Redgwoods and Ozalid will be effective.

The write-down of R5m on the Lithosaver investment to approximately net asset value flows from the unsatisfactory return and the perception that it may take time for Waltons' 30% stake to perform.

The improvement in debt-equity is expected to continue in the current year with management concentrating on controlling assets.

Waltons' pyramid, Waltons Consolidated Investment Holdings (Walhold) which holds 50,1% of Waltons, has performed in line with its investment by increasing earnings by 15,5% to 61c a share and raising its dividend by 16,7% to 21c. — Sapa

Dividend unchanged as Nampak earnings dip 3%

BD 14/5/90. (194)

LABOUR unrest, the economic downturn, an increased tax rate and a higher interest bill sent packaging giant Nampak's attributable earnings falling 3% in the six months to March.

SA's largest packaging group, with 42,3% of the packaging market, produced earnings of 205c (212c) a share and declared a dividend of 68c a share, unchanged from the previous interim period.

MD Don McCartan says social and labour unrest was felt by all divisions.

In particular, Foodcan and Divpac experienced lower profitability as a result of softening demand.

The packaging divisions did not enjoy real industry growth, but managed to maintain market share.

However, continued strong growth from the beverage industry led to increased production and profits in operations supplying these markets.

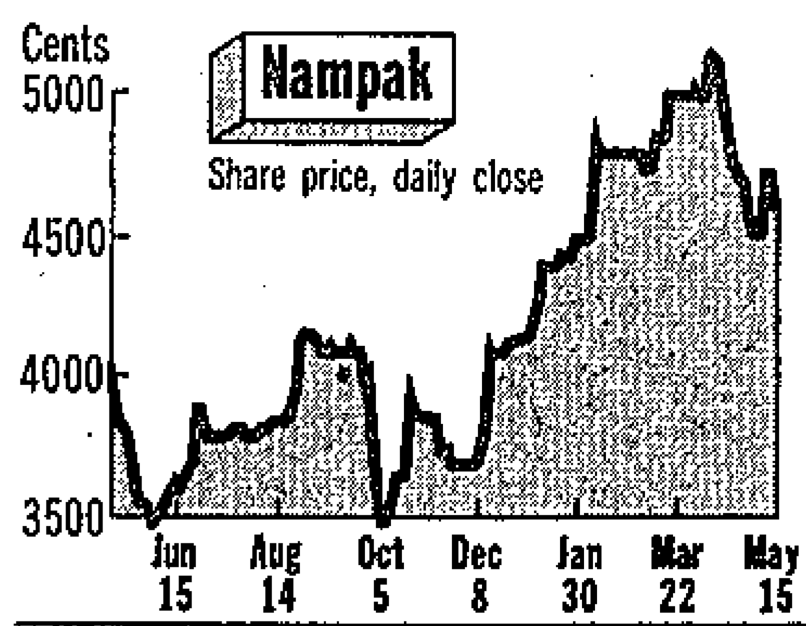
McCartan says while Bevcan "could sell as much as it could make", it was affected by industrial action at SA Breweries and pack size changes.

Other packaging divisions produced satisfactory results with the exception of Foodcan and Divpac, which were affected by the general economic downturn and high interest rates.

This resulted in prolonged destocking programmes and low offtake by customers, with a consequent marked reduction in profitability.

ZILLA EFRAT

All divisions operating in the paper and printing sector achieved improved profits with the exception of the forms operations which experienced a drop in earnings because of the overcapacity in this market.



Graphic: FIONA KRISCH Source: JSE

On a 15% improvement in turnover to R1,7bn (R1,5bn), operating profits rose 10% to R200,4m (R182,4m), with operating margins falling to 11,8% (12,3%).

Financial director Dave McFadden says Nampak's packaging sector, which accounts for 75% of its business, increased its operating profit by 8,1% to R151m.

Paper and printing contributed the balance with a 15,7% rise to R49,4m.

Additional borrowings, at high interest rates, to fund capital expenditure of R84,7m and continuing working capital requirements raised the interest bill 39% to R33,6m (R24,2m). Interest cover fell to 6 (7,5) times.

In January, Nampak advised shareholders that the revision of the wear and tear tax allowances would substantially add to its tax bill.

This has been further aggravated by the proposed amendment to tax on consumable stores.

As a result, the tax rate increased to 43,6% (37,3%), knocking 13c off earnings a share which would otherwise have risen by 3% to 218c a share.

Taxed profits fell 4% to R98,6m.

The share of outside shareholders dropped to R2m (R3,7m), leaving attributable profits 3% lower at R96,6m (R99,3m).

The current ratio remained unchanged at 1,4:1, while total borrowings to total shareholders funds rose to 52% (43%).

Newly appointed chairman Brian Connellan says: "Sluggish trading conditions are expected to continue into 1991 with earnings per share for the year expected to be marginally below those achieved last year."

In the longer term, Connellan is more optimistic.

He says investment for future growth, the improving political scenario and an upturn in the economy will see the packaging industry return to its annual growth rate of about two times GDP growth.

NAMPAK FM 18/5/90

Profits canned (194)

Nampak's operating performance is historically tied to GDP trends and this correlation is again confirmed in the interim results.

FINANCIAL MAIL MAY 18 1990

FM 18/5/90 (194)

UNPACKING

Six months ended	Mar '89	Sep '89	Mar '90
Turnover (Rm)	1 483	1 609	1 700
Pre-tax profit (Rm)	162	180	171
Attributable (Rm) ..	99	115	97
Earnings (c)	212	246	205
Dividends (c)	68	98	68

Operating profit incrased 10% on sluggish turnover growth of 15%. Pressure on margins came mostly from market problems experienced by three divisions, increased competition as the economy cooled and labour problems which cut customers' demand. Still, market share was maintained.

The packaging division's overall operating profit rose 8,1% but its contribution to total profits fell as problems were experienced in the Foodcan and Divpac divisions. Foodcan — the manufacturer of cans for the food processing industry — suffered a profit drop due to destocking and the low off-take by customers. This, combined with a softening of demand in Divpac's paint, oil and aerosol can markets, resulted in a R16m profit cut to an undisclosed level. Bevcan, which serves the buoyant soft drink, fruit juice, beer, wine and spirits markets, produced strong profit growth. Other packaging divisions results were "satisfactory."

The operating profit of the paper and printing division rose 15,7% as only the business forms operation failed to improved its results. Profits from this source declined by R5m. Nampak has an 8,6% share of SA's total paper products market but a considerably higher percentage of the high-growth tissue wadding market. A new R100m plant will add 19% to the group's toilet tissue and towelling capacity. Demand for these products is rising strongly in line with growing urbanisation.

Higher interest and tax charges led to a 3% decline in attributable earnings. The rise in the effective tax rate to 43,6% from 37,3% was due principally to changes in tax legislation and clipped about 13c off earnings.

Management expects conditions to remain sluggish and earnings in the second half to match those of last year, which translates into a marginal decline for the full year.

Pam Baskind

Poor results reflect economic downswing

C/Tiem 20/5/90

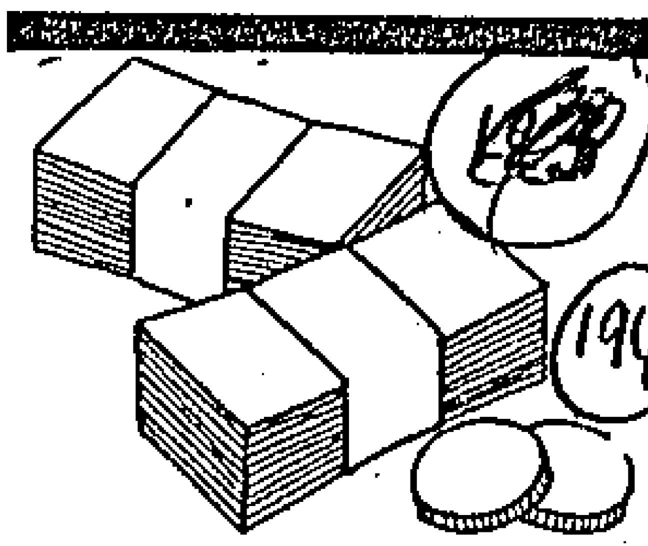
THE financial results of important South African companies, reporting for periods up to March, reflect the economic slowdown.

Another disturbing trend is that countrywide wildcat strikes are causing money and job losses.

Even the black housing programme is being delayed. Pretoria Portland Cement, which has already mothballed its massive cement plant in the Eastern Transvaal, reported a decline in sales in areas affected by unrest.

The inference is clear. Builders stop work during unrest and the chain reaction eventually affects production at plants manufacturing building materials.

PPC was fortunate to push up earnings by 14,4 percent to 117,3c a share. But this achievement is not impressive, because it



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MONEY TALK

barely exceeded the inflation rate.

However, PPC fared better than Nampak, Africa's biggest packaging business, which reported a three percent drop in profits.

This company has shown impressive growth during the past five years and its bad performance surprised shareholders.

Nampak is a big supplier of packaging materials to the food and beverage industries, so is regarded as more resilient to economic downturns than most industrial companies.

Apart from a heavier tax and interest burden, its performance was affected by disappointing sales.

Management partly blames lower sales on strikes at many of its clients' premises.

Trucks delivering packaging materials regularly returned fully loaded to the warehouses due to strikes.

This again caused a chain reaction: full warehouses cause plants to cut back on production, resulting in management not taking on any new workers and even forcing retrenchment of staff.

Official statistics confirm the economy is going through a difficult period. Growth has virtually come to a standstill, while inflation remains unacceptably high.

COMPANIES

Paper and board holding up despite threat from plastics

(194)

B/Day 22/5/90

ZILLA EFRAT

PAPER and board packaging materials are holding their own in key product sectors, although they are increasingly threatened by plastics.

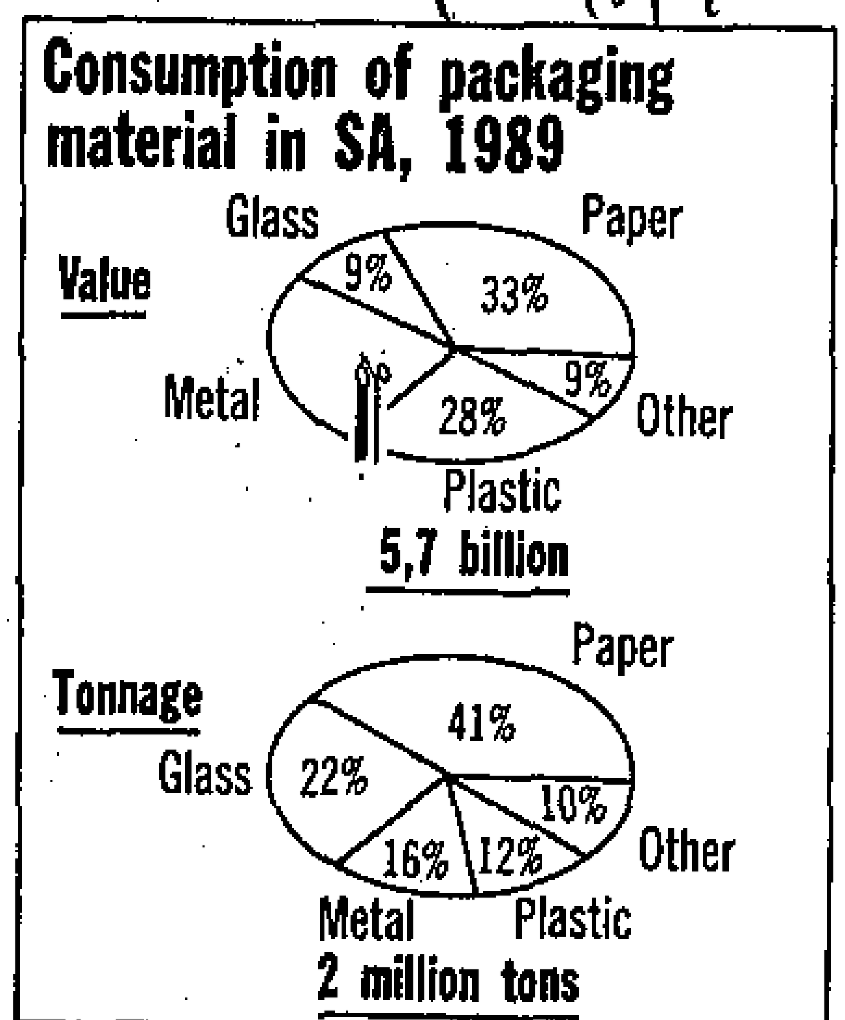
A Business and Marketing Intellegence (BMI) report on SA paper and board packaging says the industry's focus is on improving the quality of local products so they compete more effectively with imports and rival packaging materials like plastics.

An area of growth for the industry is expected to come from automotive parts — a market forecast to show an average 10% growth by volume over the medium term.

This is because SA's changing vehicle ownership profile is boosting sales of replacement parts and the increasing age of vehicles on SA's roads — spurred by sharply rising new vehicle prices — is resulting in more repairs and maintenance.

BMI says carton board remains the choice of automotive parts manufacturers and distributors.

A return to corrugated packaging used in paints, lacquers and varnishes is under consideration as shrink-wrapped tins are easily damaged.



Graphic: FIONA KRISCH Source: BMI

In addition, BMI says hazardous goods regulations could compel a return to corrugated cartons as secondary packaging.

However, foods still dominate the end-user market for paper and board packaging. Two-thirds of all corrugated materials and more than half of cartonboard by tonnage go into food packaging.

BMI says good growth is forecast for corrugated materials in chicken consumption because of the growing health awareness and the expectation that maize prices will continue to rise at well below the inflation rate.

The chicken industry has found plastic crates too expensive, too difficult, time consuming and costly to retrieve.

BMI says moulded pulp continues to outdistance its polystyrene rival in egg packaging. Most consumers prefer the moulded pulp boxes because broken eggs are absorbed into the immediate area and seepage is visible without having to open the box.

However, in other areas paper and board products are losing ground to plastic products.

A steady fall is predicted in the food industry's use of paper wrappng, notably tissue wrap for apples. Another adverse trend is the swing in some sectors to bulk packaging and transportation.

Paper sacks are still used in non-food applications, but their use by chemical and rock products industries is expected to decline over the next few years.

B Day 25/5/90 (194)

Rubenstein Holdings slashes its gearing in half

SYLVIA DU PLESSIS

RECENT restructuring at JSE-listed Rubenstein Holdings (Ruhold) has enabled the group to reduce gearing from 210% to less than 100% during the eight months to February.

But labour unrest and traditionally slow trading in January and February in the plastics industry — in a shorter reporting period — helped stunt annualised earnings, which fell to 7,4c from 9,9c a share.

Annualised dividends of 6c a share are in line with those of the previous year.

An extraordinary profit of R10,8m, realised on the recent disposal of the group's plastic packaging subsidiaries to Combined Packaging (Compak), slashed gearing to less than 100% from 210%.

Ruhold, involved in financial services, plastic carrier bags, sheeting and shrinkwrap manufacture and plastic waste recycling, changed its year-end from June to align it with that of Compak and Lenco.

Compak, jointly controlled by Lenco and Ruhold, was listed in March after these two groups put their plastics interests into Alfa Manufacturing.

Other figures were not strictly comparable with those of the previous 12-months, but attributable income during the period under review amounted to R12,5m.

Chairman Jeff Rubenstein said Ruhold changed its accounting policy for deferred tax from the partial to the comprehensive method because of the withdrawal of accelerated "wear and tear" allowances on plant and machinery. However, the full effects of its plastics tie-up with Lenco through Compak would be felt during the current year, he said.

The firm expected to achieve turnover of more than R150m this year, he added.

Rationalisation time arrives in the packaging industry

1914

Star 25/5/90

Diagonal Street

Jabulani Sikhakhane

Hit by a downturn in the economy companies in the packaging sector are sharpening their focus and selling off operations, where margins are coming under pressure, to concentrate on core businesses.

The tightening of the market has been confirmed by recent results from the largest group in the packaging sector, Nampak, which has about 40 percent of the market.

After the disappointing figures, Nampak's market rating showed a marginal decline, with its price/earnings ratio falling from 10,6 in mid-March to its current P/E of 9,8 times. This compares with the sector average of 8,0 times.

In the six months to end-March 1990, Nampak showed a three percent decline in attributable earnings to R96,6 million and directors are forecasting that earnings for the full year will also show a 3 percent drop.

Nampak's Foodcan and Divpac divisions reported lower turnover. The fall in Foodcan's turnover was largely due to significant de-stocking by the food canning industry and retail chains.

The food canning industry could be hit further by the decision of the Namibian Government to cut pilchard quotas for the 1990 season by 20 percent to 40 000 tons.

Most of the rationalisation in the industry seems to have occured in the plastics sector where there are a lot of players.

Growth phase

This sector is still in a growth phase. Certain plastic converters who have invested in new capacity started a price war to gain or maintain market share, putting profit margins under intense pressure.

Kohler Packaging recently disposed of its troubled rigid plastics division to Combined Packaging. Even after a R2,8 million rationalisation programme in 1987, this division failed to show improved perfomance.

The large plastics drums business and a portion of Cape Town Safepak which manufactures extruded plastics bags were also disposed of.

Consol Plastics recently announced its intention to narrow down its field of activity and focus more closely on rigid plastics markets — where its strengths lie.

The loss-making bags and sacks division, which had been beset by labour problems combined with a higher degree of over-capacity, was sold off to Worldwide Holdings for an undisclosed sum.

Prospects for glass packaging are much better, mainly due to strong growth in the consumption of beer and carbonated soft drinks.

This optimism seems justified in view of the recent figures from South African Breweries' Beer Division which reported a 10 percent growth in beer sales volume for the year ending March. In addition Amalgamated Beverage Industries (ABI) increased sales by 34 percent.

Increased costs

Corrugated paper packaging is faced with problems of increased costs after sharp price increases by Sappi and Mondi. Manufacturers complain that local paper mills have a high barrier of protection against imported material, which allows prices to be determined without concern for serious competition.

Analysts say there is not much of a problem in tinplate and glass packaging, both dominated by Nampak and Consol.

Looking at the sector overall, Gil Catton of stockbrokers, Davis Borkum Hare says Consol may fare better than other players. It's move into the tyre business may help compensate for the downturn in the packaging business.

Another negative factor could be the change in the wear and tear allowances from the "50:30:20" formula to a 20 percent straight line per annum method.

Nampak chairman David Brown said the change is likely to increase the tax charge by approximately R10 million, reducing earnings by some 21 cents per share.

Ruhold slashes gearing

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Star 25/5/90

The restructuring of Rubenstein Holdings has helped to reduce the group's excessive gearing according to figures for the eight months ended February.

The group, which now jointly controls Combined Packaging (Compak) with Lenco Holdings Ltd, changed its year end to February from June.

"An extraordinary profit of R10,8 million was realised on the disposal of the businesses of our plastics subsidiaries to Compak. This transaction has resulted in our gearing reducing to below 100 percent from 210 percent," says Ruhold's executive chairman, Jeff Rubenstein.

A dividend of 4 cents a share has been declared which, when annualised, equals the previous year's payout. Net asset value has increased to 80 cents a share despite full provision of approximately R6,2 million for deferred taxation in respect of the period ended February and pervious years.

Because of the withdrawal of accelerated wear and tear allowances on plant and machinery, Ruhold, he says, has changed its accounting policy for deferred tax from the partial to the comprehensive basis.

"We decided to make full provision following the withdrawal of these allowances in the period ended February. Our results were further affected by labour unrest and the fact that January and February are traditionally slow trading months in the plastics industry."

Jeff Rubenstein says the full effects of the plastics tie up with Lenco Holdings through Compak will be felt in the current financial year.

"We have reduced our gearing dramatically and our involvement with and joint control of Compak has enabled us to effectively divisionalise the group," he says.

Although gearing is around 100 percent, Mr Rubenstein says that management is actively seeking sizeable synergistic acquisitions.

— Sapa.

Techniboard taken over

Sappi Novobord has taken over Durban-based Techniboard, specialists in the manufacture of solid timber substitutes for the furniture, kitchen and building industries.

Techniboard processes Novobord's particleboard amd medium-density fibreboards into a number of components such as doors, panels and profiles. It also produces inset panels for doors and cupboards; mouldings for cornices, ballustrades, kitchen units and skirting boards; and post-formed tops and soft-formed doors and panels.

While there is a big demand for Techniboard's products, Sappi intends to more than double its output and to export.

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STAR

29/3/90

Metaclo battles weather, costs

Star 29/5/90

(194)

Diagonal Street

LYNNE PEACH

Packaging group Metal Closures produced a disappointing set of results in 1989 and stockbrokers expect little, if any, real growth to come through this year, although a recent cautionary notice may change that perception.

In the latest annual report, chairman Dr AK Steyn gives several reasons for last year's poor results.

These include poor weather in the first quarter of 1989 which resulted in reduced demand for beverages; work stoppages, and poor crate sales to the beverage industry.

Metaclo is 76,9 percent owned by UK-based Metal Closures PLC which was recently taken over by Wassall PLC.

The group is an investment holding company whose subsidiaries are involved in the manufacture of metal and plastic closures, plastic crates and collapsible tubes, the sale of closure-sealing machinery and the manufacture of custom-moulded plasticwares.

The closure division achieved marginal real growth in volumes last year but the benefit was severely eroded by substantially increased costs, especially those of raw materials and labour.

The plastic division also came under pressure due to a lower level of crate sales in the first half of the year to all sectors serviced in the beverage industry.

A more favourable performance was given by the tube division which achieved satisfactory sales of both aluminium and plastic laminated tubes. The directors say that efforts to further increase exports of tubes are continuing.

In the year to December 1989, group turnover climbed a modest eight percent from R123,4 million to R133,3 million.

Due to cost pressures, including interest expense which shot up from R600 000 to R1,7 million, pre-tax profit fell 23 percent from R19 million to R14,6 million.

Dr Steyn attributes the erosion in the operating margin to the reduced level of activity together with determined competition and strong resistance to price increases by customers.

After a decline in the effective tax rate from 49,7 percent to 48,3 percent, attributable profit showed a decrease of 21 percent from R9,5 million to R7,5 million. Earnings per share retreated from 367c in 1988 to 289,9c.

The annual dividend, on the other hand, was raised 15 percent from 122c a share to 140c.

A feature in the year-end balance sheet is the sharp rise in short-term borrowings from R3,6 million a year ago to R9,1 million. This pushes gearing to 19,9 percent, compared with 9,6 percent at the end of 1988.

The group spent R15,2 million, compared with R12,1 million in the previous year, on fixed assets to expand and improve its manufacturing facilities.

Metaclo, priced at R21,25, is trading on a price-earnings ratio of 7,3 and provides a dividend yield of 6,6 percent. The thinly-traded share is unlikely to provide much in the way of capital growth until the business environment improves, according to stockbrokers.

COMMENT: Metaclo's share price has been undulating between R17 and R21 for more than two years. A favourable trend was established about four months ago but the price will have to at least sustain its current level of R21,25 before a break above the 1987 high of R25,25 can be expected.

Packaging must meet challenges

ZILLA EFRAT

SA's packaging industry needs now more than ever to show initiative, innovation and adaptability in facing the challenge of the future. B/Day 4/6/90

This is the view of Business & Marketing Intellegence (BMI) in its latest report on the industry.

BMI says the coming decade will be a period of intense change for all South Africans and the side effects of this change will be felt throughout industry. (194)

BMI says the packaging industry is touched by virtually all other industries and is therefore likely to be more dynamically affected than any other single industry during this period.

It sees the major influences on SA's packaging industry — worth about R5,7bn a year — in the 1990s as being of a socio-economic nature.

Influences include rising expectations, urbanisation and increased disposable income among the black population and "formalising" of the informal sector. This sector is currently made up of spaza and hawkers who are contributing to a general trend to smaller pack sizes in many markets, says BMI.

Another factor is the increasing numbers of both working wives and single parent families, which will lead to higher demand for fast and convenience foods.

In addition, growing concern over the environment and depletion of natural resources will affect the industry.

Since 1964, growth in packaging has outstripped growth in GDP and is, on average, one-and-a-half times GDP growth.

During the 1960s, growth in demand for packaging was fuelled by the advent of the supermarket, while the major influence of the 1970s was the introduction of non-returnable packaging.

The emergence of the black middle class and the rapid growth of the informal sector provided a major boost in the 1980s.

SA's packaging industry consumes 2-million tons of material annually and the consumption of materials has increased four-and-a-half times since 1960 at an average rate of 5,4% a year.

BDay 5/6/90.

Metal Closures buyout a 'vote of confidence'

JOHN CAVILL

LONDON — The R14m buyout of the South African minority shareholders in Metal Closures by the British parent group was a mixture of "a vote of confidence" and "good housekeeping", Wassall group chief executive Chris Miller said yesterday.

He said the purchase would not mean a new investment of sterling in SA. "What is happening is that our South African subsidiary is buying in its own shares, but it does represent an increased investment by the group as a whole," said Miller whose company took over Metal Closures in the UK in January.

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"We took the businesslike view. Metal Closures in SA is a good business and we are happy to have 100% of it.

"It is a vote of confidence in that business and its future in SA. But it was also good housekeeping.

"With a 23% local minority we would have less control over cash flow and our options would be restricted," he said.

METAL CLOSURES FM 8/6/90

Finely pitched (194)

Metal Closures Plc has announced an offer to buy out minorities in Metal Closures SA, which would thereby become a wholly owned subsidiary of the holding company, Wassall Plc.

The 2 300c cash offer — a 12,2% premium on the 2050c market price — has been made to shareholders in Metal Closures SA. Already 76,9% of the shares are held by Metal Closures Plc. If accepted, the stake held by minorities will be bought for a total R13,8m, paid out of the local company's retained earnings. At end-December debt stood at R9,5m against shareholders' funds of R48m and, with gearing at only 20%, Metal Closures SA has ample scope to borrow.

Wassall CE Chris Miller says the deal was structured this way and not through the financial rand "because until the picture in SA is clearer it makes more sense to have assets in rands matched by liabilities in rands."

The present shareholders are largely long-term investors, with only 5 067 shares out of a possible 2,6m trading in the past three months. Once the deal is concluded, Wassall should be in a position to take additional funds out of SA in the form of dividend payments through the commercial rand. A local management buy-out later may also be a possibility.

FM 8/6/90 (194)

However, Miller says: "There is no suggestion of a sell-off of any parts of Metal Closures SA. We want to develop the company, which is a good business, and we hope the SA economy will improve. That is why we wanted 100% rather than 77%." Even so, it would not be surprising to see some streamlining after the parent group has full flexibility.

Minorities should examine the offer document closely. Some feel the offer is finely pitched in relation to net worth calculated on historical cost basis. The portfolio manager of one institutional shareholder says that the current value of the assets may justify a higher offer. If so, they are considering canvassing 10% of minorities to block the bid.

Pam Baskind

Sappi aims for global status

JOHANNESBURG. — Sappi is aiming to acquire global status in pulp and paper manufacturing technology in the next decade, says chairman Tom de Beer.

In his annual report released, De Beer says the past year saw Sappi taking steps to position itself for this future international expansion.

He adds that Sappi has strengthened its position internationally and performed well in spite of a weaker pulp and paper market and a decline in the local fine paper market.

He cautions, however, that the immediate outlook for Sappi is somewhat uncertain as the markets in which Sappi operates are much less buoyant than a year ago and the SA economic and political situation is undergoing major change.

"The government's policies are being adjusted to reflect a new commitment to free enterprise, but some of the messages are confused, and the threatened removal of protection from major industries during a slump in international prices could be detrimental to them."

In his review of the year ahead, MD Eugene van As says the strikes at Ngodwana and Enstra lasted longer than expected and he has had to modify his earlier, more optimistic predictions.

"It is clear that they will have an impact on the first half year's earnings which will be below those achieved in the first half of the previous year." — Sapa

Sappi in R500-m overseas venture

(194) Star 21/6/90

Eugene van As

By Ann Crotty

Sappi has made its first foray into the international market in a R500 million deal, which sees the pulp and paper manufacturer acquire a 49 percent stake in a company with five UK-based paper mills.

The new company should rank as the fifth-largest paper company in the UK.

The deal, involving an overseas consortium of investors who will hold the other 51 percent, will be funded through the financial rand and offshore borrowings.

Sappi chief executive Eugene van As yesterday would not disclose the proportion being funded by financial rands, but did say funding entirely by finrands would have made the acquisitions very expensive.

Assuming the proportion of finrands used matched Sappi's exposure, then around R245 million was funded with finrands.

The finrands used were apparently bought over the past few weeks, which accounts for the relative strength of the finrand in the face of a falling gold price.

The involvement of the consortium meant that foreign funding could be utilised and no doubt helped to smooth the way for an SA-sourced investment in Europe.

Mr van As said there was some scope for Sappi to increase its holding above 49 percent at a later stage.

For shareholders, the benefits of the overseas venture will not be immediate.

In the current financial year (to March 1991) the acquisition is expected to have a slightly negative effect on Sappi's earnings per share.

This reflects the impact of having to take on costly borrowings to fund part of the deal.

Earnings are expected to pick up in later years as the cash flow generated by the mills helps to reduce borrowings.

In addition, one of the five mills is apparently operating below potential; an improvement in this situation would also lift earnings.

According to Mr van As, these acquisitions, combined with Sappi's existing international trading operation, should add approximately 100c a share to earnings in financial 1993.

Part of this will presumably come in the form of increased Sappi exports to supply the mills since the UK has no pulp resources.

In financial 1990 Sappi earned 650c a share.

The deal puts a value of around R100 million on each of the five mills acquired.

This is not large in the Ngodwana scheme of things, but as Mr van As says, the UK mills are specialty mills, which produce high-value-added products for specific markets. They will bring some new technology to Sappi.

The five mills, which are being bought from two vendors, will be put into a new company specialising in high-value-added speciality paper products that will be distributed throughout the EC.

Sappi in R500m paper mill deal

CAPE TIMES 21/6/90

(194)

By AUDREY D'ANGELO
Business Editor

SAPPI and a consortium of outside investors have bought five British paper mills in a R500m deal.

The mills will be put together in a new company, managed by Sappi, which will be the second largest of its type in Britain and will export speciality papers to other parts of the European Economic Community.

Last night's announcement of the deal followed a statement in the Sappi annual report that it aimed at acquiring global status in pulp and paper manufacturing technology.

Making the announcement, MD Eugene van As said that the five British mills would "source a significant portion of their pulp requirements from Sappi's SA operations".

He pointed out that the acquisition would "greatly enhance Sappi's rand hedge quality at a time when the value of the rand is expected to decline further".

The deal gave Sappi "a meaningful international foothold and a strong manufacturing presence in a market where we will produce high value added products from our own pulp. It spreads our risk and at the same time makes for a logical integration".

Three of the mills were formerly owned by the DRG Group, taken over last year by Pembridge Investments.

These are the Fife Mill near Edinburgh, which is the second largest manufacturer of carbonless paper in Britain and the fifth largest in Europe; Nash Mills at Hemel Hempstead near London which manufactures speciality branded paper products; and Keynsham Mill near Bristol which manufactures lightweight speciality coated label and laminating papers.

The consortium has also bought Star Paper, which operates two speciality paper mills. The Wolvercote Mill near Oxford specialises in heavyweight coated label papers. The Blackburn Mill manufactures speciality coated products. It has approximately 50% of the British market and significant export business.

Van As said the five mills would be put into one company — still to be named. It would specialise in high value added speciality paper products which would be distributed throughout the European Economic Community.

He said the purchase would be funded through the financial rand and off-shore borrowings. The consortium of outside investors were not in the paper business.

"Although we expect the acquisition to have a slightly negative effect on Sappi's earnings per share in our current financial year, it should improve earnings per share in the following year.

"Together with our trading operations, the acquisition should add approximately 100c a share to our earnings by the 1992/93 financial year."

Sappi executive director Kim Jokipii has been seconded to Britain to establish the new company. He will be joined by group financial controller Machiel Reyneke.

SAPPI F/M 29/6/90

Ex Africa . . . (194)

Sappi's acquisition of five UK paper mills underscores MD Eugene van As's view that the pulp and paper maker can add product value outside SA. The upstream move places the company as close as it is likely to get to end users of fine papers and gives it a major

F/M 29/6/90 (194)

international market bridgehead for the Nineties.

The mills provide Sappi with value-added production facilities in the EEC, an assured market for its southern African pulp products and reduced exposure to commodity market fluctuations.

Debt financing of the deal will initially limit earnings benefits. But even if earnings are retained offshore to bolster Sappi's international interests, shareholders need not wait a lot longer to see dividend benefits. Still, the share's rand hedge qualities have been enhanced.

The five mills, producing various value-added speciality paper products were purchased for R500m on a earnings multiple of 13 or so and will be held by a Luxembourg company in which Sappi has a 49% share and management control. 51% is held by a consortium of international financiers. Sappi MD Eugene van As says Sappi could raise its shareholding at a later stage.

The deal, though small in relation to Sappi's R5,5bn assets and R3,9bn sales in financial 1990, makes it the fifth largest paper maker in the UK in value terms. The mills produce only 150 000 t of paper. But its value is comparatively high — over $1 500/t against $950 for conventional commodity paper.

The mills, which are operating independently, will be integrated and synergies between them and with the SA operations will be exploited. Sappi's existing networks will provide distribution and service facilities.

Financing details are scant. The public announcement only says funding was via financial rand and off-shore borrowings. Analysts speculate that a substantial portion is debt financed since Van As warns that interest charges will dilute earnings in the first year. Sappi's 49% holding means the debt need not be consolidated, but the use of local finance will raise Sappi's gearing to about 0,60 from 0,56 at the February year-end.

Van As expects the acquisitions together with Sappi's international trading operations to add about 100c to earnings in the 1993 fiscal year. He cautions that earnings from the international operation will initially be used to redeem debt. Thereafter, earnings may be retained to expedite Sappi's offshore expansion though this may not mean a further rise in the already high 3,25 dividend cover.

The deal also provides Sappi with an alternative to selling its surplus pulp at prices determined in commodity markets. The 100 000 t-120 000 t of pulp used annually by the five mills will eventually be supplied

F/M 29/6/90 (194)

purely by Sappi, reducing its exposure to world markets and gaining the benefit of the high-margin final product.

Sappi's share touched a high of 5 150c last November and its subsequent decline has not been helped by forecasts that weak international pulp and paper prices could clip fiscal 1991's performance. Nor has investor sentiment been helped by the new foreign venture. The share is currently quoted at 3 575c.

Pam Baskind

Sappi confident of second-half earnings recovery

Star 3/7/90 (194)

Sappi's earnings are expected to be back on track in the second half of the financial year after a sharp drop in the first half, says chairman Tom de Beer.

He told the annual general meeting yesterday that the disruptive impact of the nine-week strike at Ngodwana and the 11-week strike at Enstra had been significant and that productivity was only now beginning to normalise.

In addition, the effects of the strike would be further aggravated by statutory recovery-boiler inspections at the Ngodwana and Tugela mills.

These had required a lengthy mill shutdown in the first half of the financial year.

While he was expecting the pulp and paper manufacturer to show a sharp decrease in earnings per share in the first half, he expected that if there was no further deterioration in economic activity, earnings in the second half of the year would return to approximately previous levels of performance.

"In the first four months of the present financial year we have seen a further slow deterioration of prices in the pulp and paper market, but there are clear signs that some products have been oversold and southern bleached softwood pulp prices as well as unbleached Kraft pulp prices have shown some firming in the last weeks."

According to Mr de Beer, newsprint prices were stable and linerboard prices were likely to be stable at lower levels.

Commenting on the recent acquisition, Mr de Beer said the group took over management control of its newly acquired five speciality paper mills in the United Kingdom yesterday. — Sapa.

UK Metaclo offer runs into a storm

S Times 8/7/90 (194)

● From Page 1

It asks of Finansbank: "How can a financial adviser engaged to act on behalf of the minorities promote a scheme in which the minority has no say whatsoever? Following its use of 'the most oppressive means available' to force shareholders to part with their shares, we question whether Finansbank can still be regarded as the 'protector of minorities'."

Abe Jersky, of Anglo American's pension funds, says: "Minority holders should have an opportunity to vote under a more equitable scheme. The whole mechanism of this deal leaves one uncomfortable.

"As to Finansbank's fair and reasonable, we don't know how they made their valuation. If they know more about the company than we do, they haven't told us about it."

Critics say the share is thinly traded and the pre-bid market price of 1 850c was a questionable basis for valuation.

Finansbank spokesman Willy Ross says he and his colleagues have more insight into Metaclo's affairs than the minority shareholders. On earnings prospects, the shares are not worth more than R23, as alleged by Martin & Co.

He says last year's fall in earnings was not simply a hiccup, that competition in metal closures and plastic crates has intensified, margins have been cut and other contenders have won market share.

Finansbank does not want the deal to be scotched by minority holders demanding too much.

Mr Jersky says if Finansbank knows why prospects for Metaclo SA are not as bright as in the past, it has not given the reason.

Martin urges shareholders to vote against the scheme.

LENCO FM 13/7/90 (194)

Turnround specialist

Activities: *Investments in clothing, footwear, rigid plastic packaging and property.*
Control: *Lenco Investment Holdings (Pty) holds 56,6%.*
Chairman: *D B de Jager; MD: G D de Jager.*
Capital structure: *39,9m ords. Market capitalisation: R89,8m.*
Share market: *Price: 225c. Yields: 4,0% on dividend; 20,1% on earnings; p:e ratio, 5,0; cover, 5. 12-month high, 270c; low, 160c. Trading volume last quarter, 1,07m shares.*

Year to Feb 28	'88	'89	'90
ST debt (Rm)	7,0	21,8	6,0
LT debt (Rm)	10,8	21,9	28,3
Debt:equity ratio	0,40	0,16	0,42
Shareholders' interest	0,32	0,42	0,47
Int & leasing cover	3,2	8,9	5,7
Return on cap (%)	12,0	22,4	24,4
Turnover (Rm)	120,0	207,5	283,9
Pre-int profit (Rm)	11,6	29,9	42,3
Pre-int margin (%)	9,7	14,4	14,9
Earnings (c)	21,2	35,6	45,3
Dividends (c)	5,0	7,0	9,0
Net worth (c)	72,6	88,7	141,2

Much financial footwork and many intricate deals have created the group. In the process, turnover has grown to R280m in 1990 from just R1,3m in 1986. EPS have shown similar exponential growth.

CE Douglas de Jager has proved adept at making loss-making ventures profitable. He began with Elvinco Plastics (rigid plastic packaging), which he pocketed in 1985. He did it again with House of Monatic (HoM), which avoided liquidation when Rembrandt bought it from the Back family. It then passed through the hands of both Rembrandt and Pep. Neither could turn it around but it has been profitable since De Jager acquired it from Pep in 1987.

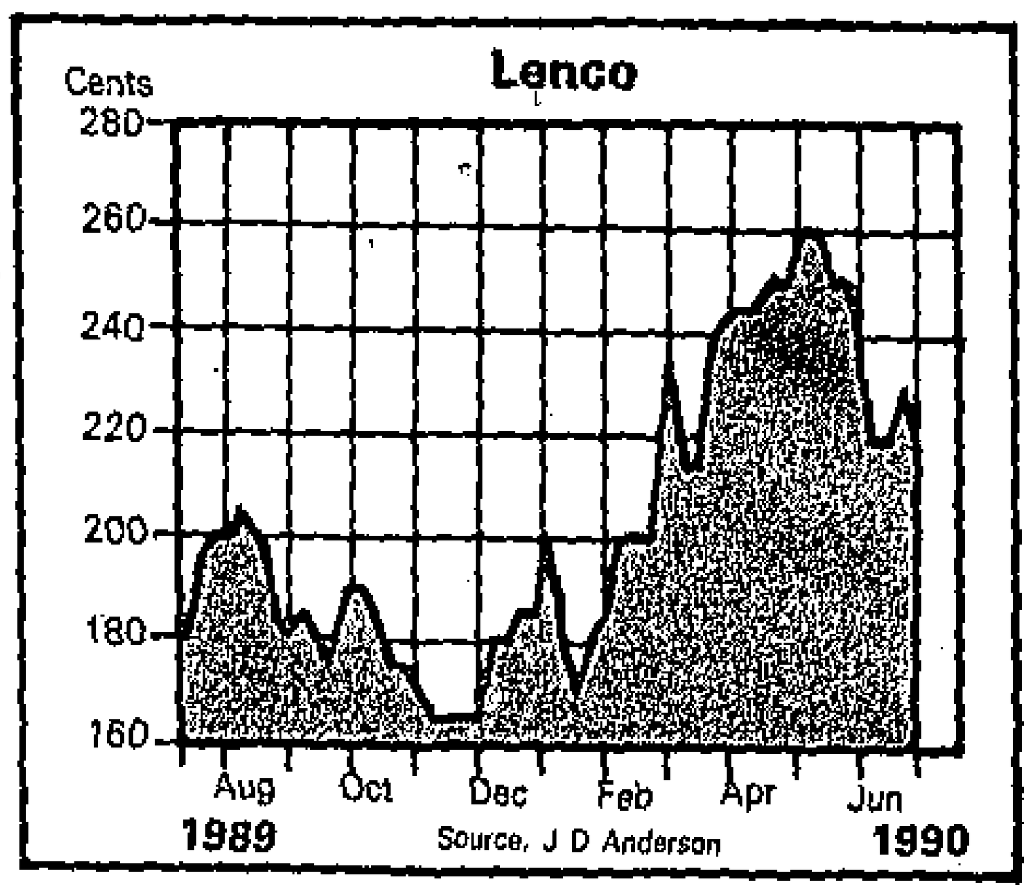
When De Jager merged Budget Footwear with Jaguar Holdings, Lenco obtained control of the new Amalgamated Shoes (Am-

FM 13/7/90

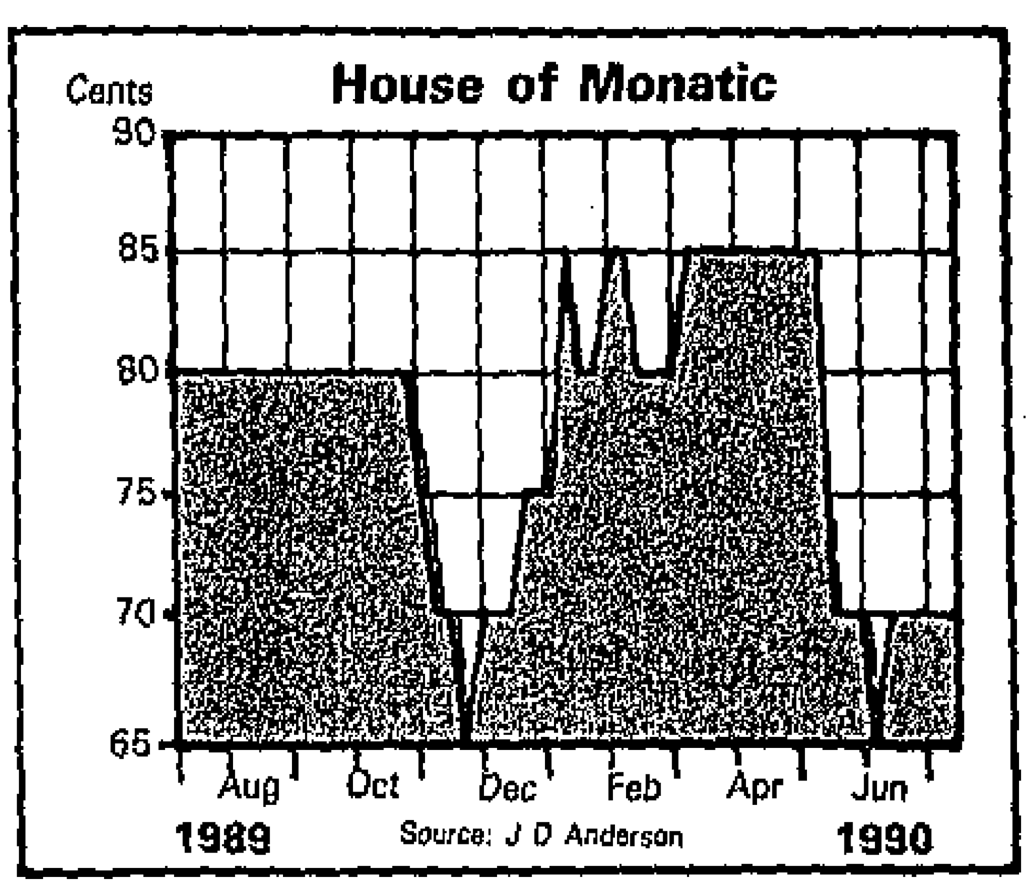
shoe). This left Budget as a cash shell into which HoM was reversed. (194)

Last year's earnings came from Amshoe (52%), HoM (30%) and CMI (18%), which, until year-end, controlled Lenco's foundation stone — Elvinco. Three significant events have, however, since taken place.

☐ First, Combined Packaging (Compac) has been created. In December, Lenco and Rubenstein Holdings (Ruhold) entered into agreements with creditors of the provisionally liquidated flexible packaging manufactur-



er, Alfa Manufacturing. Later, De Jager negotiated the takeover of Kohler's rigid packaging division from Holdains. Then he reversed Elvinco's rigid packaging interests into Kohler' and Ruhold's flexible packaging interests into Alfa, whose name was changed to Compak, now one of the largest packaging companies.



☐ Second, a joint controlling interest of 16,5% of Lenco has been sold to Remgro out of the ultimate pyramid Lenco (Pty) for R15,9m. Aside from permitting the De Jager family to capitalise on its efforts, this link gives the group additional lustre.

☐ Third, a R31m rights issue virtually eliminated debt, bringing a big interest saving and, more significantly, substantial capacity for further development and expansion.

De Jager is optimistic about Compak's prospects. With full order books for HoM beyond financial year-end, he is even more so, though there is a caveat: HoM's tax holiday is over. A dark also cloud hangs over Amshoe: unrest in Natal will hit its Durban-Maritzburg factories.

Even so, an investment in the ungeared Lenco, covering such natural growth areas as clothing, footwear and packaging, could be rewarding long term. *Gerald Hirshon*

METAL CLOSURES FM 13/7/90

Minorities canned (194)

It is the principle rather than the price that has fuelled the controversy surrounding the take-out of Metal Closures SA's minorities, which will now be decided by the courts. But money, or at least the chance of getting more out of SA, is what impels Metaclo's new UK owners.

At a general meeting of shareholders this Tuesday, four special resolutions were passed which railroaded minority shareholders into accepting R23 for each of their shares. The railroading may be legal, but minorities argue it shows a complete disregard for them. The company's articles of association were changed by way of special resolutions to allow the conversion of ordinary shares into redeemable prefs; minorities' ordinary shares can then be converted and redeemed. All that remained to be done on Tuesday was to register the special resolutions — scheduled for Wednesday despite a storm of protest.

Donn Jowell, legal representative of some minorities, described the procedure which Metaclo adopted as "incompetent and inherently prejudicial to minorities" particularly as its parent, Metal Closures UK, holds 77% of the shares and as the passing of a special resolution requires only a quorum and approval by 75% of the shares represented at the meeting. In other words, the exercising of minority votes could not affect the outcome.

The legality of using sections 75 and 98 of the Companies Act does not fall within the JSE's ambit. Nevertheless, it asked Metal Closures UK to refrain voluntarily from voting, citing the example of a similar scheme put forward by Lucem. The UK company rejected the JSE's request on the grounds that the price was reasonable and that its presence was needed to ensure a quorum at the meeting. If the price is right, the procedure doesn't matter, is how Kenneth Simon, Metaclo's legal adviser puts it.

If the Brits had agreed to the JSE's request, the resolutions would not have been passed, since an overwhelming 98% of the minorities present and voting were against. These minorities included the Mine Officials', Mine Employees' (both have held Metaclo shares since the company was listed) and Anglo American pension funds, as well as clients of stockbroker Martin & Co.

Minorities will now seek recourse through the courts. Jowell says an application will be brought in terms of common law and section 252 of the Companies Act.

A further element of the controversy involves what minorities see as a material nondisclosure of reasons for the companies delisting. Apparently Wassall, the UK parent's holding company, intends to swap the SA company's equity for cheap PIC debt caught in the standstill net. This will enable it to externalise interest paid by Metaclo rather than dividends, thus increasing the cash flow back to Wassall. Minority shareholders would not have favoured this. Metaclo chairman Abraham Steyn refused to be drawn on this issue saying "it is not relevant to the business of this meeting."

Then there is the question of whether the R23 price calculated by Finansbank as fair and reasonable is precisely that.

Martin's Winston Floquet reckons R23 is far from "fair and reasonable." He argues Metaclo's assets base has been renewed in the past three years and the minorities have not yet seen any benefit; Metaclo's gearing is significantly less than that of competitors; and the exit p:e is far less than the p:e of either Nampak or Consol — even though Metaclo's earnings have been less volatile than the others'. Floquet reckons that even R30 is probably too low.

Pam Baskind

Import controls on paper to be phased out

(1990) Star 13/7/90

The Board of Trade and Industry has been asked to revise the customs tariff protection received by the industries manufacturing paper, plastics and chemical products.

The Minister of Trade and Industry and Tourism, Mr Kent Durr said yesterday the revision was seen in an important light and continued customs tariff assistance to the industries concerned would, in terms of policy, be justified only in those instances where the Board of Trade and Industry could satisfactorily demonstrate that it would serve general economic development.

Further particulars regarding the revision would be published in the Government Gazette. In the publication, it would be stated that the rates of duty concerned would be revised with a view to reduction to free of duty, but, where justified, consideration would be given to representations for higher rates of duty, Minister said.

"The investigation will, in the case of paper, also relate to import control with a view to its abolition. Some of the other products concerned are also subject to import control, but the possibility of abolishing it is already being investigated".

Customs tariff protection was a form of assistance afforded industries to improve their competitiveness vis-a-vis foreign industries with the purpose not only of improving the development of the protected industries, but also of improving general economic development, the Minister said.—Sapa.

LION MATCH F/M 13/7/90

Debt trims earnings

Activities: *Interests in match manufacturing, packaging and print, domestic appliances and personal care consumer products.*
Control: *SA Breweries 70,6%.*
Chairman: *L van der Watt; MD: E M Turner.*
Capital structure: *45m ords. Market capitalisation: R106m.* (194)
Share market: *Price: 235c. Yields: 5,5% on dividend; 13,1% on earnings; p:e ratio, 7,6; cover, 2,4. 12-month high, 275c; low, 205c. Trading volume last quarter, 79 000 shares.*

Year to Mar 31	*'87	†'88	'89	'90
ST debt (Rm)	—	2,7	—	0,3
LT debt (Rm)	—	25,1	42,8	58,0
Debt:equity ratio	n/a	0,40	0,54	0,57
Shareholders' interest	0,59	0,53	0,44	0,43
Int & leasing cover .	24,5	7,0	5,0	3,4
Return on cap (%) ..	16,9	13,4	14,5	14,8
Turnover (Rm)	147	223	230,4	280
Pre-int profit (Rm) ...	15,2	20,3	25,6	34,4
Pre-int margin (%) ..	10,0	9,4	11,1	12,3
Earnings (c)	19,8	25,4	27,0	30,9
Dividends (c)	10,6	35	11	13
Net worth (c)	121	159	175	221

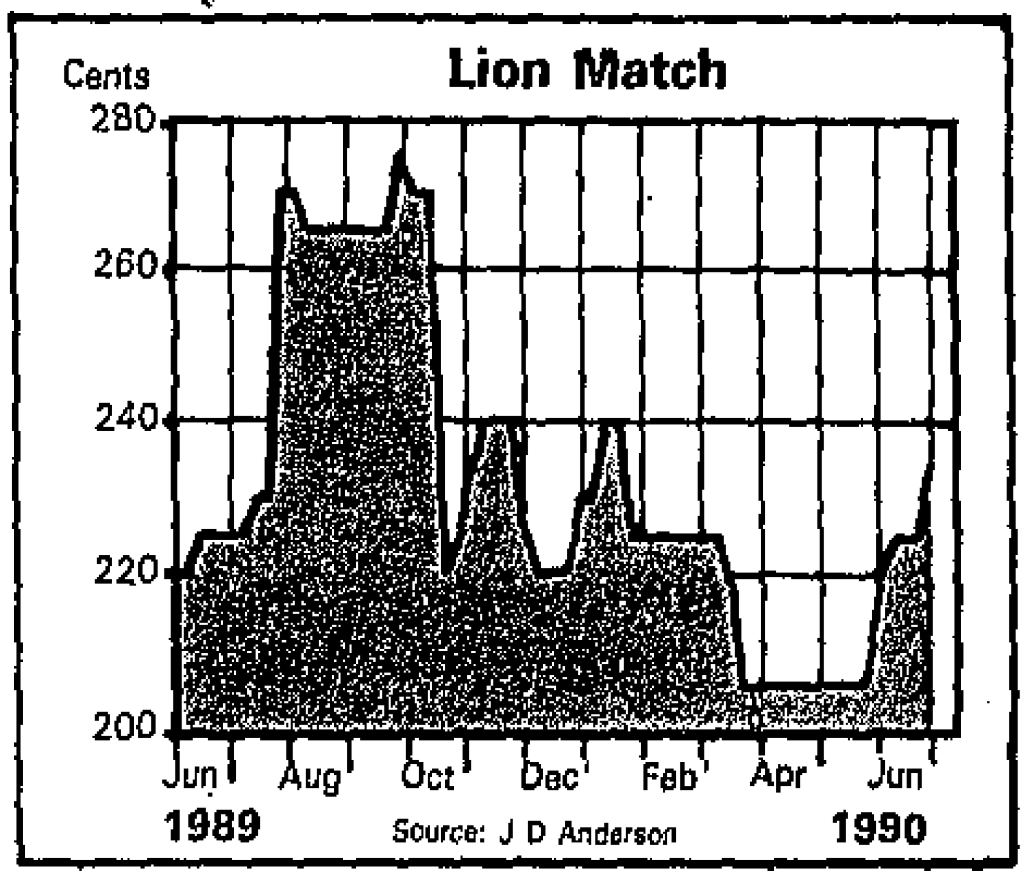
* Year to December 31.
† 15 months to March 31.

Results were moderated by higher net borrowings which went hand-in-hand with the Interpak packaging plant modernisation programme and development of local manufacturing capacity in Lion Match's appliances division. Long-term borrowings rose by 35% to R58m, almost doubling financing costs to R10m. So, while operating profits rose 35% to R34m, a R24m pre-tax profit was only 18% up on 1989.

Though chairman Laurie van der Watt is concerned about the jump in borrowings, he says: "We expect debt to be reduced in the current year because of changes in working capital and expected profit improvement."

Packaging division Interpak justified its part in the debt burden by recording the largest improvement, turnover rising 25% to R107,6m and operating profit up 53% to R11,6m. Despite providing packaging main-

FM 13/7/90 (194)



ly for consumer goods, Van der Watt does not believe the economic downturn will have too severe an impact on this division.

The lights division posted a 20% increase in turnover to R83,1m and 35% increase in operating profit. Van der Watt says the results "reflect full rationalisation benefits from the closure of the Butterworth match factory in 1988, and ongoing modernisation ..." Though the match market is low-growth, increasing at only 1%-2% a year, opportunities to increase sales and market share come from the Laser, Cricket and Firefly disposable lighters. Budgeted capex of R19,6m will be used mainly for plant renewal in this and the packaging divisions.

The electrical appliances division had "difficult trading conditions" as retailers cut back on stock in anticipation of further drops in consumer spending. Turnover rose by 21% while operating profit remained disappointingly static at R3,8m. Growth in sales was boosted by the acquisition of the Salton and Berda brand names and franchises for R1,6m. Reorganisation of manufacturing and distribution activities is expected to reduce working capital levels this year and improve margins.

In the smallest contributor — shaving, home & garden — sales rose only 9% but a R2,3m operating profit showed better growth, of 28%. More import replacement is planned.

Despite tight economic conditions and no let-up evident in the near future, Van der Watt says "management is budgeting to improve earnings." More he will not say.

But if Van der Watt is confident, it seems investors aren't. The share is still rated in the bottom half of the sector on a p:e ratio of 7,6 and dividend yield of 5,5%. Little hope of spectacular growth may keep it there for some time. *Heather Formby*

Metaclo UK backs off on take-out

By DAVID CARTE(R) (194)

METAL Closures UK has dropped its bid for the 23% minority stake in Metaclo SA. S Times 15/7/90

The offer was resisted by stockbroker Martin & Co, backed by the Mine Officials, Mine Employees and Anglo American pension funds.

The objectors said the offer of effectively R23 was too low. They were incensed because Metaclo, with 77% of the shares, proposed to force acceptance on the minority by converting its holding into redeemable prefs and then redeeming them.

They also criticised Finansbank for stating the offer was fair and reasonable.

After Metaclo UK steamrollered resolutions through the meeting of shareholders in spite of rejection by 98% of the minority, the matter went to the Supreme Court.

On Friday, attorneys for Metaclo told Don Jowell, attorney for Martin & Co and the pension funds, that it was withdrawing the resolutions and would pay costs.

Metaclo throws in towel to end battle

BiDay 16/7/90 ROBERT GENTLE (194)

METAL Closures (Metaclo) SA, the Cape-based packaging company embroiled in a bitterly contested takeover battle with its minority shareholders, has thrown in the towel because of the prospect of lengthy litigation proceedings.

The news, conveyed on Friday evening to attorneys representing minority shareholders, means the bid, orchestrated by UK parent Metaclo UK, is off.

Jowell, Glyn & Marais attorney Don Jowell, who has been acting on behalf of minority shareholders, said Metaclo SA had given an unconditional undertaking not to go ahead with the takeover.

Accordingly, the four resolutions passed at last week's shareholders meeting would be withdrawn, and costs would be paid.

This was confirmed by Webber Wentzel attorney Ken Simon, who has been representing Metaclo UK's parent Wassall Plc.

Simon said his client had backed down because of the prospect of drawn-out litigation. Contrary to market talk, Wassall had never been out to "fleece minorities". He could not outline Wassal's future plans.

Metaclo remains a listed JSE company 77%-owned by its UK parent and 23%-owned by local minority shareholders.

Winston Floquet, MD of stockbroking firm Martin & Co which has been at the forefront of the campaign, and Jowell said that whatever other bid Metaclo UK might come up with in the future would have to be a lot more acceptable to minorities.

Finansbank, which attracted criticism in the media and the market for the way it represented the minority shareholders, could not be reached for comment. Wassall Plc chairman Chris Miller could not be reached either.

FM 20/7/90 (194)

IMPORT PROTECTION FM 20/7/90

Paper lions

(194)

Of all the protection enjoyed by industry, that of the prosperous and mature paper sector must rank as the most controversial. Last week government announced that this tariff protection would be investigated by the Board of Trade & Industry along with the less controversial tariffs on chemicals and plastics.

Trade & Industry Minister Kent Durr, who requested the investigation, says: "Continued tariff assistance to these industries will, in terms of policy, be justified only in those circumstances where these industries can demonstrate that it serves general economic development."

In other words, the benefits for a particular industry are no longer enough to justify protection, because the cost of this protection is borne by the entire economy.

The results of another investigation concerning the paper industry, a probe by the Competition Board, is expected to be released in the next few weeks. The board is examining whether the pricing policies of Sappi and Mondi constitute a restrictive practice.

Printing Federation executive director Chris Sykes says that though a tariff reduction hasn't been announced, it's clear government thinking is moving in that direction. "These are mature industries and it's a good thing that they should be subject to competition from the outside world."

There may not be immediate abolition of tariffs; in fact government recently confirmed a 15% tariff on copier paper. There is a 15% duty on coated paper and a 10% duty on linerboard, but none on uncoated paper.

Sappi MD Eugene van As says the industry may be reasonably mature in commodity lines but its projects in the hi-tech areas of paper production are much more recent. In any case, he says, a mature industry like that of West Germany enjoys a 9% tariff across-the-board. He adds that protection is even higher downstream. "There's a 20% duty on an exercise book, even though it doesn't represent much added value on paper."

Nampak group MD Don McCarton, whose company would benefit from lower tariffs on paper, says shipping rates, which add US$100 a ton to the price of paper, provide considerable protection to the local industry. The inland market is further protected by railage rates that are much higher from the coast than from, for instance, Sappi's mill in the eastern Transvaal, he says.

But Van As says that while the price of locally produced linerboard at R1 400 a ton may now be the same as the international price of paper — plus 10% tariff and shipping costs — just six months ago it was R250 lower than the international price. "Overseas suppliers may be able to offer a lower price from time to time but they may not offer continuity of supply."

Mondi chairman Tony Trahar says government must be careful when it tries to ensure competitive pricing not to tilt the playing field towards overseas competitors.

"Our competitors, who all operate from protected markets, work from countries with much lower interest rates and inflation. If they were able to dump surplus capacity on the SA market without a tariff, that would make the playing field very tilted indeed. It would lead to the contraction of the local market and a greater reliance on imports. Not only would this mean a loss of foreign exchange but would leave the country extremely vulnerable both to sanctions and world shortages."

The chemical industry is more philosophical about the investigation of its industry and accepts that tariffs should come under the spotlight.

Sentrachem MD Johan van der Walt says "there is certain tariff protection, which I don't think is out of line with that in the rest of the world, but I accept that this needs to be constantly reviewed."

Van As says the same arguments he raised for paper protection can be used for the chemical industry. "If there's a large basic infrastructure in place and there has been huge capital investment, then the industry should be protected from disruptive competition. Industries should be able to stand on their own feet but not subject to the dumping of surpluses by foreign companies. If there are no tariffs, it's very tempting to offload extra capacity."

It's the old case of producers who, when they're not asking for more tariff protection and other breaks from government, are lobbying to keep the handouts they already have.

But SA producers, with their high profit margins, should have no problem matching any low import prices and still add to their bottom lines. *Stephen Cranston*

METAL CLOSURES F/M 20/7/90 (194)

Wassall hassle

Wassall, the UK conglomerate beaten off in its bid for the minorities in Metal Closures (Metaclo), is licking its wounds and apparently contemplating another assault. Wassall had hoped to take out Metaclo's 23% minorities at R23 a share, but was beaten by vigorous opposition led by stockbroker Martin & Co (*Fox* July 13).

The Brits bellowed they would not be blackmailed by minorities and saved face by saying Supreme Court action — put down for August 1 and aimed at blocking the bid — would last an unacceptably long time.

On July 10 Wassall's 77% votes carried the day at a special meeting to approve the minority take-out, but highly public resistance here and in London persuaded the conglomerate to change its mind. The meeting's special resolutions were not registered and the take-out plans have fallen away. But does the defeat of Wassall spell a victory for minorities?

There are several other options, Martin and others believe — management buy-outs, offering UK-registered Wassall shares for Metaclo or a higher price. Unless, of course, Wassall decides to leave things as they are, in which case Metaclo's share price could drop, leaving the minorities with egg on their faces. Remember what happened early in the Eighties when the Mine Pension Funds rejected a bid for Associated Engineering — minorities were left for years with shares priced well below the bid offer.

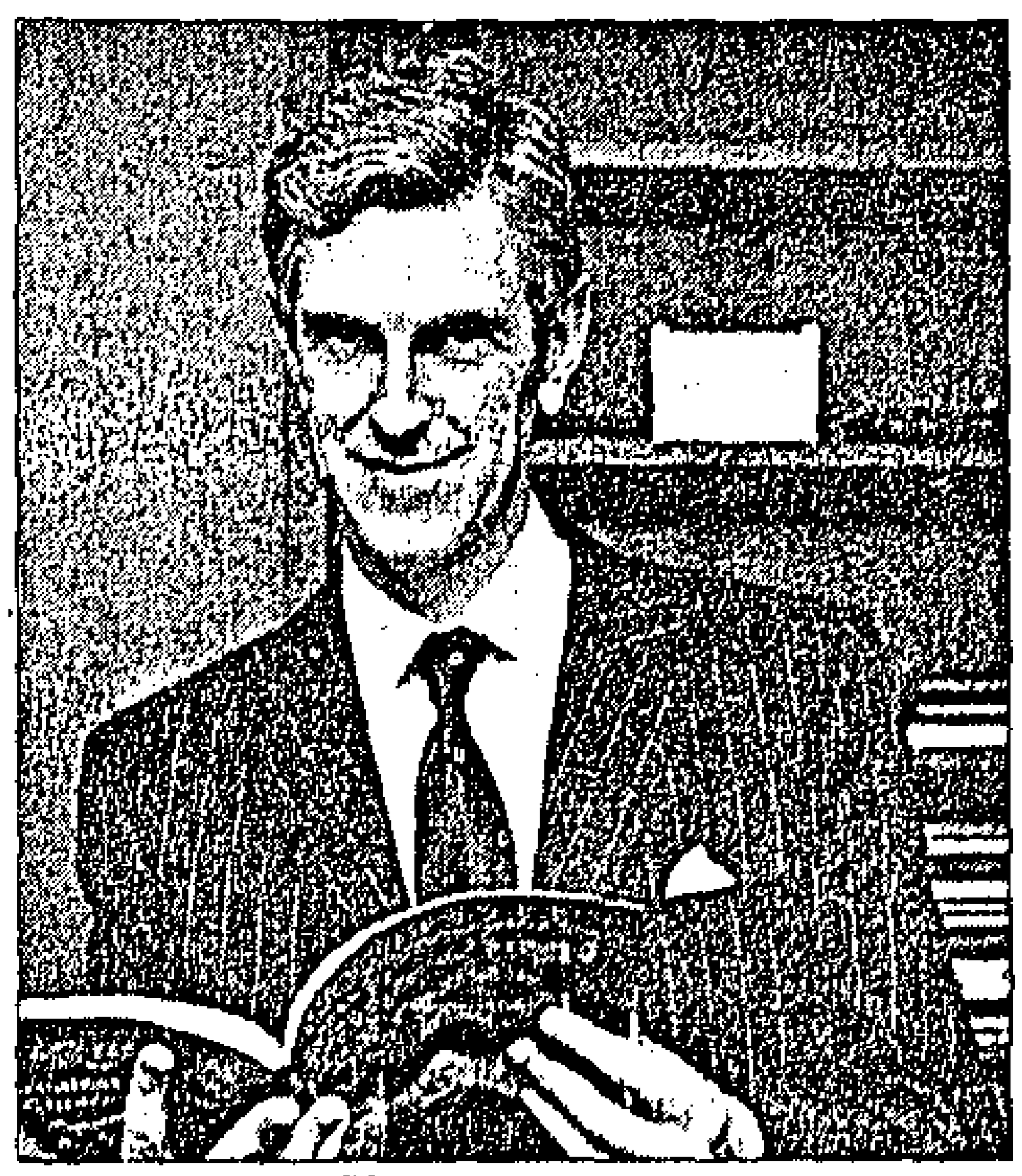
For the present, though, the JSE, Mine Pension Funds and other minorities, on whose behalf Martin & Co took up the cudgels, profess happiness with the outcome.

The documents relating to the proposal complied with all JSE regulations, but market president Tony Norton requested Wassall to refrain from voting at the meeting. This he felt would make the contentious Section 75 and 98 take-out route acceptable and allow the 23% minorities to exercise some control over their company.

That was all very well, but neither Norton nor the JSE had any legal right to enforce his request. Wassall's documentation complied with all of the JSE's requirements. It is not the JSE's job to decide whether a deal is fair and reasonable — it simply monitors compliance with market rules. But the UK conglomerate appears not to have been altogether open. Once it had taken out the minorities, so detractors say, it planned to convert its equity into cheap debt held by the PIC and increase its cash flow out of SA by externalising interest rather than dividends.

Wassall had three "independent" valuations which said its R23/share bid was fair and reasonable though one of them came from Finansbank. Finansbank was chosen by Metaclo's directors to protect the interests of the minorities. But one of its directors, Jan van den Berg, is also a Metaclo director and, arguably, may have found it difficult to see the minorities' viewpoint.

The JSE will soon, indirectly, get some teeth. The new Securities Regulation Panel will be legally empowered to enforce its regulations on mergers, acquisitions and insider trading. It is envisaged that minorities will be protected in the best interests of all shareholders, though that seems woolly unless some balance is found between protecting minorities and preventing them from holding controlling shareholders to ransom.



JSE's Norton . . . request ignored

The JSE's request that Wassall should abstain from voting at last week's meeting was rejected as the UK company argued its presence was necessary at the meeting for a quorum. The Brits' arrogance lay in their claim that R23 was fair and reasonable and that they were going to vote in favour "in the interests of such shareholders (the minorities)." In the event 98% of the minorities voted against Wassall.

Wassall legal representative Ken Simon said the group had gone to great lengths to ensure that the price to minorities was fair. He added fair and reasonable valuations were obtained from VMB and the company's auditors Aiken & Peat apart from the contentious one from Finansbank.

But could Finansbank have given a fair and reasonable valuation if it was unaware of Wassall's intention to refinance Metaclo using PIC debt caught in the standstill net? Finansbank director Willie Ross says the merchant bank was not aware of the scheme when the valuation was done and feels that the take-out should in any event be judged on the current situation. Mine Pension Funds investment manager Graham Dickason disagrees. He says: "SA shareholders would have facilitated a benefit that would accrue to UK shareholders as a result of such a scheme and it therefore has a value." Its value may be debatable but minorities should have been given the opportunity to do just that.

Can any merchant bank not expect its independence to be called into question by a bid's opponents when it is brought in by the bidder to provide a "fair and reasonable" imprimatur?

Wassall is lying low for now but minorities might be advised to keep a weather eye open for the next assault. *Pam Baskind*

Carlcor, Copi buck the trend in paper sector

Bday 23/7/90 (194)

HELENA PATTEN

TWO thinly-traded shares in the paper and packaging sector of the JSE — Carlcor and Copi — jumped up last week, while the sector index seems set to continue its slide relative to the industrial index this year.

The decline in the ratio has slowed since the last part of 1989, but continues to be weighed down by the troubles of major index components Nampak and Sappi.

Many of the shares in the sector — Afcom, Holdain and Hortors — are close to their twelve-month lows.

Against this background, the share performances of Carlton Paper Corporation (Carlcor) and Canadian Overseas Packing Industries (Copi) look bright. Carlcor, R8,50 at close of trading on Friday July 13 sold at R9.30 by last Friday. Copi's share price improved by more than R3 last week to close at R33,00 on Friday.

The jump in the price of pure rand hedge Copi remains a mystery to analysts. The Canadian dollar/rand cross-rate has not been moving significantly.

Carlcor's good showing was easier to explain.

Traditional

One analyst said the Malbak management takeover two to three years ago resulted in some rationalisation and the installation of new machinery. This was now paying off.

The state tender for tissue — briefly taken away by Nampak — had also been returned to its traditional Carlcor home, and the low pulp prices on the international markets were working through to mean cheaper inputs for the company.

In contrast, Frankel Kruger Vinderine analyst Teigue Payne said Sappi probably faced an earnings drop of 20% in its current financial year. This was due to low commodity prices, an unfavourable rand exchange rate and the loss of production during a heavy strike straddling two financial years.

Nampak has a GDP-linked performance, but underperformed even GDP in its March interim report. One analyst blamed a disastrous showing by the diversified packaging component of Nampak subsidiary Metalbox for the poor results.

Payne forecast a 3% increase in earnings for its September year-end.

Bowler profit increases despite tax provision

Bday 26/7/90 (194)

MARCIA KLEIN

PLASTIC packaging manufacturer Bowler Metcalf continued to show an increase in operating profit in the six months to end-June, although its increase in net income was lower due to a hefty tax provision.

A tax provision which nearly tripled to R295 000 caused net income to increase 23% to R691 704 (R562 218). The six months to end-December generated a net income of R839 000.

Earnings a share were 2,8c, (2,3c) and an interim dividend of 1,25c (1c) a share was declared.

According to the interim report the large tax provision was due to the minimizing of previous manufacturing tax concessions.

The paper and packaging-listed company showed an operating profit of R1,2m for the last six months, 33% higher than the last interim figure of R932 179 and 21% up on the six months ending December 1989.

Bowler Metcalf announced a 49% jump in pre-tax earnings after interest to R986 704 (R662 218).

This follows an average year-on-year increase of 22% since being listed in 1987.

MD Horst Sass says growth in pre-tax earnings will be matched by few established SA manufacturing concerns in 1990.

Although trading conditions in the plastic packaging industry appear tight due to higher raw material prices and general overcapacity, Sass says their order book is up 25% on last year.

He expects a year-end growth in attributable profits of 20%.

Minimal capital expenditure is expected to year end, and all long-term liabilities will be repaid within 23 months. A future reduction in interest paid due to positive cashflow is also expected. Interest bearing debt at interim stage stood at R1,6m (R1,5m at year-end).

COMPANIES

BDay 27/7/90

Masterbond's masterful results

MANDY JEAN WOODS

MASTERBOND Trust's group MD Johann Brits says the group is confident that assets under control — which improved from R186m to R532m in the year to end-February — will reach the R1bn mark in the current financial year.

In the latest annual report Brits says Masterbond had achieved substantial growth for the sixth consecutive year with group pre-tax profits doubling to R2m.

Pre-tax profit is expected to double again to R4m in the year to February 1991, Brits said.

The group's financial services saw funds under its administration increase by more than 200% to R496m, he said.

"The performance of the past year is particularly noteworthy in view of the slow-down in the SA economy," he said.

Much of the group's success could be attributed to a policy of diversifying within the areas in which it is already strong — property development and financial services.

"With its strong financial services arm the company is well placed to take advantage of the high interest rates that exist in the market at present.

"Although it is expected that the economy will decline further during the coming year, the group should not be adversely affected," Brits said.

Wassall considers its Metaclo offer options

BDay 27/7/90

194

UK-BASED Wassall plc has firmly denied SA speculation that it will be making a renewed offer to buy-out minorities in packaging group Metal Closures SA (Metaclo).

Speaking from London yesterday Wassall group CE Christopher Miller said that while there were a number of options still open to it, no definite decision had yet been taken on either making a revised bid or not.

"At the moment we are doing nothing," he said, adding that any renewed offer would not necessarily be handled the same way.

Wassall is the parent group of Metal Closures UK, which controls 77% of Metaclo.

Miller said to put a value on any potential new bid would be premature. But a market source said yesterday any new offer would have to be "substantially higher" than Metal Closures' last one of R23,50 — opposed by minority interests represented by stockbrokers Martin & Co, Anglo American, and the Mine Employees and Mine Officials pension funds — as too low.

After the matter was taken to court, and based on advice from its legal advisers Webber Wentzel, Wassall stepped down from the bid, ostensibly to "avoid lengthy and expensive litigation".

Options

A source at Metaclo said it was conceivable that another offer could be in the air because of the strategic importance that the SA operations had to its UK parent, and especially to Wassall.

For the past financial year Metaclo contributed more than 70% to the taxed profits of Metal Closures UK.

Miller would say only that the group was considering its options and was playing its cards close to its chest.

Proteapak withdrawal eases spare capacity

ZILLA EFRAT (194)

SPARE capacity in the competitive woven plastic packaging industry, which became heavily overtraded by the first quarter of this year, will be eased by the withdrawal of Proteapak, reports BMI FoodPak.

Proteapak's closing, coupled with cuts in decentralisation benefits, could result in the industry's return to almost full capacity in due course, it says.

BMI FoodPack found demand in the woven plastic packaging market is likely to rise 4,5% this year. However, the growth rate in the medium term is expected to fall slightly. B'Day 3/12/90

One reason for this is heightened competition from alternative packaging methods. Mineral producers, mining industry suppliers and wool producers are investigating other types of packaging.

Purchases by the milling industry, which takes more than half of all woven plastic sacks produced, will continue to expand despite a trend towards bulk deliveries.

BMI FoodPak warns that woven bag manufacturers serving the chemical industry — the second largest user of woven plastic packaging — will have to improve their products to meet new international standards coming into effect at the beginning of next year.

However, salt, which closely follows chemicals in market size, could provide a major opportunity for woven sacks.

Acquisition on the cards for Hortors

ZILLA EFRAT (194)

AN ACQUISITION could be on the cards for printing and packaging group Hortors.

In his annual review, chairman John Featherstone says Hortors, a CTP Holdings subsidiary, is in a strong financial position with minimal gearing.

It has the resources to grow either organically with modern equipment or by the acquisition of a complementary printing operation. B/Day 31/7/90

Featherstone says the cost of new equipment, nearly all of which is imported, and the low exchange value of the rand makes an acquisition an attractive alternative although plant modernisation will not be ignored.

Profits

He adds that additional warehousing is being constructed on the group's premises in Industria, Johannesburg, to allow for growth in its sheetfed activities.

The incidence of deferred tax damped Hortors' profits in the year to March, he says. Attributable earnings fell 31% to R2,8m (R4m) or 5,4c (7,8c) share.

Turnover rose marginally to R40,9m (R40,4m), but operating income, eroded by the write-off of old debtor balances in the Kalamazoo Business Forms division, declined 12,5% to R3,4m (R3,9m).

Pre-tax income, boosted by a leap in interest received of R2m (R383 000), improved 31% to R4,5m (R4m). However, this was dented by a higher tax bill of R2,6m (R43 000). A dividend of 1,5c (2c) a share was declared for the year.

Transpaco to jettison stationers for R1,3m

BDay 11/8/90 (194)

ZILLA EFRAT

TRANSPACO's fall in earnings — after it incurred a loss in the nine months to March — has prompted it to dispose of Transpaco Stationers for about R1,3m.

The packaging group's earnings in the 15 months to March are R198 000 or 1,8c a share, and no dividend has been declared.

This follows a 21% rise in earnings to 4,95c a share at the interim stage after profits of R1m or 9,9c a share in the year to December 1988.

Joint MDs Mike and Philip Abelheim say while the distribution side performed satisfactorily, the manufacturing division was adversely affected by market conditions and the economic downturn.

General costs rose at a greater rate than turnover and the Consumer Plastics acquisition took longer to absorb and rationalise than was expected.

While extending the financial year-end improved gearing, the inclusion of the traditionally bad trading months of January to March — even more difficult in 1990 than in previous years — had a severe effect on the group's results, they say.

Turnover, which improved from R35m in the previous financial year to R56,3m, was largely boosted by Consumer Plastics and Transpaco Stationers.

However, the drive for turnover to maintain market share, the pressure on selling prices, higher labour costs, unsettled labour conditions and general inflation-driven expenses placed severe pressure on margins.

Operating profit fell to R2,2m following R2,6m in the previous year.

The Consumer Plastics acquisition and expansion of Transpaco Stationers saw the interest bill soar to R1,6m, with interest cover falling to 1,4 times.

The Abelheims say the disposal of Transpaco Stationers, which has shown phenomenal growth since it started in October 1988, will increase Transpaco's net asset value by about 11c a share.

Transpaco's current ratio is at 1,15:1 (1,3:1) and interest-bearing debt to equity ratio at 166% (122%). Had the Transpaco Stationers disposal been in place by March 31, interest-bearing debt to equity ratio would have been 83%.

The Abelheims say that since March, Transpaco has been trading profitably.

While Consumer Plastics' turnover did not reach target levels during the period under review, it is now achieving budget. This, together with further cost reductions after the year-end, will contribute to improved profitability.

While earnings of 10c a share are budgeted for in the current year, the rate of improvement will be slower in the first half. This is because the impact of the changes introduced will not yet have been fully felt, say the Abelheims.

Carlton Paper romps home

By Ann Crotty Star 2/8/90 (194)

Carlton Paper, which manufactures disposable tissue products, has reported a 51 percent surge in earnings to 70c (46,3c) a share for the six months to June.

A dividend of 31c (24c) a share has been declared.

In view of the recent advance in the share price, it seems some investors are not surprised by the sterling performance.

Strong export volumes, reasonable local volumes, improved operating margins and a well-controlled gearing position all helped Carlton to buck the much weaker trend in industrial results.

Turnover was up 27,6 percent to R185,4 million (R145,4 million). Operating income surged 45 percent to R19,6 million (R13,5 million) on the back of an increase in operating margins — up from 9,3 percent to 10,6 percent.

Interest payments were up a mere 8,6 percent — from R1,8 million to R1,9 million.

The directors say: "Considerable effort has been focused on the management of working capital, which resulted in gearing being reduced to 11,6 percent."

Pre-tax income increased 49 percent to R18 million (R12 million) and a slight reduction in the tax charge (down from 39,2 percent to 38,5 percent) helped lift the advance at the attributable-income level to 51 percent — up from R7,3 million to R11 million.

Referring to prospects, the directors say: "The economy is expected to remain slow and this, together with disruption being caused by labour disputes and boycott activity, will continue adversely to affect our ability to service our customers."

Only the export market is expected to show real volume growth.

The second-half earnings increase is not expected to match that of the first half, "but management is confident of achieving an improvement on the 1989 results".

Exports help Carlcor boost earnings 51%

BDay 2/8/90 (194)

CARLTON Paper Corporation (Carlcor) posted a 51% rise in attributable earnings in the six months to June due to a boost from strong export volumes.

ZILLA EFRAT

The group — jointly held by Malbak's paper and packaging group Holdains and US-based Kimberly-Clark — achieved attributable profits of R11m (R7,3m) or earnings of 70c (46,3c) a share.

It declared a dividend of 31c (24c) a share, up 29% and covered 2,2 (1,9) times.

The results follow static growth in the previous interim period, caused by investments in upgrading of two machines.

MD Keith Partridge says exports doubled over the same period last year and Carlcor's products are relatively recession-free. All markets continued to grow, but at a slower pace than the previous two years.

He says the rebuilding of the two machines, which affected previous interim results, paid off in the period under review.

In addition, a new non-woven materials machine, installed at a cost of R10m, is also operating satisfactorily. It eliminates Carlcor's need to import non-woven materials for diapers and feminine protection products.

Carlcor's plans to rebuild two paper machines in 1991/2 will cost over R60m and provide it with additional capacity, improved quality and lower production costs.

Strong export growth, mainly in Europe, and reasonable local volumes led to a 28% rise in turnover to R185,5m (R145,4m).

Carlcor's total quality programme, in which substantial amounts have been invested over the past two-and-half years, led to an improvement in operating margins to 10,6% (9,3%).

Operating profit grew 45% to R19,7m and net interest paid rose 8,6% to R2m.

Disruptions

The group received a dividend from its international export subsidiary of R268 000 (R304 000). A focus on managing working capital resulted in gearing dropping to 11,6% (38%).

Partridge says the economy is expected to remain slow. This, with disruptions caused by labour disputes and boycott activity, will continue to adversely effect Carlcor's ability to service customers. As a result, no real volume growth, other than in exports, is anticipated.

He says earnings growth in the second half is not expected to match that of the first half, but management is confident of an improvement on the 1989 results.

Nampak probe into 'possible irregularities'

D/Bam 3/8/90 ZILLA EFRAT 194

PACKAGING giant Nampak is investigating possible irregularities in its corrugated division involving certain staff members and an outside company.

MD Don McCartan said yesterday it was too early to comment as the investigation was still in progress.

While no criminal charges had been laid and no-one had been fired, chairman Brian Connellan said a few staff members had been suspended, one of them a senior executive.

The investigation centred on allegations relating to over-invoicing.

The speculation in financial circles was that the sums involved in the irregularities were more than R10m. Some put the figure as high as R90m.

McCartan said there was no certainty as to the amounts involved at this stage, but they were nowhere near the amounts speculated on.

Indications were that the irregularities were unlikely to effect the group's earnings in the current year.

Shareholders would be informed if anything of a material nature was uncovered, he said.

The possibility of irregularities in the division — which manufactures and converts corrugated boards into rigid boxes, partitioning and related products — surfaced about three weeks ago after allegations made by certain Nampak employees.

Yesterday, many rumours were circulating about various strong-arm intimidatory tactics being used against Nampak.

However, Connellan said the only thing he was aware of was a visit to Nampak's Sandton head office by a lawyer representing one of the suspended staff members on Monday morning.

The lawyer had apparently arrived at the office flanked by two men who appeared to be bodyguards.

They had, however, waited outside while the lawyer consulted with Nampak's lawyer.

Nampak's share price closed unchanged at 4 550c on the JSE yesterday after having eased from its April peak of 5 150c.

Metaclo's interim earnings fall 49%

BDay 3/8/90

194

ZILLA EFRAT

METAL Closures (Metaclo) — the UK-held group which recently aborted plans to take out local minorities — has produced a 49% drop in earnings in the six months to June.

Metaclo posted attributable profits of R1,9m (R3,8m), equivalent to earnings of 74,3c (145,5c) a share. Its interim dividend was 48% lower at 25c (48c) a share, covered an unchanged three times.

An attempt by the local packaging group's UK-based parent Metal Closures UK — recently acquired by Wassall plc — to make it a wholly owned subsidiary was bitterly contested by local minorities last month.

Broking firm Martin & Co urged minorities to resist the proposed scheme because it did not consider the method and price fair and reasonable.

But Metaclo UK was able to steamroller the required resolutions through a special meeting as it held more than the issued share capital needed.

A court application by minorities to stop the resolutions from being registered with the Registrar of Companies was postponed. But Metaclo UK, faced with the prospects of lengthy litigation, threw in the towel and aborted the takeover bid.

One reason given by Wassall plc for the price offered to minorities at the time of the takeover bid was that Metaclo's current trading was disappointing.

However, Martin & Co MD Winston Floquet said yesterday Metaclo's results were not expected to be good. He did not believe that one bad interim result in an economic downturn changed the long-term value of any company, especially when special circumstances were involved.

In a notice published today, directors attribute Metaclo's disappointing results to the depressed state of the economy and the increasingly competitive nature of the industries it serves.

They say all divisions experienced difficult trading conditions. The resultant under utilisation of capacity and increased manufacturing costs, particularly labour, have eroded manufacturing margins.

On a 10% rise in turnover to R64,5m (R58,6m), operating profit fell 44% to R4,4m (R7,8m). Net interest paid rose to R526 000 (R305 000).

Although some trading improvement was expected in the second half, the directors expect profit for the full year to be down on last year.

ST Times 5/8/90 (194)

Nampak scam clam

By CHARMAIN NAIDOO

AN alleged scam which could involve millions at Barlows packaging arm Nampak is shrouded in secrecy.

Nampak senior management confirms that five members of the corrugated containers division have been suspended pending the outcome of an internal investigation.

The investigation is being carried out amid anonymous threats, says Gavin Duffey, manager of group legal affairs. Mr Duffey will not say who has been threatened or why.

It is believed that papers are being prepared for two civil cases to be presented in the Supreme Court. But it cannot be established who or what is involved.

Nampak says the police have not been called in and it is unlikely that they will be until the investigation is complete.

Managing director Don McCartan says: "Some facts came to our notice and an internal inquiry was begun between five or six weeks ago.

"We have no idea of the amount involved in the irregularities at this stage. However, I do not believe our earnings will be affected.

"If we do discover anything of a material nature, we will inform our shareholders."

Adrian Barker, divisional chief executive of Corrugated Containers, could not be reached for comment this week.

His office said he was off sick and referred all inquiries to the managing director.

There has been much rumour and speculation, which senior management refuses to confirm or deny.

One report is that there was overinvoicing involving an outside engineering company.

R514m capital shot for Mondi, NTE

BDay 8/8/90 (194)

ZILLA EFRAT

PAPER giant Mondi and its associated company NTE would receive a R514m capital injection, Anglo American Corporation chairman Julian Ogilvie Thompson announced yesterday.

The capital injection would support future expansions which the companies had identified in the medium to long term, Ogilvie Thompson said at the opening of the R220m modernisation and expansion of the BM6 board machine at Mondi's Springs Board Mill.

He said both Mondi and NTE were involved in major capital expenditure programmes.

De Beers Consolidated Mines has increased its holding in Mondi from 6,3% to 17% as Anglo American Industrial Corporation (Amic), Mondi's major shareholder, has ceded its rights in terms of the capital injection and sold shares to De Beers.

Amic's interest falls from 63,7% to 53%, while Anglo American's stake remains unchanged at 30%.

The transactions result in De Beers injecting R318m and Anglo American R136m into Mondi.

Amic decided to reduce its interest in Mondi after taking into account the possible capital requirements of its other subsidiaries and associates, and to maintain a reasonable balance between the likely capital demands on its resources.

Ogilvie Thompson said NTE had incurred heavy capital expenditure in recent years in buying timber plantations and land for afforestation. The company supplied significant volumes of timber to Mondi, and this would increase as afforestable land was developed and plantations reached full rotation.

"It will take a number of years before NTE reaches its full profit potential and becomes entirely self-financing. As a result, the shareholders have agreed to inject R60m into the company," he said.

Because Mondi and NTE were interdependent, the shareholdings in both companies would remain identical. Amic's interest in NTE would fall to 53% and De Beers' stake would rise to 17%, the net cash flow effect being cash injections into NTE of R42m by De Beers and R18m by Anglo American.

De Beers would also pay Amic R2,5m for the small number of shares in both Mondi and NTE to adjust the shareholdings in the two companies to the agreed levels.

The transactions would have no material effect on the respective net asset values or estimated earnings of Amic and De Beers for the year, Ogilvie Thompson said.

Mondi executive chairman Tony Trahar said yesterday the rebuilt BM6 board machine at Springs would double annual carton board production capacity at the Springs mill to 80 000 tons. This could be increased to 100 000 tons if required.

Mondi scoops R500m

GMT Trib 8/8/90 194

By PIETER COETZEE
Financial Editor

MONDI PAPER and associate NTE are to receive a huge capital injection of over R500 million from De Beers and Anglo American.

Making the announcement yesterday, Anglo chairman Julian Ogilvie Thompson said Mondi and NTE were involved in major capital expenditure programmes and the injection of capital would support future expansions.

De Beers will inject R318m and Anglo American R136m bringing the total capital injection to R514m.

Anglo American Industrial Corporation (Amic), part of the Anglo stable and the major shareholder in Mondi, proposes to reduce its interest in Mondi in order to maintain a reasonable balance between the capital demands on its resources.

Ogilvie Thompson said Anglo's sister company De Beers has shown interest in obtaining a more meaningful stake in Mondi. The increased backing of such a powerful investor would be invaluable over the long term.

According to the announcement Anglo American Industrial Corporation (Amic), the major shareholder in Mondi, will cede its rights in terms of the capital injection and sell sufficient of its shares to De Beers to increase De Beer's interest in Mondi from 6,3% to 17%.

De Beers in capex injection

SPRINGS. — Proponents of "a redistributive quick-fix, a once and for all transfer of wealth" as the optimum way ahead for growth in SA were living in a world of make-believe, Anglo American chairman, Julian Ogilvie-Thompson, said yesterday. GMT Trib 8/8/90

"If one were to distribute all the assets of Anglo American Corporation equally to every person in the country, the capital value will amount to less than R1 000, and it is certain that the productive capacity of those assets would be severely curtailed."

The problem in SA, Ogilvie-Thompson continued, was not that companies were too large, but that the economy was small, and the State accounted for as much as 54%, which left little room for the private sector.

"What SA needs is more big groups like Anglo and De Beers able to back large companies that can compete on an international scale." — Sapa

Amic's interest will be reduced from 63,7% to 53%. Anglo American's interest will remain unchanged at 30%.

Ogilvie Thompson said NTE had incurred heavy capex in recent years in buying timber plantations and land for a forest station. The company supplied significant volumes of timber to Mondi and this would increase as forestable land is developed and plantations reach full rotation.

"It will take a number of years before NTE reaches its full profit potential and becomes entirely self-financing. As a result, the shareholders have agreed to inject R60m into the company," he said.

Because Mondi and NTE are interdependent, it was decided the shareholdings in both companies should remain identical.

Thus Amic's interest in NTE will be reduced to 53%, and De Beers will increase its interest to 17%. The net cash flow effect being cash injections into NTE of R42m by De Beers and R18m by Anglo.

De Beers will also pay Amic R2,5m for the small number of shares in both Mondi and NTE that will be sold to adjust shareholdings to the agreed levels.

For purposes of the deals, Mondi and NTE will be valued on the basis of their future earning capacities and asset backing.

There will be no material effect on the respective net asset values or estimated earnings for the year of Amic and De Beers, Ogilvie Thompson said.

Mondi gets R454-m cash injection

By Sven Lünsche

Paper company Mondi is to receive a R454 million cash injection from shareholders Anglo American Corporation (AAC) and De Beers to finance a number of significant expansion projects.

Associated company NTE (formerly Natal Tanning Extracts) would receive an additional R60 million, AAC chairman Julian Ogilvie Thompson said yesterday.

De Beers will be the major contributor, injecting R318 million into Mondi and R42 million into NTE, with AAC contributing R136 million and R18 million respectively.

Ceded rights

Mondi's majority shareholder, Anglo American Industrial Corporation (Amic), has ceded its rights in terms of the capital injection.

As a result, De Beers' interest in both Mondi and NTE has been raised to 17 percent, while Amic's stake has been reduced from 63,7 to 53 percent.

AAC's holding remains unchanged at 30 percent.

"De Beers has been interested for some time in acquiring a more meaningful stake in Mondi. The increased backing of such a powerful investor will be invaluable over the longer term," Mr Ogilvie Thompson said.

De Beers will alao pay Amic R2,5 million for the small number of shares in both Mondi and NTE that will be sold to adjust the shareholdings of the two companies to the agreed percentages.

The capital expenditure programme includes the financing of the R220 million modernisation and expansion of the BM6 board machine at Mondi's Springs Board Mill.

Board production

The new board machine, which was officially started by Mr Ogilvie-Thompson at a function yesterday, doubles the annual carton board production capacity at the mill to 80 000 tons.

There is a potential to increase it further to 100 000 tons.

Other projects include the modernisation of the PM1 paper machine at the Merebank Mill and the estabishment of a recycled fibre plant to supply Merebank.

In addition, Mondi has identified expansion opportunities in the medium-to-long-term, which will require substantial capital injections.

NTE's capital injection will be used to assist the company in becoming completely self-financing.

NTE supplies timber to Mondi and plans to increase supply volumes through the acquisition of additional plantations and land for afforestation.

In his address, Mr Ogilvie Thompson attacked recent calls for nationalisation by groupings such as the ANC and the PAC.

"Proponents of a redistributive quick fix, a once-off transfer of wealth, as the way ahead for growth in South Africa, are living in a world of make believe," he said.

"Any government can plunder the many to enrich the few, but you cannot plunder the few to enrich the many.

Competitive advantage

"Still, some economists of the left see in the 'dismembering of the conglomerates' a perfect way of redistributing the wealth of the economy ... and propose destroying the competitive advantage of efficient large companies by using crude anti-trust measures to break them up," Mr Ogilvie Thompson said.

"If one were to distribute all the assets of Anglo American equally to every person in the country, the capital value would amount to less than R1 000 and it is certain that the productive capacity of those assets would be severely curtailed."

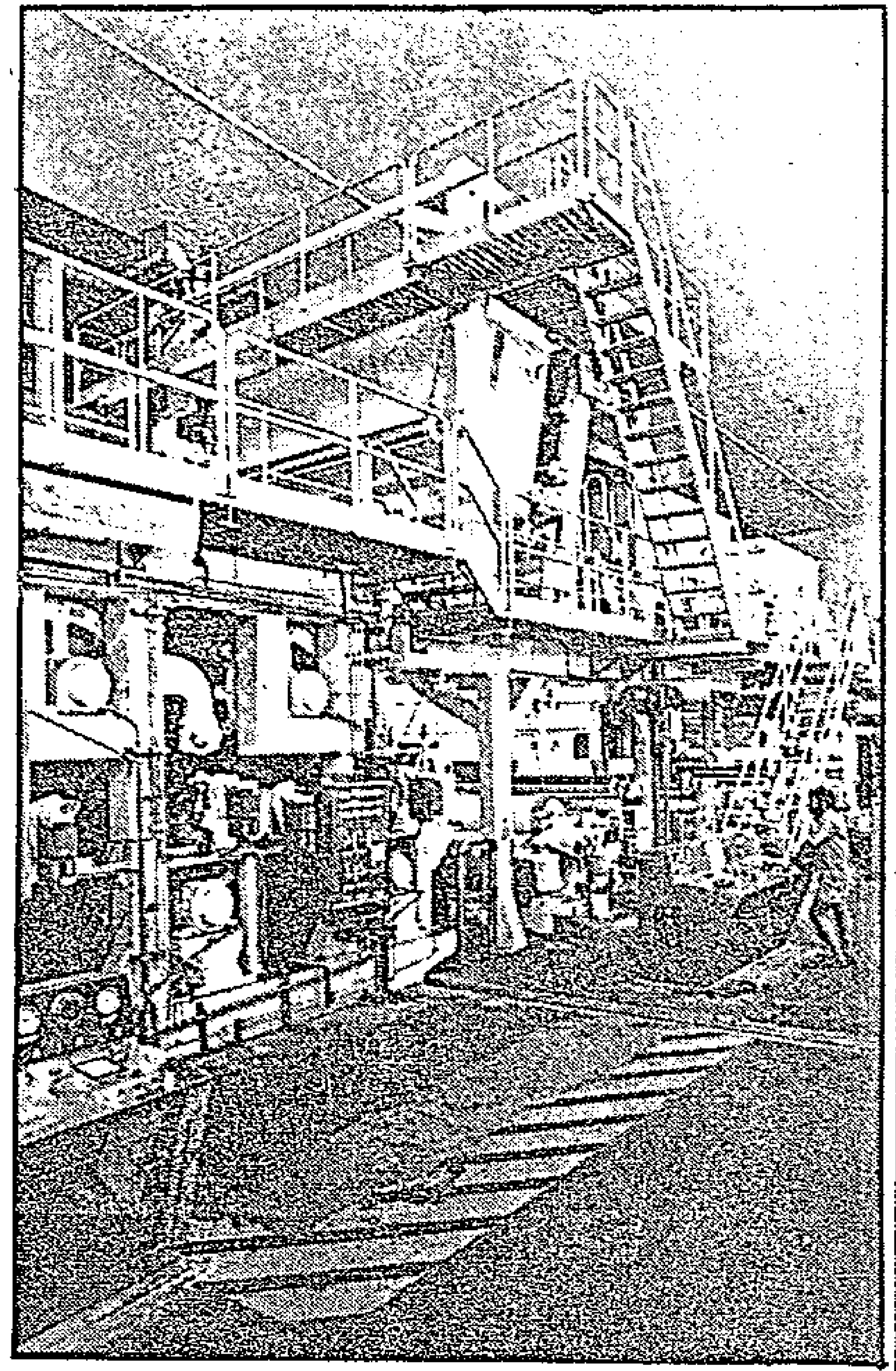
The goals of greater opportunity and a more equitable distribution of wealth, however, could only be achieved by a growing market economy where the private sector had the freedom to fulfil its wealth-creating functions, he said.

Broad understanding

"We need to encourage a broad understanding that large internationally competitive companies are important in the armoury of an economy.

"The problem in South Africa is not that companies are too large, but that in relative terms the economy is small and also that the state accounts for 54 percent of the economy, which leaves little room for the private sector.

"What this country needs is more big groups like AAC and De Beers, which are able to back companies like Mondi to compete on an international scale," Mr Ogilvie Thompson said.



The new BM6 carton board machine at Mondi's Springs mill, which has been modernised and expanded at a cost of R220 million.

gust 10 1990

Barlow Rand bugging us, say unions

Star 10/8/90

By Brendan Templeton

Two Cosatu unions yesterday accused Barlow Rand of a "drastic breach of trust" after bugging devices were found in offices used for union meetings.

The National Union of Mineworkers (NUM) and the Paper, Print and Allied Workers' Union (PPAWU) said they believed secret bugging of union premises was a general practice.

This was denied by Barlow spokesman Ken Ironside: "The practice of bugging, if and when it occurs in the group, is completely unacceptable to us.

"But I will only be able to make a more detailed statement tomorrow," he said.

Companies who discovered bugging was being practised should "take appropriate action", he said.

A listening device was found last week in an office used by PPAWU at Barlow subsidiary Nampak Corrugated, in Rosslyn, PPAWU said.

Management initially refused to confirm or deny any knowledge of bugging, but "broke down" when the union called in experts. Management said the device, which was linked to the managing director's office, had been used for over two years, the union said.

Another bug was found this week in NUM's office at Barlow Rand's Harmony mine in Welkom, a union spokesman added.

This followed the discovery of a similar bug last year. Management removed it and the union thought that was the end of any secret surveillance of the union's activities, it said.

But the latest one was found when a worker at the mine who was fiddling with his portable radio, suddenly tuned into the local NUM meeting. He warned the union and a subsequent search of the room revealed the hidden transmitter.

The unions were investigating the possibility of legal action.

CARLCOR F(M 10/8/90

Still growing (194

Strong export growth, mainly to Europe, boosted Carlton Paper Corporation (Carlcor)'s attributable earnings by 51% to R11,05m for the interim to June 30. Operations were also helped by completion of the rebuilding of the two machines, which affected previous interim results.

In addition, a non-woven materials machine, installed at a cost of R10m, came on stream in the first half and is operating satisfactorily. It eliminates Carlcor's need to import non-woven materials for products such as disposable nappies. Another benefit that stems from local manufacture is a reduction in inventory levels. Benefits are ex-

Carlton's Partridge ... spreading the cash load

F/M 10/8/90 (194)

pected to start showing in the second half.

Carlcor plans to rebuild two tissue manufacturing machines in 1991 and 1992 at a cost of over R60m. The capital expenditure will be funded out of trading cash flow and the expansion will lift annual tissue-making capacity from 60 000 t to approximately 72 000 t per year. The refurbishment of the machines will lead to improved quality and lower productions cost.

MD Keith Patridge says the actual rebuilding is going to be done in such a way that minimum disruption will be caused to

PROFIT WADDING

Six months to	Jun 30 '89	Dec 31 '89	Jun 30 '90
Turnover (Rm)	145,4	171,9	185,4
Operating income (Rm)	13,5	23,8	19,6
Distrib income (Rm)	10,9	12,9	11,1
Earnings (c)	46,3	84,6	70,0
Dividends (c)	24,0	36,0	31,0

Carlcor's production process. This is the main reason why the whole process is spread over two, or possibly three, years. Another reason is to spread the demand on trading cash flow as wide as possible.

It is clear that Carlcor expects a growing local market, partly because of rapid urbanisation, and an international one. The method of funding capex out of cash flow instead of using high interest-debt will have a positive bearing on the debt:equity ratio, but will shareholders be happy with a slower growth in EPS?

Partridge expects the economy to remain slow in the near future. This, with disruptions caused by labour disputes and boycott activity, will continue to affect Carlcor's ability to service its customers.

The share, at R10, is a top-performer in the Paper & Packaging sector of the JSE. It is tightly held — Malbak and Kimberly-Clark hold 80,5% between them and institutions most of the rest. Only 0,06% of the issued shares traded in the past quarter.

Gerhard Slabber

MONDI PAPER FM 10/8/90

Tapping the parents

Mondi, the unlisted paper giant in the Anglo group, is to receive a large injection of funds while its shareholding is to be restructured. A rights issue is to raise R514m (R318m from De Beers and R136m from Anglo), with Amic ceding its rights to De Beers as well as selling a small proportion of its holding to that group. Amic's interest in Mondi will consequently fall by nearly 11% to 53% and De Beers' holding will rise to 17%. Anglo's interest will remain at 30%.

Associate company, NTE, which supplies timber to Mondi and has the same parentage, will receive R42m from De Beers and R18m from Anglo. The same changes will be made to the NTE shareholder structure in order to keep them uniform. (194)

Amic subsidiaries have other capex projects in the pipeline, not least the Highveld joint venture with Samancor to build a stainless steel plant and improvements at Scaw Metals, hence the parent would prefer not to dip into its cash at this stage. In fact, Amic itself has rather little cash as most of the group's cash is in the hand of subsidiaries.

Both Mondi and NTE are involved in heavy capex programmes. Mondi saw the opening this week of its R220m modernisation and expansion of the BM6 board machine at Springs while the R180m rebuild of the PM1 paper machine at Merebank in Durban should be completed during this quarter. The funds are, however, to be used for future expansion in the medium- to long-term. To this end, a recycled fibre plant costing some R155m, also at Merebank, is on the cards.

NTE has invested heavily in timber plantations and land for afforestation in recent years. It will, however, take a number of years for NTE to become self-financing.

Gillian Findlay

HOLDING MONDI

Redealing the cards

	Before %	After %
Amic	63,7	53,0
Anglos	30,0	30,0
De Beers	6,3	17,0
	100,0	100,0

SHOPRITE FM 10/8/90

Grand good buy

For Wellwood (Whitey) Basson, MD of Shoprite, the purchase of Grand Bazaars (GB) from Score represents a significant coup. All 27 GB stores are to be transformed into Shoprite outlets, thereby eliminating the usual difficulties involved in site location, rental contracts, construction plans and all the other paraphernalia involved in setting

FM 10/8/90

up new ones.

GB was originally a Cape-based chain which expanded into the Transvaal. There are now 17 outlets in the Cape and 10 in the Transvaal — where Shoprite has been seeking to establish a foothold. When these are added to the Shoprite outlets, the combined operation will have 17 in the Transvaal, 4 in the OFS and 54 in the Cape. Shoprite thus becomes a big-league player in the supermarket scene, while GB will disappear.

Basson reckons that combined turnover should exceed R1bn this financial year with existing Shoprite stores contributing about 60% and GB the balance. But achieving the eventual economies of scale implicit in the takeover will take time.

At first blush, it seemed as though there could be a conflict of culture but this potentially inhibiting factor falls away since the Shoprite stamp is to be imposed on the GB stores. And this decision makes good sense from two aspects. Firstly, GB has not been producing the level of profits needed to sustain growth. Secondly, analysts hold out that the image of Shoprite is better in consumer's minds than that of GB.

Cost price of the deal is R17m for the business including the fixtures and fittings but excluding liabilities. In addition, Shoprite is to purchase the stock which is in the process of being valued. Basson's estimate is that this figure will turn out to be in the range of R30m-R40m.

The transaction will initially be financed by Shoprite, rather than its parent Pepkor. Arnold Louw, MD of Pepkor which holds 79,4% of Shoprite, says that the take-over is specifically attributable to Shoprite rather than Pep and will not impinge upon the R100m cash resources in the Pep group. He explains that Shoprite will use gearing to pay for the purchase but adds that since it is group policy that gearing should not exceed 50%, it may become necessary for Shoprite to go to the market with a rights issue later.

At February 1990 year-end, Shoprite showed current assets of R100,5m and current liabilities of R91,6m. Interest-bearing debt amounted to a relatively paltry R1,5m. Assuming that the total purchase price amounts to R52m of which stock is R35m, fixtures and fittings R5m and the balance of R12m is goodwill, after the purchase Shoprite's current assets would rise to R135m and current liabilities to R143m. It is expected that by offsetting stock against creditors the interest-bearing portion of current liabilities can be kept down to about R19m.

The consequent negative current ratio would not be unusual for a supermarket operation. But interest-bearing debt would amount to roughly 85% of ordinary shareholders' funds and annual interest payments would add up to about R4m, which need not be serious if the GB shops contribute reasonable profits.

Shoprite's track record since 1986 has been exemplary. Compound annual growth in turnover and pre-tax profit over the period is recorded at 39% and EPS a strong 46%. By

STANDARD'S BIDS

Malbak subsidiary Standard Engineering is negotiating to buy out the minorities of three of its unlisted subsidiaries. The idea is that 100% holdings will allow the group to exploit the subsidiaries' domestic and export growth potentials more effectively.

An offer has been made for 41,8% of steel pipemaker Hall Longmore, 53,3% of Union Carriage and the 32,4% of motor parts manufacturer Astas. The Anglo American and Gencor groups jointly hold the lion's share of the minority stakes in the first two while Sankorp owns the minority interest in Astas.

In round figures, and based on the companies' operating profits in the 1989 financial year and the R37,2m purchase price of 67,6% of Astas in February 1990, the buy-out will cost Standard about R70m.

That implies a fairly substantial issue of shares as the group's interest-bearing debt had risen to R90,4m at the February interim stage. Based on Standard's present market capitalisation of around R138m, the equity base will have to be increased by about half.

The company confirms the offers but won't discuss terms.

Pam Baskind

FM 10/8/90

turning in this sort of performance management has demonstrated that they have developed the formula for growing all aspects of the operation successfully. There seems no reason to doubt this capability now, especially when the additional outlets come ready-made and just begging for economies of scale to be enjoyed.

Gerald Hirshon

YORKCOR FM 10/8/90

Knotted profits

Yorkcor has been through a tough half-year, but chairman Solly Tucker is unperturbed and reckons second-half earnings will recover. The first half's earnings were a dismal 1,5c against 19,3c in the corresponding period of 1989, but Tucker believes the year will end with full earnings of 25c.

Turnover rose by 17% to R16,9m for the six months to June 30 and operating profit fell 67% to R1m on a drop in margins 6,1% (20,4%). Net asset value a share before bonus share issue is 240c (238c).

Tucker was reluctant to forecast earnings when he wrote his last annual statement. And the fact that he is now prepared to do so

HAMMING IT

Six months to	Jun 30 '89	Dec 31 '89	Jun 30 '90
Turnover (Rm)	14,4	21,6	16,8
Operating income (Rm)	2,9	2,9	1,0
Attrib income (Rm)	1,7	2,0	0,14
Earnings (c)	19,3	22,8	1,5
Dividends (c)	5	8	6

Nampak MD faces action

By CHARLES MOGALE (194) (…)

A MANAGING director of Nampak could face disciplinary action after the discovery of a bugging device allegedly used to tap union meetings at the firm's premises. C/Pres 12/8/90

The discovery was made by Paper, Printing, Wood and Allied Workers Union shop stewards in the boardroom of Nampak Corrugated in Rosslyn, Pretoria.

The device, hidden under a window-frame, was connected to a tape on the MD's table.

Neil Cumming, an official from Nampak holding company Barlow Rand, said an inquiry was underway, and if anyone was incriminated steps would be taken. "It is not our policy to bug, and we will not condone it."

Congress of South African Trade Union officials said the spying activities seemed to be in line with Barlow Rand's hardline industrial relations policy.

"They want to ensure union activities at each plant are closely monitored and any plans are pre-empted."

Mondi puts R155m into waste

ZILLA EFRAT

MONDI Paper Company will build a R155m fibre-recycling and de-inking plant at its Merebank mill in Durban, to process 85 000 tons of waste paper a year into newsprint.

Executive chairman Tony Trahar says the project will replace a yearly requirement for 325 000 tons of timber, or four million trees.

The fibre recycling plant — financed by shareholders' R514m capital injection into Mondi and associate company NTE — will be the first newsprint de-inkng facility in SA.

It is part of a major capital expenditure programme for Mondi, which includes R220m for the recently completed BM6 board machine at its Springs mill and a further R180m expansion of the PM1 magazine paper machine at Merebank.

Trahar says by recycling the additional waste paper Mondi will, to some extent, replace bleached chemical pulp from its Richards Bay pulp mill, releasing greater quantities for export, and cutting the need for thermo-mechanical pulp produced from pine.

He says the introduction of waste-based fibre into newsprint will improve its quality.

With many countries introducing a minimum waste paper content requirement for newsprint, Mondi, a substantial exporter of the product, will have to meet this requirement.

Mondi has been gearing up to meet the needs of the new recycling plant. It recently expanded its waste paper collection depots and launched a suburban collection service.

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BDay 12/8/94

Coates beats problems to send profits soaring

BDay 14/8/90.

(194)

MARCIA KLEIN

PACKAGING group Coates Brothers achieved a 48% increase in attributable earnings to R3,49m (R2,33m) in the six months to end-June in spite of difficult trading conditions.

The group, which produces printing inks, chemicals, resins and sealing compounds for the printing industry, achieved an increase in earnings a share of 48% to 103c (69,5c), and an interim dividend of 16c (13c) was declared.

These results follow a rise of 16% in attributable earnings in the year to December, when the group faced a highly competitive market.

Interim results were higher than forecast in December when MD Fred Williams said an improvement this year would be in line with the lower rate of growth generally forecast for the economy as a whole.

A 25% increase in turnover to R70m was achieved in spite of trading conditions, according to the interim report. The increase in turnover as well as stringent cost control over the last six months resulted in a 36% increase in net operating income to R7m.

Strict asset management resulted in an 88% reduction in net interest charges, according to the report. The group posted an interim pre-tax profit of R7m, 48% up on R4,73m for the same period last year.

Coates does not expect an improvement in economic conditions for the rest of the year, and pressure on margins because of increases in raw material costs and competitive activities is forecast.

This will result in earnings growth slowing in the second half of the year, but a satisfactory growth in shareholders' earnings is still expected.

Directors were not available yesterday for comment on the results.

Afpac earnings down in difficult conditions

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ZILLA EFRAT

AFCOM Packaging and Industrial Corporation (Afpac) — which Bidcorp gained control of in November last year — faced difficult market conditions in the 16 months to end-June.

Afpac's attributable profits were R8,7m. This was equal to annualised earnings of R6,6m — 15,3% down on the year to February 1989 (R7,8m). The group's financial year-end was changed to correspond with Bidcorp's. BiDam 15/8/90

On earnings of 24c a share, the total dividend for the 16 months was 9,25c a share, covered 2,5 times.

Chairman Brian Joffe said the results were satisfactory given the downturn in the economy.

Streamlined

"The tough times were anticipated and measures were introduced shortly after the takeover to re-inforce the group's competitive position in the market place.

These included a more streamlined operational structure to reduce administrative overheads, shorten lines of communication and make more effective use of group assets, he said.

"These measures are already producing positive results, including a substantial improvement in the group's debt position in the second half of the review period.

"Afpac will be a leaner, more focused and effective business well capable of responding to the market conditions that lie ahead," Joffe said.

Afpac was set to dispose of its operating assets. These would go to its major shareholder and pyramid company, the Afcom Group, for R48,7m.

It would become a cash shell and its shares would be suspended. If no further assets were acquired which satisfied the JSE's investment criteria within six months, the cash holdings would be refunded to shareholders and its shares delisted.

Turnover rose an annualised 20% to R151,3m. Operating margins fell to 13,5% from 19,8% due to competitive pressure.

Extraordinary items, representing the costs incurred in rationalising certain group activities and the write down of carrying values of current assets net of tax, amounted to R1,2m.

Afcom Group improved its earnings to 20,8c (19,9c) a share in the 16-month period. Its total dividend of 8c a share was also covered 2,5 times.

Afcom Group would finance the acquisition of Afpac's operating assets through the disposal of its shares in Afpac for R35m and a rights offer.

As a result, it would cease to be a pyramid company and become an operational business.

Bidvest's Joffe declares results 'satisfactory'

BIDCORP 11/8/98 (194)

SYLVIA DU PLESSIS

BIDCORP subsidiary and former cash and property owning company Bidvest — soon to be restructured — has posted earnings of 241c a share for the year ended June, with a 51c final dividend lifting the total distribution to 96c.

This follows an attributable profit of R5,7m, based on turnover of R115,1m and operating profit of R17m which yielded an operating margin of 14,8%.

No comparative figures are provided because the nature of the company's business changed substantially after it disposed of its property interests and acquired effective control of Afcom and Afcom Packaging and Industrial Corporation (Afpac) in November.

Bidvest's results for the period under review include its attributable interest in Afcom, acquired with effect from July 1 1989.

Chairman Brian Joffe said yesterday Bidvest's performance was "satisfactory" in view of competitive market conditions in the packaging and fastening materials market and the economic downturn.

The group recently announced a complete reorganisation, effective from July 1, in terms of which Bidvest would become the holding company of all Bidcorp's activities.

The proposed reorganisation entails Afcom's acquisition of all Afpac's operational assets, rendering it a cash shell whose shares will be suspended pending the acquisition of further assets.

Joffe said the restructuring would give clearer focus to Bidvest's business.

Its performance in the current year would be influenced largely by business conditions and the opportunities arising for the investment of substantial cash resources resulting from the reorganisation, and directors were optimistic of achieving a satisfactory performance, he said.

— ordinary people, he says.
likely to have a series of sex

Judgment is reserved on Nampak application

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Bday 27/8/90

MARCIA KLEIN

JUDGMENT on an application in the investigation into alleged irregularities regarding over-invoicing at packaging giant Nampak was reserved in the Rand Supreme Court on Friday.

Nampak deputy MD Peter Campbell said yesterday Mr Justice S W McCreath had reserved his decision until this week on an application by Nampak for the freezing of certain bank accounts of engineering company Corrugated Machinery Services (CMS).

The respondents argued that founding papers did not disclose a case, while Nampak asked for a postponement in which to file further evidence..

Speculation in financial circles has been that the sums involved were from R10m to R90m, but a figure of R2,4m was given on Friday as the amount in question, Nampak MD Don McCartan said yesterday.

Campbell said no finrand deals were involved.

The court action followed an internal investigation by Nampak regarding allegations against certain staff members of its corrugated division and of CMS.

The investigation resulted in the suspension of some members of staff, including a senior executive.

An interim court interdict was granted to Nampak on Tuesday against some of those suspended from the group.

Although the alleged irregularities were unlikely to affect the group's earnings in the current year, Nampak said shareholders would be informed if anything of material nature was uncovered.

Pressure building for Sappi

Bottom Line

(144) STev 27/8/90

MICHAEL MENOF

Despite the effluent spill at the Ngodwana mill last September, union demands for a 35 percent wage hike and lengthy strikes at two major factories, it was a buoyant year for Sappi, says chairman Tom de Beer.

Sales increased 29 percent, operating income 38 percent and net income 42 percent.

Net asset value per share has soared to R31,54 (R24,08 a year earlier), helped by fixed assets revalued during the year.

The only person who did not benefit was the Taxman who received R13,5 million (1988: R16,34 million).

With such a low effective tax rate — 2,1 percent (1989: 2,8 percent), small wonder the income statement looks impressive.

In addition, tax losses of R552 million (1989: R359 million) are available for future reductions.

But despite the impressive results, 1991 promises to be a case of "After the Lord Mayor's Show" as Mr De Beer warned at the annual meeting that his already soft earnings forecast was being downgraded.

This is being compounded by a nosediving US dollar pulling down the rand with it.

After year-end the group acquired five specialty paper mills in the UK, with Sappi having management control.

This will strengthen Sappi's global status in pulp and paper manufacturing and technology in the 90s.

Each mill has a significant market share of 17 to 40 percent in each specialty market in which it operates.

In 1989, a 49 percent stake in the Usutu pulp mill in Swaziland was bought for R135 million.

CE Eugene van As's report reflects the gathering storm clouds.

Market conditions at home and abroad are far from ideal.

The changing political climate is creating uncertainty, he says, and the Government's determination to control inflation will make 1991 difficult for Sappi.

But with record profits, is the group not aggravating inflation and antagonising the trade unions?

What is the definition of fair profits and fair wage increases? Sappi should avoid the image of a feudal lord.

The group has seven divisions — *fine papers, pulp, newsprint, wood products, Kraft, tissue and other.*

The report is peppered with pie charts showing analysis of turnover, expenditure, employees, group assets — all by divisions — but where as the income or loss contribution from each to the bottom line?

Some divisions could be making losses, which could embarrass management. Why are shareholders denied this information?

With comparatives for 1989 being 14 months, sales increased to R2,73 million (1989: R2,47 billion).

Operating income included R30 million from sale of assets totalling R731 million (1989: R618 million).

After deducting interest of R205 million (1989: R76 million), insignificant tax, crediting contributions of associated companies, less the income due to minorities, the bottom line was R605 million (1989: R497 million).

Ponder for a moment: this represents 22 percent (1989: more than 20 percent) of sales — incredible considering the massive strikes at two plants, boiler damage at Usutu and the environmental disaster.

Earnings per share totalled 650c (1989: 607c), with dividends at 200c (1989: 190c).

The major sales contribution came from Kraft with R733 million, pulp with R964 million and fine papers with R499 million.

The operating division had a good year, says Mr van As, despite difficulties with the start-up of the Novaboard plant and major problems at Sappi Kraft.

Fine papers had a difficult year, but improved thanks to significant productivity improvements and cost controls at the Enstra and Stanger mills.

Enstra, now 50 years old, will be expanded and modernised at a cost of R400 million.

Saiccor benefited from the firmer US dollar selling prices and weaker rand, but its sales and profits will be weaker in 1991.

Kraft had a tough year, even though local market conditions were fairly strong.

It faces a rough 1991, with pulp prices likely to drop further, making its profit outlook *uncertain.*

Ordinary shareholders' interest was R3,94 billion at end-February 1990, helped by R83 million in pref shares converted to ordinary shares and R372 million in revaluation of fixed assets over the year.

But there were some kinks. Debt increased to R1,43 billion (1989: R1,26 billion), causingd interest to more than treble, while working capital declined to R43,9 million (1989: R345,4 million).

Guarantees were a significant R551 million (1989: R212 million).

If the redeemable pref shares in subsidiaries are included, total borrowings amount to R2,03 *billion (1989: R2,04 billion).*

Sappi is the largest producer of pulp and paper in Africa and *one of the world's major pulp and paper manufacturers. It produces more than half of SA's* total paper needs.

With such a weak rand I am surprised that exports were not highlighted.

Controlled by Gencor, management was wise not to include it with the other industrial interests placed under the disappointing Malbak umbrella.

This has allowed Sappi to retain a single-minded focus. In the year ahead cost pressures will place heavy demands on management.

The poor political climate, continuing clashes with trade unions and global problems will prevent the company from showing its true potential.

But I agree with Mr De Beer *that long-term prospects appear* promising.

Police probe fraud claims at Nampak

ZILLA EFRAT (194)

THE commercial branch is investigating allegations of fraud at packaging giant Nampak, a spokesman for the SAP Witwatersrand liaison office confirmed yesterday. B/Day 30/8/90

He said that, because of the sensitivity of the investigation, further information could not be divulged at this stage.

It has been reported that Nampak is conducting an internal investigation into possible irregularities in its corrugated division. The investigation involves certain staff members and an engineering firm.

The probe centres on allegations relating to over-invoicing and has resulted in the suspension of some staff members, including a senior executive.

Nampak MD Don McCartan yesterday confirmed that a staff member had been dismissed after an internal hearing.

He said similar hearings would be held for other staff members this week and next week.

McCartan has been quoted in newspaper reports as saying that no material sums appeared to be involved and the irregularities were unlikely to affect earnings.

But if they were material, they would be disclosed on the income statement.

McCartan said some charges had been laid with the police in connection with the case.

● See Page 2

Consul expects R2bn turnover

LIZ ROUSE

CONSOL is budgeting for a R2bn turnover and a total of 13 500 employees in the current year, chairman Clive Menell says in his annual review.

Although demand for beer and soft drink bottles is expected to grow, packaging markets are expected to remain soft. Demand for tyres and industrial rubber products is not expected to increase although the trend towards radial tyres will benefit the Goodyear range.

Menell says the prolonged but non-repetitive Tycon disinvestment strike, the full year's benefit of the new Clayville glass furnace, the planned enlargement of tyre capacity and 12 months' earnings from Tredcor, compared with six months in the past year, all indicate earnings growth this financial year.

Consol took a major strategic step by acquiring a substantial investment in the tyre and industrial rubber markets in line with policy to diversify from its traditional glass, paper and plastic packaging fields.

Tycon (formerly Goodyear) was acquired in July 1989 for R176m, funded by internally generated funds and the issue of R50m redeemable preference shares.

In January this year, Tycon's interests were combined with Tredcor, the largest retreader and retail distributor of tyres in SA. Consol has a 61% holding.

Risk

This venture gives the group a major position in retreading and the manufacturing, marketing and distribution of new tyres in a growing vehicle market, Menell says.

Consol's plastics division made two significant disinvestments — the industrial flexibles operation, formerly Gundle, and the woven polypropylene bags and sacks operation in Ladysmith.

Consol's business risk has now been significantly spread by broadening its operations into two profitable segments of SA industry.

Rubber and related products already made a large contribution of R724,1m compared with the packaging and related products' contribution of R813m to total group turnover of more than R1,5bn in the year to end-June. The respective operating profit contributions were R140,3m and R70,03m.

Respective net assets of the two divisions are R333,073m and R330,155m.

After some static years, Consol started to forge ahead in 1987 and in the past year earnings were up 48% to 157,7 (106,9c) a share while the dividend was increased to 45c (33c).

Net borrowings to shareholders' funds was 34,8% because of the acquisitions and high capex of R79,8m.

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BD 3/10/90

CONSOL

READY TO MOTOR

(194) FM 7/9/90

Activities: *Manufacture, distribution and marketing of packaging and rubber products.*
Control: *Anglovaal Industries 55%.*
Chairman: *C S Menell; MD: P Neethling.*
Capital structure: *64m ords; 50m red cum prefs. Market capitalisation: R1,28bn.*
Share market: *Price: 2 000c. Yields: 2,3% on dividend; 7,9% on earnings; p:e ratio, 12,7; cover, 3,5. 12-month high, 2 075c; low, 1 250c. Trading volume last quarter, 296 340 shares.*

Year to Jun 30	'87	'88	'89	'90
ST debt (Rm)	8,3	3,7	7,4	22,0
LT debt (Rm)	22,8	18,2	63,2	144,5
Debt:equity ratio	0,14	n/a	n/a	1,0
Shareholders' interest	0,47	0,50	0,42	0,32
Int & leasing cover	9,3	n/a	n/a	9,1
Return on cap (%)	21,2	23,2	23,1	32,9
Turnover (Rm)	504	637	737	1 556
Pre-int profit (Rm)	63,9	96,3	120,8	210,3
Pre-int margin (%)	12,4	15,1	16,4	13,5
Earnings (c)	48,4	81,5	106,9	157,7
Dividends (c)	7,5	27,0	33,0	45,0
Net worth (c)	224,0	280,0	347,5	314,3

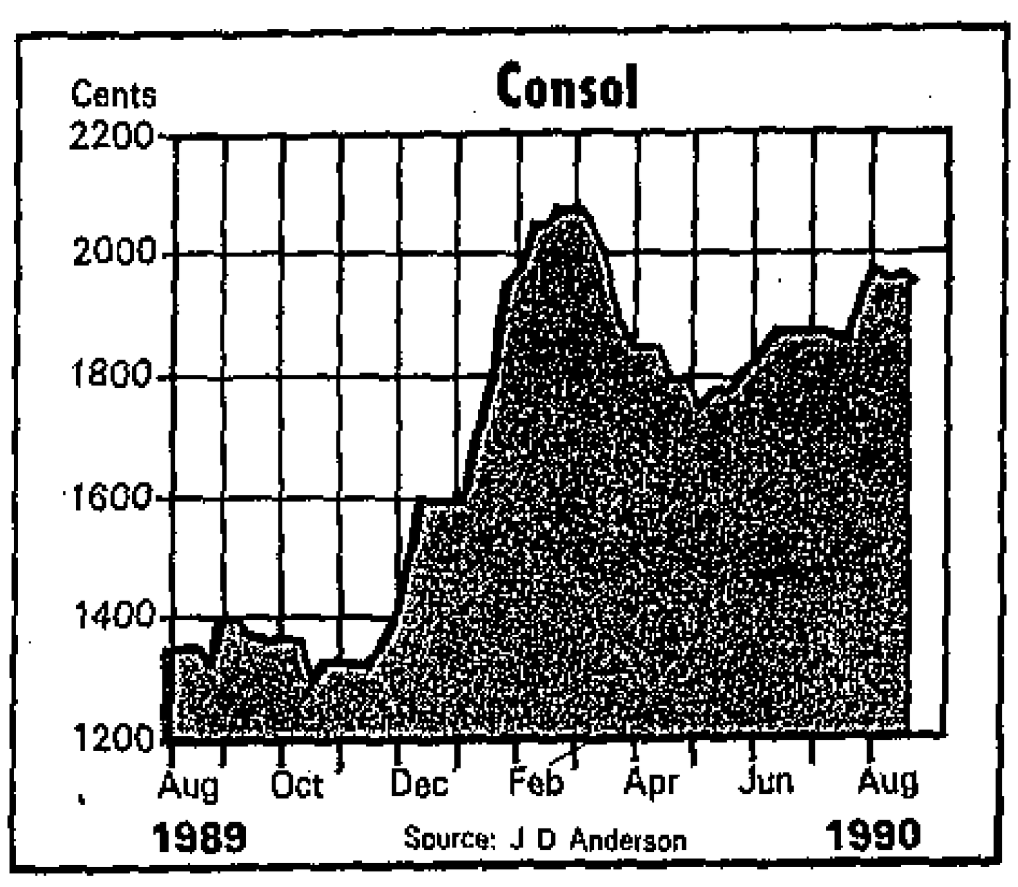
After the acquisitions and disposals of the past year, Consol has expanded its range of activities and markets, while maintaining high levels of profitability.

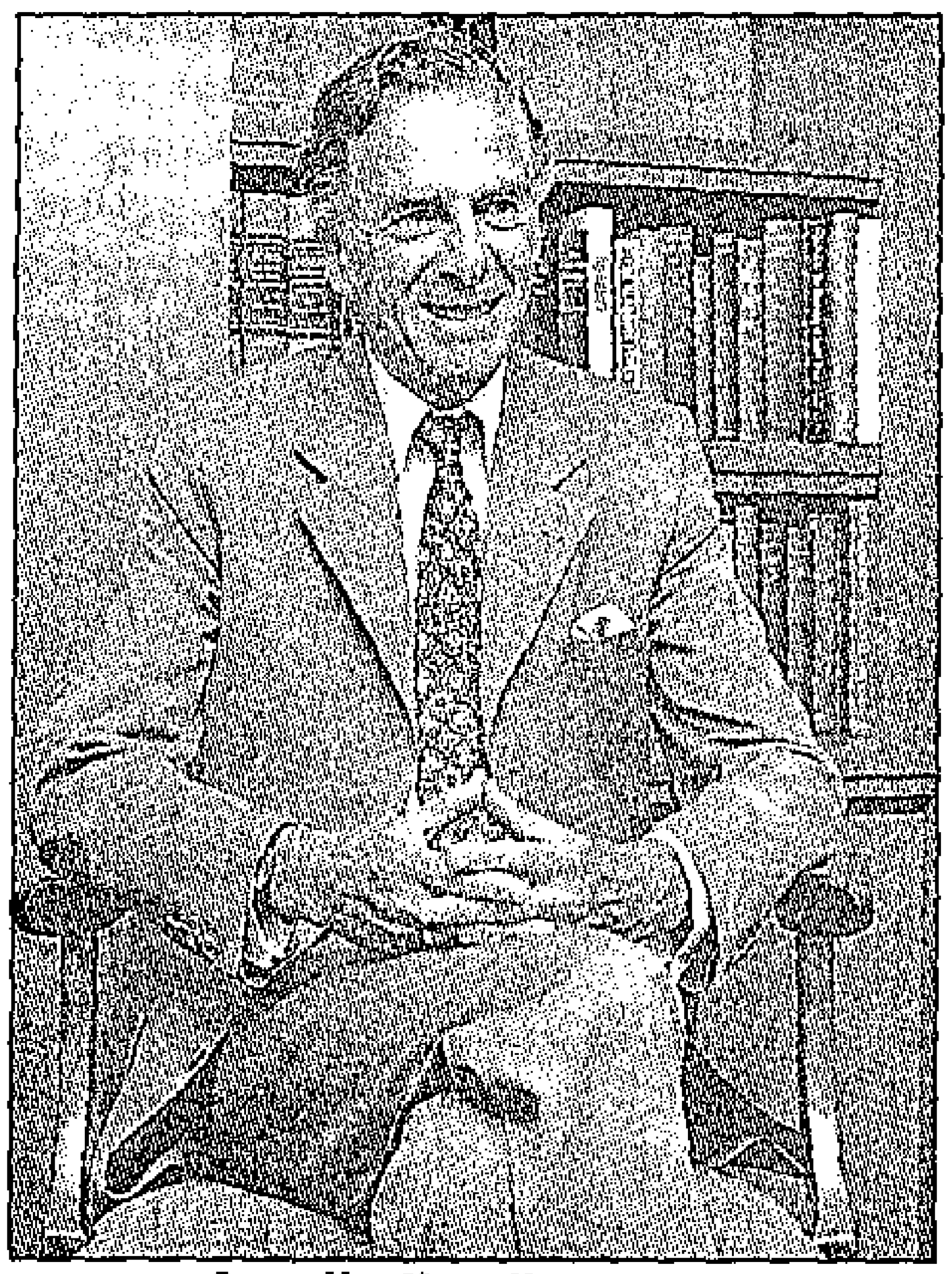
Full benefits of the takeover from June 1989 of Goodyear, now called Tycon, should be seen more clearly next year. The 1990 results were dented by the prolonged industrial action that followed the disinvestment by Goodyear. However, the 1991 performance will be restrained by a weaker economy, affecting demand in many of the group's markets.

Production shortfalls at Tycon, and difficulties in some packaging markets, saw a drop in the pre-interest margin; the 111% surge in turnover resulted in a 74% rise in operating profit. After payment of financing costs, including the dividend on the R50m redeemable prefs issued to partly fund the Tycon deal, pre-tax profit was up by 44%.

With R10,3m against nil in 1989 going to minorities in subsidiaries, the drop in the effective tax rate, from 47% to 37%, enabled earnings to advance by 48%.

Involvement in the tyre industry was further expanded when the Tycon interests were combined on January 1 with Tredcor (Pty), the country's largest retreader and retail distributor of tyres. Tredcor is now owned 61% by Consol, 21% by Trencor and 18% by Longmile.





Consol's Menell ... *more growth this year*

Chairman Clive Menell says Tycon made a positive contribution to profit after accounting for financing costs attributable to the acquisition. Tredcor produced a steady profit performance and met its objective for the half-year.

The profit breakdown shows, however, the operating margin on the rubber interests, at 9,4%, was well below the 17,2% margin on the packaging and related products — indicating considerable potential for improvement should a full year of normal production be achieved in the rubber factories. The 1991 profit contribution from Tycon is expected to be "substantially" ahead of last year's.

Whereas at the 1989 year-end the balance sheet was ungeared, with net cash of R102m, at June 30 there were net borrowings of R202m (including redeemable prefs) and gearing of 100%. The high profitability says the expansion was worthwhile: in a year when plant was operating below potential, the return on total assets rose to 32,9%, and the return on equity (after deduction of R85m goodwill) rose from 30,8% to 50,2%.

Packaging and related interests still provide two-thirds of operating profit and half of sales, so the ability of these businesses to cope with tougher economic conditions will markedly affect earnings this year.

Menell says much of the group's sales of packaging products depends on the beverage industry. Both the glass and plastics divisions should gain stability from the beer and soft drinks markets, though packaging markets are expected to remain generally soft.

The group has retreated from some sectors in plastics packaging, where profitability was lagging. The industrial flexibles business, formerly Gundle, was disposed of in January and March; the woven polypropylene bags and sacks operation in Ladysmith was sold in April. Both were sold at a loss to book value, which appears as an extraordinary item of R8,9m. Owing to the weak economy, Menell says, the packaging sector lifted turnover only 10%, but cost savings and the disposals enabled operating profit to rise 16%.

Glass manufacturing capacity was increased when the R46m second furnace and ancillary manufacturing lines was commissioned at Clayville in October. Tycon is to spend R23m to expand its rubber-mixing facility and steel radial tyre making capacity; other investment is being considered.

Menell forecasts earnings growth for this year, based on the end to the Tycon strike, the full year's benefit of the Clayville furnace, enlargement of tyre capacity and 12 months' earnings from Tredcor.

Assuming a drop in the earnings growth rate to, say, 20% — still well above the probable average — EPS would be about 190c. At R20, that would indicate a forward earnings multiple be 10,5. The share looks fully priced for now.

Andrew McNulty

Union declares wage dispute with Nampak

CA/T Times 8/9/90

THE Paper, Printing, Wood and Allied Workers' Union (Ppwawu) has declared a dispute with the Nampak group over centralised bargaining, wages and electronic eavesdropping, Ppwawu national organiser Mr Rob Rees said yesterday.

The union represents between 5 000 and 6 000 workers in the Barlow Rand subsidiary.

The company, in line with Barlow Rand bargaining philosophy, has refused to accede to union demands for national talks in the paper and printing divisions, insisting that negotiations be conducted at plant level.

Meanwhile, members of the SA Typographical Union intend picketing the union's city offices today against the expulsion of a senior official and the union's "racist" constitution.

The expelled former trustee and aspirant branch president, Mr Farrell Hunter, said workers would hold a placard demonstration outside Satu's Canterbury Street offices set to start at 9am. — Sapa

Holdains 'on the verge of re-rating'

B/Day 10/9/90. M (194)

ZILLA EFRAT

HOLDAINS, housing Malbak's reorganised paper and packaging interests, could be on the verge of a rerating despite expectations of no real earnings growth in financial 1990.

With a 12,5% share of the local packaging market, it is second in size only to Nampak and commands about 60% of the paper merchanting market.

The group, with an annual projected turnover of R1,8bn to end-August, was formed through the injection of Graphtec, Wiggins Teape and Carlton Paper (Carlcor) into the Kohler listing in January.

Since listing, it has underperformed the industrial market. The share dropped from 1 700c to a low of 1 425c in August and is currently trading around 1 575c.

Former JD Anderson analyst Kerry Clarke says the group has been poorly rated in relation to expected earnings this year and the next. Her view is shared by Irish & Co analyst Heidi Vollmer, who puts Holdains on a forward p:e of 5,3, compared to Nampak's 9,5.

Its historical p:e is 4,6 and dividend yield is 6,7 against Nampak's 9,1 and 4.

Holdains' subsidiaries will have produced a mixed bag of results to end-August, but CE Ian Willis expects earnings to at least be level with 1989. Nampak is expecting a marginal drop in its year to September.

Carlcor, which manufactures tissue products, recently posted a 51% jump in earnings for the six months to June.

Willis says paper merchant Wiggins Teape, acquired from its UK parent last year and recently renamed First Paper House, will show real growth this year.

Profits from packaging group Kohler, where margins tightened, are expected to match last year's. And Graphtec, formerly Haddons, will show lower earnings after facing a tough paper merchanting market.

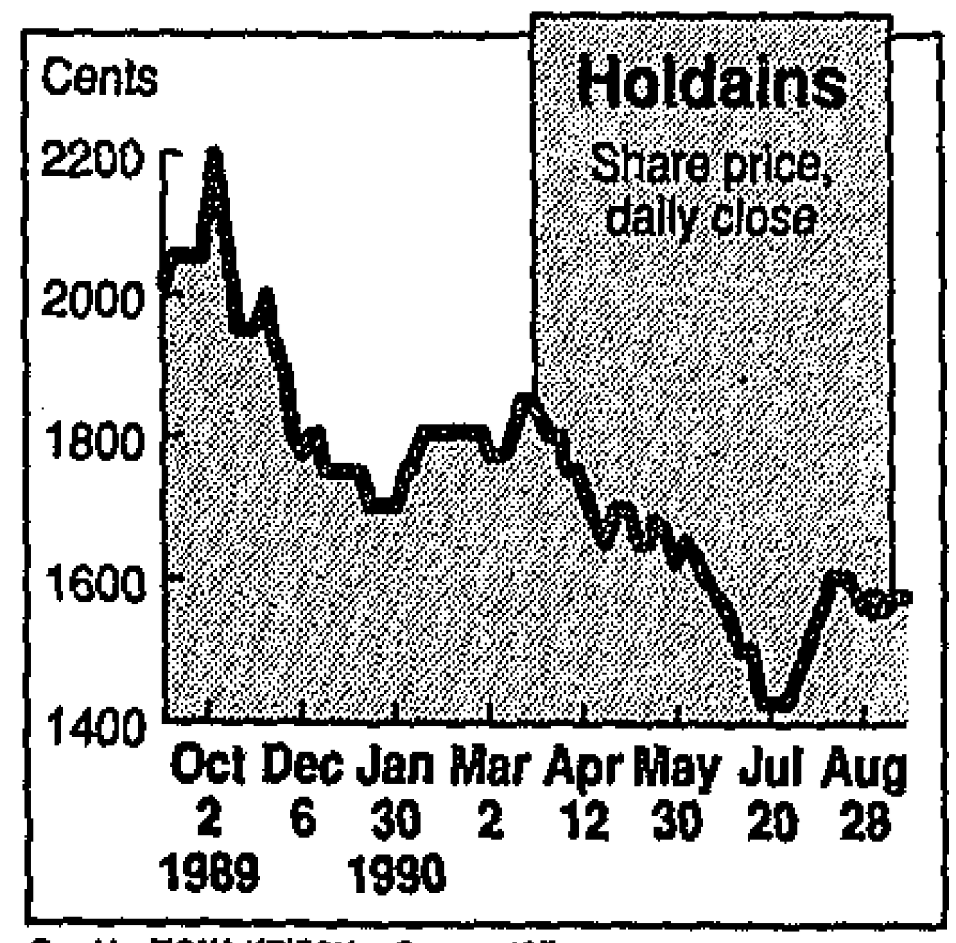
Willis says the packaging sector shows an average annual growth of about 2% above the rate of GDP growth.

Holdains dominates the flexible packaging market which, boosted by consumers' move to convenience foods, has grown about 3,5% above the annual rate of GDP growth. In the current year, Holdains earnings growth is expected to accelerate.

Carlcor, jointly held with US-based Kimberly-Clark, expects volume growth in exports, but not in the local market, this year. The benefits of Kohler's disposal of its consistently troublesome rigid plastic division will be reaped in the current year.

Printing and packaging equipment and paper supplier Graphtec has been reorganised.

While Holdains shares are tightly held, affecting tradeability, Malbak is prepared to release 2-million shares into the market when the counter is re-rated, says Willis.



Graphic: FIONA KRISCH Source: JSE

Three's a packaging party

SUNCRUSH SMILES

By JULIE WALKER

SUNCRUSH put a smile on shareholders' faces this week after splendid growth in the year to June.

The bottler of Coca-Cola, Fanta, Sprite, Krest, Schweppes and Sparletta showed a 44% climb in attributable profit to R32-million. Earnings a share hit 1 187c and the dividend was raised by a third to 350c. The directors make no comments about the fine show.

Capital expenditure was R32-million and the market value of listed investments R111-million.

Grinaker gave extensive comment on its smart results, attributing the 57% growth in pre-tax profit of R132-million to excellent performances from Grinaker Construction, Grinaker Electronics and Siltek in a difficult year to June.

The construction company chipped in 29% to group earnings and the balance came from the electronics interests. The share is still listed in the building sector.

restructure. Sales grew by 14% to R243-million and operating profit was up by the same margin to R31-million.

The directors report that demand held up well in spite of the slowing economy. Margins remain under pressure.

Higher interest rates helped Gentyre — it earned R3-million from its cash holdings. It has made acquisitions which should increase profit from hydraulic hose, and raise rubber-crumb production from tyre recycling.

Holding company Hunts was suspended along with the other FSI companies ahead of another reshuffle of group assets.

Safren continued to show strong growth from a high earnings base in the year to June. Turnover topped R4-billion after rising 9%, operating profit increased by 14% to R735-million and interest of R4,9-million was earned as opposed to last year's payment of R29-million.

Earnings a share rose 19% to 487c and the dividend by 17% to 210c.

Stallions failed to perform at Oakfields Thoroughbreds. In the 17 months to July, turnover dropped on an annualised comparison, and earnings a share of 4,1c looked poor against the 26,5c of the previous 12 months.

Yearlings

Profits from the national yearling sales were absorbed by losses incurred at the Natal yearling, broodmare and weanling sales.

Oakfields has bought a stake in All Fired Up, which will enhance profits. It says demand for high-quality racing stock should pick up.

Only Elex among the 23 companies reporting this week incurred a loss. Eight earned less than in previous comparable periods, and five raised earnings a share by more than 20%.

But rubber also tops for Consol

ST Times 16/9/90

(194)

By DIRK TIEMANN

PACKAGING giants Nampak and Kohler will not follow Consol's lead in diversification. The big three have the market sewn up among them and acquisition prospects are limited.

Consol diversified because it wanted a second leg to its business to give it more than the moderate growth expected in packaging. Managing director Piet Neethling says: "We had most of the cash available to pay for Goodyear — now Tycon — and issued preference shares at 14%. We did not have to borrow at 21% prime.

"Traditionally, we are a packaging company, but rubber and tyres now form 50% of the business."

Mr Neethling admits that Consol has bitten off quite a bit and has large borrowings.

"We must prove we can run two unrelated businesses. For the next three years, we will consolidate. We would be interested if something exciting came up, but it would have to be in either rubber or packaging. We can't stretch to a third leg."

Nampak is sticking to its last. Group deputy managing director Peter Campbell says: "Nampak will spend millions merely to keep pace with organic growth generated by population increases and urbanisation.

"Coupled with technological innovation this will require huge capex. There won't be the need or the cash flow to form a conglomerate within a conglomerate."

Complaint

Nampak is spending R100-million on a new paper mill, R40-million on a glass factory and up to R260-million in the 1990s on a plant for beverage cans at Springs.

Mr Campbell says small packaging acquisitions do not pay.

"Nampak would not profit by buying a R30-million business with a R3-million turnover because the time involved in restructuring would not be worth it. We would consider it if there were significant synergy."

Customers often complain of a monopolistic market in packaging. The charge is rejected by the industry leaders, who say they are highly competitive. They contend that apart from strong competition among one another, they have competing product ranges in their companies.

Mr Neethling says: "It's not easy to steal a march on our competitors because they are all wary. We could not snatch 5% market share from Nampak without blood-letting on both sides.

"The consumer would benefit, but our businesses would be adversely affected for years. If tit-for-tat price cutting were adopted, our margins would disappear.

"For any major shift to take place, there must be a technological breakthrough, or our competitors must suffer some sort of setback."

Acquisition prospects in packaging are poor because many small players serve niche markets, which the big three find unprofitable.

Another problem is that companies worth acquiring — Metal Closures, Crown Cork, Van Leer and Tetrapak — are foreign owned and not for sale.

Kohler chief executive Derrick Minnie says the glass market is well served by Consol and Nampak, which does not leave much room for acquisitions.

Secondary

"There may be an opportunity in cans, a sector dominated by Metal Box. The Metal Closures group would fit our strategy, but it does not look as if it is for sale."

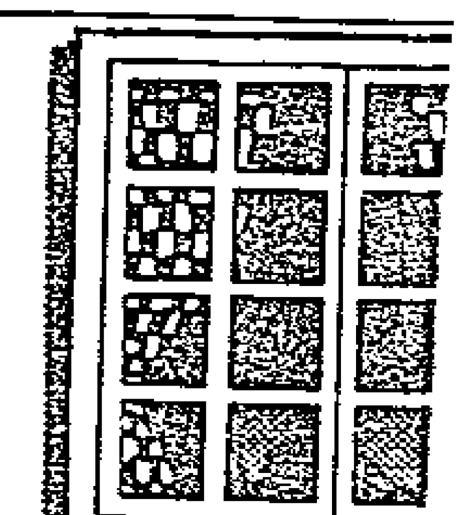
Kohler, secondary converter which does not make raw materials, thinks vertical integration is an expansion option.

Mr Minnie says Kohler's acquisition and diversification drive took it on a learning curve along which it burnt its fingers.

"We are back to the core business.

"Competition is intense and the cake has shrunk. Growth in packaging will be 1% this year — if that. Growth in packaging is usually 2% above gross domestic product. We are looking at niche markets, and at manufacturing substitutes rather than competitive products."

Nampak claims 43% of the market and believes Kohler has 13% and Consol 11%. Crown Cork, Van-Leer, MCG and Tetrapak each have about 2%.



Spending

COMPANY ROUND-UP

The unexpected floors Sappi

Stv. 18/9/91 (194)

By Ann Crotty

After four years of solid earnings growth Sappi has been hit by a variety of local and international developments and has reported a 44 percent slump in earnings to 181c (323c) a share for the six months to end-August. An unchanged interim dividend of 80c was declared.

A number of factors combined to knock the giant pulp and paper manufacturer's performance. Some, had been expected by management, others were unexpected.

According to chief executive Mr Eugene Van As: "There were factors that we could, and did, anticipate — the continuing decline in world market prices for Sappi's products in dollars, the relative strength of the rand/dollar rate, high interest rates and weak domestic trading conditions."

(Strong world prices, a firm dollar and good domestic trading conditions were behind Sappi's excellent earnings performance during the last half of the Eighties.)

The unexpected negatives that hit performance during the review period included the strikes at Ngodwana and Enstra which lasted for nine and 11 weeks respectively and, severe labour disruptions at Novobord in the Eastern Transvaal and Port Elizabeth.

In addition, on the production side, there were statutory boiler inspections at the Ngodwana and Tugela mills which meant that there were reduced volumes available for export. Added to the litany of woes was the temporary restriction in bleached pulp output at Ngodwana during the retiling and refitting of the final stage of the expanded bleach plant. This expansion will be completed in early October.

In the six months to end-August, turnover was down five percent to R1,295 billion (R1,369 billion) but operating profit plummeted 36 percent to R240,8 million (R378,2 million).

Finance costs were up 52 percent to R134,3 million (R88,4 million) reflecting the need to finance the expanded asset base and the need to replace maturing loans carrying relatively low fixed interest rates.

The capitalised finance costs were up 81 percent to R59,3 million (R32,8 million). According to the directors this increase was due to higher interest rates and the "rise in the incidence of precommissioning interest on major plant".

Attributable income was down 44 percent to R168,7 million (R300 million).

Second half earnings are expected to be below those of second half '90 but should show a material improvement on the first half.

Strikes at 19 Nampak factories

Star 26/9/90 144

By Brendan Templeton and Shareen Singh

An illegal strike by Nampak workers which started last Wednesday has spread to 19 Transvaal and Eastern Cape factories, involving 3 000 workers, a union spokesman said.

At issue is the union's demand for centralised bargaining, but workers have combined other demands, including the reinstatement of dismissed workers and a probe into "bugging" at Nampak plants.

Nampak confirmed the strike but described the union's striker figure as exaggerated.

Rob Rees, a spokesman for the Paper, Printing, Wood and Allied Workers Union, (PPWAWU), said the union was forced to bargain separately at the company's 40 plants.

Legal dispute

Workers downed tools after the company suspended negotiations on central bargaining, he said.

But management claimed talks were suspended because PPWAWU made a "premature" decision to declare a legal dispute — "which, in itself, is totally at odds with the illegal industrial action which has been embarked on," he said.

Nampak management has denied PPWAWU's claims.

Last week, two plants, Transvaal Box and Eastleigh Recycling, dismissed about 350 striking workers and management at Memix, a factory in Chamdor, evicted workers from company premises.

Nampak defended its actions, saying PPWAWU had ignored recognition agreements and individual plant managements had to take action

● A strike by workers at Nampak's Rosslyn plant is in its fifth week. Workers downed tools after a battle over the loss of the 1989 annual bonuses.

Picture: REUTER

Bid to intervene in Nampak interdict

B|Day 26/9/90 (194)

SUSAN RUSSELL

A US businessman yesterday brought an urgent application in the Rand Supreme Court to intervene in interdict proceedings by Nampak Products Ltd against one of its senior executives and a close corporation alleged to have defrauded the company of R2,4m.

Aldo Cordano said in an affidavit in support of his application that he was a registered 50% member of Corrugating Machinery Services CC, into whose bank account Nampak alleges the R2,4m was fraudulently transferred.

Nampak obtained an interim interdict in July freezing CMS's TrustBank account.

In an affidavit, Nampak director and manager of legal affairs Gavin Duffey said investigations had shown that the suspended CEO of its own Corrugated Division, Adrian Barker, and CMS had conducted a course of dealing in which Nampak had been defrauded of large sums of money.

In an affidavit, Cordano said notwithstanding what was reflected in the records of the Registrar of Close Corporations in Pretoria, the beneficial and true membership and ownership of CMS consisted of 33,33% each to Barker, Thomas Charles Wilkinson and himself.

"(Barker) was chief executive officer of the Corrugated Division of Nampak Products Ltd who was the primary client of CMS, and I believe that his participation in the business of CMS would not have been approved by Nampak," Cordano said.

He was most concerned about the present status of CMS, particularly in light of the legal action brought by Nampak. There was also an irreconcilable deadlock between himself and CMS's other members.

He was also bringing an urgent application for the winding up of CMS.

"The application launched by Nampak arose out of the transaction purportedly entered into by CMS and Nampak, represented by Barker, to sell the major part of the business ... to Nampak." He said he did not give his consent or written permission to the sale as required by the CC Act.

"Nampak contends that the transaction was without proper authority and that furthermore, for the purposes of implementing such transaction, a bank account had been opened by Barker without proper authority and funds transferred into such account against which two cheques in the total amount of R2 389 747 were drawn in favour of CMS."

Judgment will be today.

Arms rewards upped

Sappi takes over two Inboard plants

194

Star 27/9/90

In a move which will strengthen its particle board operations, Sappi Timber Industries is taking over Interboard's flatboard production facilities in George and Swaziland.

The George plant, which was shut down by Interboard some two weeks ago, will be extensively modernised to bring it up to Sappi's standards, says Andre Jonker, the managing director of Sappi Timber Industries.

Mr Jonker added that the Swaziland plant will be refurbished in time, again to raise production quality standards, but will for the foreseeable future only operate on a five day week.

The price of the transaction has been described as nominal and Mr Jonker said that Sappi had assumed certain outstanding lease liabilities amounting to a net R22,4 million.— Sapa.

Johannesburg management committee ... taken out of service; remote control aircraft to be ... day.

Picture: CATHERINE ROSS

Nampak ordered to pay employees' costs

(194)

B/Day 28/7/90

SUSAN RUSSELL

Nampak Products Ltd was yesterday ordered by a Rand Supreme Court judge to pay the legal costs incurred by one of its senior executives and two other employees in interdict proceedings brought against them over an alleged R2,4m fraud.

Mr Justice Streicher ordered Nampak to pay the costs incurred the CEO of its Corrugated Division, Adrian Barker, and two other employees in opposing an application brought against them and Corrugating Machinery Services CC (CMS) by Nampak in a bid to recover the R2,4m.

The company has alleged the money was fraudulently paid into a bank account held by CMS.

Amended

Nampak obtained an interim interdict on July 2 freezing CMS's TrustBank account.

The order was later amended to cover the R2,4m.

Nampak alleges the money was paid into the account by means of a conspiracy between CMS and Barker.

In their application Nampak asked for the repayment of the R2 389 747 but were granted an interim interdict freezing CMS's account.

CMS and Barker have denied the allegations against them and opposed the granting of a final order.

When the matter came before Mr Justice Streicher this week the parties asked the judge to refer to trial where the disputes of fact could be heard.

CMS and Barker also agreed to an extension of the interim order without conceding the truth of any of the allegations made against them.

The parties then argued the question of costs.

In ordering to pay the costs incurred by Barker and the other employees allegedly involved in irregularities, Mr Justice Streicher said Nampak should have realised that a dispute of fact was bound to happen.

By Nampak asking for judgment by way of application, he said, Barker and the other respondents had incurred substantial unnecessary costs which they should not have to pay, whether they were dishonest or honest.

Mr Justice Streicher referred the matter to trial and extended the interim interdict pending the determination of the action.

He also reserved the costs between Nampak and CMS itself for determination of the trial court.

The costs order against Nampak in respect of Barker and the other two respondents is to include the costs of two counsel.

Trial ends with another Mondi defrauder jailed

194

DURBAN: The R1,8-million Mondi Paper Company fraud trial ended in the Durban Supreme Court yesterday when the last of the accused, Bhekinkosi Mthethwa (37), who "feigned ignorance" in the trial, was jailed for an effective five years.

Mthethwa was also ordered by Mr Justice Thirion to repay Mondi R62 000 by September 30 out of funds in bank accounts. W/Mail 3/8 - 2/9/90

A total of 1 177 bogus invoices were produced in the fraudulent scheme between May 1986 and June 1988.

The case was split into a number of separate trials after three of the accused changed their pleas to guilty.

Mr Justice Thirion found Mthethwa had common cause with two other accused and he played a part in the scheme causing Mondi losses of R1,3-million and benefitted personally to the tune of R200 000.

Mtethwa admitted receiving cheques from another accused but denied knowing the money came from a fraudulent scheme.

The court found Mtethwa had feigned ignorance to such an extent that he in fact showed himself to be an inept liar. However, there were mitigating factors, the judge ruled. — Sapa

Empties fill coffers at Ecobottle

S Times 30/9/90 (194)

By DIRK TIEMANN

CONSOL is synonymous with glass, but ironically its market dominance gives niche players a crack at opportunity.

Bellville-based Ecobott is a niche player. It collects empty wine bottles from retail outlets in Cape Town and the Pretoria-Witwatersrand-Vereeniging area. It provides crates at its collection points and pays 5c a bottle in the PWV area and 10c in Cape Town. The price is lower on the Reef because of high transport costs.

Co-founder and director Horst Klos says Ecobott spends R1-million annually on bottles.

Empties are taken to Bellville by road, washed and sold to wineries in the Western Cape for 50c each.

Mr Klos estimates that his company saves the wine industry about R1,5-million a year. The packaging cost of a 12-bottle case of wine can run to R18. The cork costs 50c.

Ecobott will be three years old tomorrow and Mr Klos says turnover this year was R6-million — up 100% on last year.

HORST KLOS

"We are taking advantage of the growing glass market. Consol cannot be too concerned about our presence because we serve small customers.

"Consol is a mass producer and supplier, and does not have the infrastructure to serve the niche markets. There was some hostility in the beginning, but they have grown accustomed to us."

Ecobott processes a million bottles a month.

It is also reusing 750ml tomato-sauce bottles. Making glass is not being considered because it is a capital-intensive process — "capital which the company does not have at present".

Ocean

Mr Klos estimates the wine market at 52-million bottles annually, of which Ecobott has 15%.

"This is a drop in the ocean compared with the market for soft drinks and beer."

His company has 90 employees to sort the 64 different types of bottles and pallet them. Six vehicles collect the bottles from the Reef and Cape Town. The bottles are machine washed.

Their quality is assessed visually and any bottle that looks unsuitable is rejected. Mr Klos says broken glass is given to Consol. Ecobott also collects the lead and aluminium caps and sells them to scrap merchants.

MANUFACTURING – PAPER & PRODUCTS

1990

OCT. — DEC.

SUNPAK FM 5/10/90

ASSETS BUILD UP

(194)

Sunpak's results for financial 1990 failed to meet management and investor expectations for the second consecutive year. The major causes were unpredictable and unlikely to be repeated. Management is now confident of achieving earnings 25% to 33% higher this financial year.

The producer of foam trays, synthetic paper labels and laminated trays used for packaging and labelling foodstuffs does not disclose turnover. But a slowdown in the rate

FINANCIAL MAIL • OCTOBER • 5 • 1990 • 111

(194)

TRÈS MÈDIOCRE

Year to Aug 31	1989	1990
Operating profit (Rm)	11,3	14,5
Attributable (Rm)	6,8	9,0
Earnings (c)	17,1	16,7
Dividends (c)	10,0	8,0

of growth of operating profit, from 58% in the first to 10% in the latter half of the year — compared to financial 1989 — shows the pressure on both sales and margins.

Chairman Tubby Gericke says sales in the second half were disrupted by unrest — in some instances deliveries could not be made to customers — consumer boycotts and a slowdown in consumer spending. Margins on export products, mostly labels, were squeezed because of a relatively stable rand/dollar exchange rate. The escalating cost of styrene, an essential fuel-based import priced in non-dollar currencies, added to cost pressures.

The difficulty of selling products in the second half was widespread and Sunpak says it retained its share of the market. But stock levels built up and had to be financed — this partly explains an interest bill which more than doubled.

A rise in long-term debt from R7,5m to R12,4m reflects payment for new plant — which doubled local label production capacity — funded through a low-interest IDC loan.

Withdrawal of tax allowances on manufacturing plant and machinery led to a change in the method of providing for deferred taxation from the partial to the comprehensive basis. This knocked 4,9c off EPS for the year and destroyed management's hopes of getting even close to its 23c forecast.

A feature of the balance sheet is the large build up in assets. Fixed assets of R32,7m (R18m) reflect additions to production facilities; the rise in shareholders' funds to R36,5m (R13,3m) reflects the R16m rights issue and option to take up shares instead of dividends. Despite the increase in issued shares, net worth jumped to 68c (33c) a share.

Gericke expects trading conditions to remain difficult this year but hopes sales of a number of new products will grow at an "exciting" rate. About 15% of Sunpak's turnover is exported and the new export incentives are expected to add about R1,5m to the bottom line this year. Management has become coy in making earnings forecasts but 25%-33% growth seems to be the ballpark figure.

Pam Baskind

Cit Times 6/10/90

130 fired after strike

PRETORIA. — Nampak Paper at Rosslyn near Pretoria yesterday dismissed 130 workers for ignoring an ultimatum to return to work after a five-day "illegal" strike.

Nampak said yesterday the origin of the strike, which it said was unrelated to the countrywide Nampak strike about central bargaining, dated back to an unlawful stayaway by members of the Printing, Paper Wood and Allied Workers' Union (Ppwawu) on September 5 and 6 last year. — Sapa

Sun Packaging

Star 7/10/93 (194)

Sun Packaging has cut its dividend by 20 percent to 8c for the year to August, although net profit was 31 percent higher at R8,9 million.

Apart from the weak econ-

Talks deadlocked

CAM Trib 9/10/90 194

EFFORTS to end a countrywide strike by nearly 3 000 Nampak employees remained deadlocked yesterday.

Cosatu, which is demanding centralised bargaining for 2 800 Nampak workers, threatened solidarity action against the Barlow Rand subsidiary's "iron fist attitude".

About 130 workers at the Nampak Spicers plant in Johannesburg returned to work yesterday, leaving about 2 800 employees at 28 plants still on strike, Nampak's industrial relations director Mr Tony Mercer said.

About 500 workers at eight plants had been dismissed since the illegal strike began on August 29, and talks on the dispute "had not been fruitful", he added.

The Paper, Printing, Wood and Allied Workers' Union, which represents the striking workforce, is demanding that the company scrap factory-level negotiations in favour of a single national bargaining forum. — Sapa

CITY NATIONAL

Cosatu may act against Nampak

MEW 11/10/90

1994

By SHARON SOROUR
Labour Reporter

TRADE union federation Cosatu has threatened to take action against the Barlow Rand subsidiary Nampak, where thousands of workers are on strike nationwide.

The workers, members of the Paper, Printing, Wood and Allied Workers' Union (PPWAWU), are demanding the company stop factory-level negotiations in favour of a single national bargaining forum.

In a statement Cosatu accused Barlow Rand of "union bashing tactics, particularly in the current dispute at Nampak".

Cosatu claimed the corporation's strategy "to destroy meaningful collective bargaining" had led to a number of disputes involving their subsidiaries.

At Nampak it involved a refusal to take part in centralised bargaining and the collapse of the industrial council for the paper industry.

Bargaining

Nampak industrial relations manager Mr Tony Mercer said about 2 800 employees at 28 plants were still on strike. But according to Cosatu 3 700 were on strike at 29 plants — three in the Western Cape.

Mr Mercer said about 500 workers at eight plants had been dismissed since the strike began on August 29.

He said Nampak was still prepared to talk about bargaining levels if the union respected established structures and procedures.

But union general secretary Mr Sipho Khubeka said the paper and packaging group had rejected union attempts to negotiate an end to the impasse, including a proposal for mediation.

- Last week 29 strikers at Nampak Recycling, Cape Town, were dismissed for ignoring an ultimatum to return to work.

Interpak acquisition 'will raise turnover'

BDay 16/10/90. (194)

ZILLA EFRAT

INTERPAK — a member of the SA Breweries group — has acquired one of the Cape's established print and packaging businesses, Good Hope Press, for an undisclosed amount.

Interpak group MD Tony Rudston says the move will increase the turnover of Interpak Cape. It will also position the company as a leader in the Cape folding carton and label markets.

Over the last two years the Cape operation has become an important supplier to food and non-food customers, he says. Good Hope Press's facilities will strengthen the existing business base.

Philip Joffe of Good Hope Press has been appointed MD of Interpak Cape.

Final order for Nampak

Cpt-Tn 17/10/90

Supreme Court Reporter

AN interim interdict brought by Nampak Products against members of the Paper, Printing, Wood and Allied Workers' Union was made a final order in the Supreme Court yesterday.

In terms of the order, union members were instructed to vacate the Epping premises of Nampak and are restrained from entering unless for purposes of work.

The union members were also interdicted and restrained from in any way intimidating, assaulting or threatening other workers and in any way from hindering or obstructing the normal operation of Nampak's factory.

Mr Justice H L Berman presided.

Star 19/10/90

Abercom shows signs of recovery

194

By Ann Crotty

Full year results from Malbak's UK division Abercom show some signs of improvement on the dismal picture that was presented at the interim stage.

The attributable loss for the full year to end-August was R15,5 million — R10,5 million of this loss was notched up in the first six months of the year. So it appears that the cleaning up operation showed some benefits in the second half.

In addition interest bearing debt was down to R83 million (from R133,6 million at end-August '89) which means gearing is down to a more manageable 70 percent.

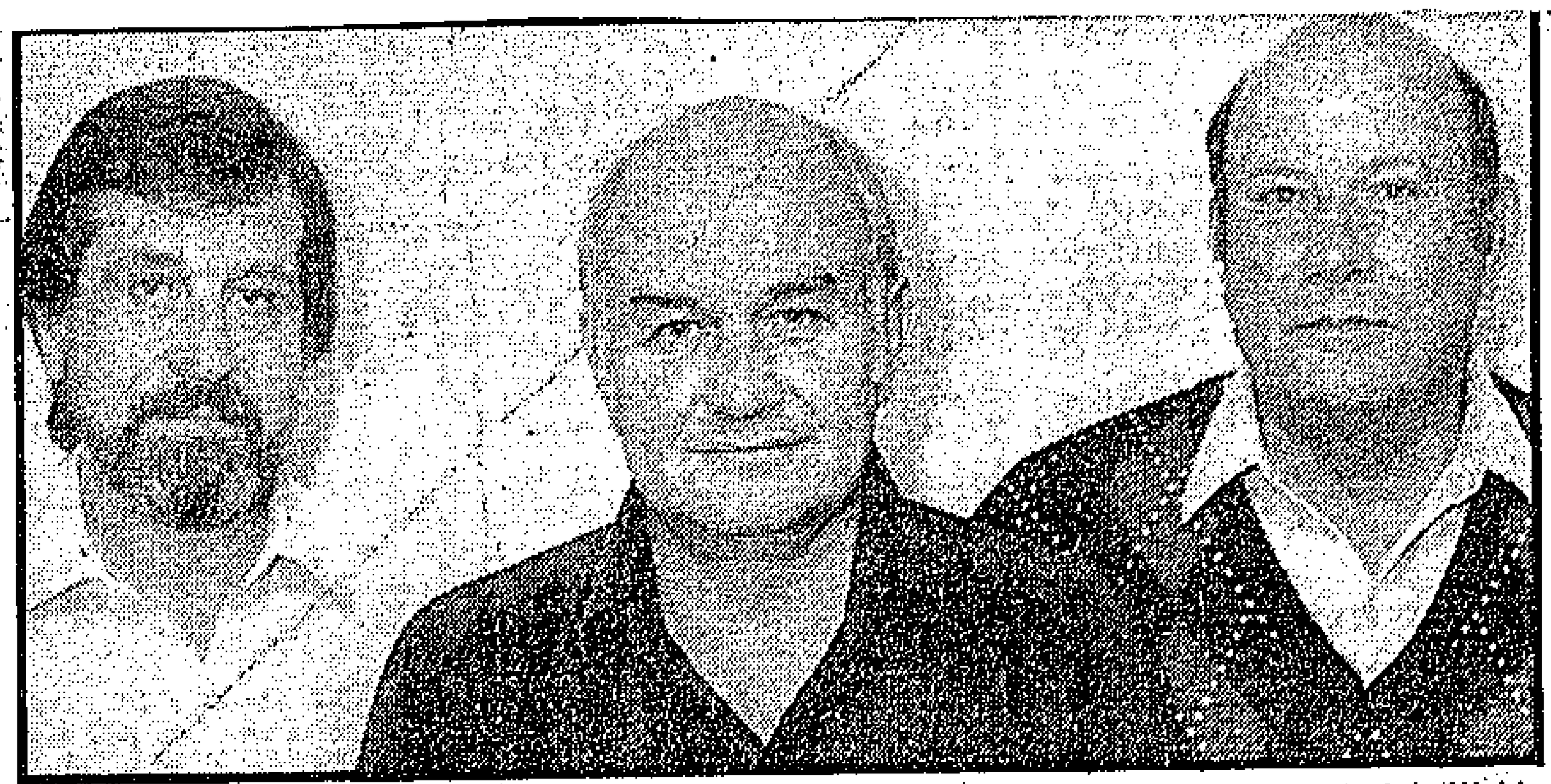
But the cost of the corrective action can be seen in the sharp reduction in net asset value — this is down from 176c a share at end-August '89 to 93c a share a year later.

Turnover for financial '90 was little changed at R233 million (R223 million) but operating income was a mere R667 000 — down sharply from the R9,2 million reported in '89. Interest charges were a massive R19,8 million (R14 million) which resulted in a pre-tax loss of R19 million. After allowing for a tax receipt of R2,5 million and minority shareholders' share of the loss, the attributable loss was R15,5 million.

The corrective action undertaken during the year included the appointment of a new group CE and new chairman; a 27 percent reduction in the workforce (excluding discontinued operations); a R35 million reduction in debt following the sale of properties and the consumer goods division and; an 18 percent reduction in stocks.

Looking ahead, the directors note that all operations but one are now profitable and that the UK economy is expected to start recovering.

"The new management together with the reductions in the debt level and interest charges will put the group back on the road to profitability, but shareholders are cautioned that rapid progress is unlikely."



FIGHTING BACK ... former Nampak men Gerry Germanis, Adrian Barker and Ralph Webb

Now Nampak faces a R1m counter suit

S/Times 21/10/90 (194)

A MILLION rand damages suit is being brought against Barlows subsidiary Nampak in a sequel to the bitter battle between the packaging giant and its employees.

But Nampak says it is not intimidated and will defend any action brought against it.

Gerry Germanis, one of the respondents in the recent application brought by Nampak against senior members of its Corrugated division and an engineering company, says he is suing Nampak for defamation.

And the other respondents, former CEO of Nampak Corrugated, Adrian Barker and former Corrugated branch manager Ralph Webb are considering similar defamation suits.

Mr Germanis gives as his reasons for suing Nampak: "Reckless remarks made both in the court papers and by Nampak lawyers in court branded me a thief and a fraud.

Ploy

"There is no evidence to suggest that I was involved in anything underhand or shady. I feel that I have to clear my name."

He says that at least 60% of his work as a business analyst/consultant was for Nampak.

"My business has been destroyed and the chances of my working again are slim."

Nampak managing director Don McCartan says he regards the decision to sue the company as "a tactical ploy".

"We deny that we acted wrongfully. Mr Germanis must issue his summons and let the court decide on the facts."

Late last month Mr Justice Streicher found against Nampak in an application hearing, ordering them to pay costs including those of Mr Germanis, Mr Barker and Mr Webb.

He ruled that Nampak should not have gone to court by way of motion proceedings when disputes of fact should have been anticipated. For this reason he ruled against Nampak.

The application to freeze the bank account of engineering company Corrugated Ma-

By CHARMAIN NAIDOO

chinery Services (CMS) was nevertheless upheld and the interdict extended.

Mr Germanis says he was the financial director elect of Nampak Corrugated Engineering (NCE), the new operation in the Corrugated division which was formed to take over the maintenance aspect of CMS.

"There was an agreement that CMS would sell the maintenance aspect of the engineering company and that NCE would purchase the assets, spares and consumables.

"As the financial director elect, I was closely involved in the negotiations.

"I've not been notified that I have been dismissed by Nampak, because I was told I was never employed.

"It is true that I was not issued a letter of appointment but we had an agreement and everyone was well aware that I was in the system and working for Nampak. Nampak agreed to the purchase of the maintenance section of CMS and R3-million was allocated — R2,4-million for workshop equipment, spares etc, and the balance for working capital.

"It was an arm's length deal with independent evaluators assessing the value of the equipment being purchased," Mr Germanis says.

Denial

Nampak believed the deal to be fraudulent and brought an urgent application against CMS, Mr Barker, Mr Germanis, Mr Webb and Trust-Bank (the bank where CMS had its account).

Mr McCartan says: "Nampak denies the allegations made by Mr Germanis. But I am not surprised that exaggerated claims of this nature are being made, given the background to the litigation and the acrimonious nature of the dispute."

Little change in earnings at Holdains

Star 23/10/90 (194)

By Ann Crotty

Tougher trading conditions and a 25 percent hike in finance charges meant there was little change in earnings at the recently-formed paper and packaging group, Holdains.

Holdains' performance in the 12 months to end-August was in line with market expectations with earnings per share virtually unchanged at 322c (319c). A final dividend of 63c a share has been declared, for a total payout of 110c (106c) a share.

The group was formed last year through the merger of all of Malbak's paper and packaging interests (Kohler, Graphtec, Carlton and Wiggins Teape).

In financial '90 turnover was up nine percent to R1,8 billion compared with the previous year's (pro forma) R1,6 billion, with operating profit up 4 percent to R150,8 million (R145,5 million).

Costs up

Financing costs were up 25 percent to R42,9 million (R34,4 million) leaving pre-tax income showing a drop of 3 percent to R107,9 million (R111,1 million).

In the absence of a transfer to non-distributable reserves (R6,5 million in '89), a five percent drop in taxed profit was converted into a three percent increase in attributable profit — up to R73,3 million (R71,5 million).

There was a slight increase in the weighted number of shares in issue.

Looking to divisional performances chief executive Mr Ian Willis notes that Kohler (which comprises over half of the group) did "excellently"; Graphtec's performance was less than satisfactory; Wiggins Teape had a very good year and; Carlton turned in a sterling performance.

Because of the tighter economic conditions, management is forecasting only a modest improvement in earnings in financial '91.

53% decline in Clegg's earnings

194

ACHMED KARIEM

CLEGG Holdings, the packaging, lithographic and flexographic printing company, has reported a 53,4% decrease in attributable earnings to R476 000 (R1,02m) in the year to end-June. B\Dam 23\10\90

This was in spite of a 11% rise in turnover to R22,9m (R20,6m).

MD Gerd Egger said the printing and packaging industry stayed very competitive.

"In addition, the nature of the economy restricted the potential growth in volume-related business which is so vital to overall contributions," he said.

Income

He said the 15,2% increase in operating profit could be attributed to the policy of stringent cost control.

Operating income of R1,97m (R1,7m) was reduced by a 13,4% increase in interest charges to R1,5m (R1,32m).

This translated into earnings a share falling to 1,58c, compared with 3,39c for the corresponding period last year.

Egger said the dividend has been waived due to the current economic conditions and the group's interest-bearing debt "arising from the acquisition of fixed assets and increased stockholding".

Holdains' taxed profits fall 5% in tough trading

BIDay 23/10/90

194

ZILLA EFRAT

HOLDAINS, which comprises Malbak's re-organised paper and packaging interests, experienced difficult trading conditions in the year to August when taxed profits fell 5% on pro forma figures for the previous year.

The group was formed through the injection of Graphtec, First Paper House (formerly Wiggins Teape) and Carlton Paper (Carlcor) into the Kohler listing in January.

Attributable profits rose 3% to R73,3m and earnings were up 1% to 322c a share on a rise in the weighted average number of shares in issue.

Consolidate

The rise in earnings followed the previous year's once-off transfer of R6,5m to non-distributable reserves after the group changed its basis for accounting for deferred tax from the comprehensive to the partial method.

A dividend of 110c (106c) a share has been declared, covered 2,9 times.

CE Ian Willis said Holdains had settled down well in its first year as a group and its thrust had been to consolidate its business.

Having disposed of its loss making rigid plastics division, Kohler Packaging, which constituted over half of the Holdains group, concentrated on its core businesses.

Willis said Kohler performed excellently, gaining market share in a declining market market.

"Thanks to better capital productivity resulting from the continuation of Kohler's medium-term capital investment programme, Kohler's operating margin improved in spite of significant raw material price increases which were not always recoverable from the market."

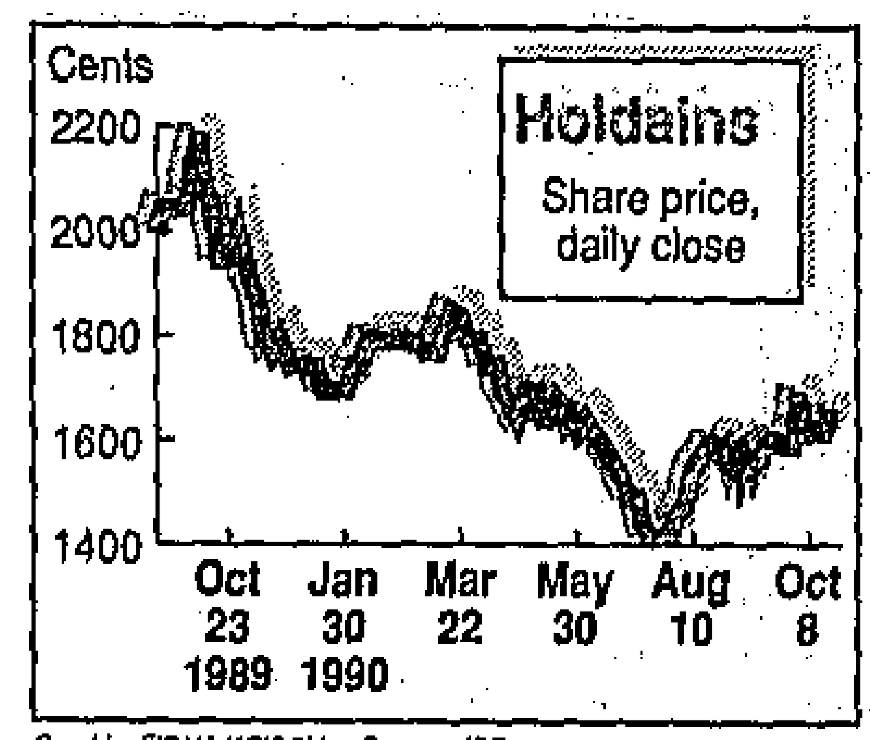
Paper merchant Graphtec's earnings fell by just over 20% as many of its customers experienced poor trading conditions.

Graphtec consolidated its business and disposed of activities not central to its operation. Its more focussed business and tighter management of working capital should ensure improved profitability for Graphtec in the current year, said Willis.

Paper merchant First Paper House produced results "significantly ahead of last year" and was budgeting for a modest improvement this year, he said.

Carlcor, which reported a 51% jump in earnings for the six months to June, experienced unprecendented growth in local and export sales and should be able to sustain profits in fiscal 1991.

Kohler's sale of its rigid plastics division knocked R150m off Holdains' turnover, which rose 9% to R1,8bn.



Graphic: FIONA KRISCH Source: JSE

Operating profit grew 4% to R150,8m on a slight fall in operating margins.

Willis attributed the 25% jump in finance charges to higher interest rates; the financing of the R11m cash Graphtec paid for printing plate manufacturer Allgraphics and a time gap in receiving the R25m for Kohler's rigid plastics division. The sale was effective from March, but payment was received in June.

As a result, pre-tax profits were up 3% at R107,9m. But a higher tax rate at 29,1% (27,3%) led to taxed profits falling 5% to R76,5m.

Willis said although the year ahead looked uncertain, the group was well positioned to participate in the economic upturn when it eventuated.

"However, management is anticipating only a modest improvement in earnings in the year ahead," he said.

Leading SA companies buy into Europe

SA 25/10/90

A group of major South African companies is to buy a 49 percent stake in one of Europe's largest paper manufacturers.

The purchase price has not been disclosed but annual turnover of the company is believed to exceed $350 million.

The consortium, which consists of Mondi Paper, Anglo American, De Beers Centenary and Minorco, is to acquire a 49 percent shareholding in the Austrian paper manufacturer Neusiedler AG from Frantschach AG.

Mondi executive chairman Tony Trahar said Frantschach is a privately owned Austrian forest products group with interests in bleached and unbleached pulp and paper production, packaging and distribution.

Neusiedler is Europe's third largest manufacturer of woodfree papers for the fast growing A4 photocopy paper and business forms markets and has well established brand names and sales networks in Europe.

Being located in Austria, Mr Trahar said, Neusiedler is well placed to expand in both the EC and eastern Europe. It will open up new markets for the export of pulp from Mondi's Richards Bay mill.

Annual paper production currently exceeds 220 000 tons at its Theriesental and Kematen mills in Austria.— Sapa.

Consortium poised for Austrian deal

B Day 25/10/90 (194)

A CONSORTIUM consisting of Mondi Paper, Anglo American, De Beers Centenary and Minorco is set to acquire a 49% stake in Austrian papermaker Neusiedler AG for an undisclosed amount.

The proposed deal gives the consortium a stake in the expanding European market and creates new markets for Mondi's pulp exports.

Neusiedler, with an annual turnover exceeding $350m, is Europe's third-largest manufacturer of woodfree papers for the fast growing A4 photocopy paper and business form markets.

The deal involves a partnership with Frantschach AG, the privately owned forest products group that the consortium is buying its stake from.

Announcing the deal, Mondi executive chairman Tony Trahar said yesterday that Frantschach had interests in bleached and unbleached pulp and paper production, packaging and distribution.

He said the partnership with Frantschach would be an important step for the consortium in the growing European market and an expansion of Mondi's business activities in Europe.

Neusiedler's brand names and sales networks were well established in most European countries. In addition, it was well placed to expand into the EC and Eastern Europe.

ZILLA EFRAT

Trahar said: "For Mondi, specifically, a partnership will open up new markets for the export of pulp from our Richards Bay mill. Neusiedler will in turn benefit from access to Mondi's range of products and from our technical expertise."

Neusiedler had ambitious expansion plans to increase capacities significantly within the next few years, said Trahar.

The partnership agreement would be subject to the fulfilment of certain conditions. Because negotiations had not yet been finalised, Trahar declined to provide further financial details of the deal.

Asked if the acquisition could become part of the offshore subsidiary, AEH, which holds Anglo's European interests, Trahar said this was a possibility.

JOHN CAVILL reports that a Minorco spokesman said the deal was a Mondi-Anglo driven action and Minorco's participation was minor.

Earlier this year, fellow SA paper and pulp group Sappi strengthened its market presence in Europe through the acquisition, together with a consortium of overseas investors, of five UK paper mills for R500m.

SI Times 28/10/90 (194)

Waltons cuts debt

By JULIE WALKER

WALTONS, the diversified stationery group, reduced its gearing by almost half from 119% a year ago to 60% at the interim stage to August 1990.

Reporting for the six months in which most companies struggled to improve profits, Waltons turnover grew by 8% to R335-million and improved margins boosted operating income by 17% to R37,2-million.

But a 30% higher tax bill to the top company rate and an increase in the number of shares in issue held earnings a share at 21,5c — 0,3c higher. An unchanged dividend of 7c has been declared.

Chairman Frank Robarts says the results are satisfactory considering the economic climate. Good results came from subsidiaries Ozalid and Helios Minolta, and Reggies looks in better shape. The toy dealer will benefit from Christmas sales.

Financial director Mark Davis allays analysts' concerns about high gearing. He says the staff has done a fantastic job in managing working capital more effectively. Efforts will be maintained to reduce gearing, which is already acceptable.

Waltons has had mixed fortunes. It was No 1 Business Times company over the five-year periods to 1986 and 1987, but has slipped sharply. The share price of 370c is 20c higher than the low reached in August this year, but 140c below the year's high of 500c in January. It reached a high of 620c in April 1989.

The directors say that notwithstanding the recessionary climate and the prospect of difficult conditions, management and staff are dedicated to maximising group performance.

The rand's world value

	R1 equals		One foreign unit equals (R)	
	26/10/90	26/10/89	26/10/90	26/10/89
US $	0,3929	0,3791	2,5448	2,6378
UK £	0,2015	0,2360	4,9623	4,2369
Deutschemark	0,5970	0,6994	1,6728	1,4298
Japanese yen	50,49	53,77	0,0198	0,0186
Swiss franc	0,5051	0,6125	1,9798	1,6327
French franc	1,9997	2,3737	0,5001	0,4213
Canadian $	0,4584	0,4483	2,1815	2,2457
Italian lira	447,21	512,53	0,0022	0,0019
Zimbabwean $	1,0030	0,8275	0,9970	1,2085
Australian $	0,5014	0,4876	1,9944	2,0509

Trade weighted value of rand, % change against 1974 base ... 39−14

Domestic interest rates

MONEY MARKET

	Friday 26/10/90 %	Friday 19/10/90 %	Friday 12/10/90 %
SARB accommodation: rediscount rate TBs	18,00	18,00	18,00
Treasury bill tender rate	17,95	17,70	17,54
Basic call of discount houses	18,75	18,00	18,00
Three-month banker acceptances	18,00	17,89	17,60
Three-month NCDs	18,60	18,45	18,23
Three-year RSA stock	15,80	15,80	15,79
Prime overdraft rate	21,00	21,00	21,00
All-in yield of finest acceptance credits	19,06	18,89	18,65

CAPITAL MARKET

SECONDARY MARKET — RATES ON MOST TRADED STOCKS

	Average Previous Month	As on Friday
Long-term RSA stocks	16,45	16,68
Long-term Escom stocks	16,44	16,32

Best sections this week

	Av % Mv	Av D/Y	Av E/Y
Development Capital	9,9+	4,9	17,9
Platinum	7,9+	2,2	4,8
Other	5,2+	11,1	4,8
Bevs, Hotels, Leisure	4,9+	6,6	10,9
Transportation	4,2+	5,9	23,1

Star 29/10/90 (194)

Waltons strengthens its balance sheet

By Ann Crotty

Waltons' income statement for the six months to end-August will not provide shareholders with much cheer. Turnover up eight percent, margins squeezed, tax rate up and, earnings virtually unchanged at 21,5c (21,2c) a share.

But the end-August balance sheet should generate considerable enthusiasm. The improvement on end-August '89 reflects the success of management's extensive efforts to cope with underperforming subsidiaries, generally tougher trading conditions and, high gearing.

Long-term loans and liabilities are down 31,6 percent to R71,5 million (R104,6 million). Tighter working capital management can be seen in the reduction in working capital to R133,4 million (R138,3 million) which was achieved despite the turnover increase and the impact of inflation.

Within working capital, current liabilities were down 13,4 percent to R141,4 million and current assets were down 9 percent to R274,9 million (R301,7 million).

The major benefit of this, and the fact that there was no repeat of the financial '90 write-offs, was a reduction in gearing from 119 percent to 60 percent. This also reflects a significant reduction from the end-February '90 figure of 79 percent.

On turnover of R335,6 million (R310,6 million), operating income was up 6 percent to R48 million (R45,8 million). There was a slight squeeze on margins — down from 14,7 percent to 14,3 percent. The reduced level of borrowings meant that finance charges were down 21,5 percent to R11 million (R14 million). The tax rate — which had previously benefited from film partnerships — was up from 45 percent to 50 percent.

Attributable income was up from R13,8 million to R14,7 million. (There was an increase in the number of shares in issue).

COMPANIES

Sunvest hopes to list new Cape subsidiary

BDay 21/11/90

MANDY JEAN WOODS

SUN Packaging Investments (Sunvest) hopes to list a new subsidiary, Biopolymers (Biopoly) Ltd, on the venture capital market on December 13, Biopoly director Bobby Johnston said yesterday.

A rights offer will be made to shareholders of Sunvest and its subsidiary Sun Packaging Holdings (Sunpak) from November 16 to December 14 to raise R4,5m of the R8m needed to start the company.

Sunvest will hold 51% of the issued share capital and its minority shareholders will be given the chance to participate in Biopoly.

The Industrial Development Corporation (IDC) has entered into an agreement in terms of which it will invest R1m in the company, for between 12% and 12,5% of its equity, and provide loan capital of R5,5m.

The company was established by Sunvest chairman Tubby Gericke and its main venture will be the polymerisation (conversion of styrene monomer to polymer) of speciality high tech styrenic resins, he said.

Purchase

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The bulk of the product will eventually be exported. Biopoly will polymerise styrene for Sunvest subsidiary Sun Packaging Holdings's (Sunpak) local and overseas needs.

"We will have two rights issues in effect. The first will be to shareholders of Sunpak of Biopoly shares; the second will be a rights issue to Sunvest shareholders of deferred ordinary shares. The proceeds of the rights issue will be used to purchase a controlling interest in Biopoly."

Biopoly was not expected to pay a dividend for two years. After this, the deferred ordinary shares would be converted to ordinary shares, he said.

"This is all subject to approval from the JSE," Johnson said.

Sunpak was the first Development Capital Market-listed company to move onto the main board. "We hope to do the same thing with Biopoly in three or four years."

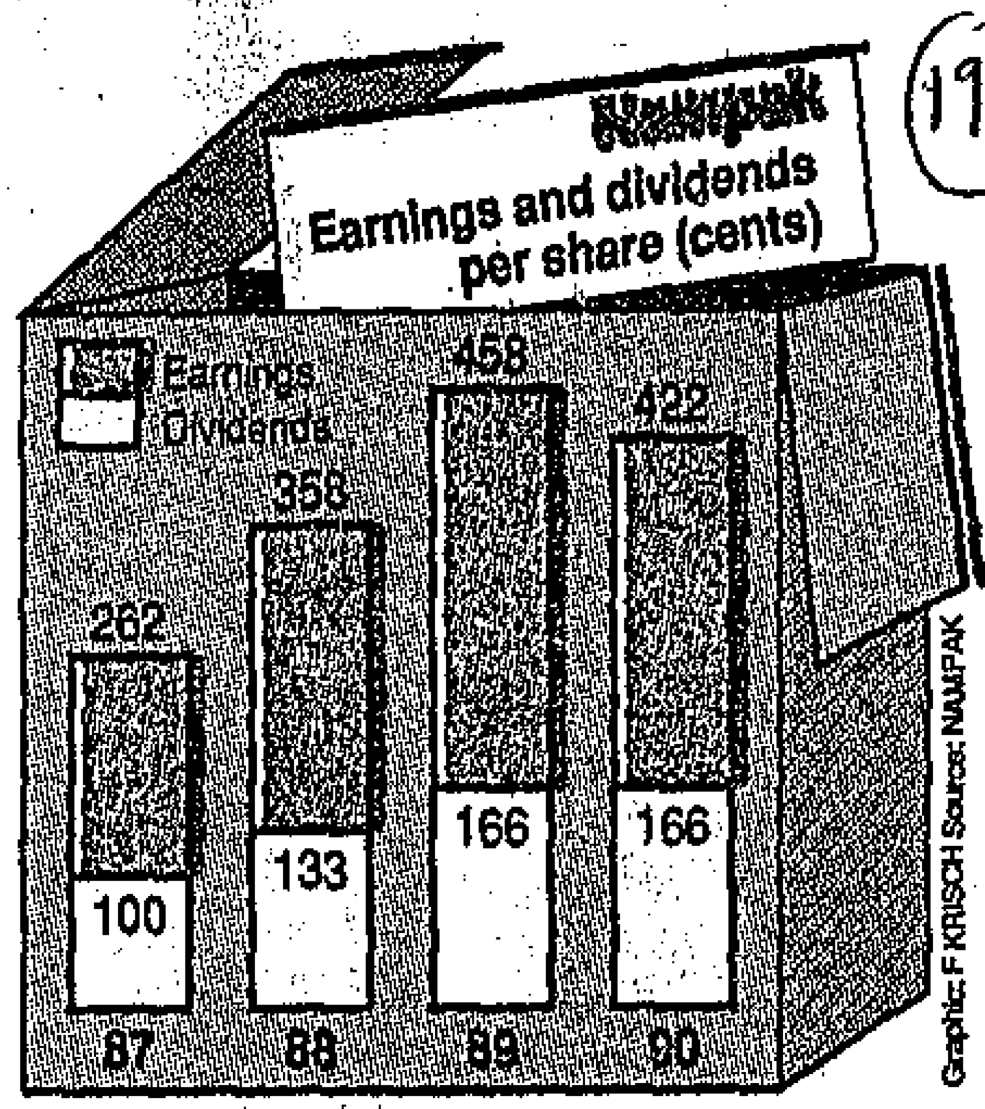
The R11m Biopoly factory, in Atlantis in the Cape, is almost completed.

Nampak shields shareholders

B/Day 2/11/90

ZILLA EFRAT

NAMPAK's attributable profits fell 7% in the year to end-September after the packaging giant experienced sluggish trading conditions and a jump in its tax rate.



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Attributable profits for SA's largest packaging group were R198,7m, but earnings were down 8% to 422c a share on a marginally higher issued capital. Because some earnings growth is expected in 1991, the annual dividend has been maintained at 166c a share.

At the interim stage, earnings were already down 3% and directors warned that profits for the full year would be slightly lower than last year.

The results reflect mixed performances from Nampak's various divisions. Many felt the pinch of the economic downturn, including Divpac, largely involved in metal packaging, and the corrugated division.

MD Don McCartan said the latter was also affected by the incursion of co-operatives into its markets and overcapacity in

□ To Page 2

Nampak B/Day 2/11/90

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the folding carton industry.

Tough conditions were faced by the liquid packaging business, the blow moulding operations, whose distribution was affected by nationwide unrest, and the paper division, which experienced technical problems with its equipment.

McCartan said the Foodcan division, which saw its earnings fall between 40% and 50%, was affected by destocking in the food canning industry and unexpected changes in ownership of some customers.

Overcapacity in the competitive printing industry, and the subsequent squeeze on margins, led to the printing operations being "just profitable".

However, the beverage market remained buoyant, showing volume growth, and the tissue and paper operations performed reasonably well.

McCartan said because the nationwide strike at Nampak started three weeks before year-end, it had a minimal effect on the earnings for the year. The strike had gained momentum, but he believed some resolution was in sight.

Nampak had made a provision of more than R2,5m for alleged irregularities at its corrugated container division. These did not have a material effect on profits and legal action was continuing, he said.

Nampak's turnover rose 14% to R3,5bn, while overall sales volumes fell 1%.

McCartan said many factors, including labour relations, would affect the year ahead. However, with the possibility of mild recovery in the economy foreseen by mid-year, the group should obtain some earnings growth in 1991.

FM 9/11/90

CRACKS SHOWING

Six months to	Sep 30 '89	Mar 31 '90	Sep 30 '90
Turnover (Rm)	488	514	553
Operating profit (Rm)	28,8	29,1	17,3
Pre-tax profit (Rm) .	21,0	17,4	6,8
Earnings (c)	46,0	36,0	13,3
Dividends (c)	24,0	22,5	22,5

directors say with admirable understatement, has created unacceptable working conditions in black areas and has led to withdrawal of most of the major contractors from a sector of the industry which has hitherto been seen as a focal point for growth.

The interest rate situation will sort itself out in due course — being cyclical, it always does. The unrest is, by nature, capricious and at the moment it is difficult to foresee sufficient normality being re-established to lure builders back again. Until that happens, it would seem that companies like Boumat will be out in the cold.

Offsetting this to some extent is the fact that the group's operations are largely of a trading nature. It has a relatively small fixed asset base and it should, over time, be able to adapt to the changed circumstances. In the short term, however, such adjustments can be painful, as indeed was the case during the six months to end-September, when non-recurring costs incurred in the closure of certain operations reduced profit by over R3m, accounting for some 26% of the overall R11,4m decline at the operating level and about one-fifth of the drop in attributable earnings.

But even without a repeat of these costs in the current half, EPS for the remainder of the year are expected to amount to under 5c, against the 18c of the first six months.

The decimation of earnings has so far had no effect on distribution policy and management still intends declaring dividends totalling 48c for the current year. Given that holders of at least 82% of the equity will opt for the bonus share alternative, the cash cost to the company will be limited to just over R2m. Even this is almost half the group's expected attributable income for the year and is a strain that a greatly reduced cashflow could do without. *Brian Thompson*

SUNVEST/BIOPOLYMERS 194

FM 9/11/90

SEEKING MORE FUNDS

With share prices having fallen to present levels and further weakness possible, it is a curious time to be coming to the market with a rights issue, let alone a listing as well. But I H (Tubby) Gericke, chairman of holding company Sunvest and its subsidiary Sunpak, shrugs off any concerns about timing.

To fund Biopolymers — which will polymerise speciality hi-tech resins mostly for export but also for Sunpak's local requirements — Gericke is coming to the market. Biopolymers needs about R8m in permanent capital. The Industrial Development Corp has agreed to invest R1m in Biopolymers' equity and to provide an additional R5,5m in loan funds.

Sunvest will hold 51% of Biopolymers and

FM 9/11/90 (194)

the plan is that Sunvest will raise R4,5m through a rights issue. Sunpak minority shareholders are also to be offered direct participation in Biopolymers, through a rights issue that will raise R3m.

According to Ian Strachan, CE of Sunpak and Sunvest, the timing of these rights issues is not significant because the support of major shareholders in both Sunvest and Sunpak has already been sought and received.

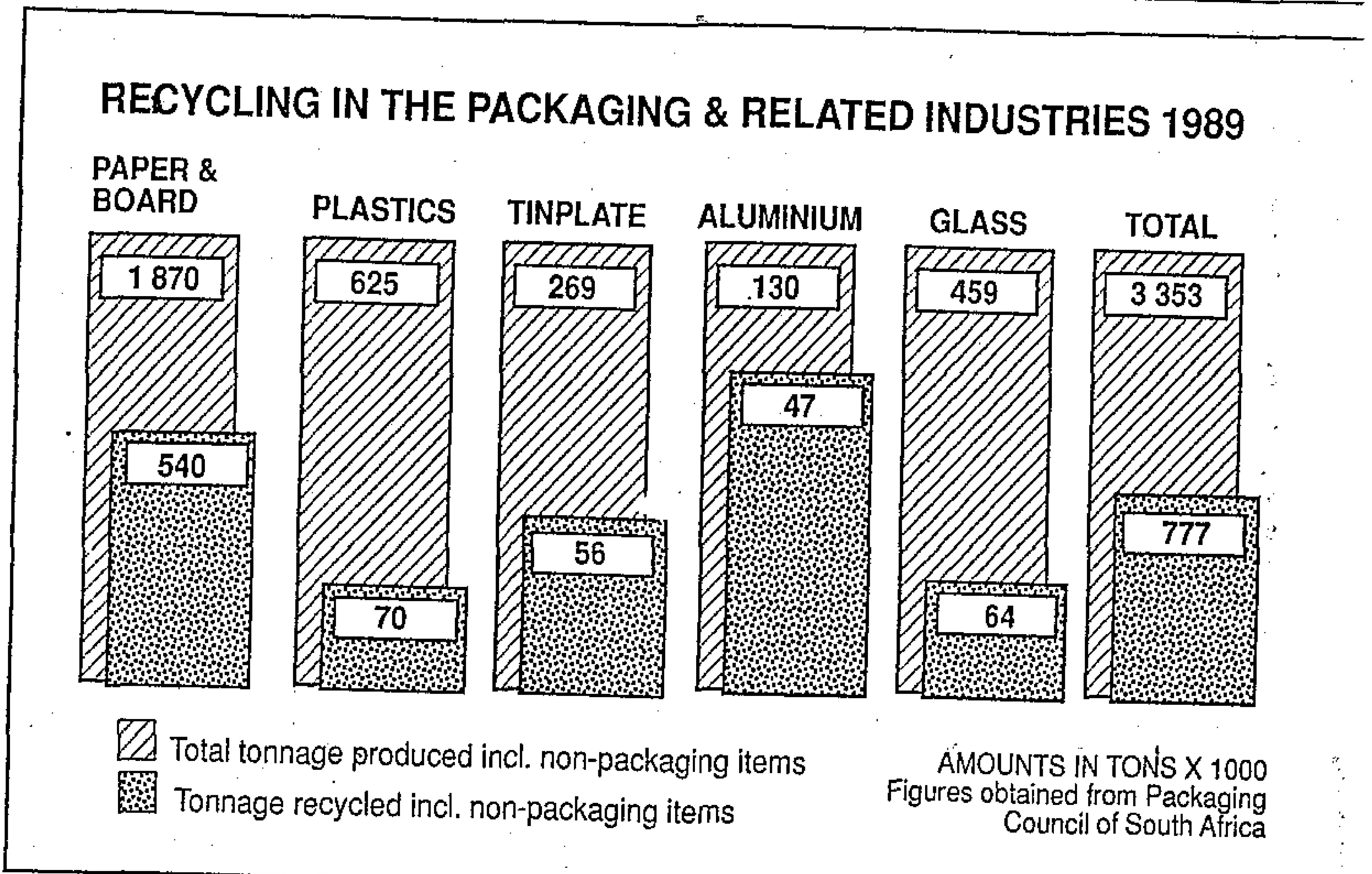
Sunpak, producer of foam and laminated trays and synthetic paper labels, has produced impressive growth in shareholders' funds and, in particular, pre-tax profit, which was R300 000 in 1984 and R13m in 1990. But shareholders have had to fuel this rapid growth by contributing additional capital through rights, which have diluted equity and EPS. The 1990 EPS of 16,7c were even less than 1988's 18c.

Gericke's operations have grown fast. Biopolymers is confirmation that he is still following the growth path. But this is yet another call on shareholders to take the long-term view when it comes to an EPS pay-off — and it may well apply to dividends too.

Biopolymers is to be listed on the Venture Capital Market in December. Strachan confirms that both the size of the enterprise and its lack of profitability, at least for the first year and a half, make it eligible only for a listing in this sector. So shareholders are probably going to wait several years before enjoying any return from this investment.

No financial forecasts are yet available. A prospectus and details of the rights offers are to be published on or about November 12. *Gerald Hirshon*

BUSINESS



You could make a mint out of recycled rubbish

W/Mail 9/11 – 15/11/90

(194)

Recycling refuse may not save manufacturers much money but municipalities and private firms could find pots of money hidden in the rubbish dumps, reports ROBERT LAING

TWELVE-million tons of household refuse ended up in South Africa's dustbins last year. Half of this could have been recycled, but only about six percent (777 000 tons) was recovered and used by industry, according to the Packaging Council of South Africa.

The rest lies in municipal rubbish dumps or "landfill sites" fermenting into two environmental hazards: leachate and landfill gas. Leachate is the liquid that oozes out of rubbish dumps. It contains partly decomposed organic material and microbes, including disease-causing bacteria that can contaminate surface and ground water. Landfill gas is a potentially explosive mixture consisting of two parts methane and one part carbon dioxide.

Until last year's Environment Conservation Act there was no legislation setting provisions for the disposal of waste. This resulted in the "hump 'em and dump 'em" rubbish disposal system becoming widespread, with litter being tipped on any vacant spot. Reckless waste disposal laws, an abundance of landfill sites and cheap transport gave municipalities little incentive to invest in expensive refuse-sorting plants.

The cost of sorting, cleaning and transporting tons of refuse squashed its attractiveness to manufacturers, who generally prefer using virgin material unless they can buy recovered waste for next to nothing. Much of this country's refuse recovery is done by having charitable organisations run collection bins to raise funds. This hides the true cost of recovering waste because the public does most of the sorting and transporting for the recycling plant at no charge.

About half, by weight, of the contents of South Africa's typical dustbin is made of combustible material. In white Johannesburg these materials comprise 29 percent paper, seven percent plastics, two percent textiles and four percent ash. In Soweto nearly all combustible waste is used for heating to save money; Sowetan dustbins contain about 45 percent ash and only one percent of paper, plastics and textiles each.

Hard non-combustibles, glass and metals, generally make up 10 percent of domestic waste. Putrescibles — things like potato peelings and cabbage stalks — account for 22 percent of Johannesburg's and 15 percent of Soweto's dustbin content.

Landfill sites near urban areas are becoming increasingly scarce. Even if they are available, waste management companies have to fight what they call the "nimby" syndrome — the neighbouring residents' "not in my back yard" outcry.

Some municipalities earn revenue by allowing "selective scavenging" in their landfills.

Selective scavenging is inefficient, making less than a 10 percent dent in the total waste problem. The scavengers may even aggravate the leachate and landfill gas problem by removing inert "dry" waste, which leaves the remaining refuse richer in putrescibles.

Randburg's Kya-Sands landfill site is to get South Africa's first "positive picking" waste recovery factory. The R6-million plant is being built by Resource Recycling, a subsidiary of Bateman Project Holdings.

Mixed dry refuse will be passed through a revolving barrel that separates it according to size. The barrel has a mesh that extracts ash and dust.

An overhead magnet will remove ferrous metals, leaving a valuable mess containing newspaper, cardboard, plastics, aluminium and glass. This will pass down a conveyor belt to be manually sorted for industry.

Wet waste — food and garden refuse — will be milled into compost. The plant will create about 100 jobs.

By agreeing to the plant the Randburg City Council forfeits money it could earn from scavengers but savings in landfill space will outweigh this in the long run.

Resource Recycling MD John des Ligneris says: "The plant will halve the amount of refuse being dumped, doubling the life of the landfill site. We sort everything from paper — which is the most profitable waste to recover — to the most marginal stuff."

The method of refuse collection is important because manufacturers will not reuse recovered material unless it is clean. Des Ligneris hopes to get South African householders to separate their refuse into wet-bags and dry-bags as is done in Europe and America.

Even if nearly all domestic refuse can be returned to industry, disposing of the remainder is still a problem. Nobody has much use for old rubbish dumps.

In August, angry homeowners in Albertsville discovered why their new houses were cracking up — they had been built on a subsiding landfill. No mention was made of how the developers, Time Housing, intended to deal with the leachate or landfill gas.

The President's Council views rub- [illegible] ergy; University of the Orange Free State biochemistry professor Trevor Britz calculates each ton of refuse contains 4,5 megajoules of energy.

Methane gas from Johannesburg's Robinson dump is presently being tapped off and used as chemical feedstock by AECI's Klipspruit Cyanide factory.

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BUSINESS

Waltons on course for growth in profits

By TOM HOOD,
Business Editor

WALTONS Stationery will be satisfied with a 10 percent rise in turnover this year, bringing the total turnover to over R700 million, says chairman and managing director Mr Frank Robarts.

Group sales have grown 18-fold — something like 1 750 percent — from R35 million 10 years ago.

Operating profit surged 20 fold or 1 880 percent from R35 million to R81 million in that time.

Trading conditions

An analysis shows earnings had a compound growth of 36,7 percent over 10 years and 40,5 percent over the past five.

Discussing prospects, Mr Robarts, said this week that trading conditions were difficult in all parts of the country but the company was on course to February 1991.

Operating profit for the first half showed a satisfactory 17 percent rise to R37 million before tax even though turnover rose only 8 percent.

A key factor here was the big reduction in gearing, which shaved finance costs from R14 million to R11 million.

Borrowings slashed

Borrowings were slashed to R71 million from R141 million.

"We were criticised last year because our borrowings were too high so we decided to get our gearing right. The interest bill is down 22 percent," said Mr Robarts.

The gearing ratio has steadily improved from 119 percent at August 1989 to 79 percent at February 28 and 60 percent at August 31.

Steps were also taken this year to improve working capital management and improve the results of some under-performing acquisitions.

Large loss

"Sales have been hit by customers economising on office costs. Management concentrated on improving the balance sheet rather than go for sales growth," he said.

A R103 000 loss for the first half was reported by the subsidiary Redgwoods, which manufactures and retails toys and babywear. However Reggies is well positioned for the Christmas season and will trade profitably for the full financial year.

Union 'stiffening' on Nampak

JOHANNESBURG. — Shopfloor resolve to continue the strike at 29 Nampak plants was stiffening, a Paper Printing Wood and Allied Workers' Union spokesman said at the weekend.

He said the workers' position on the strike had become "more hard-line" after a meeting between Nampak's Corrugated Division and the union ended in stalemate last week.

The union wanted Nampak to move on the issue of reinstating 1 000 dismissed workers, he said.

Star 12/11/90 (194)

Waltons aiming for modest rise

By Tom Hood

CAPE TOWN — Waltons Stationery will be satisfied with a 10 percent rise in turnover this year, bringing the total to over R700 million, says chairman and managing director Frank Robarts.

Group sales have grown 18-fold — about 1 750 percent — from R35 million 10 years ago.

Operating profit surged 20-fold, or 1 880 percent, from R35 million to R81 million in that time.

An analysis shows earnings had a compound growth of 36,7 percent over 10 years and 40,5 percent over the last five.

Mr Robarts says trading conditions are difficult in all parts of the country, but that the company is on course to February 1991.

Operating profit for the first half showed a satisfactory 17 percent rise to R37 million before tax, even though turnover rose only eight percent.

UK brokers give buy signal on Gencor

Star 14/11/90 (194)

Diagonal Street

NEIL BEHRMANN

London brokers Laing and Cruikshank recommend purchases of Gencor even though earnings are expected to decline in the coming year.

Analyst Roger Chaplin believes shareholders might benefit from unbundling of the group's assets.

"They should buy the shares when the market is weak," he says.

Similarly to the UK tobacco company BAT, Gencor aims at realising the full value of its interests and is considering the best way to unbundle its divisions.

Gencor has five operating divisions — Genmin, Sappi, Malbak, Engen and Genbel. Each has its own separate strong management and can stand alone, says Chaplin.

Foreign exchange dealing and insurance and some other group functions are centralised but they could receive contract payments from each division.

Of the five divisions, all but Genmin are listed on the exchange.

Laing and Cruikshank believes Genmin should become a listed holding company of the mines.

A decision is likely next February and speculation about the unbundling might boost the shares in the next few months.

Chaplin says Gencor is an ideal vehicle for the foreign investor. Over the past five years, Gencor's net asset value has grown at an annual average rate of 16,5 percent, while the share price has increased by an average of 25 percent each year.

In the same period, Gencor's earnings have risen by 16,4 percent a year, while dividends increased at an annual average of 11,4 percent.

In the year to August 1990 earnings a share rose from 106c to 123c, while dividends jumped nearly 18 percent to 40c.

At around R8,50 a share, Gencor's price-earnings ratio is only seven, while the dividend yield of 4,7 percent is well above the mining sector average.

These returns are even more attractive for the foreign investor who can buy Gencor on a PE of less than five through the financial rand market, says Laing and Cruikshank.

The discount to net asset value has narrowed from 46 percent to 23 percent.

Gencor is likely to encounter a "tight year," cautions Laing and Cruikshank.

Metal prices are expected to weaken in dollar terms, while the rand is likely to remain relatively strong because of the Reserve Bank's tight monetary policy. Cost inflation could be "well into double figures."

Laing and Cruikshank expects Gengold, Impala Platinum, Trans Natal, Sappi and Malbak to maintain their level of earnings, but Samancor will be hit by a downturn in demand for manganese.

Star 15/11/90 (1993) (194)

Sentrachem acquires 50% of Mega from Hoechst

Finance Staff

Sentrachem has acquired the 50 percent interest which Hoechst held in some of the operations of its Mega Plastics division for R22,5 million.

The operations concerned are Megapipe, South Africa's major producer of high-density polyethylene piping, Megaflex, a leading manufacturer of flexible hoses and Megapak, which makes packaging and materials handling systems.

Hoechst sold its Mega interests as plastic converting is no longer part of its core business. Hoechst remains in partnership with Sentrachem in their joint ventures in Sapripol, South Africa's only producer of high-density polyethylene and a major producer of polypropylene, and Plastomark, which markets Safripol's products to the local converting industry.

The effect of the acquisition of Sentrachem's earnings will be positive and the production, marketing and distribution of Mega products will not be affected in any way.

Cape Times 19/11/90

Back to work with 'no gains'

Own Correspondent

JOHANNESBURG. — Several thousand Nampak employees are due to return to work today — with no apparent gains — in terms of a weekend settlement between the company, Cosatu and the Paper, Printing, Wood and Allied Workers' Union (Ppwawu) of the two-month strike.

The strike supported union demands for centralised bargaining.

Workers return after eight weeks

By SHARON SOROUR, Labour Reporter 20/11/90

ABOUT 3 800 Nampak workers return to work this week, ending the nationwide eight-week strike which cost them more than R10,5 million in lost wages.

The workers, members of the Paper, Printing, Wood and Allied Workers' Union, dropped their demand for centralised bargaining on wages and working conditions, said Nampak spokesman Mr Tony Mercer.

"The company's bargaining structures remain intact. We agreed to a moratorium on the issue of alternative bargaining levels for at least nine months," he said.

The agreement — between the company, the union and Cosatu — was signed yesterday after marathon talks, which ended one of the longest strikes this year.

Three plants in Cape Town were affected: Nampak Recycling, Nampak Corrugated and Nampak Packaging.

Mr Mercer said of the 1 200 workers dismissed during the strike, 700 would be reinstated "with penalties and a final written warning". They would lose 50 percent of their annual bonus.

The fate of the remaining 500 dismissed workers would be decided at mediation and arbitration forums.

Union national organiser Mr Rob Rees said the workers "do not really feel defeated — the strike has put the issue of central bargaining clearly on the agenda".

MESHING WITH MALBAK

By any estimation, merging the SA subsidiary of long-time British paper merchant Wiggins Teape into the young Sankorp subsidiary Malbak would be a tricky operation. Would the corporate cultures clash? Would Malbak unintentionally disrupt the qualities that made Wiggins Teape SA work?

After two years, the purchase is clearly a success — turnover is up 67%, earnings are up 74% and the staff has increased by only 6,7%. Malbak's secret: leaving its new acquisition alone.

"I'm delighted that Holdains (Malbak's paper and packaging arm) decided to leave the company and its culture intact," says MD Derek Smith, who was kept on by Malbak. "It enabled us to offer sound career prospects to our staff and security to our clients."

Smith is used to running his own show. Wiggins Teape UK had almost no contact with him. The contact with Holdains and its CE, Ian Willis, is much more regular but it does not amount to control. "Willis has given us great encouragement and no specific constraints. I thought I would now have a shadow looming over me all the time, but it hasn't been like that at all."

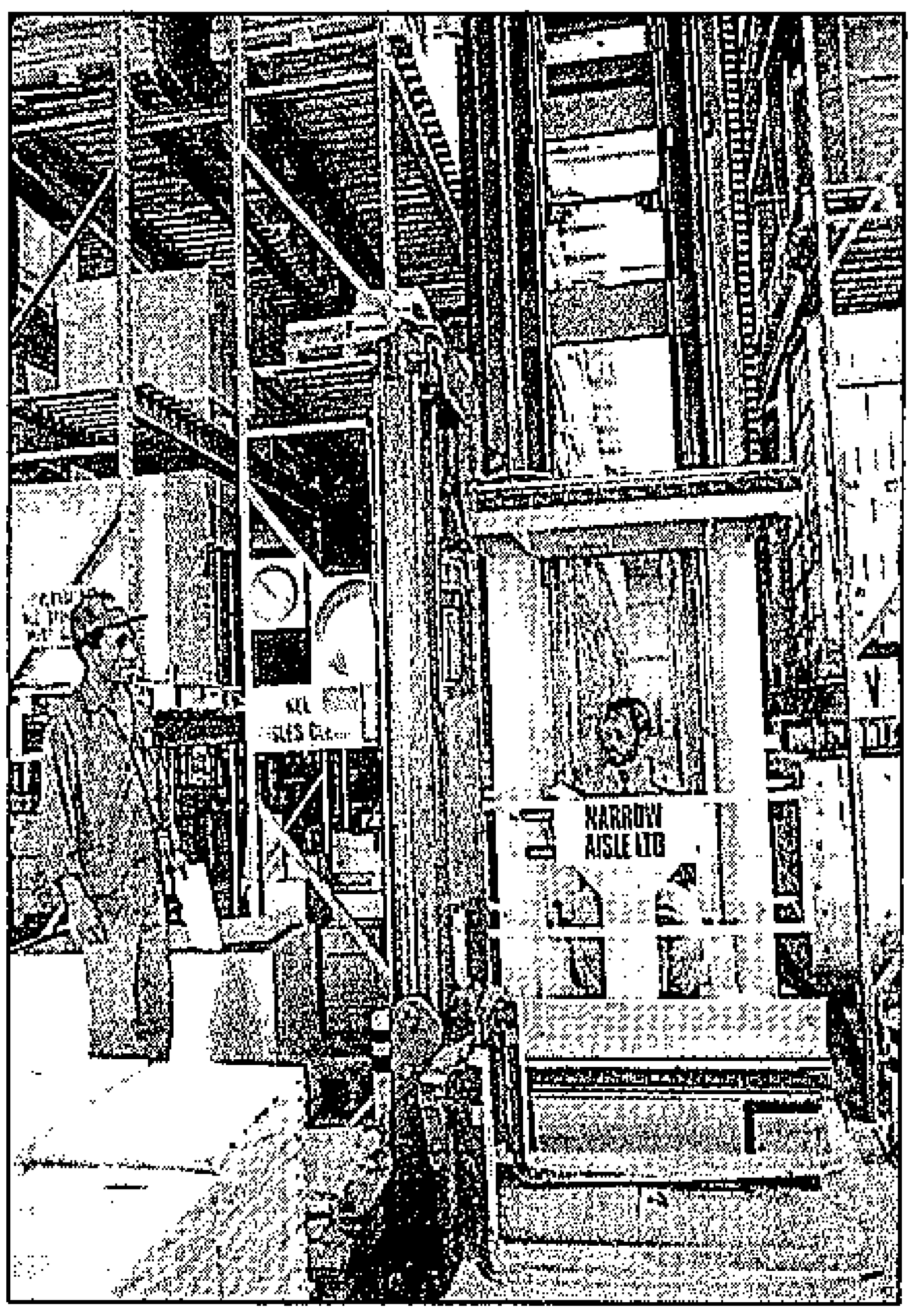
Wiggins Teape UK sold its SA interests in December 1988 in what Smith describes as far from a political disinvestment. "Wiggins Teape, in line with the policy of its major shareholder, British American Tobacco, decided to concentrate on the European and US markets and to pull out of British former colonies." The SA operation was the last major overseas subsidiary sold — after Australia, New Zealand, Zimbabwe, Zambia, Singapore, Malaysia and Nigeria.

At the same time, Malbak was planning to consolidate its paper and packaging interests into what became Holdains. Wiggins Teape SA was considered a perfect fit for the portfolio, which includes the Kohler packaging company and paper merchants Haddons and Star Paper.

So Wiggins Teape SA disappeared and was renamed First Paper House, an appropriate name because Wiggins Teape was SA's first paper merchant — or paper house as they were known then — when it opened at 48 Wale Street, Cape Town, in 1896.

Smith says the decentralised Holdains approach allows for separate subsidiaries as long as they are addressing different niches. First Paper has more than a 20% share of the R900m/year paper merchant business and is dominant in certain sectors, such as carbonless paper and high quality writing and printing paper.

Malbak MD Grant Thomas says: "Malbak's philosophy is to allow independent management to continue. We have competing companies in other sectors. For instance, we have five competing furniture chains in the Ellerines group. Sometimes they take a very different direction from the rest of the group; we don't discourage this."



First Paper's Johannesburg warehouse
... no problems to paper over

Frits Waldeck, MD of Graphtec, which controls Haddons and Star Paper, says there would be no advantage in merging the three paper merchants into one operation. "Each has its own culture and skills. They supply different, competing ranges of imported paper. Printers like to deal with at least three different paper merchants. If two of their suppliers merged, they would take a share of their business away from them, almost as a matter of principle."

The takeover freed First Paper from contraints imposed by the UK parent. Wiggins Teape UK would repatriate the maximum possible percentage of profits and encouraged only minimal organic growth. "There was continual insecurity and while we did fund a number of new projects, it was at the expense of other things," Smith says.

But clearly things were going right with Wiggins Teape, or Holdains might have been tempted to merge it into one of its other paper merchants. Wiggins Teape SA had developed a reputation for innovation. In 1982 it started the first marketing department in the business, and it's still the only one. It also was the first to introduce carbonless paper and the first to employ designers.

"In fact, now that First Paper is an SA company, it's opened up all kinds of possibilities, such as offering profit-sharing and bonus incentives," Smith says.

One of the unintended benefits of Wiggins Teape's reluctance to increase investment in SA is that First Paper House is now almost debt-free. After all, if you can't spend money, you don't need to borrow it. So the old Wiggins Teape SA was forced to concentrate on a few specialist areas, such as quality writing papers and carbonless paper. Fortunately, these are high-margin areas.

First Paper's clients haven't been upset with the change. Says Perskor's Basil Hyde: "The change in ownership hasn't made any visible difference. One improvement has been the introduction of a toll-free telephone service for regular customers."

Despite the recession, the company's outlook is bright. "Paper is a price-sensitive business," Smith says. "But because of the constraints on our growth under British ownership, we had a small client base of quality companies. There has been an alarming increase in the number of liquidations in the printing business, but with our client base, we have been less affected than most."

Another Tubby plastic for JSE

194

SI Times 25/11/90

By DAVID CARTE

TUBBY Gericke, founder and chairman of Sun Packaging (Sunpack), one of the stars of the 1986 listings boom, is coming to the JSE with another novel listing.

At a capital cost of R12-million, Mr Gericke, together with the IDC, has built SA's second polystyrene producer 400 metres away from Sunpack's Atlantis plant.

The plant is the only one in the Western Cape and competes with Sentrachem's Styrochem, until now the only supplier of polystyrene, which is used in many packaging applications but most commonly in trays for fresh foods.

Products made by new company Biopolymers will be biodegradable and will not use CFCs.

The plant is working, but biodegradable product has still to be produced. It will also make synthetic paper. Products will go not only to Sunpack but to rival companies. Sunpack will take about half of capacity. Biopolymers will export to West Germany and the US.

Managing director is Ko Eigenhuis, formerly of Bakke and Sasol.

Value

The new company has yet to earn a profit and will be listed on the Development Capital Market.

Shareholders in Sunpack and holding company, Sun Packaging Investments (Sunvest), will be offered 5,9-million shares at 50c each. The IDC will subscribe for 2-million shares. Sunvest will hold 8,6-million shares (52%).

There will be 16,5-million shares in issue, valuing the company at R8-million.

Biopolymers (to be abbreviated Biopoly on the JSE) expects to lose R963 000 in 1991, but to achieve a pre-tax profit of R937 000 in 1992. In 1993, the pre-tax number is forecast at R3,5-million and in 1994 at R4,9-million.

Press Supplies on right path

LYNNE PEACH

Star 28/11/90 194

Diagonal Street

Press Supplies has rationalised its operations, which could result in a significant improvement in operating margins.

In the annual report, chairman HC Hohmann says management took a long-term view of its major franchises and decided to dispose of certain operations.

Two major developments in the past year were the purchase of a building in Johannesburg, which the group now occupies, and the construction of another to trade out of in Cape Town.

The group also has property-holding companies.

In the year to June, group turnover decreased 42 percent after a decline of eight percent in financial 1989.

Mr Hohmann says this is a direct result of the disposal of the paper division.

If the paper division is excluded from the previous year's results, group sales would have improved 22 percent.

Operating income increased 13 percent from R2,3 million to R2,7 million.

After investment income of R27 000 and a 16 percent rise in interest expense from R1,7 million to R1,9 million, pre-tax profit increased 10 percent from R662 000 to R730 000.

A significant decline in the effective tax rate from 46,9 to 20,3 percent resulted in taxed profit advancing 65 percent from R351 000 to R581 000.

After deducting the preference dividend, profit attributable to ordinary shareholders increased 66 percent from R347 000 to R577 000.

Earnings a share swelled from 15,8c to 26,2c, while the dividend for the year was maintained at 7,5c.

The balance sheet discloses borrowings of R11,6 million, nearly triple the R4,2 million of a year ago.

This is attributable to R5,0 million worth of additions to fixed assets, particularly land and buildings.

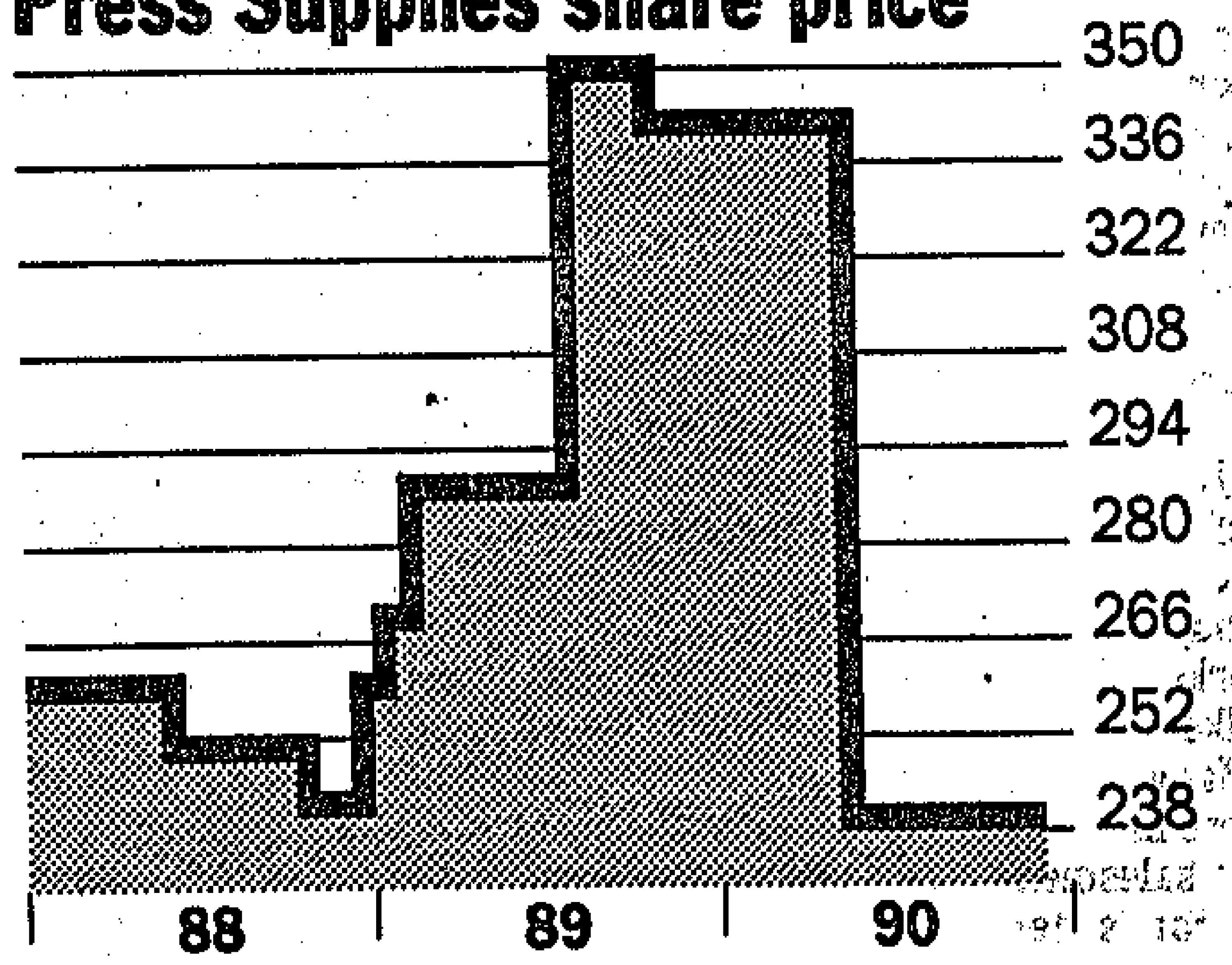
Mr Hohmann says the group has received an offer for its larger equipment segment of business and when the agreement is finalised, the group will be in a liquid position and will concentrate on the remaining agencies.

Press Supplies, priced at 240c, is trading on a P/E ratio of 8,9 and provides a dividend yield of 3,1 percent.

COMMENT: Press Supplies' share price entered a downtrend in the second half of 1989 after peaking at 350c.

The price, now 240c, will have to rise above 250c before a trend reversal is confirmed.

Press Supplies share price



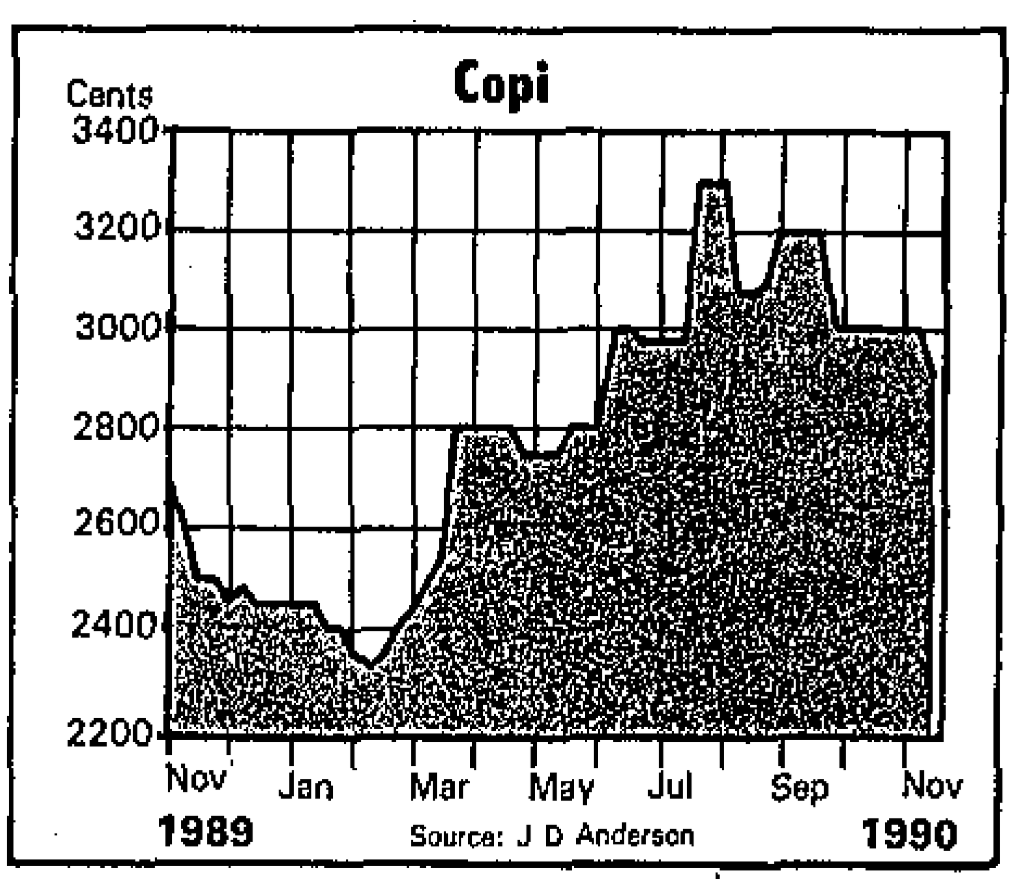
COPI FM 30/11/90 194

INVESTMENT GAINS

Activities: *Makes packaging materials in the Caribbean, UK and East Africa. Also invests in securities and currency.*
Control: *Is thought to rest with the Kalmanson family.*
Secretary: *M Carlyle Johnston.*
Capital structure: *17,6m ords. Market capitalisation: R510m.*
Share market: *Price: R29. Yields: 1,6% on dividend; 3,1% on earnings; p:e ratio, 32,7; cover, 2. 12-month high, R33; low, R22,50. Trading volume last quarter, 29 000 shares.*

Year to June 30	'87	'88	'89	'90
ST debt (C$m)	8,3	7,9	6,9	8,1
Shareholders' interest	0,85	0,85	0,85	0,86
Int & leasing cover .	10,8	16,7	14,7	10,6
Return on cap (%) ..	6,6	8,6	7,8	7,8
Turnover (C$m)	98	103	100	93
Net earnings (C$m) .	—	—	8,4	6,7
Pre-int profit (C$m) .	15,1	18,4	17,6	18,1
Pre-int margin (%) ..	15,4	17,9	17,6	19,4
Earnings (c)	144	90	65,4	88,7
Dividends (c)	41	44	44	45
Net worth (c)	1 085	1 020	1 088	1 136

Despite poor performance from its operating arms, and an increase in forex losses, Canadian Overseas Packaging Industries (Copi) lifted earnings by 36% to C$15,6m, helped



by a C$3,6m gain on the sale of marketable securities, a tax decrease and a hike in investment income.

Directors say the value of the portfolio was boosted by the strength of the Canadian dollar, in which much of it was held, though this sits oddly against the forex losses of C$2m, caused partly by fluctuations in that currency. Funds were switched to European currencies towards year-end, anticipating weakness in the US and Canadian dollars. Now only 56% of cash and quoted investments is held in these currencies.

Forex losses also reflect weakness in other currencies — the Jamaican dollar fell 26% while the Kenyan and Trinidad currencies declined 7% and 3%. These caused the cumulative translation adjustment deficit to rise by a further C$836 000.

Most operating arms disappointed. Problems arising from the Jamaican economy — including a 33% bank rate and shortage of foreign currency — and interrupted production caused "a small profit" at Jamaica Packaging Industries, compared to the pre-

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vious year's record. An improvement in the economy and installation of modern equipment will help this year.

Profits at the Trinidad and Barbados operations improved but that of the East African company fell. The UK operation posted a loss. So the operating companies should obviously not be relied on.

Directors say "decisive actions have been taken to ensure a sounder base to the operating structure," but they are reluctant to make any forecast for 1991 because of the state of the world economy.

Largely because of its rand-hedge qualities, Copi is still rated favourably on the JSE. It stands on a p:e of 16,3 and yield of 3,4%, way above the paper and packaging averages of 4,7 and 8,5%.

Heather Formby

COMPANIES

Things are looking up for Transpaco

194

B/Day 30/11/90

ZILLA EFRAT

PACKAGING group Transpaco has improved its position in the six months to end-September, say joint MDs Mike and Philip Abelheim.

The group incurred losses during the preceding nine months.

Earnings, before extraordinary items, are 1,7c a share. This follows earnings of 1,8c a share in the 15 months to March.

During the last nine months of this period — traditionally its best trading period — Transpaco incurred a loss of 3,15c a share.

In view of the attempts being made to improve the debt-to-equity position, directors have passed an interim dividend and will review the situation at the financial year-end.

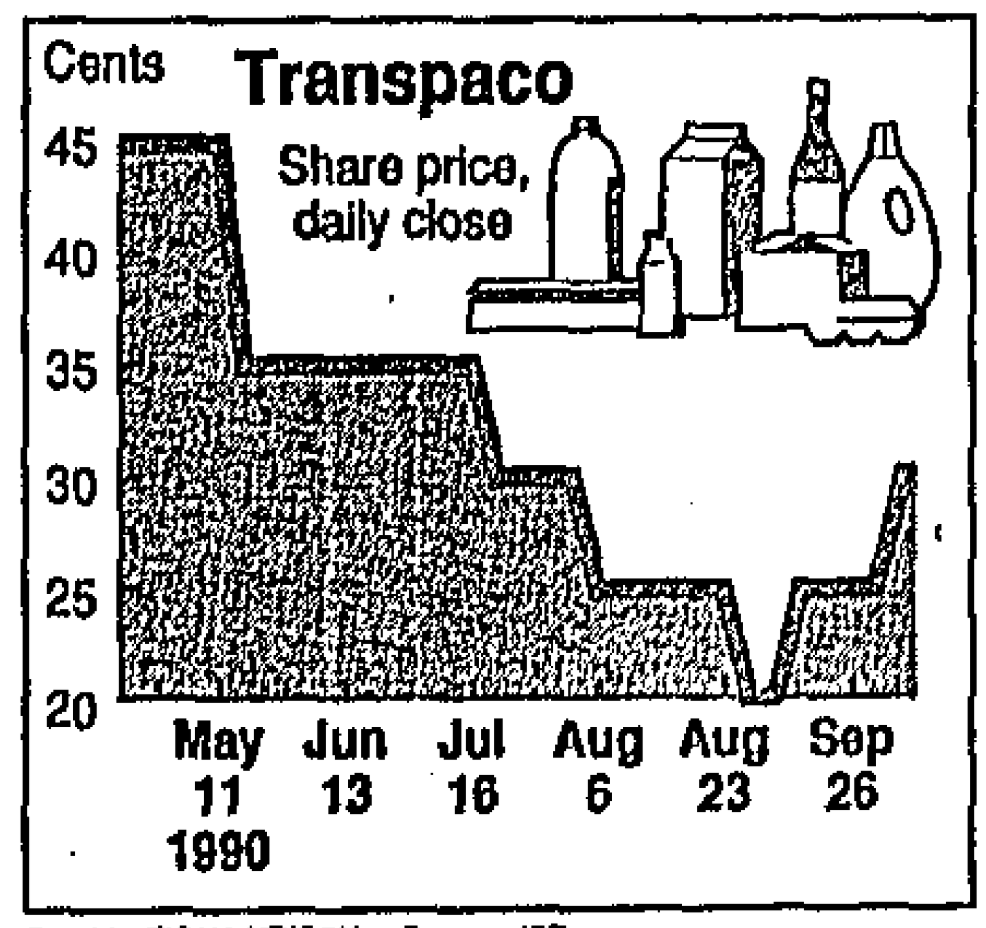
The Abelheims expect a further improvement in the second half, and are confident that earnings of 10c a share will be achieved for the year to March 1991.

After an extraordinary item — the R1,2m profit on the sale of Transpaco Stationers — attributable profit for the six months was R1,2m. Taxed earnings were R146 000, compared with R282 000 for the preceeding 15 months.

Mike Abelheim says Transpaco is still feeling the pinch of the downturn, but all operations have performed profitably.

Turnover reached R28,6m, compared with R20,8m for the six months to June 1989. The average monthly turnover improved almost 27% over that of the previous period, but the same rate of increase would not be maintained because of the Transpaco Stationers sale, which took effect in July.

By year-end, the Abelheims expect annual turnover to be up 18% on that of the comparable period last year.



Graphic: FIONA KRISCH Source: JSE

Operating margins, at 3,8%, are relatively unchanged from those of the 15-month period, and down from 7,6% in the interim period to June 1989.

However, the joint MDs say the group's operating costs were reduced during the period. The effect of this will be more apparent at year-end, when operating margins are expected to improve to 6%.

The interest cover on increased finance costs was at 1,3 times, compared with 3,8 for the six months to June 1989.

The Abelheims expect the interest bill to drop substantially in the second half because of Transpaco's improved debt-to-equity position, enhanced profitability and receipt of substantial decentralisation concessions for its presence in Bophuthatswana. Debt to equity has improved from 166% in March to 92%, following the Transpaco Stationers sale.

A source says Transpaco might be arranging a compromise with creditors for the Consumer Plastics company, a deal that would offer tax benefits. It bought the assets of this company in liquidation. But the Ableheims will not comment on this.

COMPANIES

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Strike-hit Nampak expects reasonable growth this year

B/Day 30/11/90

ZILLA EFRAT

SOME earnings growth is expected from packaging giant Nampak in the current year, given the possibility of a mild recovery in the economy by mid-year, chairman Brian Connellan says in the annual report.

He said the group had lost 91 000 mandays in the past financial year, all unpaid. A large proportion of the "stayaways" was unrelated to work, but a further major loss of time was related to "the futile and illegal strikes on the issue of central bargaining". Connellan said Nampak supported plant bargaining because it had a decentralised management structure.

The impact on earnings of the alleged improprieties in the corrugated division, which led to the dismissal of certain staff members and the initiation of legal proceedings, was not material in the context of total profits, he said.

Agreements regarding the repayment and recovery of certain monies and related matters had been reached.

In the year to September, a wide variety of factors contributed to Nampak's 7% fall in attributable earnings.

But in his review, MD Don McCartan said Nampak's three-year compound annual growth in earnings a share was 17% while the five-year compound annual growth in dividend a share was 19%.

Capital expenditure over the past year exceeded R200m. Of this, R116m was invested in additional capacity and new projects and products, with R85m being spent on replacing and updating existing machinery.

Nampak's return on gross assets was 22% (24%). Its current ratio remained unchanged at 1,4:1, but borrowings to shareholders' funds fell to 0,37:1 (0,43:1).

Holdains packs hefty punch in packaging

S/Times 2/12/90 (194)

DIAGONAL STREET

By JULIE WALKER

"ONE HOT summer in England and dozens die from salmonella."

Ian Willis, deputy chairman and chief executive of Holdains, thus effectively squashes a suggestion that SA's packaging industry goes over the top.

"Maybe perfume is over-packaged, but in this climate, you can't take a chance with food.

"The Housewives League is always telling us we over-package things, but the safety level is so important."

Mr Willis says SA packaging is superb in world terms.

All Malbak's packaging interests were packed into Holdains through listed vehicle Kohler in 1989. The group now comprises wholly owned stakes in Kohler, Graphtec and First Paper House and 42% of Carlton Paper (Carlcor).

Carlcor could not become a wholly owned subsidiary because American company Kimberly-Clark has a 39% slice of the equity. Its technological input is vital.

The company names sound unfamiliar because several have been changed recently. Holdains — formerly Kohler — was a registered name of an old corrugated-carton company in the group, chosen because of its historical significance. The Kohler name is still in use for the packaging interests.

Graphtec used to be the listed Haddons, First Paper House was Wiggins Teape until August this year.

Each business has its own focus — a big plus for the group, says Mr Willis.

"The McDonald's fast-food chain has ditched the polystyrene burger box as a result of public pressure to use ozone-friendly products.

"Holdains has such a spread of packaging choices that if one type becomes unacceptable, it can be substituted by another."

Mr Willis says the industry is conscious of the need to preserve the environment. "We must go for recycling. We can reprocess waste packaging into another kind so well that consumers can't tell the difference."

Holdains is the fourth-largest recycler of waste paper in SA. Only 15% of its sales are in plastic packaging, the balance being paper based because that is more easily recycled.

Kohler is expected to increase its profit margins now that the rigid plastics division, Safepak, Kohlerdrums and Beith have been sold. The disposals represent an annualised reduction in turnover of R156-million.

Equipment in the corrugated operations will be refurbished further this year to improve productivity. The carton division embarked on a similar path a year ago and is progressing well.

High-technology flexible packaging has the highest margins, and is most visible in the food industry where demand is less vulnerable to recession than are other sectors.

Bacon wrap, snackfood, chocolate, medical products and toothpaste are but a fraction of the full range of flexible packaging.

Kohler's other operations are multiwall sacks, laminates and polystyrene trays. About two-thirds of its sales are in domestic consumables.

Graphtec had a tough year. It holds Haddons Trading, Photra-Allgraphics and Star Paper. Haddons scrambled out of unprofitable businesses and bought the major machinery agencies of Press Supplies to strengthen itself.

The economic downturn hurt Photra-Allgraphics. American company Du Pont bought Howsons UK and gave Photra the opportunity to buy Howsons' SA operation Allgraphics. This gives the company control over SA's only major printing-plate manufacturing facility and reduces dependence on imports.

The draughting business was sold and the photographic arm bought by its management. Niche trader Star Paper brought in new blood. The Graphtec division expects better days this year.

Carlcor dominates high-quality disposable tissues and fibre-based products, such as toilet rolls, nappies and kitchen paper. The price of its major raw material, bleached pulp, has been depressed in recent months, to Carlcor's advantage.

There was a real reduction of 14% in raw-material costs, and the group showed real growth of 7% in the second half of the year to August. Things look good for the current year with the growth in urbanisation.

First Paper House was given its new name in line with the acquisition agreement with Wiggins Teape plc, and new products were launched at the same time.

Mr Willis says that private home ownership is the basis of a stable workforce, and employees are helped to obtain full mortgage loans from building societies through various guarantees.

Turnover among the 11 500 staff is low, and more than a quarter received formal training in the past year.

Group earnings for the year to August 1990 edged up by 3c to 321,6c and the dividend climbed by the same sum to 110c. Last year's figures were adjusted to deal with the changed structure. The shares are at R18, offering a dividend yield of 6,1%.

Holdains budgets for better earnings

(194)

MARC HASENFUSS

HOLDAINS, the giant paper, packaging and fibre group, is budgeting for an improvement in earnings next year in spite of the effect of stringent economic measures on consumer confidence and its decisions regarding disposable income.

CE Ian Willis said in the group's first annual report that Holdains was uniquely placed and structured to participate in the above average growth expected to flow from the continuing process of urbanisation.

Willis said the group was fortunate in that more than 60% of its products were used in domestic expendable applications and were less affected by economic cycles.

He said in the last year uncertainty in the economy coupled with the unrest and consumer boycotts placed manufacturing and merchant businesses under great pressure. However, focused effort and singular determination by management had resulted in the rationalisation and disposal of a number of poorly performing operations.

"These actions have provided financial benefits which will be felt more strongly in future years and explain Holdains' low financing cost cover in the 1990 financial year," he said.

Holdains, comprising Malbak's re-organised paper and packaging interests, posted a marginal 3% increase in earnings to R73,3m (R71,5m) or 110c (106c) in the year ended August.

The group, formed through the incorporation of Graphtec, First Paper House and Carlton Paper into the Kohler listing at the beginning of the year, is the second largest paper and packaging groupafter Nampak.

B Day 6/12/90

Extensive

Capital expenditure will be concentrated on the manufacturing businesses of Kohler and Carlton paper. Capex for the year to August was R68m and is likely to be similar in the coming year.

Willis said both these manufacturing divisions had extensive capital rebuilding programmes aimed at improving productivity, ensuring that the companies were in a position to capitalise on the next economic revival.

The group's First Paper House division expected to extract the maximum from a weakened market.

Nampak optimistic over current prospects

Star 6/12/90

194

After sluggish trading conditions and increased operating costs, which saw earnings fall eight percent in financial 1990, packaging group Nampak is looking for improved earnings in the current financial year.

Nampak bases its optimism on the possibility of a mild recovery in the economy by mid-1991.

Teigue Payne, paper and packaging analyst at Frankel, Max Pollak, Vinderine says Nampak should benefit from the extra capacity of previous expansion programmes, with earnings growth (from a low base) around 10 percent.

Expected strong consumer demand for beer, and a real sales and earnings growth by the diversified packaging (Divpac) division, should help offset lower contributions from other divisions.

In financial 1990, the glass division showed real sales growth, including gains in market share, in excess of nine percent.

Strong demand for beer bottles accounted for a major portion of this growth.

But some analysts believe Nampak could see a portion of its glass market share lost to competitors because of the nine-week-long strike.

The SAB contract, for which Nampak makes quart and dumpy bottles, is up for renewal early next year.

Packaging industry sources believe it would make sense for SAB to spread the business among other players.

Divpac is expected to show real sales and earnings growth for the current year, with an improved product mix, savings from a stringent cost-cutting programme and improved working capital management.

Foodcan is looking for increased activity which, together with continuing cost-cutting mea-

Diagonal Street

Jabulani Sikhakhane

sures, should lead to increased profitability.

Destocking by the canning industry, which impacted on the division's perfomance in the last financial year, is now complete.

MD Don McCartan says in financial 1990 Nampak was hit by falling exports, increased costs and higher tax charges.

Export sales, affected by a drop in demand from the Far East, fell 30 percent.

Overall costs (including the wage bill, raw materials, goods and services and additional depreciation) increased 16,1percent. But Nampak could not pass on raw material increases and higher wage costs.

The change in the wear-and-tear allowance lifted Nampak's tax rate from 36,2 percent to 42,6 percent, wiping off R20 million - equivalent to 42c per share - from the bottom line.

Chairman Brian Connellan says this could act as a brake on major new capital investment because of adverse cash flow implications.

However, on a more positive note, cash flow improved significantly.

Cash available from operations rose 87 percent to R165,5 million (R88,5 million). After capex of R210 million, cash outflow was R12,1 million (R79,9 million).

Asset management improved, with working capital investment at 12 percent, largely due to debtors' collection periods improving from an average of 52 days in financial 1989 to 48,5 days.

Holdains budgeting for an improvement in earnings

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By Jabulani Sikhakhane

Despite tough trading conditions, Holdains is budgeting for an improvement in earnings in the current financial year.

Holdains, which comprises Kohler, Graphtec, First Paper House and 41,8 percent-held Carlcor, was created in 1989 to house Malbak's paper, packaging and fibre interests in one focused entity.

Deputy chairman and chief executive Ian Willis says in the annual report released today that Holdains is less affected by economic cyclical trends because over 60 percent of the group's products are linked to non-durable consumer goods.

He says Holdains, which rationalised and disposed of operations not perfoming to management expectations, is uniquely placed and structured to benefit from the above-avarage growth expected from the continuing process of urbanisation.

For instance, Carlton Paper achieved real growth of seven percent in the second half thanks to continued development and urbanisation.

Chairman Grant Thomas says although rationalisation and disposal of certain operations knocked off some R200 million from group turnover, the disposals generated debt savings of R30 million which, because of timing, will have a greater impact in the year ahead.

S Star 6/11/90

B Day. 10/12/90 (194)

Lower demand hits packaging industry

CHARLOTTE MATHEWS

CHANGES in tax legislation and the difficulty of passing increasing costs on to the consumer in the face of falling demand were acting as deterrents to further capital investment in the packaging industry.

Nampak chairman Brian Connellan said in the group's 1990 annual report that government policy to reduce consumer spending resulted in a fall in demand for the group's products, putting pressure on margins.

Nampak's results for the year to September were below forecast, with an 8% drop in earnings to 422c a share from 458c in 1989.

Connellan said this performance was seen as satisfactory in view of the operating environment.

The packaging industry was unable to pass on raw material increases and higher wage costs to its customers.

This trend would have to be reversed if new investment in the packaging industry was to meet increased consumer demand in the next economic upswing.

During the year Nampak lost 91 000 man-hours as a result of stayaways and disputes over central bargaining.

"On a national basis one can only hazard a guess at what this type of productivity loss, coupled with unrealistic wage demands, does to the value added chain, and the detrimental domino effect on the overall economy of the country," Connellan said.

In the year under review, Nampak began a new R110m tissue mill at Kliprivier and a R46m glass plant in Durban which should become operational in late 1991, and a R75m beverage can plant in Botswana is due to begin production in 1992.

Connellan said the change in wear and tear allowances had significantly raised the tax bill but could also brake further capital investment because of the cash flow implications.

But he added that the latest export incentives had created opportunities which the group intended to pursue.

"It is clear that official policy with regard to interest rates, inflation and the balance of payments will not be conducive to rapid economic growth in SA in 1991.

"However, with the possibility of mild recovery in the economy foreseen by mid year, the group should achieve some earnings growth in 1991," he said.

Plastall runs up a year-end loss

BDay 12/12/90 (194)

ZILLA EFRAT

PACKAGING group Plastall has incurred a R1,4m loss for the year to end-September after experiencing tough economic conditions, increased competition and a higher interest burden in the second half.

Following a 76% rise in attributable earnings to 13,4c (7,6c) a share at the interim stage, Plastall has incurred a loss of 9,3c a share for the year.

The group, a subsidiary of investment holding company Danech Industrial Corporation, manufactures polyethylene bags and sheeting, conveyor idler rollers, furniture and furniture components.

Plastall's acquisition of Gundle's plastics, construction and agricultural sheeting business for R7m in cash, effective from February, necessitated an increase in borrowings and resulted in higher interest charges for the year.

Chairman Bob Wenteler says the commissioning of the plant was delayed for four months and the group had to purchase finished goods, which it sold at no profit margin to protect its market share.

However, he says this situation has been rectified and substantial contributions are currently being made by this division.

He adds that the completion of the merger of Hipak Plastics, Germiston Packaging/PPC and the Gundle division, together with the streamlining of the branch network, should put Plastall Gundle in a very competitive position.

The wider range of products available and cost savings being implemented should result in this company once again becoming a major profit contributor to the Plastall group.

The Horizon Group, which produces seating and polyurethane products, was also affected by the downturn, but has launched new products and reduced its overheads. It should improve its profitability in a very difficult market place, says Wenteler.

While Plastall's turnover rose 26% to R64,8m, it produced an operating loss of R31 000. Net interest paid soared 39% to R1,28m, leading to a R1,3m loss before tax. The current ratio stands at 1,02:1 (1,27:1).

EXECUTIVE SUITE

COMPANIES

Ruhold may rethink its holding in Compak

194

BDay 17/12/90

ZILLA EFRAT

RUBENSTEIN Holdings' (Ruhold) shareholding in associated company Combined Packaging (Compak) is likely to be adjusted because of failure to achieve a certain warranted profit.

This is announced with the financial services and packaging group's results for the six months to August, published today.

In its first reporting period since it restructured its packaging interests, Ruhold has posted attributable interim earnings of R2,9m or 8,9c a share.

It has also changed its year-end from from June to February to align it with that of Compak and Lenco, the clothing, footwear and property group which jointly controls Compak with Ruhold.

Because of the Ruhold's restructuring, the latest results may not be comparable with previous periods, say directors.

However, in the six months to December 1989, Ruhold's attributable earnings were R1,7m or or 5,2c a share.

Earnings for the eight months to February were 4,9c a share and attributable earnings of R12,5m were boosted by a R10,9m extraordinary profit from the disposal of its plastic packaging subsidiary to Compak.

No turnover figures have been provided for the six months to August, but pre-tax earnings of R3m include a conservative estimate of plastics manufacturer Compak's taxed earnings.

The directors say the results are satisfactory, especially in light of the prevailing difficult trading conditions.

Compak came to the JSE in March through the injection of Lenco's and Ruhold's packaging interests into the Alfa Manufacturing listing.

This packaging company, with an expected annual turnover of over R100m, recently acquired Kohler's rigid plastics division for R25m, settled by the issue of 25-million new Compak shares.

According to Compak's prelisting statement, it will not be in a taxpaying situation for the next three years because of the availability of assessed losses.

Ruhold's tax rate for the interim period was 3,5%, down from 47,2% for the eight-month period to February.

Ruhold recently postponed plans to found an offshore credit operation because of resistance from the authorities in regard to exchange control approval.

COMPANIES

Compak undecided on dividends

B/Day 18/12/90 (194)

LIZ ROUSE

COMBINED Packaging (Compak) has reported a net income of R6,4m for the six months to end-August, equivalent to earnings of 5,9c a share.

Compak's operating profit was R8,8m on a turnover of R82,1m. No decision has been made on the declaration of a dividend.

No comparable figures are available as a result of the company's restructuring in March.

Directors are confident Compak should at least perform comparably during the second half.

A note in the Compak interim report states that the number of shares to be issued to the vendors of the business's flexible plastics division (Ruplas) is likely to be reduced as it failed to meet its profit warranty.

When Alfa Manufacturing Industries was transmuted into Compak in March this year, the R27,288m Ruplas purchase price was discharged in part by the issue of 25,5-million Alfa consolidated shares of 69,777c a share on the completion date.

The transmuted listing statement said the balance of the purchase price would be discharged by the issue of 13,8-million Alfa consolidated shares at 69,777c a share subject to certain warranties being met.

Dilution from rights issue reduces Lenco's earnings

(194)

B Day 18/12/90

CHARLOTTE MATHEWS

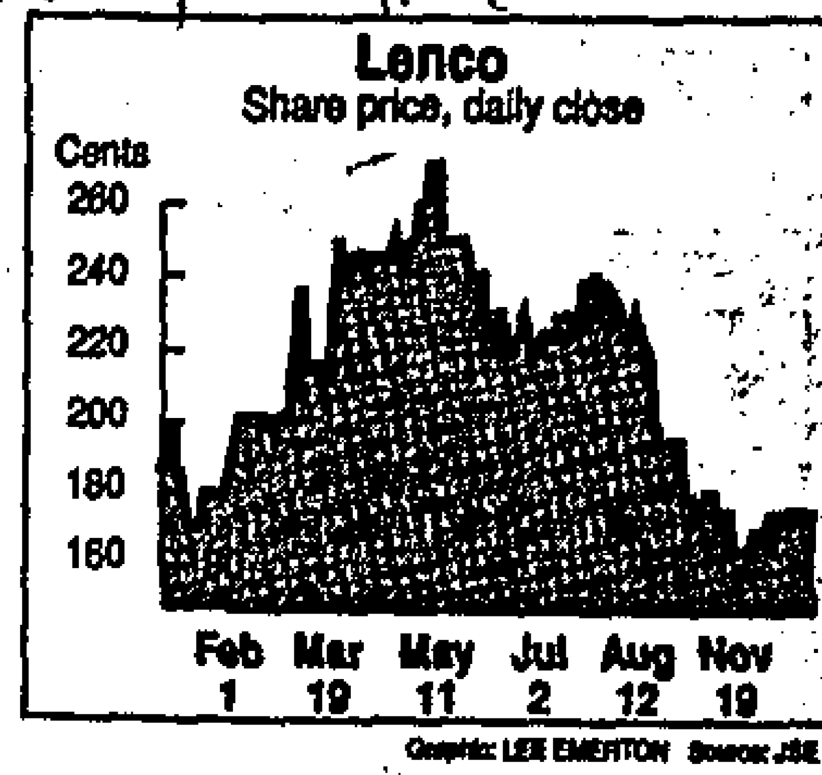
DIFFICULT operating conditions, high interest rates and the dilution caused by the rights issue of an additional 12,4-million shares reduced Lenco Holdings' earnings to 18,2c (20c) a share in the six months to end-August.

Lenco derives its income from a 52%-holding in shoe manufacturer Amshoe, 93% of clothing group House of Monatic and 48% of newly formed packaging company Combined Packaging (Compak).

Turnover in this period rose 61% to R229m but operating margins narrowed to 13% from 15%.

Unrest and labour problems were experienced in the group's footwear division.

Finance costs doubled to R8,9m despite the injection of R31m from the rights offer held in May. The balance sheet showed net interest-bearing debt rose to R78,6m from R50,7m but because of additional shareholders' funds of R92m, gearing fell to 47% from 97%.



Financial director Stanley Stubbs said the costs of the Compak acquisition had offset some of the gains from the rights offer.

Compak, listed in March, was formed from the merger of Lenco's Elvinco division, Ruhold's rigid plastics packaging division, the provisionally liquidated Alfa Manufacturing and Kohler's rigid plastics division Xactics.

After a 25% tax charge of R5m, ordinary shareholders income was R8m, little changed from the previous year's R7,98m.

The company does not declare an interim dividend.

The directors said all divisions had traded satisfactorily and they anticipated an improved performance in the second half of the current year.

Lenco shares closed unchanged at 175c yesterday, representing a 10c gain from the year's low of 165c recorded in November. In April the shares were at a year high of 270c.

At 175c the shares offer a historical dividend yield of 5,14% and an earnings yield of 25,88%.

Last week Lenco proposed the delisting of 93%-held House of Monatic.

NAMPAK FM 21/12/90 (194)

VOLUME SETBACKS

Activities: *Manufactures metal, paper, plastic and glass packaging.*
Control: *CG Smith is the controlling shareholder, and is, in turn, controlled by Barlow Rand.*
Chairman: *B Connellan; MD: D McCartan.*
Capital structure: *46,1m ords. Market capitalisation: R2bn.*
Share market: *Price: 4 200c. Yields: 4,0% on dividend; 10% on earnings; p:e ratio, 10,0; cover, 2,5. 12-month high, 5 150c; low, 3 450c. Trading volume last quarter, 612 000 shares.*

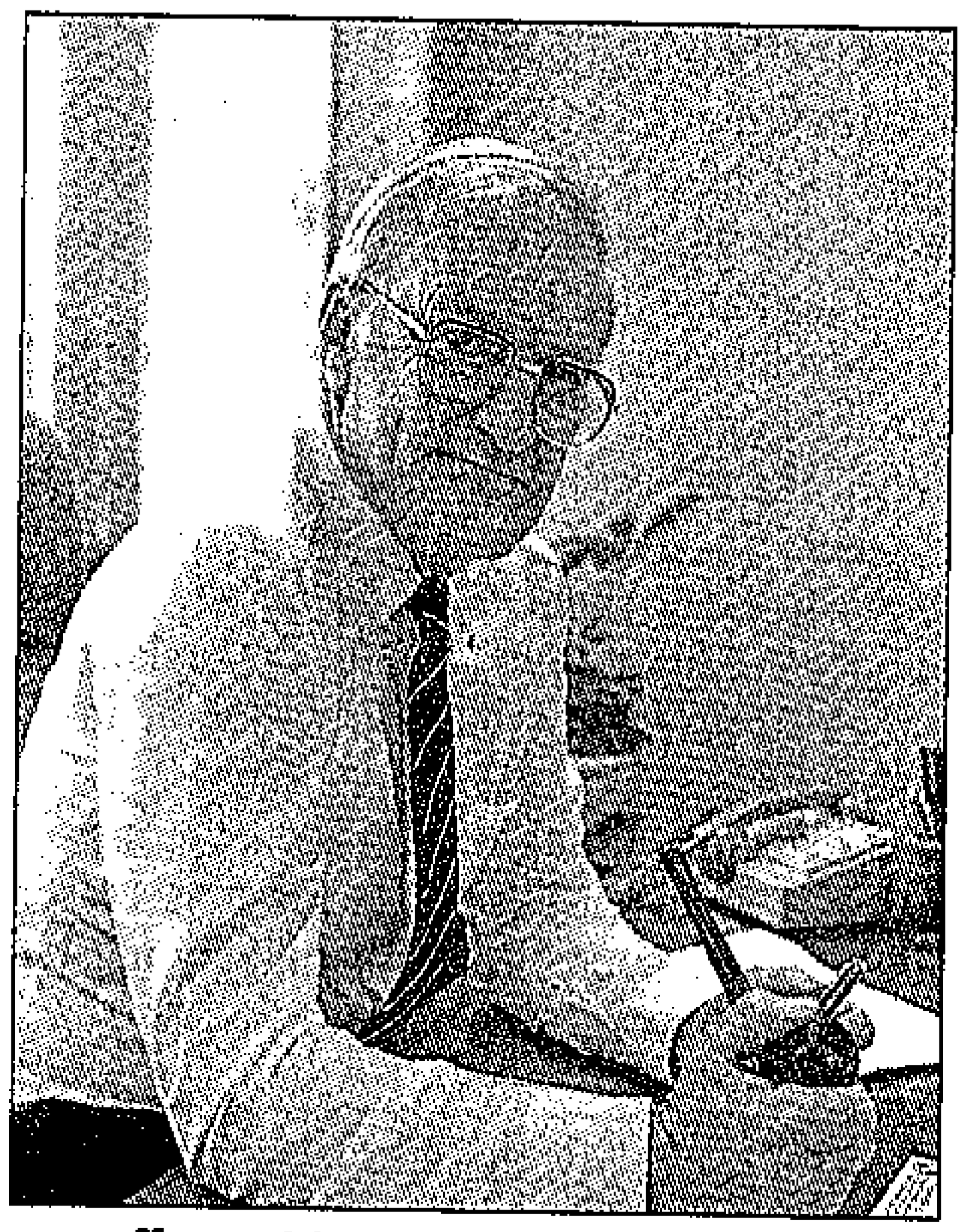
Year to Sep 30	'87	'88	'89	'90
ST debt (Rm)	37	86	18,2	182
LT debt (Rm)	88	163	166	168
Debt:equity ratio	0,09	0,39	0,38	0,34
Shareholders' interest	0,52	0,42	0,44	0,46
Int & leasing cover .	13,1	11,3	6,1	5,6
Return on cap (%) ..	18,3	20,4	21,1	20,3
Turnover (Rbn)	2,07	2,53	3,09	3,52
Pre-int profit (Rm) ...	250	320	392	410
Pre-int margin (%) ..	11,8	12,3	12,7	11,7
Earnings (c)	228	368	458	422
Dividends (c)	100	133	166	166
Net worth (c)	1 153	1 314	1 634	1 896

Declining sales volumes, contracting margins and labour problems caused an earnings setback for Nampak in its 1990 year. Continued high capital spending, with improved profitability expected for most divisions, should provide some earnings growth off the lower base this year.

MD Don McCartan says the group maintained its overall market share of about 40% but demand for most products fell. Turnover growth was restricted to 14% — a 1% volume decline.

Worsening the effect of sluggish domestic conditions was a 30% slide in export sales — the result of a drop in demand from the Far East. Trading conditions were difficult at Foodcan, Divpac, Corrugated Containers, the paper distribution and printing divisions; but the buoyant beer and soft drink markets allowed for improved performances from Bevcan and the glass division.

Reduced volumes and resistance to selling price increases added to the margin squeeze created by the higher cost of raw materials and increased labour costs. The group was



Nampak's McCartan ... *market share maintained*

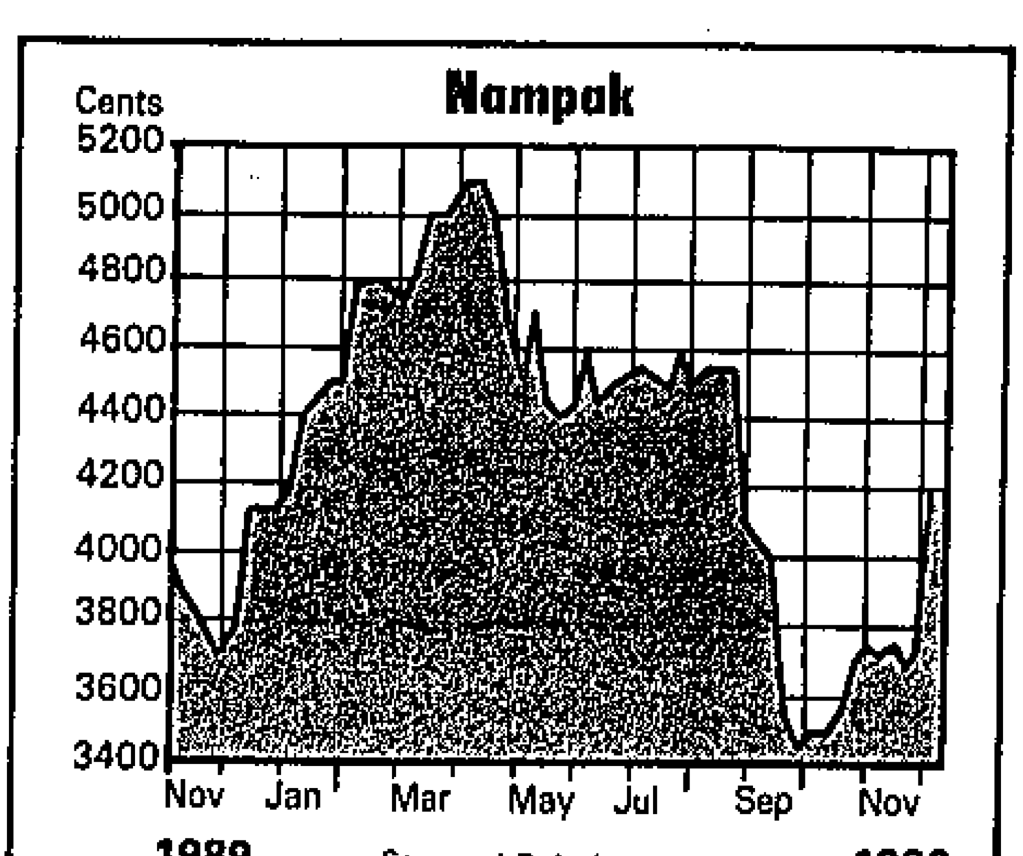
involved in a number of protracted labour disputes during the year.

The 4,8% rise in operating profit translated into an earnings decline of 7,9% because of higher interest charges and a change in tax legislation, with the change in allowances for wear and tear lifting the effective tax rate.

Higher interest rates and the additional borrowings needed to fund capital spending increased the interest bill from R58,4m to R69,2m. Most of the R201m capex was funded internally. Tight asset management helped to increase cash available from operations by an exceptional 87%, and limited borrowing requirements so that the debt: equity ratio actually declined.

This year continued investment will be made in manufacturing capacity. More than R150m will be spent on major projects for the paper, glass and Bevcan divisions as well as other capex programmes throughout the group.

Chairman Brian Connellan sees the "possibility of a mild recovery in the economy" by mid-year. All divisions are expected to produce higher operating profit but trading conditions at Printpak, Corrugated Containers — where a number of irregularities are being investigated — and Polyfoil will be difficult. The outlook for the sacks and Rotoflex divisions should improve markedly. Overall, Connellan expects "some earnings growth in 1991."



The share price has recovered from a 12-month low of 3 450c and is trading at R42 in expectation of a better performance.

Pam Baskind

Abercom expected to show small loss

B Day 28/12/90

MARIETTE DU PLESSIS

DESPITE disposals and corrective actions during 1990, Malbak's UK division Abercom is expected to show a "small loss" in financial 1991, if interest rates remain high, says Abercom chairman Ian Willis in the annual report.

However, packaging group MY Holdings (MYH) — in which Abercom had a 86% interest through wholly owned Tawneydown — was set to make a small profit in the year ahead, he said.

The majority of any benefit would from the seasonal uplift in the second half of the year, Willis added.

While many of the corrective actions would be of full benefit only in 1991, he cautioned shareholders that progress could not be rapid because of the generally weak state of the UK economy.

Although directors gave assurances last year that Abercom would be back in the black by the end of this financial year, the corrective course at MYH was made "significantly more difficult by the parlous state of the UK economy", he said.

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Recovery

Abercom posted a R15,5m (R4,4m) trading loss for the year to end-August. This was despite receiving a R51m interest-free loan from parent Malbak earlier this year.

The loan had been invested in Tawneydown and would be converted into capital through a financial restructuring of Abercom once MYH had returned to profitabilty, Willis said.

He was confident MYH had been set on a recovery path as the losses in the second half were 50% of those for the first half and debt and interest levels had been reduced.

MYH's debt shrank by R35m and interest charges by R6m during this period, following the sale of surplus properties.

Also, all but one surplus property and the head office building were disposed of.

These measures had not only reduced borrowings in MYH by £8,9m, but would also have an effect on interest costs in the coming year.

MYH's listing was transferred from the International Stock Exchange's Official List to the Unlisted Securities Market in July.

However, it was MYH's intention to "seek a return to a full listing when the time is appropriate and when we can comply with" the stock exchange requirement, Willis said.